

**DRUGS FOR NEGLECTED DISEASES INITIATIVE
NORTH AMERICA, INC.**

***FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

DECEMBER 31, 2019

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**Board of Directors
Drugs For Neglected Diseases Initiative North America, Inc.
New York, New York**

We have audited the accompanying financial statements of Drugs for Neglected Diseases Initiative North America, Inc. (“*DNDi NA*”), which comprise the statement of financial position as of December 31, 2019 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Drugs for Neglected Diseases Initiative North America, Inc. as of December 31, 2019, 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.

**Board of Directors
Drugs For Neglected Diseases Initiative North America, Inc.
New York, New York**

Report on Summarized Comparative Information

We have previously audited DNDi NA's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**New York, New York
June 15, 2020**

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2019 And 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$1,305,445	\$1,166,699
Government grant receivable	-	649,130
Contributions receivable	-	498,824
Prepaid expenses and other assets	<u>46,749</u>	<u>15,956</u>
Total assets	<u>\$1,352,194</u>	<u>\$2,330,609</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 51,016	\$ 30,103
Grants payable	659,690	1,774,970
Payroll liabilities	<u>106,866</u>	<u>24,651</u>
Total liabilities	<u>817,572</u>	<u>1,829,724</u>
NET ASSETS		
Without donor restrictions	517,622	450,885
With donor restrictions (<i>Note 4</i>)	<u>17,000</u>	<u>50,000</u>
Total net assets	<u>534,622</u>	<u>500,885</u>
Total liabilities and net assets	<u>\$1,352,194</u>	<u>\$2,330,609</u>

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2019 With Summarized Information For 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Revenue and Other Support				
Seed Funding – DNDi (<i>Note 2</i>)	\$ 2,238,027	\$ -	\$ 2,238,027	\$ 1,895,807
Contributions	1,278,940	-	1,278,940	1,704,680
Government	831,995	-	831,995	1,740,219
Corporate	-	-	-	300
Foundations	276,112	-	276,112	139,287
Special events, net of direct benefit to donors of \$0 in 2019 and \$60,947 in 2018	-	-	-	390,404
Interest income	2,200	-	2,200	3,510
Net assets released from restriction (<i>Note 4</i>)	<u>33,000</u>	<u>(33,000)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>4,660,274</u>	<u>(33,000)</u>	<u>4,627,274</u>	<u>5,874,207</u>
Contributions services	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Total revenue and contributed services	<u>4,685,274</u>	<u>(33,000)</u>	<u>4,652,274</u>	<u>5,874,207</u>
Expenses				
Program services	<u>3,337,183</u>	<u>-</u>	<u>3,337,183</u>	<u>4,698,741</u>
Total program services	<u>3,337,183</u>	<u>-</u>	<u>3,337,183</u>	<u>4,698,741</u>
Supporting services				
Management and general	476,548	-	476,548	421,570
Fundraising	<u>779,806</u>	<u>-</u>	<u>779,806</u>	<u>936,895</u>
Total supporting services	<u>1,256,354</u>	<u>-</u>	<u>1,256,354</u>	<u>1,358,465</u>
Total expenses	<u>4,593,537</u>	<u>-</u>	<u>4,593,537</u>	<u>6,057,206</u>
Contributed Services	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Total expenses and contributed services	<u>4,618,537</u>	<u>-</u>	<u>4,618,537</u>	<u>6,057,206</u>
Change in net assets	66,737	(33,000)	33,737	(182,999)
Net Assets				
Beginning of year	<u>450,885</u>	<u>50,000</u>	<u>500,885</u>	<u>683,884</u>
End of year	<u>\$ 517,622</u>	<u>\$ 17,000</u>	<u>\$ 534,622</u>	<u>\$ 500,885</u>

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2019 With Summarized Information For 2018

	2019			2018	
	<u>Program Services</u>	<u>Management And General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Salaries and Benefits	\$ 637,744	\$ 334,056	\$546,637	\$1,518,437	\$1,358,081
Grant – Research & Development	2,427,408	-	-	2,427,408	3,841,392
Communications and Education	141,662	74,204	121,424	337,290	515,605
Professional Fees	18,121	9,492	15,532	43,145	30,408
Transportation and Travel	49,705	26,036	42,604	118,345	131,313
Recruiting Costs	172	90	148	410	599
Rent	25,200	13,200	21,600	60,000	58,082
IT and Telephone	6,954	3,642	5,961	16,557	13,291
Office Supplies and Other	15,416	8,075	13,214	36,705	37,124
Conferences and Events	11,118	5,824	9,529	26,471	32,385
Special Events (Gala)	-	-	-	-	31,166
Insurance	1,428	748	1,224	3,401	1,635
Bank Fees	<u>2,255</u>	<u>1,181</u>	<u>1,933</u>	<u>5,368</u>	<u>6,125</u>
Total Expenses – 2019	<u>\$3,337,183</u>	<u>\$476,548</u>	<u>\$779,806</u>	<u>\$4,593,537</u>	
Contributed services	<u>10,500</u>	<u>5,500</u>	<u>9,000</u>	<u>25,000</u>	<u>-</u>
Total expenses and contributed services	<u>\$3,347,683</u>	<u>\$482,048</u>	<u>\$788,806</u>	<u>\$4,618,537</u>	
Total Expenses – 2018	<u>\$4,698,741</u>	<u>\$421,570</u>	<u>\$936,895</u>		<u>\$6,057,206</u>

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019 And 2018

	<u>2019</u>	<u>2018</u>
INCREASE IN CASH		
<i>Change in net assets</i>	\$ 33,737	\$ (182,999)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
(Increase) decrease in government grant receivable	649,130	(156,301)
(Increase) decrease in contributions receivable	498,824	(152,514)
Increase in prepaid expenses and other assets	(30,793)	(7,979)
Increase (decrease) in accounts payable	20,913	(12,892)
Increase (decrease) in grants payable	(1,115,280)	973,106
Increase in payroll liabilities	<u>82,215</u>	<u>3,074</u>
Net cash provided by operating activities	138,746	463,495
<i>Cash and cash equivalents</i>		
Beginning of year	<u>1,166,699</u>	<u>703,204</u>
End of year	<u>\$ 1,305,445</u>	<u>\$1,166,699</u>

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 And 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

Drugs for Neglected Diseases Initiative North America, Inc. (“*DNDi NA*”) is a not-for-profit organization whose primary purpose is to conduct activities that support or benefit the Drugs for Neglected Diseases Initiative (Geneva, Switzerland) (“*DNDi*”). These activities include making grants to support programs, projects and activities of DNDi that (1) stimulate and support research and development primarily of drugs, as well as vaccines and diagnostics for neglected diseases; (2) promote equitable access and development of new drugs, new formulations of existing drugs, and encourage production of known effective drugs, diagnostic methods and/or vaccines for neglected diseases; (3) adopt new treatments for neglected diseases to meet patient needs, as well as to meet the requirements of delivery and production capacity in developing countries; and (4) raise awareness of the need to research and develop drugs for neglected diseases.

ACCOUNTING ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

DNDi NA considers money market funds to be cash equivalents.

REVENUE RECOGNITION

DNDi NA recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions on which they depend have been met. DNDi NA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as “net assets released from restriction”. Gifts-in-kind are recorded at fair value on the date of receipt.

A portion of the DNDi NA’s revenue was derived from a cost-reimbursable federal grant, which was conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when DNDi NA incurred expenditures in compliance with specific grant provisions. The grant ended in September 2019.

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

NET ASSETS

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of DNDi NA are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary mission of the DNDi NA.

With donor restrictions – Net assets that are subject to donor-imposed stipulations. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as “net assets released from restrictions.”

INCOME TAXES

DNDi NA is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”), and has been classified as an organization, which is not a private foundation under Section 509(a) of the Code.

Management has reviewed the tax positions for each of the open tax years (2016 – 2018) or expected to be taken on DNDi NA’s 2019 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. These expenses require allocation on a reasonable basis that is consistently applied. DNDi’s expenses are allocated based on analysis of time and effort.

PRIOR YEAR INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with DNDi NA’s financial statements for the year ended December 31, 2018, from which the summarized information was derived.

RECENT ACCOUNTING PRONOUNCEMENTS - ADOPTED

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-19 was adopted in 2019 and did not have a material effect on the financial statements.

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958), to improve the scope and the accounting guidance for contributions received and contributions made. The amendments will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of the Topic, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional which effects the timing of revenue recognition. ASU 2018-08 was adopted in 2019 and did not have a material effect on the financial statements.

NEW ACCOUNTING PRONOUNCEMENTS - NOT YET ADOPTED

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2020. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. DNDi NA plans to adopt the new ASU at the required implementation date.

(2) CONCENTRATIONS

DNDi NA receives its seed funding from DNDi in Geneva, Switzerland. In addition, DNDi NA has a U.S. Government grant award and one significant donor of its contributory income. For the years ended December 31, 2019 and 2018, these sources of revenue comprise approximately 88% and 79%, respectively, of the total funding of DNDi NA.

(3) COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

Commencing on March 6, 2018, DNDi NA entered into a new lease agreement for its office space under a one year period with two, one year extension options. Rent expense was approximately \$60,000 and \$58,000 for the years ended December 31, 2019 and 2018, respectively.

On March 8, 2019, DNDi NA elected to exercise their first-year extension option, extending the current lease to expire on March 8, 2020. Monthly rent payments under the lease are \$5,000.

GRANTS

Grant awards received from the U.S. Government are subject to audit. In the opinion of management, no material liability exists, if any, in connection therewith which would materially affect the financial position of DNDi NA. Additionally, under the terms of the U.S. Government grants, which are made based upon the acceptance by the U.S. Government of the program proposals submitted by DNDi NA, amounts are stipulated for both direct program costs and DNDi NA administrative overhead costs. The administrative overhead rate used by DNDi NA and its subrecipient, while provisionally approved, is subject to review and final approval by the U.S. Government. The DNDi NA subrecipient administrative overhead rate has been approved through December 31, 2015. Management believes that any adjustment to the provisional administrative overhead rates, if any, will not have a material effect on the financial position or operating results of DNDi NA.

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

(4) NET ASSETS

Net assets with donor restrictions are available for the following purposes at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Time restricted grants	<u>\$17,000</u>	<u>\$50,000</u>

Net assets totaling \$33,000 were released from restriction in 2019 by incurring expenses which satisfied the restricted purpose.

(5) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

DNDi NA strives to maintain liquid financial assets to be available as its general expenditures, liabilities and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects DNDi NA's financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions. Amounts not available to meet general expenditures within one year may include net assets with donor and/or contractual restrictions.

	<u>2019</u>	<u>2018</u>
Financial Assets		
Cash and cash equivalents	\$1,305,445	\$ 1,166,699
Government grant receivable	-	649,130
Contributions receivable	<u>-</u>	<u>498,824</u>
Total financial assets	1,305,445	2,314,653
Less:		
Grants payable	(659,690)	(1,774,970)
Net assets with donor restrictions	<u>(17,000)</u>	<u>(50,000)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 628,755</u>	<u>\$ 489,683</u>

(6) PENSION PLAN

DNDi NA has a plan qualified under Section 403(b) that covers all eligible employees. Contributions to the plan are made at the discretion of the Board of Directors and are limited to 9% of the employee's annual salary.

During the years ended December 31, 2019 and 2018, DNDi NA made contributions of \$73,497 and \$69,276, respectively.

DRUGS FOR NEGLECTED DISEASES INITIATIVE NORTH AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

(7) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, June 15, 2020, have been evaluated in the preparation of the financial statements.

In early 2020, an outbreak of a novel strain of coronavirus (“*COVID – 19*”) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting from an overall decline in economic activity. The ultimate impact of COVID – 19 on DNDi NA’s operations is not reasonably estimable at this time.