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Bateman Horne Center
RESEARCH | CLINICAL CARE | EDUCATION

The Bateman Horne Center of Excellence

Financial Statements
As of December 31, 2016 and for the Year Then Ended

Together with Independent Auditors' Report

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BUSINESS ADVISORS AND CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Bateman Horne Center of Excellence

We have audited the accompanying financial statements of The Bateman Horne Center of Excellence (the Organization) (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2016, the related statements of activities 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 the 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity'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 presents fairly, in all material respects, the financial position of The Bateman Horne Center of Excellence as of December 31, 2016, 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.

Restatement of the 2015 Financial Statement
As discussed in Note 3 to the financial statements, an error resulting in misstatements of amounts previously reported as of December 31, 2015 was identified. Accordingly, the beginning net assets as of January 1, 2016, presented in the accompanying financial statements, have been adjusted to reflect the restatement of the December 31, 2015 balance. Our opinion on the 2016 financial statements is not modified with respect to this matter.

Tanner LLC

October 31, 2017

The Bateman Horne Center of Excellence
Statement of Financial Position

As of December 31, 2016

Assets	
Cash	$ 952,520
Investments	49,455
Accounts receivable, net of allowance for contractual adjustments and bad debt of $19,934	97,022
Prepaid expenses and other	33,542
Property and equipment, net	147,524
Total assets	$ 1,280,063
Liabilities and Net Assets	
Liabilities:	
Accounts payable	$ 13,975
Accrued liabilities	145,652
Related party note payable	102,777
Total liabilities	262,404
Commitments and contingencies	
Net assets:	
Unrestricted	926,796
Temporarily restricted	90,863
Total net assets	1,017,659
Total liabilities and net assets	$ 1,280,063

Change in unrestricted net assets:	
Revenues, gains, and support:	
Research income	$ 545,795
Clinic income, net of contractual adjustments	270,286
Contributions	1,120,962
Other income and expenses, net	(5,534)
Total revenues, gains, and support	1,931,509
Net assets released from restrictions	109,774
Total revenues, gains, support, and reclassification	2,041,283
Research expenses	402,306
Clinic expenses	510,684
Supporting expenses:	
Management and general	404,573
Fundraising	9,266
Total expenses	1,326,829
Increase in unrestricted net assets	714,454
Change in temporarily restricted net assets:	
Contributions	90,863
Net assets released from restrictions	(109,774)
Decrease in temporarily restricted net assets	(18,911)
Increase in net assets	695,543
Net assets, beginning of the year (as restated)	322,116
Net assets, end of the year	$ 1,017,659

Cash flows from operating activities:	
Increase in net assets	$ 695,543
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	7,867
Loss on disposal of property and equipment	167
In-kind contributions of common stock	(59,441)
Decrease (increase) in:	
Accounts receivable	18,623
Prepaid expenses	(27,294)
Increase (decrease) in:	
Accounts payable	8,536
Accrued liabilities	129,946
Net cash provided by operating activities	773,947
Cash flows from investing activities:	
Net change in investments	119,760
Purchases of property and equipment	(153,601)
Net cash used in investing activities	(33,841)
Cash flows from financing activities:	
Increase in related party note payable	149,000
Payments on related party note payable	(46,616)
Net cash provided by financing activities	102,384
Net increase in cash	842,490
Cash at beginning of the year	110,030
Cash at end of the year	$ 952,520
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 832
Supplemental disclosure of non cash investing and financing activities:	
Contributions of common stock	$ 59,441

1. Description of Organization

The Bateman Horne Center of Excellence (the Organization) is a Utah not-for-profit organization established to advance research and to improve clinical care for those impacted by Myalgic Encephalomyelitis/Chronic Fatigue Syndrome (ME/CFS) and Fibromyalgia.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. As of December 31, 2016, no amounts exceeded federally insured limits. To date, the Organization has not experienced a material loss or lack of access to its cash; however, no assurance can be provided that access to the Organization's cash will not be impacted by adverse conditions in the financial markets.

In the normal course of business, the Organization provides credit terms to its customers and generally requires no collateral. A major customer is considered to be one that comprises 10% or more of the Organization's total accounts receivable or total revenues, gains, and support.

For the year ended December 31, 2016, customer/donor concentrations within total revenues, gains, and support were as follows:

Customer A (donor)	49%
Customer B	13%

Concentrations in accounts receivable were as follows as of December 31, 2016:

Customer C	27%
Customer D	20%

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the financial statements.

2. Summary of Significant Accounting Policies
Continued

Accounts Receivable
Accounts receivable consist of receivables for patient care and receivables from pharmaceutical partners for treating patients under research agreements. Receivables for patient services are carried at the original invoice amount, less an estimate made for doubtful accounts and contractual adjustments. These estimates are made by evaluating patient accounts, considering the patients' financial condition and credit history, current economic conditions, and insurance company and other payor adjustment history. Receivables for pharmaceutical research are recorded at contractual rates established in the agreements. Accounts receivable are generally considered past due when payment has not been received within 30 days of the invoice date, depending on the specific payment terms. Interest is not charged on past due receivables, and receivable accounts are written off when deemed uncollectible.

Property and Equipment
Purchased property and equipment are recorded at cost. Minor replacements, maintenance, and repairs that do not extend the useful lives of the property and equipment are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the shorter of the estimated useful lives or lease terms of the assets, ranging from 3 to 5 years.

Revenue Recognition
The Organization recognizes clinic income as revenue at the time services are performed, the price is fixed or determinable, and collection is reasonably assured. Clinic income is recorded net of expected insurance adjustments. Research income is recognized as revenue when services have been performed, the price is fixed or determinable, and collection is reasonably assured.

Contributions
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

2. Summary of Significant Accounting Policies ***Continued***

Donated Services
Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs and assignments; however, those services do not meet the above criteria.

Income Taxes
The Organization is a charitable organization under Section 501(c)(3) of the Internal Revenue Code and under state of Utah regulations; as such, the Organization is not subject to federal or state income taxes on related purpose income. The Organization is subject to taxation on unrelated business income, if any.

As of December 31, 2016, the Organization's management was not aware of any uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's tax years subject to selection for tax examination are 2013 through 2016.

Subsequent Events
The Organization has evaluated subsequent events through October 31, 2017, which is the date the financial statements were available to be issued.

3. Restatement of 2015 Financial Statement

During 2017, $79,169 of research income was identified that should have been recognized in 2015 but was incorrectly recorded in 2016. To correct this error, unrestricted net assets as of December 31, 2015 were increased by $79,169, and 2016 revenue was reduced by that same amount.

4. Investments

Investments are stated at fair value and consist of shares of a single large-cap equity security that were donated to the Organization. These shares are valued at $49,455 as of December 31, 2016.

5. Property and Equipment

Property and equipment consisted of the following as of December 31, 2016:

Furniture and equipment	$	41,791
Software		5,000
Computers and equipment		9,608
Leasehold improvements		105,125
Total cost		161,524
Less accumulated depreciation and amortization		(14,000)
Property and equipment, net	$	147,524

Depreciation and amortization expense on property and equipment totaled $7,867 for the year ended December 31, 2016.

6. Fair Value Measurements

Authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are market inputs participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.

6. Fair Value Measurements *Continued*

The following table summarizes the Organization's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2016, and the fair value calculation input hierarchy level that the Organization has determined applies to the asset category as of December 31, 2016.

Investments

Description	Level 1	Level 2	Level 3	Total
Large-cap stock	$ 49,455	$ -	$ -	$ 49,455

7. Restricted Net Assets

As of December 31, 2016, temporarily restricted net assets totaled $90,863, and are restricted to fund research programs.

8. Related Party Transactions

As of December 31, 2016, the Organization had a related party note payable in the amount of $102,777 to an entity wholly-owned by the Organization's Medical Director. The proceeds from the note were used to cover payroll costs during 2016. The note bears interest at 2%; is due in installments of approximately $8,000 per month, including interest; and matures in December 2017.

During 2016, the Organization received and recorded a contribution of $1,000,000 from a close relative of a member of management.

9. Commitments and Contingencies

Litigation

In the normal course of operations, the Organization may become party to lawsuits or other claims. Management is not aware of any such claims that would be material to the Organization's financial position.

9. Commitments and Contingencies ***Continued***

Operating Lease

The Organization leases office space under a non-cancelable operating lease requiring escalating monthly payments through November 2021. The associated rent expense was $42,954 in 2016.

Future minimum lease payments for the Organization's operating lease are as follows for the years ending December 31:

2017	$ 81,029
2018	104,218
2019	106,303
2020	108,429
2021	101,259
	$ 501,238