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TANNER

BUSINESS ADVISORS AND
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CRITICAL KNOWLEDGE
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Bateman Horne Center
RESEARCH | CLINICAL CARE | EDUCATION

The Bateman Horne Center of Excellence

Financial Statements
As of December 31, 2017 and 2016 and for the Years Then Ended

Together with Independent Auditors' Report

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TANNER
BUSINESS ADVISORS AND
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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 statements of financial position as of December 31, 2017 and 2016, the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 present fairly, in all material respects, the financial position of The Bateman Horne Center of Excellence as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Tanner LLC

June 29, 2018

As of December 31,

	2017	2016
Assets		
Cash	$ 363,815	$ 952,520
Investments	180,619	49,455
Accounts receivable, net of allowance for contractual adjustments and bad debt of $7,711 and $19,934, respectively	102,276	97,022
Promise to give receivable	25,000	-
Prepaid expenses and other	15,747	33,542
Property and equipment, net	137,642	147,524
Total assets	$ 825,099	$ 1,280,063
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 14,583	$ 13,975
Accrued liabilities	182,018	145,652
Related party note payable	14,065	102,777
Total liabilities	210,666	262,404
Commitments and contingencies		
Net assets:		
Unrestricted	534,322	926,796
Temporarily restricted	80,111	90,863
Total net assets	614,433	1,017,659
Total liabilities and net assets	$ 825,099	$ 1,280,063

	2017	2016
Change in unrestricted net assets:		
Revenues, gains, and support:		
Research income	$ 568,057	$ 545,795
Clinic income, net of contractual adjustments	283,825	270,286
Contributions	343,577	1,120,962
Other income and expenses, net	23,265	(5,534)
Total revenues, gains, and support	1,218,724	1,931,509
Net assets released from restrictions	10,752	109,774
Total revenues, gains, support, and reclassification	1,229,476	2,041,283
Expenses:		
Research expenses	415,365	467,288
Clinic expenses	691,675	643,601
Education	247,600	83,890
Supporting expenses:		
Management and general	181,186	78,760
Fundraising	86,124	53,290
Total expenses	1,621,950	1,326,829
Increase (decrease) in unrestricted net assets	(392,474)	714,454
Change in temporarily restricted net assets:		
Contributions	-	90,863
Net assets released from restrictions	(10,752)	(109,774)
Decrease in temporarily restricted net assets	(10,752)	(18,911)
Increase (decrease) in net assets	(403,226)	695,543
Net assets, beginning of the year	1,017,659	322,116
Net assets, end of the year	$ 614,433	$ 1,017,659

For the Years Ended December 31,

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (403,226)	$ 695,543
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,707	7,867
Unrealized appreciation in value of investments	(20,798)	-
Loss on disposal of property and equipment	-	167
In-kind contributions of common stock	(100,281)	(59,441)
Decrease (increase) in:		
Accounts receivable	(5,254)	18,623
Promise to give receivable	(25,000)	-
Prepaid expenses	17,795	(27,294)
Increase (decrease) in:		
Accounts payable	608	8,536
Accrued liabilities	36,366	129,946
Net cash provided by (used in) operating activities	(458,083)	773,947
Cash flows from investing activities:		
Net change in investments	(10,085)	119,760
Purchases of property and equipment	(31,825)	(153,601)
Net cash used in investing activities	(41,910)	(33,841)
Cash flows from financing activities:		
Proceeds from related party note payable	-	149,000
Payments on related party note payable	(88,712)	(46,616)
Net cash provided by (used in) financing activities	(88,712)	102,384
Net increase (decrease) in cash	(588,705)	842,490
Cash at beginning of the year	952,520	110,030
Cash at end of the year	$ 363,815	$ 952,520
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,148	$ 832

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, 2017 and 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, 2017, customer/donor concentrations within total revenues, gains, and support consisted of the following for the years ended December 31:

	2017	2016
Customer A (donor)	-	49%
Customer B	-	13%
Customer D	14%	-
Customer E	12%	-

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

	2017	2016
Customer C	-	27%
Customer D	23%	20%
Customer F	24%	-

2. Summary of Significant Accounting Policies
Continued

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

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. Donated property and equipment is recorded at fair value on the date of donation. 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.

2. Summary of Significant Accounting Policies
Continued

Contributions - continued
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.

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.

Impairment of Long-Lived Assets
The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. If it is determined an impairment loss has occurred, such loss is recognized in the statement of activities.

Reclassifications
Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 presentation.

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, 2017 and 2016, the Organization's management was not aware of any uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Subsequent Events
The Organization has evaluated subsequent events through June 29, 2018, which is the date the financial statements were available to be issued.

3. Liquidity

During 2017, the Organization recognized a decrease in net assets of $403,226 and used cash of $458,083 in operating activities. As of December 31, 2017, the Organization has cash and investments totaling $544,434 available to pay liabilities totaling $210,666 as of December 31, 2017 and future expenses.

The Organization's management has attained contracts that will provide revenues over future periods, has increased its fundraising efforts, and has taken other steps to improve future results of operations; however, it is unknown at this time how successful these efforts will be.

4. Investments

Investments are stated at fair value and consist of shares of large-cap equity securities. These shares are valued at $180,619 and $49,455 as of December 31, 2017 and 2016, respectively.

5. Property and Equipment

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

	2017	2016
Furniture and equipment	$ 62,704	$ 41,791
Software	5,000	5,000
Computers and equipment	12,595	9,608
Leasehold improvements	105,125	105,125
Total cost	185,424	161,524
Less accumulated depreciation and amortization	(47,782)	(14,000)
Property and equipment, net	$ 137,642	$ 147,524

Depreciation and amortization expense on property and equipment totaled $41,707 and $7,867 respectively for the years ended December 31, 2017 and 2016, respectively.

6. Fair Value Measurement

Authoritative guidance establishes a hierarchy for inputs used in measuring fair value that prioritizes the use of observable inputs over the use of unobservable inputs and requires 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.

6. Fair Value Measurements *Continued*

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.

The following table summarizes the Organization's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2017 and 2016, respectively, and the fair value calculation input hierarchy level that the Organization has determined applies to the asset category as of December 31:

Investments

2017

Description	Level 1	Level 2	Level 3	Total
Large-cap stock	$ 180,619	$ -	$ -	$ 180,619

2016

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

7. Restricted Net Assets

As of December 31, 2017 and 2016, temporarily restricted net assets totaled $80,111 and $90,863, respectively, and are restricted to fund research programs.

8. Related Party Transactions

The Organization had an unsecured related party note payable in the amount of $14,065 and $102,777 as of December 31, 2017 and 2016, respectively, to an entity wholly-owned by the Organization's Medical Director. The note is payable as cashflow allows and bears interest at 2%.

8. Related Party Transactions ***Continued***

The Organization recorded contributions of $25,000 and $1,000,000 during 2017 and 2016, respectively, donated by a close relative of a member of management. As of December 31, 2017 and 2016, $25,000 and $0 is included in promises to give receivable from this related party, respectively.

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.

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 $119,506 and 42,954 for 2017 and 2016, respectively.

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

2018	$ 129,968
2019	132,567
2020	135,219
2021	126,277
Total	$ 524,031