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The Bateman Horne Center of Excellence

Financial Statements
As of December 31, 2018 and 2017 and for the Years Then Ended

Together with Independent Auditors' Report

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BUSINESS ADVISORS AND
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Member of Allinial GLOBAL

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, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to 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, 2018 and 2017, 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.

Adoption of New Accounting Standard
As further described in Note 2 to the financial statements, during the year ended December 31, 2018, the Organization adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Tanner LLC

August 22, 2019

	2018	2017
Assets		
Cash	$ 186,261	$ 363,815
Investments	162,270	180,619
Accounts receivable, net of allowance for contractual adjustments and bad debt of $26,913 and $7,711, respectively	114,314	102,276
Promise to give receivable	-	25,000
Prepaid expenses and other	13,695	15,747
Property and equipment, net	98,590	137,642
Total assets	$ 575,130	$ 825,099
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 20,544	$ 14,583
Accrued liabilities	100,504	107,154
Deferred rent	61,666	74,864
Related party notes payable	106,513	14,065
Total liabilities	289,227	210,666
Commitments and contingencies		
Net assets:		
Without donor restrictions	235,903	534,322
With donor restrictions	50,000	80,111
Total net assets	285,903	614,433
Total liabilities and net assets	$ 575,130	$ 825,099

	2018	2017
Change in net assets without donor restrictions:		
Revenues, gains, and support:		
Research income	$ 607,203	$ 568,057
Clinic income, net of contractual adjustments	274,136	283,825
Contributions	452,104	343,577
Other income and expenses, net	49,729	23,265
Total revenues, gains, and support	1,383,172	1,218,724
Net assets released from restrictions	80,111	10,752
Total revenues, gains, support, and reclassifications	1,463,283	1,229,476
Expenses:		
Clinic expenses	774,229	691,675
Research expenses	546,844	415,365
Education	211,002	247,600
Supporting expenses:		
Fundraising	172,788	86,124
Management and general	56,839	181,186
Total expenses	1,761,702	1,621,950
Decrease in net assets without donor restrictions	(298,419)	(392,474)
Change in net assets with donor restrictions:		
Contributions	50,000	-
Net assets released from restrictions	(80,111)	(10,752)
Decrease in net assets with donor restrictions	(30,111)	(10,752)
Decrease in net assets	(328,530)	(403,226)
Net assets, beginning of the year	614,433	1,017,659
Net assets, end of the year	$ 285,903	$ 614,433

For the Years Ended December 31,

	2018	2017
Cash flows from operating activities:		
Decrease in net assets	$ (328,530)	$ (403,226)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	48,035	41,707
Unrealized appreciation in value of investments	(45,585)	(20,798)
Contributions of common stock	(164,346)	(100,281)
Decrease (increase) in:		
Accounts receivable	(12,038)	(5,254)
Promise to give receivable	25,000	(25,000)
Prepaid expenses and other	2,052	17,795
Increase (decrease) in:		
Accounts payable	5,961	608
Accrued liabilities	(6,650)	36,366
Deferred rent	(13,198)	-
Net cash used in operating activities	(489,299)	(458,083)
Cash flows from investing activities:		
Change in investments	228,280	(10,085)
Purchases of property and equipment	(8,983)	(31,825)
Net cash provided by (used in) investing activities	219,297	(41,910)
Cash flows from financing activities:		
Proceeds from related party notes payable	112,000	-
Payments on related party notes payable	(19,552)	(88,712)
Net cash provided by (used in) financing activities	92,448	(88,712)
Net decrease in cash	(177,554)	(588,705)
Cash at beginning of the year	363,815	952,520
Cash at end of the year	$ 186,261	$ 363,815
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 448	$ 1,148

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

Adoption of New Accounting Standard

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU primarily addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses. The Organization adopted this ASU for the year ended December 31, 2018 and has adjusted the presentation of the accompanying financial statements accordingly, including the presentation of certain information for the year ended December 31, 2017. The adoption of this ASU had the following primary effects on the accompanying financial statements and related notes:

- Changed the net asset classifications to those described in the "Financial Statement Presentation" note below
- Added disclosure about the Organization's liquidity and availability of financial resources (see Note 3)
- Expanded information regarding the Organization's expenses by natural and functional classification (see Note 8)

Financial Statement Presentation

The Organization reports its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, wherein the donor has stipulated the funds be maintained in perpetuity.

2. Summary of Significant Accounting Policies
Continued

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, 2018 and 2017, 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 years ended December 31, 2018 and 2017, customer/donor concentrations within total revenues, gains, and support consisted of the following:

	2018	2017
Customer A	26%	14%
Customer B	**	12%

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

	2018	2017
Customer A	23%	23%
Customer C	**	24%
Customer D	34%	**

** Did not meet the threshold for disclosure in this year.

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.

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. 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 support with or without donor restrictions, depending on the existence and nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restriction.

2. Summary of Significant Accounting Policies
Continued

***Contributions** - continued*

When a 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.

Donated Services

Donated services are recognized as contributions only 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. During the years ended December 31, 2018 and 2017, Bateman Horne Center recognized approximately $13,923 and $0, respectively, of in-kind support related to such services.

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. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized in the statement of activities is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and by both function and nature in Note 8. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include the following:

Expense	Allocation Method
Salaries, wages and benefits	Time and effort
Business expenses	Time and effort
Contract services	Time and effort
Operating expenses	Time and effort
Facilities and equipment	Square footage

2. Summary of Significant Accounting Policies *Continued*

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, 2018 and 2017, 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 August 22, 2019, which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation

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3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

Cash	$	186,261
Investments		162,270
Receivables		114,314
		462,845
Less amounts not available for general expenditure within one year:		
Net assets with donor purpose restrictions		(50,000)
Net amount available	$	412,845

The Organization's operations rely primarily on fees for services rendered, as well as contributions from private sources. These contributions are often available to be used for the Organization's overall mission.

3. Liquidity and Availability *continued*

During 2018, the Organization recognized a decrease in net assets of $328,530 and used cash of $489,299 in operating activities. As of December 31, 2018, the Organization has financial assets totaling $462,845 available to pay liabilities totaling $289,227, along with future expenses.

The Organization's management has attained contracts that will provide revenues over future periods, has increased its fundraising efforts, has introduced a new business model in 2019, could reduce operations if necessary, 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 equity securities. These shares are valued at $162,270 and $180,619 as of December 31, 2018 and 2017, respectively.

Total return on investments, including dividends, interest, and realized and unrealized gains was $45,585 and $20,798 for the years ended December 31, 2018 and 2017, respectively.

5. Property and Equipment

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

	2018	2017
Leasehold improvements	$ 105,125	$ 105,125
Furniture and equipment	68,308	62,704
Computers and equipment	15,974	12,595
Software	5,000	5,000
Total cost	194,407	185,424
Less accumulated depreciation and amortization	(95,817)	(47,782)
Property and equipment, net	$ 98,590	$ 137,642

Depreciation and amortization expense on property and equipment totaled $48,035 and $41,707 for the years ended December 31, 2018 and 2017, respectively.

6. Fair Value Measurements

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.

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 tables summarize the Organization's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2018 and 2017, and the fair value calculation input hierarchy level that the Organization has determined applies to the asset category as of December 31:

2018

Description	Level 1	Level 2	Level 3	Total
Large-cap stock	$ 47,270	$ -	$ -	$ 47,270
Privately held stock	-	115,000	-	115,000
Total	$ 47,270	$ 115,000	$ -	$ 162,270

2017

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

7. Net Assets with Donor Restrictions

As of December 31, 2018 and 2017, net assets with donor restrictions totaled $50,000 and $80,111, respectively, and are restricted to fund research programs.

8. Functional Expenses

The Organization's expenses on a functional basis and by natural classification are shown in the table below for the year ended December 31, 2018. Comparative totals by natural classification are provided for 2017.

	2018						
	Program Services			Supporting Services			
	Clinic	Research	Education	Management and General	Fundraising	2018 Total	2017 Total
Bank fees	$ 39	$ -	$ -	$ 2,480	$ -	$ 2,519	$ 860
Business expenses	7,671	3,953	950	(2,480)	982	11,076	9,477
Contract services	70,860	56,675	15,249	2,513	16,780	162,077	147,402
Salaries, wages, and benefits	548,605	302,413	140,023	5,317	139,305	1,135,663	1,083,670
Facilities and equipment	82,263	84,078	41,356	46,106	-	253,803	222,659
Operating expenses	52,699	91,220	10,505	2,575	13,351	170,350	140,485
Travel and mileage	12,092	8,505	2,919	328	2,370	26,214	17,397
Total expenses	$ 774,229	$ 546,844	$ 211,002	$ 56,839	$ 172,788	$ 1,761,702	$ 1,621,950

9. Related Party Transactions

The Organization had unsecured related party notes payable totaling $106,513 and $14,065 as of December 31, 2018 and 2017, respectively, to an entity wholly-owned by the Organization's Medical Director and to the Executive Director. The notes are payable as cash flow allows and bear interest at 2%.

The Organization recorded contributions of $25,000 and $25,000 during 2018 and 2017, respectively, received from a close relative of a member of management. As of December 31, 2018 and 2017, $0 and $25,000 is included in promises to give receivable from this related party, respectively.

10. 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.

10. Commitments and Contingencies ***Continued***

Operating Leases

The Company leases office space under non-cancelable operating leases with an option to renew and maturing in 2019 and 2025 with one lease requiring escalating monthly payments through November 2025. The associated rent expense was $118,983 and $119,506 for 2018 and 2017, respectively.

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

2019	$ 186,000
2020	189,643
2021	193,436
2022	197,304
2023	201,251
Thereafter	205,275
Total	$ 1,172,909