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TANNER

Accountants & Advisors



Bateman Horne Center

RESEARCH | CLINICAL CARE | EDUCATION

The Bateman Horne Center of Excellence

Financial Statements

As of December 31, 2020 and 2019 and for the Years Then Ended

Together with Independent Auditors' Report



TANNER

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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets (deficit) and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Tanner LLC

November 10, 2021

Statements of Financial Position

As of December 31,

	2020	2019
<u>Assets</u>		
Cash and cash equivalents	\$ 302,888	\$ 71,999
Investments	226,511	195,769
Accounts receivable, net of allowance for bad debt of \$4,980 and \$7,532, respectively	200,330	120,345
Prepaid expenses and other	10,823	10,823
Property and equipment, net	31,368	56,736
Total assets	\$ 771,920	\$ 455,672
<u>Liabilities and Net Assets (Deficit)</u>		
Liabilities:		
Accounts payable	\$ 28,929	\$ 35,539
Accrued liabilities	105,745	100,855
Deferred revenue	158,446	89,725
Deferred rent	109,520	77,096
Related party notes payable	150,052	161,680
Total liabilities	552,692	464,895
Commitments and contingencies		
Net assets (deficit):		
Without donor restrictions	169,228	(59,223)
With donor restrictions	50,000	50,000
Total net assets (deficit)	219,228	(9,223)
Total liabilities and net assets (deficit)	\$ 771,920	\$ 455,672

Statements of Activities

For the Years Ended December 31,

	2020	2019
Change in net assets without donor restrictions:		
Revenues, gains, and support:		
Research contracts revenue	\$ 401,443	\$ 649,178
Net clinical services revenue	300,295	275,913
Membership fee revenue	93,954	121,730
Contributions	777,044	523,656
Government grant - Paycheck Protection Program	236,715	-
Other income and expenses, net	22,399	30,228
Total revenues, gains, and support	1,831,850	1,600,705
Net assets released from restrictions	-	50,000
Total revenues, gains, support, and reclassifications	1,831,850	1,650,705
Expenses:		
Program services:		
Clinic expenses	756,417	987,915
Research expenses	399,025	564,406
Education	175,389	153,898
Supporting services:		
Management and general	174,021	59,307
Fundraising	98,547	180,305
Total expenses	1,603,399	1,945,831
Increase (decrease) in net assets without donor restrictions	228,451	(295,126)
Change in net assets with donor restrictions:		
Contributions	-	50,000
Net assets released from restrictions	-	(50,000)
Change in net assets with donor restrictions	-	-
Increase (decrease) in net assets	228,451	(295,126)
Net assets (deficit), beginning of the year	(9,223)	285,903
Net assets (deficit), end of the year	\$ 219,228	\$ (9,223)

Statements of Cash Flows

	For the Years Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 228,451	\$ (295,126)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,368	45,047
Net realized and unrealized gain on investments	(18,147)	(27,867)
Contributions of common stock	(105,472)	(100,275)
Decrease (increase) in:		
Accounts receivable	(79,985)	(6,031)
Prepaid expenses and other	-	2,872
Increase (decrease) in:		
Accounts payable	(6,610)	14,995
Accrued liabilities	4,890	351
Deferred revenue	68,721	89,725
Deferred rent	32,424	15,430
Net cash provided by (used in) operating activities	149,640	(260,879)
Cash flows from investing activities:		
Change in investments	92,877	94,643
Purchases of property and equipment	-	(3,193)
Net cash provided by investing activities	92,877	91,450
Cash flows from financing activities:		
Proceeds from related party notes payable	-	95,000
Payments on related party notes payable	(11,628)	(39,833)
Net cash (used in) provided by financing activities	(11,628)	55,167
Net increase (decrease) in cash and cash equivalents	230,889	(114,262)
Cash and cash equivalents at beginning of the year	71,999	186,261
Cash and cash equivalents at end of the year	\$ 302,888	\$ 71,999
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5,054	\$ 2,322

Notes to Financial Statements

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

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 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.

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, 2020 and 2019, 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, 2020 and 2019, customer/donor concentrations within total revenues, gains, and support consisted of the following:

	2020	2019
Customer A	11%	20%
Customer C	**	14%

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

	2020	2019
Customer A	13%	12%
Customer B	10%	0%
Customer C	**	37%
Customer D	**	25%

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and money market accounts with original maturities of three months or less.

Investments

Investments in equity securities are reported at their fair values in the statements of financial position. Equity securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain equity securities, it is reasonably possible that changes in the values of equity securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Accounts Receivable

Accounts receivable consist of receivables generally for patient care and receivables from 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. These estimates are made by evaluating patient accounts, considering the patients' financial condition and credit history, current economic conditions, and other payor adjustment history. Receivables for 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.

Recently Adopted Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, Revenue Recognition (Topic 605), and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs (Topic 340), which requires the deferral of incremental costs of obtaining a contract with a customer. The Organization adopted the requirements of Topic 606 and Topic 340 effective January 1, 2020. Other than more detailed disclosures regarding revenue, the adoption of these standards did not have a material impact on the accompanying financial statements.

Revenue Recognition

The Organization primarily generates its revenues from three main sources: (1) clinical services; (2) research contracts; and (3) membership fees. Revenues are recognized when control of these services is transferred to customers in an amount that reflects the consideration expected to be received by the Organization in exchange for those services. The Organization determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied

The Organization's contracts with customers generally consist of one of the following performance obligations:

Clinical Services Revenue

The Organization recognizes revenue for clinical services provided to patients at a point in time when the services are provided, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. The Organization has a signed (one-time) fee agreement requiring acceptance by the patient that they are ultimately responsible

for payment of services as well as an implicit contract with each patient at the time of service. The Organization has contracts with various insurance companies, as well as Medicare and Medicaid, delineating payment terms. The Organization recognizes clinical services revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. The variable consideration, which consists of estimated implicit price concessions, is based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in health care coverage, and other collection indicators. Other than the accounts receivable balance, the Company does not have any material contract assets as of December 31, 2020 and 2019.

Research Contracts Revenue

The Organization recognizes revenue for research contracts and grants where commensurate value is exchanged, based on the terms of the contract, either 1) at a point in time under cost-reimbursement type contracts as eligible costs are incurred for services provided, or 2) over time as the services are performed and data is collected. If a patient leaves the research program early, the Organization is still entitled to receive payment for the services rendered to that point.

Membership Fee Revenue

The Organization allows patients to pay an annual membership fee that covers all services, not covered by insurance, rendered by the Organization for that patient during the subsequent twelve month period. This fee is billed annually or monthly and is recognized ratably over twelve months (over time). Cash received in advance of performing services is recorded as deferred revenue. Contract liabilities (deferred revenue) are recognized as revenue on a pro-rata basis over time during the service period covered by the membership fee.

The following table presents the Organization's revenue disaggregated by over-time and point-in-time revenue for the years ended December 31:

	2020	2019
Point-in-time	\$ 469,845	\$ 605,515
Over-time	325,847	441,306
Total revenue	\$ 795,692	\$ 1,046,821

Contributions

Unconditional 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.

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.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barriers and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional contributions received during 2020 or 2019.

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, 2020 and 2019, the Organization recognized \$32,308 and \$49,846, 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 9. Accordingly, certain costs have been allocated among the program and supporting services benefited. The expenses that are allocated include the following:

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

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, 2020 and 2019, the Organization's management was not aware of any uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to conform to the 2020 presentation.

Subsequent Events

The Organization has evaluated subsequent events through November 10, 2021, which is the date the financial statements were available to be issued.

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:

	2020	2019
Cash and cash equivalents	\$ 302,888	\$ 71,999
Investments	226,511	195,769
Receivables	200,330	120,345
	729,729	388,113
Less amounts not available for general expenditure within one year:		
Net assets with donor purpose restrictions	(50,000)	(50,000)
Net amount available	\$ 679,729	\$ 338,113

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.

During 2020, the Organization recognized an increase in net assets of \$228,451 and cash provided by operating activities of \$149,640. As of December 31, 2020, the Organization has financial assets totaling \$729,729 available to pay liabilities totaling \$284,726, along with future expenses. However, approximately \$150,000 of the liabilities are with related parties and could likely be deferred.

The Organization's management has attained contracts that will provide revenues over future periods, has increased its fundraising efforts, has begun reducing operating expenses (wages and more) and could further 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 \$226,511 and \$195,769 as of December 31, 2020 and 2019, respectively.

Total return on investments, including dividends and net realized and unrealized gains was \$18,147 and \$27,867 for the years ended December 31, 2020 and 2019, respectively.

5. 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, 2020 and 2019, and the fair value calculation input hierarchy level that the Organization has determined applies to the asset category as of December 31:

2020				
Description	Level 1	Level 2	Level 3	Total
Large-cap stock	\$ 111,511	\$ -	\$ -	\$ 111,511
Privately-held company stock	-	115,000	-	115,000
Total	\$ 111,511	\$ 115,000	\$ -	\$ 226,511

2019				
Description	Level 1	Level 2	Level 3	Total
Large-cap stock	\$ 80,769	\$ -	\$ -	\$ 80,769
Privately-held company stock	-	115,000	-	115,000
Total	\$ 80,769	\$ 115,000	\$ -	\$ 195,769

6. Property and Equipment

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

	2020	2019
Leasehold improvements	\$ 108,318	\$ 108,318
Furniture and equipment	68,308	68,308
Computers and equipment	15,974	15,974
Software	5,000	5,000
Total cost	197,600	197,600
Less accumulated depreciation and amortization	(166,232)	(140,864)
Property and equipment, net	\$ 31,368	\$ 56,736

Depreciation and amortization expense on property and equipment totaled \$25,368 and \$45,047 for the years ended December 31, 2020 and 2019, respectively.

7. Net Assets with Donor Restrictions

As of December 31, 2020 and 2019, net assets with donor restrictions totaled \$50,000 and are restricted to fund education programs.

8. Related Party Transactions

The Organization had unsecured related party notes payable totaling \$150,052 and \$161,680 as of December 31, 2020 and 2019, 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%. Subsequent to year-end, \$24,039 of these related party notes payable to the Executive Director were paid off.

The Organization recorded contributions of \$25,000 and \$30,000 during 2020 and 2019, respectively, received from a close relative of a member of management. As of December 31, 2020 and 2019, there were no promises to give receivable from this related party.

During the years ended December 31, 2020 and 2019, the Organization recognized \$32,308 and \$49,846, respectively, of in-kind support received from the Executive Director and a member of management.

9. Functional Expenses

The Organization's expenses on a functional basis and by natural classification are shown in the tables below for the years ended December 31:

	2020					
	Program Services			Supporting Services		
	Clinic	Research	Education	Management and		2020 Total
				General	Fundraising	
Business expenses	\$ 10,980	\$ 3,096	\$ 1,004	\$ 3,368	\$ 2,756	\$ 21,204
Contract services	42,030	35,493	9,398	13,985	8,835	109,741
Salaries, wages, and benefits	577,991	246,403	96,796	86,458	61,448	1,069,096
Facilities and equipment	53,573	39,001	62,424	61,362	15,340	231,700
Operating expenses	70,923	74,293	5,500	8,398	9,830	168,944
Travel and mileage	920	739	267	450	338	2,714
Total expenses	\$ 756,417	\$ 399,025	\$ 175,389	\$ 174,021	\$ 98,547	\$ 1,603,399

	2019					
	Program Services			Supporting Services		
	Clinic	Research	Education	Management and		2019 Total
				General	Fundraising	
Business expenses	\$ 18,436	\$ 2,547	\$ 2,062	\$ -	\$ 1,958	\$ 25,003
Contract services	64,015	57,015	8,563	1,610	48,741	179,944
Salaries, wages, and benefits	783,194	326,465	90,608	10,957	92,031	1,303,255
Facilities and equipment	55,390	70,374	47,050	44,040	26,535	243,389
Operating expenses	59,829	94,980	4,666	2,437	8,063	169,975
Travel and mileage	7,051	13,025	949	263	2,977	24,265
Total expenses	\$ 987,915	\$ 564,406	\$ 153,898	\$ 59,307	\$ 180,305	\$ 1,945,831

10. Commitments and Contingencies

Operating Leases

The Organization leases office space under a non-cancelable operating lease with an option to renew, maturing 2024, and requiring escalating monthly payments through December 2024. The Organization has another lease that is month-to-month. The associated rent expense was \$190,460 and \$188,201 for 2020 and 2019, respectively.

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

2021	\$	225,043
2022		197,304
2023		201,251
2024		205,275
Total	\$	828,873

COVID-19

As a result of the COVID-19 Pandemic, economic uncertainties have arisen which are likely to negatively impact operations. The extent of this impact is unknown at this time.

11. Subsequent Events

In January 2021, the Organization secured its second Paycheck Protection Program loan in the amount of \$232,800 from a financial institution, bearing interest at 1%, maturing in January 2026. No payments are required during the deferment period (as defined in the agreement) followed by equal monthly payments of outstanding principal and interest until maturity. If certain criteria are met, the loan will be forgiven and considered a grant, which management believes is probable.