

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)**

**FINANCIAL STATEMENTS
AND
AUDITORS' REPORT**

DECEMBER 31, 2018 AND 2017

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)**

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Medical Debt Resolution, Inc.
(d/b/a RIP Medical Debt)

We have audited the accompanying financial statements of Medical Debt Resolution, Inc. (d/b/a RIP Medical Debt), a nonprofit organization, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, expenses 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 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 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 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 Medical Debt Resolution, Inc. (d/b/a RIP Medical Debt) 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.

New York, NY
August 28, 2019

Skody Scot & Company, CPAs, P.C.

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
Cash	\$ 1,201,593	\$ 728,517
Contributions receivable	314,136	333,440
Other receivables	8,912	9,628
Prepaid expenses	26,746	40,883
Property and equipment, net	14,646	9,356
Security deposits and other assets	11,864	-
	\$ 1,577,897	\$ 1,121,824

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 293,794	\$ 53,374
Total liabilities	293,794	53,374
Commitments and contingencies (see notes)		
Net Assets:		
Without donor restrictions	298,890	86,739
With donor restrictions	985,213	981,711
Total net assets	1,284,103	1,068,450
Total liabilities and net assets	\$ 1,577,897	\$ 1,121,824

See accompanying notes to the financial statements.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>			<u>2017</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenues:						
Contributions	\$ 4,458,860	\$ 880,733	\$ 5,339,593	\$ 1,243,679	\$ 908,550	\$ 2,152,229
Contributions in-kind	229,224	-	229,224	240,686	-	240,686
Program service revenue	120,755	-	120,755	-	-	-
Net assets released from restriction:						
Satisfaction of purpose restrictions	877,231	(877,231)	-	60,021	(60,021)	-
Total support and revenues	<u>5,686,070</u>	<u>3,502</u>	<u>5,689,572</u>	<u>1,544,386</u>	<u>848,529</u>	<u>2,392,915</u>
Expenses:						
Program Expenses:						
Medical debt relief	3,144,045	-	3,144,045	630,129	-	630,129
Technology infrastructure development	562,422	-	562,422	157,755	-	157,755
Education & outreach	217,769	-	217,769	128,080	-	128,080
Medical debt research	160,774	-	160,774	-	-	-
Total program expenses	<u>4,085,010</u>	<u>-</u>	<u>4,085,010</u>	<u>915,964</u>	<u>-</u>	<u>915,964</u>
Supporting Services:						
Management and general	892,236	-	892,236	308,994	-	308,994
Fundraising	496,673	-	496,673	174,371	-	174,371
Total expenses	<u>5,473,919</u>	<u>-</u>	<u>5,473,919</u>	<u>1,399,329</u>	<u>-</u>	<u>1,399,329</u>
Increase/(Decrease) In Net Assets	212,151	3,502	215,653	145,057	848,529	993,586
Net assets, beginning of year	86,739	981,711	1,068,450	(58,318)	133,182	74,864
Net assets, end of year	<u>\$ 298,890</u>	<u>\$ 985,213</u>	<u>\$ 1,284,103</u>	<u>\$ 86,739</u>	<u>\$ 981,711</u>	<u>\$ 1,068,450</u>

See accompanying notes to the financial statements.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Expenses				Supporting Services			Total Expenses
	Medical Debt Relief	Technology Infrastructure Development	Education & Outreach	Medical Debt Research	Total Program Expenses	Management & General	Fundraising	
Cost of debt abolished								
Debt portfolio purchases	\$2,201,334	\$ -	\$ -	\$ 108,159	\$2,309,493	\$ -	\$ -	\$ 2,309,493
Other debt costs	361,639	-	-	38,105	399,744	-	-	399,744
Direct labor	397,505	-	-	-	397,505	-	-	397,505
Total cost of debt abolished	<u>2,960,478</u>	<u>-</u>	<u>-</u>	<u>146,264</u>	<u>3,106,742</u>	<u>-</u>	<u>-</u>	<u>3,106,742</u>
Compensation & benefits	-	-	34,580	7,735	42,315	160,788	118,246	321,349
Contract services	37,100	560,553	163,399	-	761,052	235,802	346,229	1,343,083
Contract services - in kind	-	-	-	-	-	225,384	-	225,384
Office & administrative	79,851	-	4,426	6,775	91,052	70,942	4,002	165,996
Facilities	-	-	-	-	-	74,511	-	74,511
Facilities - in kind	-	-	3,600	-	3,600	-	-	3,600
Travel & meetings	65,852	-	11,764	-	77,616	59,994	25,312	162,922
Technology	764	1,869	-	-	2,633	57,872	2,884	63,389
Depreciation & amortization	-	-	-	-	-	6,943	-	6,943
Total expenses	<u>\$3,144,045</u>	<u>\$ 562,422</u>	<u>\$ 217,769</u>	<u>\$ 160,774</u>	<u>\$4,085,010</u>	<u>\$ 892,236</u>	<u>\$ 496,673</u>	<u>\$ 5,473,919</u>

See accompanying notes to the financial statements.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	<u>Program Expenses</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Medical Debt Relief</u>	<u>Technology Infrastructure Development</u>	<u>Education & Outreach</u>	<u>Total Program Expenses</u>	<u>Management & General</u>	<u>Fundraising</u>	
Cost of debt abolished							
Debt portfolio purchases	\$ 150,264	\$ -	\$ -	\$ 150,264	\$ -	\$ -	\$ 150,264
Other debt costs	10,790	-	-	10,790	-	-	10,790
Other debt costs - in kind	33,750	-	-	33,750	-	-	33,750
Direct labor	140,713	-	-	140,713	-	-	140,713
Decrease in debt inventory	38,523	-	-	38,523	-	-	38,523
Total cost of debt abolished	<u>374,040</u>	<u>-</u>	<u>-</u>	<u>374,040</u>	<u>-</u>	<u>-</u>	<u>374,040</u>
Compensation & benefits	15,442	7,740	27,292	50,474	58,207	50,075	158,756
Contract services	68,313	142,322	95,462	306,097	72,471	102,383	480,951
Contract services - in kind	114,869	-	-	114,869	72,867	-	187,736
Office & administrative	10,128	-	1,343	11,471	12,494	7,313	31,278
Facilities	-	-	-	-	7,151	240	7,391
Facilities - in kind	-	-	-	-	19,200	-	19,200
Travel & meetings	46,294	7,693	3,983	57,970	19,778	9,971	87,719
Technology	1,043	-	-	1,043	43,703	4,389	49,135
Depreciation & amortization	-	-	-	-	3,123	-	3,123
Total expenses	<u>\$ 630,129</u>	<u>\$ 157,755</u>	<u>\$ 128,080</u>	<u>\$ 915,964</u>	<u>\$ 308,994</u>	<u>\$ 174,371</u>	<u>\$ 1,399,329</u>

See accompanying notes to the financial statements.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Increase/(decrease) in net assets	\$ 215,653	\$ 993,586
Adjustments for non-cash items included in operating activities:		
Depreciation	6,943	3,124
Changes in assets and liabilities:		
Accounts payable and accrued expenses	240,419	36,901
Contributions receivable	19,304	(328,960)
Other receivables	716	(8,933)
Prepaid expenses	14,137	(34,436)
Security deposits & other assets	(11,864)	-
Inventory	-	38,523
Net cash provided/(used) by operating activities	485,308	699,805
Cash flows from investing activities:		
Purchase of property and equipment	(12,233)	(8,447)
Net cash provided/(used) by investing activities	(12,233)	(8,447)
Cash flows from financing activities:		
Repayment of related party loans	-	(8,640)
Net cash provided/(used) by financing activities	-	(8,640)
Net increase/(decrease) in cash	473,075	682,718
Cash, at beginning of year	728,517	45,799
Cash, at end of year	<u>\$ 1,201,592</u>	<u>\$ 728,517</u>

See accompanying notes to the financial statements.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The Organization

Medical Debt Resolution, Inc. (Organization), a not-for-profit organization, was incorporated in the State of New York on July 25, 2014. On April 28, 2015, the Organization filed a certificate of assumed name with the State of New York. In accordance with the certificate of assumed name, the Organization has been doing-business-as (d/b/a) RIP Medical Debt. The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal, state or local income taxes has been recorded. The Organization does not believe its financial statements contain any uncertain tax positions. The Organization primarily receives its support from contributions.

The Organization's mission is to purchase and forgive the medical debt of individuals who make less than 200% of the Federal poverty level or who have hardships that make paying off the debt difficult or impossible. The debt is purchased at a discount and is then abolished.

The Organization's programs include the following: Medical Debt Relief – purchasing and forgiving the medical debt of persons experiencing poverty or other hardship; Technology Infrastructure Development – developing systems to more efficiently carry out purchasing and forgiving medical debt; and Education & Outreach - promote public understanding of the medical debt issue by hosting conferences and publishing information through traditional and web media platforms; Medical Debt Research – purchase and abolish medical debt in connection with research conducted by major universities into the economic and social impact of medical debt.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Change in Accounting Principle

In 2018, the Organization adopted all reporting changes required under FASB ASU 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, all amounts on the 2018 and 2017 financial statements have been reclassified to conform to the new presentation requirements. All required disclosures have been incorporated and included on the accompanying financial statements and in these notes

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Property and Equipment

The Organization capitalizes certain property and equipment with estimated lives of three years or more. Property and equipment are stated at cost, less accumulated depreciation. Depreciation of equipment is computed by the straight-line method over estimated useful lives ranging from three to five years. Expenditures for repairs and maintenance are charged as an expense, and major renewals and betterments are capitalized.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. This classification includes net assets designated by the board or management for a specified purpose.

Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature (endowment), where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition

All contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as support with donor restrictions and increases in the respective class of net assets. Contributions received with donor restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Program service revenue relates to fees received in exchange for program services. Revenue is recognized when the program service is provided. Any revenue received which has not been earned is recorded as deferred revenue.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and statements of expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization allocates salaries based on estimated time and other expenses are allocated based on usage. The Organization classifies expenses, which are not directly related to a specific program, as Management and General expenses.

Receivables

Receivables that are expected to be collected within one year are recorded at their net realizable value. Receivables that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Contributions receivable at December 31, 2017 included a pledge of \$300,000 to be received in installments of \$150,000 in March 2018 and March 2019, respectively. The remainder of contributions receivable were received within one year. All other receivables are expected to be received within one year and as such have been stated at their net realizable value with no allowance for uncollectable receivables.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS

Note 2 - Debt Forgiveness Technology Platform

The Organization has hired a consulting firm to conduct a feasibility study and develop a proof of concept for a proprietary debt forgiveness technology platform that will be in compliance with HIPAA laws and will draw data from a number of sources to help identify debt that meet the Organization's criteria for forgiveness. The development costs do not meet GAAP's criteria for capitalization. During the years ended December 31, 2018 and 2017, the Organization recognized \$562,422 and \$157,755, respectively, of debt forgiveness technology platform development program expenses. These costs are included in the statement of functional expenses.

Note 3 - Property and Equipment

Property and equipment by major class consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Office equipment	\$ 24,415	\$ 13,451
Furniture & fixtures	1,269	-
Less: Accumulated depreciation	<u>(11,038)</u>	<u>(4,095)</u>
	<u>\$ 14,646</u>	<u>\$ 9,356</u>

Note 4 - Donated Services

Significant services and facilities were donated to the Organization by various organizations and meet the criteria for being recognized as contributions in accordance with GAAP. Amounts are recorded at their estimated fair market values at the date of donation using published rates and prices.

For the years ended December 31, 2018 and 2017, \$229,224 and \$240,686, respectively, was received and reported as contributions in-kind on the accompanying statement of activities and mainly consisted of pro-bono legal services and other professional fees.

Note 5 - Net Assets With Donor Restrictions

As of December 31, 2018 and 2017, net assets with donor restrictions are available as follows:

	<u>2018</u>	<u>2017</u>
Subject to satisfaction of purpose:		
Software development	\$ 29,823	\$ 345,245
Debt forgiveness	<u>955,390</u>	<u>636,466</u>
	<u>\$ 985,213</u>	<u>\$ 981,711</u>

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS

Note 6 - Concentrations

The Organization maintains its cash accounts with various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures bank deposits up to \$250,000 per financial institution. At times, the balances of the accounts exceeded insured limits during the years ended December 31, 2018 and 2017.

For the year ended December 31, 2017 approximately 68% of the Organization's total revenue (excluding contributions in-kind) was provided by three major contributors. Each of the major contributors donated more than 20% individually. For the year ended December 31, 2018, approximately 45% of the Organization's total revenue (excluding contributions in-kind) was provided by one contributor. It is always possible that benefactors, grantors or contributors might be lost in the near term. In the event funding is terminated or significantly reduced, the Organization's ability to continue providing their programs at the same level of service would be greatly diminished.

Note 7 - Liquidity and Availability of Financial Assets

The Organization regularly monitors liquidity required to meet its operating needs and other obligations as they come due. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. Amounts available for general expenditures over a 12-month period include donor-restricted amounts that are available for ongoing programmatic and support expenditures.

The following reflects the Organization's financial assets, as of December 31, 2018 and 2017, reduced by amounts not available for general use within one year because of contractual, donor-imposed, or internal restrictions and designations:

	2018	2017
Financial assets		
Cash	\$ 1,201,593	\$ 728,517
Contributions receivable	314,136	333,440
Other receivables	8,912	9,628
Total financial assets	1,524,641	1,071,585
Less those unavailable for general		
Expenditures within one year:	-	(150,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,524,641	\$ 921,585

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS

Note 8 - Related Party Transactions

During the years ended December 31, 2018 and 2017, the Chairman of the Organization's board of directors and another member of the Organization's board of directors were also employees of the Organization. During the years ended December 31, 2018 and 2017, the two board members were paid a total of \$451,132 and \$252,152, respectively, for their services as employees to the Organization.

During the year ended December 31, 2016, the Organization had an outstanding loan payable to a member of its board of directors. The entire loan was paid off during the year ended December 31, 2017.

Note 9 – Commitments and Contingencies

In 2018, the Organization entered into two separate leases for office and program space. The leases are operating leases and are scheduled to end in 2020. As of December 31, 2018, the minimum aggregate annual rentals are as follows:

Year ended December 31, 2019	\$ 95,148
2020	42,837

Note 10 - Subsequent Events

Subsequent events were evaluated for potential additional disclosures and corrections through August 28, 2019, which is the date the financial statements were available to be issued.