

RIP
 MEDICAL
DEBT

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

**FINANCIAL STATEMENTS
AND
AUDITORS' REPORT**

DECEMBER 31, 2019 AND 2018

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
FINANCIAL STATEMENTS AND AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, 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, 2019 and 2018, 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
September 9, 2020

Skody Scot & Company, CPAs, P.C.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|---|--------------|--------------|
| ASSETS | | |
| Cash | \$ 3,475,646 | \$ 1,201,593 |
| Contributions receivable, net | 167,001 | 193,381 |
| Program service fees receivable | 174,791 | 120,755 |
| Other receivables | 4,350 | 8,912 |
| Prepaid expenses | 141,800 | 26,746 |
| Deferred debt abolishment costs | 541,001 | - |
| Property, plant and equipment, net | 9,975 | 14,646 |
| Capitalized software and website costs, net | 45,911 | - |
| Security deposits and other assets | 11,864 | 11,864 |
| Total assets | \$ 4,572,339 | \$ 1,577,897 |
| LIABILITIES & NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 306,006 | \$ 293,794 |
| Total liabilities | 306,006 | 293,794 |
| Commitments and contingencies (see notes) | | |
| Net Assets: | | |
| Without donor restrictions | 1,014,787 | 298,890 |
| With donor restrictions | 3,251,546 | 985,213 |
| Total net assets | 4,266,333 | 1,284,103 |
| Total liabilities and net assets | \$ 4,572,339 | \$ 1,577,897 |

See accompanying notes to the financial statements.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | | | 2018 | | |
|---------------------------------------|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Support and Revenues: | | | | | | |
| Contributions & grants | \$ 6,229,470 | \$ 3,022,154 | \$ 9,251,624 | \$ 4,458,860 | \$ 880,733 | \$ 5,339,593 |
| Donated services & facilities use | 192,513 | - | 192,513 | 229,224 | - | 229,224 |
| Donated debt portfolios | 639,457 | - | 639,457 | - | - | - |
| Program service revenue | 174,790 | - | 174,790 | 120,755 | - | 120,755 |
| Investment revenue | 1,153 | - | 1,153 | - | - | - |
| Net assets released from restriction: | | | | | | |
| Satisfaction of purpose restrictions | 755,821 | (755,821) | - | 877,231 | (877,231) | - |
| Total support and revenues | <u>7,993,204</u> | <u>2,266,333</u> | <u>10,259,537</u> | <u>5,686,070</u> | <u>3,502</u> | <u>5,689,572</u> |
| Expenses: | | | | | | |
| Program Expenses: | | | | | | |
| Medical debt relief | 4,668,837 | - | 4,668,837 | 3,144,045 | - | 3,144,045 |
| Technology infrastructure development | 24,000 | - | 24,000 | 562,422 | - | 562,422 |
| Education & outreach | 183,780 | - | 183,780 | 217,769 | - | 217,769 |
| Medical debt research | 386,723 | - | 386,723 | 160,774 | - | 160,774 |
| Total program expenses | <u>5,263,340</u> | <u>-</u> | <u>5,263,340</u> | <u>4,085,010</u> | <u>-</u> | <u>4,085,010</u> |
| Supporting Services: | | | | | | |
| Management & general | 1,314,473 | - | 1,314,473 | 892,236 | - | 892,236 |
| Fundraising & development | 699,494 | - | 699,494 | 496,673 | - | 496,673 |
| Total expenses | <u>7,277,307</u> | <u>-</u> | <u>7,277,307</u> | <u>5,473,919</u> | <u>-</u> | <u>5,473,919</u> |
| Increase/(decrease) in net assets | 715,897 | 2,266,333 | 2,982,230 | 212,151 | 3,502 | 215,653 |
| Net assets, beginning of year | 298,890 | 985,213 | 1,284,103 | 86,739 | 981,711 | 1,068,450 |
| Net assets, end of year | <u>\$ 1,014,787</u> | <u>\$ 3,251,546</u> | <u>\$ 4,266,333</u> | <u>\$ 298,890</u> | <u>\$ 985,213</u> | <u>\$ 1,284,103</u> |

See accompanying notes to the financial statements.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENT OF EXPENSES
YEAR ENDED DECEMBER 31, 2019

| | Program Expenses | | | | Supporting Services | | | |
|--|------------------------|---|-------------------------|-----------------------------|------------------------------|------------------------------|-----------------------------------|--------------------|
| | Medical Debt Relief | Technology Infra- structure Develop- ment | Education & Outreach | Medical Debt Research | Total Program Expenses | Manage- ment & General | Fundraising & Develop- ment | Total Expenses |
| Cost of debt abolished: | | | | | | | | |
| Debt portfolios acquired: | | | | | | | | |
| Purchased debt portfolios | \$3,501,882 | \$ - | \$ - | \$ 343,751 | \$3,845,633 | \$ - | \$ - | \$3,845,633 |
| Donated debt portfolios | 639,457 | - | - | - | 639,457 | - | - | 639,457 |
| Direct labor | 525,520 | - | - | - | 525,520 | - | - | 525,520 |
| Other debt abolishment costs | 290,414 | - | - | - | 290,414 | - | - | 290,414 |
| Decrease/(increase) in deferred debt abolishment costs: | | | | | | | | |
| Regular deferred debt abolishment costs | (398,592) | - | - | - | (398,592) | - | - | (398,592) |
| Noncash deferred debt abolishment costs | (142,409) | - | - | - | (142,409) | - | - | (142,409) |
| Total cost of debt abolished | 4,416,272 | - | - | 343,751 | 4,760,023 | - | - | 4,760,023 |
| Compensation expenses | - | - | 79,052 | 12,683 | 91,735 | 125,058 | 115,836 | 332,629 |
| Contract service expenses | 21,649 | 20,897 | 74,433 | 25,624 | 142,603 | 665,482 | 541,947 | 1,350,032 |
| Contract service expenses, in-kind | - | - | - | - | - | 192,513 | - | 192,513 |
| Mailing services | 206,193 | - | - | 4,665 | 210,858 | - | - | 210,858 |
| Office & admin expenses | 12,145 | - | 10,820 | - | 22,965 | 119,310 | 13,501 | 155,776 |
| Facility expenses | - | - | - | - | - | 112,040 | - | 112,040 |
| Travel & meeting expenses | 12,545 | - | 18,797 | - | 31,342 | 33,860 | 24,122 | 89,324 |
| Technology expenses | 33 | 3,103 | 678 | - | 3,814 | 57,685 | 4,088 | 65,587 |
| Depreciation & amortization | - | - | - | - | - | 8,525 | - | 8,525 |
| Total expenses | <u>\$4,668,837</u> | <u>\$ 24,000</u> | <u>\$ 183,780</u> | <u>\$ 386,723</u> | <u>\$5,263,340</u> | <u>\$1,314,473</u> | <u>\$ 699,494</u> | <u>\$7,277,307</u> |

See accompanying notes to the financial statements.

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

| | Program Expenses | | | | Supporting Services | | | |
|------------------------------------|------------------------|---|-------------------------|-----------------------------|------------------------------|------------------------------|-----------------------------------|--------------------|
| | Medical Debt Relief | Technology Infra- structure Develop- ment | Education & Outreach | Medical Debt Research | Total Program Expenses | Manage- ment & General | Fundraising & Develop- ment | Total Expenses |
| Cost of debt abolished: | | | | | | | | |
| Debt portfolios acquired: | | | | | | | | |
| Purchased debt portfolios | \$2,201,334 | \$ - | \$ - | \$ 108,159 | \$2,309,493 | \$ - | \$ - | \$2,309,493 |
| Direct labor | 397,505 | - | - | - | 397,505 | - | - | 397,505 |
| Other debt abolishment costs | 361,639 | - | - | 38,105 | 399,744 | - | - | 399,744 |
| Total cost of debt abolished | 2,960,478 | - | - | 146,264 | 3,106,742 | - | - | 3,106,742 |
| Compensation expenses | - | - | 34,580 | 7,735 | 42,315 | 160,788 | 118,246 | 321,349 |
| Contract service expenses | 37,100 | 560,553 | 163,399 | - | 761,052 | 235,802 | 346,229 | 1,343,083 |
| Contract service expenses, in-kind | - | - | - | - | - | 225,384 | - | 225,384 |
| Mailing services | 73,796 | - | - | 6,775 | 80,571 | - | - | 80,571 |
| Office & admin expenses | 6,055 | - | 4,426 | - | 10,481 | 70,942 | 4,002 | 85,425 |
| Facility expenses | - | - | - | - | - | 74,511 | - | 74,511 |
| Facility expenses, noncash | - | - | 3,600 | - | 3,600 | - | - | 3,600 |
| Travel & meeting expenses | 65,852 | - | 11,764 | - | 77,616 | 59,994 | 25,312 | 162,922 |
| Technology expenses | 764 | 1,869 | - | - | 2,633 | 57,872 | 2,884 | 63,389 |
| Depreciation & amortization | - | - | - | - | - | 6,943 | - | 6,943 |
| Total expenses | \$3,144,045 | \$ 562,422 | \$ 217,769 | \$ 160,774 | \$4,085,010 | \$ 892,236 | \$ 496,673 | \$5,473,919 |

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, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Increase/(decrease) in net assets | \$ 2,982,230 | \$ 215,653 |
| Adjustments for noncash items included in operating activities: | | |
| Depreciation and amortization | 8,525 | 6,943 |
| Bad pledge expense | 8,381 | - |
| Discounts on long-term receivables | 863 | - |
| Changes in assets and liabilities: | | |
| Accounts payable and accrued expenses | 12,212 | 240,420 |
| Contributions receivable | 17,136 | 140,059 |
| Program service fees receivable | (54,036) | (120,755) |
| Other receivables | 4,562 | 716 |
| Prepaid expenses | (115,054) | 14,137 |
| Deferred debt abolishment costs | (541,001) | - |
| Security deposits and other assets | - | (11,864) |
| Net cash provided/(used) by operating activities | <u>2,323,818</u> | <u>485,309</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (3,289) | (12,233) |
| Capitalized software costs | (46,476) | - |
| Net cash provided/(used) by investing activities | <u>(49,765)</u> | <u>(12,233)</u> |
| Cash flows from financing activities | - | - |
| Net increase/(decrease) in cash | 2,274,053 | 473,076 |
| Cash, at beginning of year | 1,201,593 | 728,517 |
| Cash, at end of year | <u>\$ 3,475,646</u> | <u>\$ 1,201,593</u> |
| Supplemental information: | | |
| Noncash operating transactions: | | |
| Donated debt portfolios | \$ 639,457 | \$ - |

See accompanying notes to the financial statements.

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

Note 1 – Summary of Significant Accounting Policies

The Organization

Medical Debt Resolution, Inc. (the “Organization”) was formed as a not-for-profit corporation on July 25, 2014, in the State of New York. Since filing a certificate of assumed name with the State of New York on April 28, 2015, 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 in its financial statements. The Organization does not believe its financial statements contain any uncertain tax positions. The Organization primarily receives its support from donor contributions.

The Organization’s mission is to acquire and forgive the medical debt of persons experiencing poverty, generally defined as those earning 200 percent or less than the federal poverty line, or who are experiencing other hardships that make paying the debt difficult or impossible.

In support of this mission, the Organization carries out programs in the following areas:

- *Medical Debt Relief:* Acquiring and forgiving the medical debt of persons experiencing poverty or other hardship;
- *Technology Infrastructure Development:* Developing systems to more efficiently acquire and forgive medical debt;
- *Education & Outreach:* Promoting public understanding of the medical debt issue by hosting conferences and publishing information through traditional and web media platforms;
- *Medical Debt Research:* Purchasing and forgiving 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.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

In 2019, the Organization adopted FASB ASU 2014-09 *Revenue from Contracts with Customers* using the full retrospective approach. Analysis of various provisions of the standards resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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.

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.

Deferred Debt Abolishment Costs

Deferred debt abolishment costs are valued at the lower of cost or market, using a specific identification method. Deferred debt abolishment costs include the purchase cost of debt portfolios acquired, plus broker fees, if applicable, and related costs of direct labor, contract labor, and analytic data used in the debt acquisition process. Donated debt portfolios are recorded at fair market value as determined by an independent appraisal firm.

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
YEARS ENDED DECEMBER 31, 2019 AND 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Internal-Use Software

In accordance with FASB ASC 350-40, *Intangibles — Goodwill and Other — Internal-Use Software*, the Organization capitalizes certain costs of developing software used to acquire and abolish medical debt and for the Organization’s public website.

Capitalized costs include contractor fees, payroll related costs of development personnel, and development related hosting costs. Expenditures prior to the development stage, such as those for prototyping and vendor selection, are expensed as incurred. Expenditures after the development stage, such as those for routine maintenance, support, and minor enhancements are also expensed as incurred. Capitalized software is stated at cost, less accumulated amortization. Amortization of software development costs is computed by the straight-line method over an estimated useful life of three years.

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. This classification represents net assets available for use in general operations and not subject to donor (or certain grantor) restrictions, including net assets designated by the board or management for a specified purpose.

Net Assets with Donor Restrictions. This classification represents 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 may be perpetual in nature (endowment), where the donor stipulates that resources be maintained in perpetuity. Currently, none of the Organization’s net assets restrictions are perpetual in nature.

Revenue Recognition

The Organization recognizes contributions when cash, noncash assets, and unconditional promises to give are received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. At December 31, 2019 and 2018, the Organization did not have any conditional pledges that were not recognized.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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 for a purpose are reported as revenue with donor restrictions and increases in net assets with donor restrictions. Contributions received with restrictions that are met in the same reporting period are reported as revenue without donor restrictions and increases in net assets without donor restrictions. When a restriction expires (either a stipulated time period ends or a purpose restriction is accomplished), 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 and related expenses based on estimated time and effort and other expenses including technology expenses, office and administrative expenses, postage and mailing services, telephone and communications, and travel expenses based on usage. The Organization classifies expenses, which are not directly related to a specific program, as management and general expenses.

Note 2 – Contributions Receivable

Contributions receivable at December 31, 2019 include a pledge of \$25,000 to be received in September 2021. 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.

As of December 31, 2019, long term contributions receivable have been discounted at a 1.5 percent annual rate of interest, resulting in a discount of \$863.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Note 3 – Program Service Fees Receivable

Program service fees receivable at December 31, 2019 and 2018 represent amounts due from universities in connection with research programs on the economic and social cost of medical debt. Amounts billed under these programs are accounted for as exchange transactions, with the universities compensating the Organization for costs incurred to purchase and abolish medical debt. All program service fees receivable 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.

Note 4 – Deferred Debt Abolishment Costs

Changes in the value of deferred debt abolishment costs in the years ended December 31, 2019 and 2018 are presented below, along with supplemental details on the face value of debt abolished and the number of debtors helped.

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Deferred debt abolishment costs, beginning of year | \$ - | \$ - |
| Cost of medical debt acquired: | | |
| Debt portfolios, donated | 639,457 | - |
| Debt portfolios, purchased | 3,845,633 | 2,309,493 |
| Data analysis fees | 48,700 | 134,925 |
| Data purchases | 199,567 | 238,622 |
| Data platform fees | 42,147 | 26,197 |
| Direct labor | <u>525,520</u> | <u>397,505</u> |
| Total cost of medical debt acquired | 5,301,024 | 3,106,742 |
| Less: cost of medical debt abolished | <u>(4,760,023)</u> | <u>(3,106,742)</u> |
| Deferred debt abolishment costs before allowances, end of year | 541,001 | - |
| Less: valuation allowances | <u>-</u> | <u>-</u> |
| Deferred debt abolishment costs, end of year | <u>\$ 541,001</u> | <u>\$ -</u> |
| Face value of debt abolished | \$1,673,250,259 | \$505,577,211 |
| Number of debtors helped | 1,260,529 | 180,286 |

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Note 5 – Property and Equipment

Property and equipment by major class consisted of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|--------------------------------|-----------------|------------------|
| Computer & office equipment | \$ 27,704 | \$ 24,415 |
| Furniture & fixtures | 1,269 | 1,269 |
| Less: Accumulated depreciation | <u>(18,998)</u> | <u>(11,038)</u> |
| Property & equipment, net | <u>\$ 9,975</u> | <u>\$ 14,646</u> |

Note 6 – Internal-Use Software

In 2019, the Organization began formal development of proprietary software (the “Debt Abolishment Platform”) to automate the process of identifying, analyzing, purchasing, and abolishing medical debt. Also, in 2019, the Organization hired contractors to carry out a major redesign and build of its public website. Costs associated with these projects were capitalized, as shown in the table below. The redesigned website was placed into service in October 2019. The first phase of the Debt Abolishment Platform was placed into service in March 2020.

| | 2019 | 2018 |
|---|------------------|-------------|
| Capitalized website and software development costs, beginning of year | \$ - | \$ - |
| Website and software development costs capitalized: | | |
| Payroll costs, software development | 14,210 | - |
| Contractor costs, software development | 14,859 | - |
| Contractor costs, public website | 13,550 | - |
| Hosting costs, software development | <u>3,857</u> | <u>-</u> |
| Total website and software development costs capitalized | 46,476 | - |
| Less: Accumulated amortization | <u>(565)</u> | <u>-</u> |
| Capitalized website and software development costs, end of year | <u>\$ 45,911</u> | <u>\$ -</u> |

In 2017 and 2018, the Organization engaged a consulting firm to conduct a feasibility study and develop a proof of concept of the aforementioned Debt Abolishment Platform. Expenditures in connection with this project in 2018 were \$562,422. Because they did not meet the criteria for capitalization under generally accepted accounting principles, they were expensed in the period incurred and are, accordingly, shown in the accompanying 2018 statement of expenses.

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

Note 7 – Net Assets with Donor Restrictions

As of December 31, 2019 and 2018, net assets with donor restrictions are available as follows:

| | 2019 | 2018 |
|--|----------------------------|-------------------------|
| Debt relief programs | \$ 3,251,546 | \$ 955,390 |
| Technology infrastructure development programs | <u> -</u> | <u> 29,823</u> |
| Total net assets with donor restrictions | \$ <u>3,251,546</u> | \$ <u>985,213</u> |

Note 8 – Contracts with Customers

All program service revenue during the years ended December 31, 2019 and 2018 is derived from contracts with customers and fully earned in the same annual reporting periods, as presented below.

| | 2019 | 2018 |
|--------------------------------|-------------|-------------|
| Medical debt research programs | \$ 174,790 | \$ 120,755 |

Note 9 – Donated Debt Portfolios

In the year ended December 31, 2019, the Organization received donations of medical debt portfolios containing accounts with a total face value of \$1,008,388,902, owed by 761,455 debtors. These contributions were recorded as donated debt portfolios at the median fair market value of \$639,457, within a range of fair market values as determined by a third-party appraisal firm.

There were no donations of medical debt portfolios in the year ended December 31, 2018.

Note 10 – 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 generally accepted accounting principles. 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, 2019 and 2018, contributions in-kind of \$192,513 and \$229,224, respectively, were received and reported on the accompanying statement of activities. These contributions consisted mainly of pro-bono public relations and legal services.

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

Note 11 – 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, 2019 and 2018.

In the year ended December 31, 2019, no single contributor accounted for more than 5 percent of the Organization’s revenue (excluding contributions of in-kind services). In the year ended December 31, 2018, approximately 45 percent of the Organization’s total revenue (excluding contributions of in-kind services) was provided by one contributor.

Note 12 – 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, 2019 and 2018, reduced by amounts not available for general use within one year because of contractual, donor-imposed, or internal restrictions and designations:

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Cash | \$ 3,475,646 | \$ 1,201,591 |
| Contributions receivable | 167,001 | 193,381 |
| Program service fees receivable | 174,791 | 120,755 |
| Other receivables | <u>4,350</u> | <u>8,912</u> |
| Total financial assets | 3,821,788 | 1,524,639 |
| Less those unavailable for general expenditures within one year: | | |
| Receivables expected to be received in more than one year | <u>(25,000)</u> | <u>-</u> |
| Financial assets available to meet cash needs for general expenditures within one year | \$ <u>3,796,788</u> | \$ <u>1,524,639</u> |

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Note 13 – Related Party Transactions

During the years ended December 31, 2019 and 2018, two members of the Organization's board of directors were also employees of the Organization. During the years ended December 31, 2019 and 2018, the two board members were paid a total of \$436,511 and \$451,132, respectively, for their services as employees to the Organization.

Note 14 – Commitments and Contingencies

In 2018, the Organization entered into two separate leases for office and program space. The leases are operating leases. In 2020, both leases reached the end of their term, and the Organization has no further obligations under them. As of December 31, 2019, the minimum aggregate rentals to be paid in 2020 were \$42,837.

Under an agreement between the Organization and its primary consumer financial data supplier, the Organization is committed to aggregate minimum purchases of \$150,000 in the year ended December 31, 2020. A similar minimum purchase requirement of \$150,000 in the year ended December 31, 2019 was fulfilled.

Note 15 – Subsequent Events

Subsequent events were evaluated for potential additional disclosures and corrections through September 9, 2020, which is the date the financial statements were available to be issued.