

RIP
 MEDICAL
DEBT

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

**FINANCIAL STATEMENTS
AND
AUDITORS' REPORT**

DECEMBER 31, 2021 AND 2020

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
FINANCIAL STATEMENTS AND AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Medical Debt Resolution, Inc.

Opinion

We have audited the financial statements of Medical Debt Resolution, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Medical Debt Resolution, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Medical Debt Resolution, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Medical Debt Resolution, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they could reasonably be expected to influence the judgement made by a reasonable user based on these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Medical Debt Resolution, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Medical Debt Resolution, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

New York, NY
June 2, 2022

Skody Scot & Company, CPAs, P.C.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash	\$ 54,120,756	\$ 56,801,632
Contributions receivable, net	258,352	163,100
Program service fees receivable	-	14,505
Other receivables	2,465	4,146
Prepaid expenses	104,999	158,932
Deferred debt abolishment costs	1,241,699	363,955
Property and equipment, net	23,175	10,256
Capitalized software and website costs, net	469,237	247,655
Security deposits and other assets	284,102	1,669
Total assets	\$ 56,504,785	\$ 57,765,850
 LIABILITIES & NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 216,952	\$ 361,090
Lease liability	190,727	-
Total liabilities	407,679	361,090
 Commitments and contingencies (see notes)		
 Net Assets:		
Without donor restrictions	\$ 50,434,168	\$ 52,275,653
With donor restrictions	5,662,938	5,129,107
Total net assets	56,097,106	57,404,760
Total liabilities and net assets	\$ 56,504,785	\$ 57,765,850

See accompanying notes to the financial statements.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>			<u>2020</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 & grants	\$ 12,820,413	\$ 4,198,234	\$ 17,018,647	\$ 61,981,772	\$ 4,170,241	\$ 66,152,013
Contributions - non-financial	17,510	67,742	85,252	-	-	-
Donated services	150,000	-	150,000	120,000	-	120,000
Donated debt portfolios	7,461	-	7,461	-	-	-
Program service revenue	-	-	-	14,505	-	14,505
Investment return and other revenue	18,258	-	18,258	6,433	-	6,433
Net assets released from restriction:						
Satisfaction of purpose restrictions	3,732,144	(3,732,144)	-	2,292,680	(2,292,680)	-
Total support and revenues	<u>16,745,786</u>	<u>533,832</u>	<u>17,279,618</u>	<u>64,415,390</u>	<u>1,877,561</u>	<u>66,292,951</u>
Expenses:						
Program Expenses:						
Medical debt relief	15,230,683	-	15,230,683	9,842,520	-	9,842,520
Technology infrastructure development	113,244	-	113,244	33,656	-	33,656
Education & outreach	255,127	-	255,127	285,864	-	285,864
Medical debt research	-	-	-	801,126	-	801,126
Total program expenses	<u>15,599,054</u>	<u>-</u>	<u>15,599,054</u>	<u>10,963,166</u>	<u>-</u>	<u>10,963,166</u>
Supporting Services:						
Management & general	1,878,504	-	1,878,504	1,275,191	-	1,275,191
Fundraising & development	1,109,714	-	1,109,714	916,167	-	916,167
Total expenses	<u>18,587,272</u>	<u>-</u>	<u>18,587,272</u>	<u>13,154,524</u>	<u>-</u>	<u>13,154,524</u>
Increase/(decrease) in net assets	(1,841,486)	533,832	(1,307,654)	51,260,866	1,877,561	53,138,427
Net assets, beginning of year	52,275,654	5,129,106	57,404,760	1,014,787	3,251,546	4,266,333
Net assets, end of year	<u>\$ 50,434,168</u>	<u>\$ 5,662,938</u>	<u>\$ 56,097,106</u>	<u>\$ 52,275,653</u>	<u>\$ 5,129,107</u>	<u>\$ 57,404,760</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, 2021

	Program Expenses				Supporting Services		
	Medical Debt Relief	Technology Infra- structure Develop- ment	Education & Outreach	Total Program Expenses	Manage- ment & General	Fundraising & Development	Total Expenses
Cost of debt abolished:							
Debt portfolios acquired:							
Purchased debt portfolios	\$ 12,759,496	\$ -	\$ -	\$ 12,759,496	\$ -	\$ -	\$ 12,759,496
Donated debt portfolios	7,461	-	-	7,461	-	-	7,461
Direct labor	655,886	-	-	655,886	-	-	655,886
Other debt abolishment costs	717,723	-	-	717,723	-	-	717,723
Decrease/(increase) in deferred debt abolishment costs:							
Deferred debt abolishment costs	(953,851)	-	-	(953,851)	-	-	(953,851)
Noncash deferred debt abolishment costs	76,107	-	-	76,107	-	-	76,107
Total cost of debt abolished	<u>13,262,822</u>	<u>-</u>	<u>-</u>	<u>13,262,822</u>	<u>-</u>	<u>-</u>	<u>13,262,822</u>
Compensation expenses	251,397	50,488	89,451	391,336	725,391	78,131	1,194,858
Contract service expenses	415,784	40,438	165,129	621,351	681,635	987,181	2,290,167
Contract service expenses, in-kind	-	-	-	-	150,000	-	150,000
Mailing services	1,156,813	-	-	1,156,813	-	-	1,156,813
Merchant account fees	-	-	-	-	166,850	-	166,850
Office & admin expenses	6,852	-	547	7,399	40,279	31,511	79,189
Facility expenses	-	-	-	-	31,295	-	31,295
Travel & meeting expenses	1,878	-	-	1,878	9,998	696	12,572
Technology expenses	51,355	22,318	-	73,673	59,534	12,195	145,402
Depreciation & amortization	83,782	-	-	83,782	13,522	-	97,304
Total expenses	<u>\$ 15,230,683</u>	<u>\$ 113,244</u>	<u>\$ 255,127</u>	<u>\$ 15,599,054</u>	<u>\$ 1,878,504</u>	<u>\$ 1,109,714</u>	<u>\$ 18,587,272</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, 2020

	Program Expenses					Supporting Services		
	Technology	Infra- structure	Education & Outreach	Medical Debt Research	Total Program Expenses	Manage- ment & General	Fundraising & Develop- ment	Total Expenses
	Medical Debt Relief	Develop- ment						
Cost of debt abolished:								
Debt portfolios acquired:								
Purchased debt portfolios	\$ 8,059,681	\$ -	\$ -	\$ 761,771	\$ 8,821,452	\$ -	\$ -	\$ 8,821,452
Direct labor	597,699	-	-	-	597,699	-	-	597,699
Other debt abolishment costs	342,400	-	-	-	342,400	-	-	342,400
Decrease/(increase) in deferred debt abolishment costs:								
Deferred debt abolishment costs	110,744	-	-	-	110,744	-	-	110,744
Noncash deferred debt abolishment costs	66,302	-	-	-	66,302	-	-	66,302
Total cost of debt abolished	9,176,826	-	-	761,771	9,938,597	-	-	9,938,597
Compensation expenses	1,136	1,851	171,963	27,310	202,260	328,023	90,843	621,126
Contract service expenses	198,584	27,025	111,920	-	337,529	526,096	780,025	1,643,650
Contract service expenses, in-kind	-	-	-	-	-	120,000	-	120,000
Mailing services	404,971	-	-	7,839	412,810	-	-	412,810
Merchant account fees	-	-	-	-	-	155,298	-	155,298
Office & admin expenses	416	-	861	-	1,277	29,468	31,760	62,505
Facility expenses	-	-	-	-	-	40,350	-	40,350
Travel & meeting expenses	19,316	-	427	-	19,743	2,106	3,767	25,616
Technology expenses	12,553	4,780	693	4,206	22,232	59,017	9,772	91,021
Depreciation & amortization	28,718	-	-	-	28,718	14,833	-	43,551
Total expenses	\$ 9,842,520	\$ 33,656	\$ 285,864	\$ 801,126	\$ 10,963,166	\$ 1,275,191	\$ 916,167	\$ 13,154,524

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, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Increase/(decrease) in net assets	\$ (1,307,654)	\$ 53,138,427
Adjustments for noncash items included in operating activities:		
Depreciation and amortization	97,305	43,550
Discounts on long-term receivables	1,540	-
Amortization of discounts on long-term receivables	(228)	(635)
Donated intangible asset	(85,251)	-
Impairment loss on intangible asset	13,982	-
Changes in assets and liabilities:		
Accounts payable and accrued expenses	(144,139)	55,084
Lease liability	190,727	-
Contributions receivable	(96,564)	4,536
Program service fees receivable	14,505	160,286
Other receivables	1,681	204
Prepaid expenses	53,933	(17,132)
Deferred debt abolishment costs	(877,744)	177,046
Security deposits and other assets	(211,163)	10,195
Net cash provided/(used) by operating activities	(2,349,070)	53,571,561
Cash flows from investing activities:		
Purchase of property and equipment	(20,488)	(8,338)
Capitalized software costs	(311,318)	(237,237)
Net cash provided/(used) by investing activities	(331,806)	(245,575)
Cash flows from financing activities	-	-
Net increase/(decrease) in cash	(2,680,876)	53,325,986
Cash, at beginning of year	56,801,632	3,475,646
Cash, at end of year	\$ 54,120,756	\$ 56,801,632
Supplemental information:		
Noncash operating transactions:		
Donated debt portfolios	\$ 7,461	\$ -
Retirement of fully depreciated assets	16,840	-

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, 2021 AND 2020**

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 end medical debt which is achieved by acquiring and relieving the medical debt of persons experiencing poverty, generally defined as those earning 200 percent or less (raised to 400 percent in March 2022) 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 (no expenses for 2021)

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, 2021 AND 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

Investments

The policy of the Organization is to sell donated investments soon after receipt and consider them cash donations valued at the sale price.

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, 2021 AND 2020

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 five years.

Lease Liability and Right-of-Use Asset

The Organization entered into a non-cancellable operating lease agreement for office space to obtain a right of use (ROU) asset. The lease liability and ROU asset represent its lease obligations and rights to use the leased asset over the period of the lease and are recognized when the Organization enters into the lease. The lease payments are discounted using a rate determined when the lease is recognized. The related operating lease ROU asset may differ from the operating lease liability due to deferred or prepaid lease payments. The Organization has elected to apply the short-term lease exception to all leases with a term of one year or less.

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.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

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. Amounts received prior to the meeting of these conditions, if any, are reported as refundable advances in the statements of financial position. At December 31, 2021 and 2020, the Organization did not have any material conditional pledges that were not recognized.

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 for a purpose by the donor 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.

The noncash assets which the Organization receives as donations are valued differently, depending on the type of asset received. Donations of cryptocurrency or other similar intangible assets are initially recorded at the fair market value on the date of donation, and then subsequently tested for impairment to see if the fair market value falls below the carrying value. If the fair market value falls below the carrying value, an impairment loss is required to be recognized, however reversing an impairment loss is prohibited, even if the fair market value is above the carrying value. Donations of debt portfolios are valued using a transparency pricing model developed by the Organization which is used for the pricing of other standard debt portfolio purchases.

During the year ended December 31, 2020, the Organization received \$135,528 of Paycheck Protection Program funds from the U.S. Small Business Administration. Management has determined that the correct model to follow is the grant model and that the purpose-related conditions imposed on the grant were met by year-end. The amount is included with contributions & grants in the statement of activities for the year ended December 31, 2020.

Program service revenue relates to fees received in exchange for program services and consists of program consulting. The Organization’s program service revenue generally contains a single delivery/service element and revenue is recognized at a single point in time when ownership, risk and rewards transfer, and all performance obligations are considered to be satisfied. Any revenue received which has not been earned is recorded as deferred revenue

**MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

Note 1 – Summary of Significant Accounting Policies (Continued)

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, 2021 include a pledge of \$25,000 to be received in December 2023 and a pledge of \$2,500 to be received in June 2023. 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, 2021, long term contributions receivable have been discounted at a 3 percent annual rate of interest, resulting in a discount of \$1,540.

Note 3 – Program Service Fees Receivable

Program service fees receivable at December 31, 2020 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.

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

Note 4 – Deferred Debt Abolishment Costs

Changes in the value of deferred debt abolishment costs in the years ended December 31, 2021 and 2020 are presented below, along with supplemental details on the face value of debt abolished and the number of debtors helped.

	2021	2020
Deferred debt abolishment costs, beginning of year	\$ 363,955	\$ 541,001
Cost of medical debt acquired:		
Debt portfolios, donated	7,461	-
Debt portfolios, purchased	12,759,496	8,821,452
Debt broker fees	14,000	74,000
Data analysis fees	20,025	38,044
Debt acquisition consulting fees	371,825	-
Data purchases	245,620	179,468
Data platform fees	66,254	50,888
Direct labor	<u>655,886</u>	<u>597,699</u>
Total cost of medical debt acquired	14,140,565	9,761,551
Less: cost of medical debt abolished	<u>(13,262,822)</u>	<u>(9,938,596)</u>
Deferred debt abolishment costs, end of year	<u>\$ 1,241,699</u>	<u>\$ 363,955</u>
Face value of debt abolished	\$ 2,787,897,194	\$ 1,736,659,044
Number of debtors helped	1,312,697	838,634

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

Note 5 – Property and Equipment

Property and equipment by major class consisted of the following at December 31, 2021 and 2020:

	2021	2020
Computer & office equipment	\$ 40,959	\$ 36,042
Furniture & fixtures	-	1,269
Less: Accumulated depreciation	<u>(17,784)</u>	<u>(27,055)</u>
Property & equipment, net	<u>\$ 23,175</u>	<u>\$ 10,256</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. The first phase of the Debt Abolishment Platform was placed into service in March 2020. The Organization continued development of new features and functionality of the software through 2021, for which related expenditures were capitalized. Expenditures in connection with general maintenance and user training were expensed in the period incurred. Website and Internal use software consisted of the following at December 31, 2021 and 2020:

	2021	2020
Website and software development costs capitalized:		
Payroll costs, software development	\$ 392,456	\$ 191,746
Contractor costs, software development	161,139	64,121
Contractor costs, public website	13,550	13,550
Hosting costs, software development	<u>27,887</u>	<u>14,296</u>
Total website and software development costs capitalized	595,032	283,713
Less: Accumulated amortization	<u>(125,795)</u>	<u>(36,058)</u>
Capitalized website and software development costs, end of year	<u>\$ 469,237</u>	<u>\$ 247,655</u>

MEDICAL DEBT RESOLUTION, INC.
(D/B/A RIP MEDICAL DEBT)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

Note 7 – Net Assets with Donor Restrictions

As of December 31, 2021 and 2020, net assets with donor restrictions are available as follows:

	2021	2020
Debt relief programs	\$ 5,662,938	\$ 5,129,107

Note 8 – Lease Commitments

During the year ended December 31, 2021, the Organization signed a non-cancellable 24-month office space lease, which is set to expire on September 30, 2023. As of December 31, 2021, minimum aggregate annual rentals are as follows:

Year ended December 31, 2022	\$ 111,366	
2023	<u>85,698</u>	
Total lease payments	197,064	
Less: imputed interest	<u>(6,337)</u>	
Total operating lease liability	<u>\$ 190,727</u>	

On October 1, 2021, the Organization recognized (1) a lease liability of \$216,360, which represents the present value of the remaining lease payments, discounted using the Organization’s incremental borrowing rate of 4%; and (b) right-of-use asset. As of December 31, 2021, the balance of the right-of use asset is \$190,013 and is included on the statement of financial position as an other asset.

Note 9 – Intangible Asset

During the year ended December 31, 2021, the Organization received donations of cryptocurrency. The cryptocurrency donations were recognized for \$85,252, which was the fair market value on the date of donation, with \$67,742 of the donation restricted for medical debt relief. The amount is included on the statement of activities for the year ended December 31, 2021 as a non-financial contribution. The fair market value of the cryptocurrency at December 31, 2021 was \$71,270, resulting in an impairment loss of \$13,982. The amount is included on the statement of financial position as of December 31, 2021 as an other asset.

Note 10 – Donated Debt Portfolios

In the year ended December 31, 2021, the Organization received a donation of a medical debt portfolio containing accounts with a total face value of \$820,075, owed by 1,100 individuals. This contribution was recorded as donated debt portfolio at fair market value of \$7,461 as calculated by the Organization’s transparency pricing model developed by the Organization and used for pricing of other standard debt portfolio purchasing.

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Note 11 – Donated Services

Significant services 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, 2021 and 2020, contributions in-kind of \$150,000 and \$120,000, respectively, were received and reported on the accompanying statements of activities. These contributions consisted of pro-bono public relations services and were valued based on the fair market value of the services.

Note 12 – Contracts with Customers

All program service revenue during the year ended December 31, 2020 was fully earned in the same annual reporting period, as presented below:

	2021	2020
Medical debt research programs:	\$ -	\$14,505

Note 13 – Retirement Plan

During the year ended December 31, 2020, the Organization adopted a qualified deferred compensation plan (Plan) under 403(b) of the Internal Revenue Code. Under the Plan, employees may elect to defer a portion of their salary, subject to Internal Revenue Service limits. Any employee who has completed a year of employment or who works full time is allowed to participate in the Plan. The Organization can make discretionary matching contributions towards the Plan, based on a uniform percentage or dollar amount of the employees' elective deferrals.

Organization contributions to the Plan for the years ended December 31, 2021 and 2020, amounted to \$42,933 and \$31,321, respectively.

Note 14 – 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, 2021 and 2020.

During the year ended December 31, 2021, two single contributors each accounted for more than 5 percent of the Organization's total revenue (excluding contributions of in-kind services and portfolios). During the year ended December 30, 2020, 76 percent of the Organization's total revenue (excluding contributions of in-kind services) was provided by one contributor.

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Note 15 – 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, 2021 and 2020, reduced by amounts not available for general use within one year because of contractual, donor-imposed, or internal restrictions and designations:

	2021	2020
Cash	\$ 54,120,756	\$ 56,801,632
Contributions receivable	258,352	163,100
Program service fees receivable	-	14,505
Other receivables	<u>2,465</u>	<u>4,146</u>
Total financial assets	54,381,573	56,983,383
Less those unavailable for general expenditures within one year:		
Receivables expected to be received in more than one year	<u>(25,960)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 54,355,613</u>	<u>\$ 56,983,383</u>

Note 16 – Related Party Transactions

During the years ended December 31, 2021 and 2020, two members of the Organization’s board of directors were also employees or consultants of the Organization. During the years ended December 31, 2021 and 2020, the two board members were paid a total of \$574,522 and \$389,500, respectively, for their services as employees or consultants to the Organization.

During the years ended December 31, 2021 and 2020, the Organization paid consulting fees totaling \$98,000 and \$65,500, respectively, to a consulting firm, the founder and CEO of which is an immediate family member of an individual on the Organization’s board of directors.

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Note 17 – Commitments and Contingencies

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, 2022. A similar minimum purchase requirement of \$150,000 in the year ended December 31, 2021 was fulfilled.

Note 18 – Subsequent Events

Subsequent events were evaluated for potential additional disclosures and corrections through June 2, 2022, which is the date the financial statements were available to be issued.