AUDITED FINANCIAL STATEMENTS

US PAIN FOUNDATION, INC.

Middletown, Connecticut

DECEMBER 31, 2018

Boisselle, Morton & Wolkowicz, LLP
Certified Public Accountants

BOISSELLE, MORTON & WOLKOWICZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
US Pain Foundation, Inc.
Middletown, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of US Pain Foundation, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 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.

48 BAY ROAD, PO BOX 374, HADLEY, MA 01035 • 413-587-0099 • FAX 413-587-4099 • www.bma-cpas.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of US Pain Foundation, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Boisselle, Morton & Wolkowicz, LLP

Hadley, Massachusetts
April 30, 2019

US PAIN FOUNDATION, INC.
Statement of Financial Position
December 31, 2018

Assets

Current assets		
Cash	$	454,252
Escrow savings		200,000
Grants and donor commitments receivable		150,675
Prepaid and other		1,985
Total current assets		806,912
Furniture and equipment, net		5,207
Note receivable, net		66,667
Total assets	$	878,786

Liabilities and Net Assets

Current liabilities		
Accounts payable and accrued expenses		255,976
Escrow reserve	$	200,000
Total current liabilities		455,976
Net assets		
Net assets without donor restrictions		(21,025)
Net assets with donor restrictions		443,835
Total net assets		422,810
Total liabilities and net assets	$	878,786

The accompanying notes are an integral part of these financial statements.

US PAIN FOUNDATION, INC.
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Grants and contributions	$ 934,312	$ 845,795	$ 1,780,107
Program	370,000		370,000
Fundraising	25,066		25,066
Other	7,374		7,374
Net assets released from restrictions:			
Satisfaction of purpose restrictions	401,960	(401,960)	
Total support and revenue	1,738,712	443,835	2,182,547
Expenses			
Program	1,217,967		1,217,967
General and administrative	723,147		723,147
Total expenses	1,941,114		1,941,114
Change in net assets before non-operating costs	(202,402)	443,835	241,433
Non-operating income (expenses)			
Note receivable interest	11,000		11,000
Write-off of investment	(50,000)		(50,000)
Legal settlement	(23,900)		(23,900)
Penalties	(80,296)		(80,296)
Unrelated business net loss	(72,340)		(72,340)
Total non-operating income (expenses)	(215,536)		(215,536)
Change in net assets	(417,938)	443,835	25,897
Net assets - beginning of year	396,913		396,913
Net assets - end of year	$ (21,025)	$ 443,835	$ 422,810

US PAIN FOUNDATION, INC.
Statement of Functional Expenses
Year Ended December 31, 2018

	Program	General and Administrative	Total
Program Costs and Services			
Program and event	$ 619,581		$ 619,581
Business and program sponsorships	142,402		142,402
Grants	4,500		4,500
General and Administrative			
Payroll	351,522	$ 66,197	417,719
Payroll taxes	31,732	6,731	38,463
Excess benefit transactions		166,195	166,195
Professional services			
Legal services		331,312	331,312
Accounting and audit services		102,336	102,336
Contracted services		41,553	41,553
Occupancy	38,231		38,231
Operations	19,429	1,526	20,955
Insurance	1,831	4,528	6,359
Licenses and registrations		65	65
Website development and maintenance	7,179		7,179
Banking and finance fees		1,470	1,470
Depreciation		1,234	1,234
Other expense	1,560		1,560
Total expenses	$ 1,217,967	$ 723,147	$ 1,941,114

US PAIN FOUNDATION, INC.

Statement of Cash Flows

Year Ended December 31, 2018

Cash flows from operating activities	
Change in net assets	$ 25,897
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,234
Dissolution expenses of unrelated business	40,530
Write-off of investment	50,000
Changes in:	
Grants and donor commitments receivable	(142,886)
Prepaid and other	(1,985)
Accounts payable and accrued expenses	255,976
Net cash provided by operating activities	228,766
Net increase in cash	228,766
Cash - beginning of year	225,486
Cash - end of year	$ 454,252

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Nature of Business: US Pain Foundation, Inc. ("USPF") is a nonprofit organization that empowers, educates, connects, and advocates for individuals living with chronic illnesses that cause pain, as well as their caregivers and clinicians. Its multiple programs enhance quality of life for people with pain, improve patient outcomes, address access and affordability issues, and increase public awareness and empathy for the issue of pain.

Tax Exempt Status: USPF was granted tax exempt status from federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). USPF is also exempt from state income taxes. Donors may deduct contributions made to USPF within the IRC requirements.

Accounting Method: The financial statements of USPF are prepared on the accrual basis.

Basis of Presentation: USPF presents its financial statements according to two classes of net assets: those with donor restrictions and those without donor restrictions. Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. The restrictions are temporary in nature and will be met by actions of USPF. All other net assets are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of USPF.

Receivables and Allowance for Doubtful Accounts: Grants and donor commitments receivable are recorded at their net present value when unconditionally committed. An allowance for potentially uncollectible grants and contributions, as well as government grants is provided based upon management's assessment of potential defaults, which includes such factors as collection history. There was no allowance recorded as of December 31, 2018.

Furniture and Equipment: The cost of furniture and equipment is capitalized when more than $1,000. Expenditures for repairs and maintenance are expensed against revenue as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of the assets from 3 to 7 years.

Use of Estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition: Grants, donor commitments, and donor contributions are recorded as revenue when received or unconditionally committed. Grants, donor commitments and contributions received with restrictions are recorded as revenue and net assets with donor restrictions when received or unconditionally committed. Transfers are made to net assets without restrictions as costs are incurred to satisfy program restrictions or time restrictions have lapsed. Program service fees and all other revenues are recorded as earned.

Allocation of Expenses: Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based on management's estimate of the percentage attributable to each function based on employee time.

Fair Value Measurements: USPF follows the *Fair Value Measurement and Disclosures* standards. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. USPF values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Accounting Pronouncement Adopted: On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification and deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. USPF has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Advertising: Advertising and promotional costs are expensed as incurred.

2. Furniture and Equipment

Furniture and equipment consisted of the following at December 31:

Furniture and equipment	$ 9,418
Less accumulated depreciation	4,211
Total property and equipment	$ 5,207

Depreciation expense was $1,234 for 2018.

3. Net Assets

Net Assets Without Donor Restrictions: Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by USPF.

Net Assets with Donor Restrictions: Net assets with donor restrictions include funds designated for specific programs or restricted by the passage of time by donors. These amounts are recorded as net assets with donor restrictions until they are expended for their designated purposes or as the time restrictions expire.

4. Lease Agreements

USPF has an operating lease for space which runs through February 28, 2020. The monthly lease payments are $2,100. Total rent expense was $25,000 for 2018 and is included in occupancy in the accompanying statement of functional expenses. Future minimum lease payments under this lease are $25,200 for 2019 and $4,200 for 2020.

5. Excess Benefit Transactions Reported to the Internal Revenue Service

An excess benefit transaction occurs when an economic benefit is provided to a disqualified person, by a tax-exempt organization, directly or indirectly, to or for the use of a disqualified person, and the value of the benefit exceeds the value of the consideration received by the organization. A disqualified person is any person who was in a position to exercise substantial influence over the affairs of the tax-exempt organization. Family members of disqualified persons or entities controlled by disqualified persons are also disqualified persons.

In late-April 2018, USPF discovered financial irregularities involving the former CEO and president. The Board of Directors immediately hired an independent attorney and a forensic accountant to investigate. The findings were clear that the former president had engaged in unauthorized transactions involving the misuse of assets of the organization. The Board demanded and received the former CEO's immediate resignation on May 29, 2018, and shortly thereafter reported the matter to federal authorities. On the organization's 2016, 2017 and 2018 Form 990 annual information returns, USPF reported to the Internal Revenue Service an aggregate of $2,055,553 in excess benefit transactions involving unauthorized compensation, unauthorized use of related party vendors, and use of organization assets to pay for personal expenses that occurred between the beginning of 2015 and through May 2018. As of April 30, 2019, the date that these financial statements were available to be issued, the criminal investigation is still ongoing into the former president's activities.

6. Unrelated Business Net Loss

In 2016, USPF's former president started an unrelated bakery business in Danbury, Connecticut, of which the profits were to be utilized to further the general mission of USPF. The bakery began operations in 2017. This venture did not produce income in 2017 or through the first half of 2018. In late June 2018, the Board of Directors voted to liquidate the business to eliminate any further drain of its resources on this venture. In 2017, the bakery posted a net loss of $69,573. Through June 2018, the bakery posted a loss of $72,340, of which $40,530 was the cost to dissolve the business.

7. Cash Escrow and Reserve

In 2017 and 2018, USPF received funding to initiate and fund a prescription assistance program (PAP) for breakthrough cancer pain.

USPF hired a third-party vendor, NeedyMeds to oversee and administer the PAP. The contract with NeedyMeds was for 2 years. NeedyMeds advertised, accepted and approved patient applications and made payments towards those patients' prescription co-pays.

In April 2018, NeedyMeds emailed the former president stating it closed the PAP program to new applications. Upon the former CEO's resignation, NeedyMeds reached out to USPF's Interim CEO to discuss the winding down of the program. In December 2018, USPF received a check from NeedyMeds for unutilized funding in the amount of $200,000.

Management decided that until it could be determined how the funding could now be utilized, it would hold the funds in an escrow account and set up a reserve.

8. Legal Settlement

On April 3, 2019, USPF reached a settlement agreement, in the total in the amount of $23,900, of lease obligations for office spaces and the bakery location leased by the former president. An initial lump sum settlement payment in the amount of $15,800 was paid in April 2019.

9. Related Party Transactions

USPF paid wages to the spouse of the former president in the amount of $20,550 in 2018.

USPF paid wages to the sister of the former president in the amount of $41,440 in 2018.

USPF paid wages to the step-daughter of the former president in the amount of $9,000 in 2018.

The daughter of a member of the board was paid wages in the amount of $76,700 in 2018.

A company owned by the former president was paid $36,000 in 2018. This amount is included in excess benefit transactions on the Statement of Functional Activities.

USPF rents its main office from the father in law of an employee. Rent of $25,000 was paid in 2018.

USPF entered into a security agreement and promissory note with a company owned by the brothers of the former president in the amount of $100,000. The note was due February 2019. USPF has contracted with an attorney to assist in the collection of the note and the 33% contingency fee has been accrued at December 31, 2018. The attorney has stated that the note is collectable.

10. Write-off of Investment

Under the direction of the former president, in 2017 USPF entered into a non-binding letter of intent to purchase the stock of the company that publishes PainPathways magazine. USPF made non-refundable deposits totaling $50,000 in October 2017 and January 2018.

Following the former president's resignation, the Board of Directors, after consultation with legal counsel, determined that although the purchase could have afforded USPF certain benefits, the total purchase price of $175,000, plus a percentage of revenues until 2020 exceeded the value to USPF. In June 2018, the Board of Directors voted to terminate the letter of intent. The non-refundable deposit totaling $50,000 was written off in full in 2018.

11. Available Resources and Liquidity

USPF had $255,976 of accrued liabilities at December 31, 2018 comprised of Program costs totaling $55,650 and $200,326 of professional fees and other non-operating costs. Financial assets available within one year of the Statement of Financial Position date to meet cash needs consist of program and unrestricted cash of $66,067 a short-term note receivable of $100,000, and unrestricted corporate council commitments of $100,000.

None of the financial assets listed above are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the Statement of Financial Position date. The contributions receivable is subject to implied time restrictions but are expected to be collected within one year.

USPF has a goal to maintain financial assets, which consist of cash on hand to meet 60 days of "normal" operating expenses.

12. Subsequent Events

Management has evaluated subsequent events after the statement of financial position date of December 31, 2018, through April 30, 2019, the date on which the financial statements were available to be issued, and concluded that no additional disclosures were required.