

THE FOUNDATION OF HOPE
FOR RESEARCH AND TREATMENT
OF MENTAL ILLNESS

Financial Statements – Modified Cash Basis

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Trustees
The Foundation of Hope for Research
and Treatment of Mental Illness:

We have audited the accompanying financial statements of The Foundation of Hope for Research and Treatment of Mental Illness (the "Foundation"), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net assets – modified cash basis, functional expenses – modified cash basis, and cash flows – modified cash basis 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 the modified cash basis of accounting as described in note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Foundation 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 the modified cash basis of accounting as described in note 1.

Basis of Accounting

We draw attention to note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Batchelor, Tillery & Roberts, LLP

April 28, 2020

THE FOUNDATION OF HOPE
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Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets:		
Cash and investments:		
Cash and interest-bearing deposits	\$ 901,071	809,375
Marketable securities, at cost (aggregate market values of \$4,949,371 in 2019 and \$4,176,870 in 2018)	<u>4,748,886</u>	<u>4,591,269</u>
Total cash and investments	5,649,957	5,400,644
Accounts receivable	<u>12,362</u>	<u>4,510</u>
Total current assets	<u>5,662,319</u>	<u>5,405,154</u>
Furniture and equipment:		
Office equipment	35,465	35,465
Less accumulated depreciation	<u>(35,465)</u>	<u>(35,465)</u>
Furniture and equipment, net	<u>-</u>	<u>-</u>
	\$ <u>5,662,319</u>	<u>5,405,154</u>
<u>Liabilities and Net Assets</u>		
Liabilities - payroll taxes and related	<u>7</u>	<u>2,374</u>
Net assets:		
Without donor restrictions	912,426	805,185
Without donor restrictions - Board-designated reserves	<u>4,748,886</u>	<u>4,597,595</u>
Total without donor restrictions	5,661,312	5,402,780
With donor restrictions	<u>1,000</u>	<u>-</u>
Total net assets	<u>5,662,312</u>	<u>5,402,780</u>
	\$ <u>5,662,319</u>	<u>5,405,154</u>

See accompanying notes to financial statements.

THE FOUNDATION OF HOPE
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Statements of Revenues, Expenses, and Changes in Net Assets - Modified Cash Basis

Year ended December 31, 2019, with comparative totals for 2018

	2019			<u>2018</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
Revenues:				
Thad and Alice Eure Walk for Hope - walker contributions	\$ 392,701	-	392,701	368,469
Thad and Alice Eure Walk for Hope - underwriting	189,770	-	189,770	184,010
Evening of Hope	641,248	-	641,248	485,373
Other contributions	287,216	16,000	303,216	234,390
(Loss) gain on sales of marketable securities, net of fees	(34,006)	-	(34,006)	638,020
Interest and dividends	134,339	-	134,339	129,845
Grants refunded	<u>24,270</u>	<u>-</u>	<u>24,270</u>	<u>1,342</u>
	1,635,538	16,000	1,651,538	2,041,449
Release of net assets with donor restrictions	<u>15,000</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,650,538</u>	<u>1,000</u>	<u>1,651,538</u>	<u>2,041,449</u>
Expenses:				
Program services	<u>1,004,835</u>	<u>-</u>	<u>1,004,835</u>	<u>824,088</u>
Supporting services:				
Management and general	153,924	-	153,924	132,569
Fundraising	<u>233,247</u>	<u>-</u>	<u>233,247</u>	<u>214,396</u>
Total supporting services	<u>387,171</u>	<u>-</u>	<u>387,171</u>	<u>346,965</u>
Total expenses	<u>1,392,006</u>	<u>-</u>	<u>1,392,006</u>	<u>1,171,053</u>
Increase in net assets	258,532	1,000	259,532	870,396
Net assets, beginning of year	<u>5,402,780</u>	<u>-</u>	<u>5,402,780</u>	<u>4,532,384</u>
Net assets, end of year	\$ <u>5,661,312</u>	<u>1,000</u>	<u>5,662,312</u>	<u>5,402,780</u>

(Continued)

THE FOUNDATION OF HOPE
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Statements of Revenues, Expenses, and Changes in Net Assets - Modified Cash Basis, Continued

Year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Thad and Alice Eure Walk for Hope - walker contributions	\$ 368,469	-	368,469
Thad and Alice Eure Walk for Hope - underwriting	184,010	-	184,010
Evening of Hope	485,373	-	485,373
Other contributions	224,261	10,129	234,390
Gain on sales of marketable securities, net of fees	638,020	-	638,020
Interest and dividends	129,845	-	129,845
Grants refunded	<u>1,342</u>	<u>-</u>	<u>1,342</u>
	2,031,320	10,129	2,041,449
Release of net assets with donor restrictions	<u>10,129</u>	<u>(10,129)</u>	<u>-</u>
Total revenues	<u>2,041,449</u>	<u>-</u>	<u>2,041,449</u>
Expenses:			
Program services	<u>824,088</u>	<u>-</u>	<u>824,088</u>
Supporting services:			
Management and general	132,569	-	132,569
Fundraising	<u>214,396</u>	<u>-</u>	<u>214,396</u>
Total supporting services	<u>346,965</u>	<u>-</u>	<u>346,965</u>
Total expenses	<u>1,171,053</u>	<u>-</u>	<u>1,171,053</u>
Increase in net assets	870,396	-	870,396
Net assets, beginning of year	<u>4,532,384</u>	<u>-</u>	<u>4,532,384</u>
Net assets, end of year	<u>\$ 5,402,780</u>	<u>-</u>	<u>5,402,780</u>

See accompanying notes to financial statements.

THE FOUNDATION OF HOPE
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Statements of Functional Expenses - Modified Cash Basis

Year ended December 31, 2019, with comparative totals for 2018

	2019				<u>2018</u>	
	<u>Program services</u>	Supporting services		<u>Total</u>		
		Management and general	Fundraising			
Salaries and related expenses:						
Salaries	\$	87,956	76,034	62,259	226,249	231,390
Payroll taxes		<u>7,269</u>	<u>6,116</u>	<u>5,087</u>	<u>18,472</u>	<u>20,219</u>
Total salaries and related expenses		95,225	82,150	67,346	244,721	251,609
Grants and awards		677,225	-	-	677,225	501,471
Evening of Hope		86,300	-	86,300	172,600	184,905
Office expense		42,362	66,403	32,604	141,369	95,920
Walk for Hope		90,176	-	37,178	127,354	107,527
Office rental		3,600	3,600	3,600	10,800	10,800
Other		<u>9,947</u>	<u>1,771</u>	<u>6,219</u>	<u>17,937</u>	<u>18,821</u>
 Total expenses	 \$	 <u>1,004,835</u>	 <u>153,924</u>	 <u>233,247</u>	 <u>1,392,006</u>	 <u>1,171,053</u>

(Continued)

THE FOUNDATION OF HOPE
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Statements of Functional Expenses - Modified Cash Basis, Continued

Year ended December 31, 2018

		<u>Supporting services</u>		<u>Total</u>	
		<u>Program services</u>	<u>Management and general</u>		<u>Fundraising</u>
Salaries and related expenses:					
Salaries	\$	92,330	76,243	62,817	231,390
Payroll taxes		<u>7,056</u>	<u>7,975</u>	<u>5,188</u>	<u>20,219</u>
Total salaries and related expenses		99,386	84,218	68,005	251,609
Grants and awards		501,471	-	-	501,471
Evening of Hope		95,451	-	89,454	184,905
Walk for Hope		75,269	-	32,258	107,527
Office expense		37,635	43,365	14,920	95,920
Office rental		3,600	3,600	3,600	10,800
Other		<u>11,276</u>	<u>1,386</u>	<u>6,159</u>	<u>18,821</u>
Total expenses	\$	<u>824,088</u>	<u>132,569</u>	<u>214,396</u>	<u>1,171,053</u>

See accompanying notes to financial statements.

THE FOUNDATION OF HOPE
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Statements of Cash Flows - Modified Cash Basis

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 259,532	870,396
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Securities donated	(16,415)	(33,236)
Loss (gain) on sales of marketable securities	11,206	(660,536)
Depreciation	-	694
Changes in operating assets and liabilities:		
Accounts receivable	(7,852)	936
Payroll taxes and related	<u>(2,367)</u>	<u>2,374</u>
Net cash provided by operating activities	<u>244,104</u>	<u>180,628</u>
Cash flows from investing activities:		
Purchases of marketable securities	(867,997)	(3,001,410)
Proceeds from sales and maturities of marketable securities	<u>715,589</u>	<u>2,866,859</u>
Net cash used in investing activities	<u>(152,408)</u>	<u>(134,551)</u>
Net increase in cash and cash equivalents	91,696	46,077
Cash and cash equivalents, beginning of year	<u>809,375</u>	<u>763,298</u>
Cash and cash equivalents, end of year	\$ <u>901,071</u>	<u>809,375</u>

See accompanying notes to financial statements.

THE FOUNDATION OF HOPE
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Notes to Financial Statements

December 31, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Income Taxes

The Foundation of Hope for Research and Treatment of Mental Illness (the "Foundation") is a not-for-profit organization whose mission is to conquer mental illness by investing in groundbreaking scientific research and mental health initiatives. By investing in early-stage scientific research, we are funding innovative research projects that support our overall vision of striving to eliminate suffering from mental illness. The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and applicable state statutes. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Code.

The Foundation's primary sources of revenue and support are private and corporate contributions, investment income and revenue raised from the Thad and Alice Eure Walk for Hope, the Evening of Hope, and other Foundation events.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America ("GAAP") primarily because the Foundation has not recognized pledges receivable, accrued interest and dividends, accounts payable to vendors, and their related effects on the changes in net assets. In addition, investments in marketable securities are recorded at cost instead of market value.

(c) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include demand deposits and interest-bearing accounts.

(d) Marketable Securities

Marketable securities consist of debt and equity securities and are carried at cost. Donated investments are reflected as contributions at their market values at date of receipt. Dividend and interest income are recognized when received. Realized gains and losses are included in revenue and are derived using the specific identification method for determining the cost of securities. Market values for marketable securities are based on quoted prices in active markets.

Securities donated totaled \$16,415 and \$33,236 during 2019 and 2018, respectively.

(e) Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is provided over the estimated useful lives (ranging from three to five years) using straight-line and accelerated depreciation methods.

THE FOUNDATION OF HOPE
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Notes to Financial Statements, Continued

December 31, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies, Continued

(f) Contributions

Contributions received are recorded as revenues with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. When the restriction has been met, net assets with donor restrictions are released.

(g) Contributed Services

A significant portion of the Foundation's activities are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements.

The Foundation receives certain in-kind contributions, such as advertising, promotions and other donated goods and services to support events, that generally have no clearly measurable and objective basis for determining their value. Thus, these contributions are not reflected in the accompanying financial statements. The value of these contributions, as determined by the donors, totaled \$382,857 and \$417,771 for 2019 and 2018, respectively.

(h) Advertising

Advertising is expensed as paid. In 2019 and 2018, these costs totaled \$11,957 and \$11,242, respectively.

(i) Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications had no impact on net assets or the change in net assets as previously reported.

(2) Information Regarding Liquidity and Availability of Resources

The Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

THE FOUNDATION OF HOPE
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Notes to Financial Statements, Continued

December 31, 2019 and 2018

(2) Information Regarding Liquidity and Availability of Resources, Continued

The Foundation's financial assets consist of cash, investments, and accounts receivable, reduced by board-designated reserves and donor-restricted amounts, resulting in net financial assets available to meet general expenditures within one year of the financial statement date.

	<u>2019</u>	<u>2018</u>
Financial assets, at year end:		
Cash and cash equivalents	\$ 901,071	809,375
Investments, at market value	4,949,371	4,176,870
Accounts receivable	<u>12,362</u>	<u>4,510</u>
Total financial assets	5,862,804	4,990,755
Less:		
Board-designated reserves, at market value	(4,949,371)	(4,183,196)
Donor-restricted amounts	<u>(1,000)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>912,433</u>	<u>807,559</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. See further discussion of board-designated reserves at note 4.

THE FOUNDATION OF HOPE
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Notes to Financial Statements, Continued

December 31, 2019 and 2018

(3) Marketable Securities

Marketable securities are summarized as follows (cost of individual securities exceeding 10% of net assets separately identified):

2019				
	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Quoted market value</u>
Debt and equity securities:				
Fidelity 500 Index	\$ 1,067,573	205,498	-	1,273,071
Fidelity International Index	628,372	-	(896)	627,476
Other	3,052,941	82,137	(86,254)	3,048,824
	\$ 4,748,886	287,635	(87,150)	4,949,371
2018				
	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Quoted market value</u>
Debt and equity securities:				
Fidelity 500 Index	\$ 978,841	-	(64,733)	914,108
Fidelity International Index	681,867	-	(108,968)	572,899
Other	2,930,561	638	(241,336)	2,689,863
	\$ 4,591,269	638	(415,037)	4,176,870

In 2019, the Foundation recorded \$11,206 of loss on sales of marketable securities.

In 2018, the Foundation recorded \$660,536 of gain on sales of marketable securities. This gain was due to the Foundation selling approximately \$2.9 million of securities and reinvesting these funds in new securities.

THE FOUNDATION OF HOPE
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Notes to Financial Statements, Continued

December 31, 2019 and 2018

(4) Net Assets

Board-Designated

Board-designated reserves are summarized and invested as follows:

	2019		2018	
	<u>Cost</u>	<u>Quoted market value</u>	<u>Cost</u>	<u>Quoted market value</u>
Debt and equity securities	\$ 4,748,886	4,949,371	4,591,269	4,176,870
Interest-bearing deposits	-	-	6,326	6,326
	<u>\$ 4,748,886</u>	<u>4,949,371</u>	<u>4,597,595</u>	<u>4,183,196</u>

Board-designated reserves may be used at the Board's discretion to meet the needs of the Foundation. As approved by the Board of Trustees, these assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark portfolio and its respective market index, while assuming a moderate level of investment risk. Actual returns in any given year may vary from the expected amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation for its entire investment portfolio that places an emphasis on equity-based and fixed income investments and cash equivalents to achieve its long-term return objectives within prudent risk constraints.

The Board of Trustees has elected to allow the capital growth and investment income of the Board-designated reserves to continue to accumulate within these reserves.

With Donor Restrictions

During 2019, a donor gifted the Foundation \$15,000 of cash to be used for the second year of research by Dr. Elizabeth Anderson and another donor gifted \$1,000 of cash to be used for autism research. During 2018, the Foundation granted Dr. Anderson \$38,711 for a three-year research project, thus releasing the donor restriction in 2019.

During 2018, a donor gifted the Foundation \$10,129 of stock to be used for research by Dr. Flavio Frohlich. During 2018, the Foundation granted Dr. Frohlich \$100,000 for research, thus releasing the donor restriction in 2018.

The Foundation had \$1,000 and \$0 of net assets with donor restrictions as of December 31, 2019 and 2018, respectively.

THE FOUNDATION OF HOPE
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Notes to Financial Statements, Continued

December 31, 2019 and 2018

(5) Office Rent

During 2019 and 2018, the Foundation paid \$10,800 to The Angus Barn LTD., LLC for rental of office facilities. There is a lease arrangement, but no formal written lease agreement.

(6) Credit and Market Risks

In the normal course of business, the Foundation may maintain cash held at financial institutions in excess of the insured limit of \$250,000. The Foundation also maintains cash balances in money market funds held by a brokerage firm, which are not insured.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Although the Foundation's marketable securities are carried at cost, due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the market values of marketable securities will occur in the near-term and that such changes could materially affect the amounts ultimately realized from such investments. See note 10.

(7) Grants

Since its inception and through 2019, the Foundation has awarded and disbursed research and community grants totaling approximately \$6,587,000. Funds awarded but not yet disbursed as of December 31, 2019 totaled approximately \$46,000.

(8) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of revenues, expenses and changes in net assets - modified cash basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

(9) Medical Reimbursement Plan

The Foundation established a Qualified Small Employer Health Reimbursement Arrangement (the "Plan") under the Internal Revenue Code whereby all regular employees of the Foundation, except part-time and seasonal employees, shall be eligible to participate upon the completion of 90 days of employment. The Foundation will pay each participant certain amounts that they have expended for medical care for themselves, their spouse and dependents, if applicable. No participant shall be entitled to receive more than \$5,150 for an individual and \$10,450 for a family for any calendar year. During 2019, the Foundation paid \$7,729 to participants under the Plan.

THE FOUNDATION OF HOPE
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Notes to Financial Statements, Continued

December 31, 2019 and 2018

(10) Subsequent Events

In March 2020 the World Health Organization declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. Due to the COVID-19 outbreak, the Foundation is dealing with current economic uncertainty. The extent of COVID-19's effect on the Foundation's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Foundation's operations. However, the pandemic could have a material adverse effect on the Foundation's results of operations, financial condition and cash flows.

In April 2020 the Foundation received approval for a loan from the Small Business Administration under the Paycheck Protection Program, which authorizes forgivable loans to small businesses to pay their employees during the COVID-19 crisis. This loan, in the amount of \$40,200, will be forgiven as long as the loan proceeds are used to cover payroll and certain other allowed costs over the 8-week period after the loan is made and certain other conditions are met.

The date to which events occurring after December 31, 2019, the date of the most recent statement of assets, liabilities, and net assets – modified cash basis, have been evaluated for possible adjustment to the financial statements or disclosure is April 28, 2020, the date the financial statements were available to be issued.