

**THE FOUNDATION OF HOPE  
FOR RESEARCH AND TREATMENT  
OF MENTAL ILLNESS**

**Financial Statements – Modified Cash Basis**

**December 31, 2018 and 2017**

**(With Independent Auditors' Report Thereon)**

# **BATCHELOR, TILLERY & ROBERTS, LLP**

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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, 2018 and 2017, 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, 2018 and 2017, 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.

### **New Accounting Standard**

As discussed in note 1, the Foundation began to include in its financial statements informative disclosures similar to those required by accounting principles generally accepted in the United States of America under the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

### **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, Tilley & Roberts, LLP*

May 2, 2019

THE FOUNDATION OF HOPE  
FOR RESEARCH AND TREATMENT OF MENTAL ILLNESS

Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets:		
Cash and investments:		
Cash and interest-bearing deposits	\$ 809,375	763,298
Marketable securities, at cost (aggregate market values of \$4,176,870 in 2018 and \$4,379,305 in 2017)	4,591,269	3,762,946
Total cash and investments	<u>5,400,644</u>	<u>4,526,244</u>
Accounts receivable	4,510	5,446
Total current assets	<u>5,405,154</u>	<u>4,531,690</u>
Furniture and equipment:		
Office equipment	35,465	35,465
Less accumulated depreciation	<u>(35,465)</u>	<u>(34,771)</u>
Furniture and equipment, net	<u>-</u>	<u>694</u>
	<u>\$ 5,405,154</u>	<u>4,532,384</u>
<u>Liabilities and Net Assets</u>		
Liabilities - payroll taxes and related	<u>2,374</u>	<u>-</u>
Net assets:		
Without donor restrictions	805,185	751,753
Without donor restrictions - Board-designated reserves	<u>4,597,595</u>	<u>3,780,631</u>
Total net assets	<u>5,402,780</u>	<u>4,532,384</u>
	<u>\$ 5,405,154</u>	<u>4,532,384</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

Years ended December 31, 2018 and 2017

	2018			<u>2017</u>
	<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	317,930
Thad and Alice Eure Walk for Hope - underwriting	184,010	-	184,010	164,508
Evening of Hope	485,373	-	485,373	410,740
George Thanhauser Bike for Hope	-	-	-	26,582
Other contributions	224,261	10,129	234,390	187,420
Gain on sales of marketable securities, net of fees	638,020	-	638,020	76,131
Interest and dividends	129,845	-	129,845	113,046
Grants refunded	1,342	-	1,342	26,869
	2,031,320	10,129	2,041,449	1,323,226
Release of net assets with donor restrictions	10,129	(10,129)	-	-
Total revenues	<u>2,041,449</u>	<u>-</u>	<u>2,041,449</u>	<u>1,323,226</u>
Expenses:				
Program services	794,216	-	794,216	964,254
Supporting services:				
Management and general	162,441	-	162,441	169,162
Fundraising	214,396	-	214,396	217,933
Total supporting services	376,837	-	376,837	387,095
Total expenses	<u>1,171,053</u>	<u>-</u>	<u>1,171,053</u>	<u>1,351,349</u>
Increase (decrease) in net assets	870,396	-	870,396	(28,123)
Net assets, beginning of year	4,532,384	-	4,532,384	4,560,507
Net assets, end of year	<u>\$ 5,402,780</u>	<u>-</u>	<u>5,402,780</u>	<u>4,532,384</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, 2018, with comparative totals for 2017

	2018				<u>2017</u>
	<u>Program services</u>	<u>Supporting services</u>		<u>Total</u>	
	<u>Management and general</u>	<u>Fundraising</u>			
Salaries and related expenses:					
Salaries	\$ 92,330	76,243	62,817	231,390	242,477
Payroll taxes	<u>7,056</u>	<u>7,975</u>	<u>5,188</u>	<u>20,219</u>	<u>21,369</u>
Total salaries and related expenses	99,386	84,218	68,005	251,609	263,846
Grants and awards	501,471	-	-	501,471	683,353
Evening of Hope	76,332	19,119	89,454	184,905	176,852
Walk for Hope	64,516	10,753	32,258	107,527	107,127
Office expense	37,635	43,365	14,920	95,920	91,537
Office rental	3,600	3,600	3,600	10,800	10,800
Depreciation	231	232	231	694	828
Bike for Hope	-	-	-	-	5,743
Other	<u>11,045</u>	<u>1,154</u>	<u>5,928</u>	<u>18,127</u>	<u>11,263</u>
Total expenses	\$ <u>794,216</u>	<u>162,441</u>	<u>214,396</u>	<u>1,171,053</u>	<u>1,351,349</u>

(Continued)

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Statements of Functional Expenses - Modified Cash Basis, Continued

Year ended December 31, 2017

		<u>Supporting services</u>			<u>Total</u>
		<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	
Salaries and related expenses:					
Salaries	\$	96,832	79,123	66,522	242,477
Payroll taxes		<u>8,381</u>	<u>6,848</u>	<u>6,140</u>	<u>21,369</u>
Total salaries and related expenses		105,213	85,971	72,662	263,846
Grants and awards		683,353	-	-	683,353
Evening of Hope		72,953	19,474	84,425	176,852
Walk for Hope		64,276	10,713	32,138	107,127
Office expense		23,173	47,744	20,620	91,537
Office rental		3,600	3,600	3,600	10,800
Depreciation		276	277	275	828
Bike for Hope		3,446	574	1,723	5,743
Other		<u>7,964</u>	<u>809</u>	<u>2,490</u>	<u>11,263</u>
 Total expenses	 \$	 <u>964,254</u>	 <u>169,162</u>	 <u>217,933</u>	 <u>1,351,349</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 870,396	(28,123)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Securities donated	(33,236)	(18,639)
Gain on sales of marketable securities	(660,536)	(96,454)
Depreciation	694	828
Changes in operating assets and liabilities:		
Accounts receivable	936	546
Accounts payable	<u>2,374</u>	<u>(3,543)</u>
Net cash provided by (used in) operating activities	<u>180,628</u>	<u>(145,385)</u>
Cash flows from investing activities:		
Purchases of marketable securities	(3,001,410)	(1,134,362)
Proceeds from sales and maturities of marketable securities	<u>2,866,859</u>	<u>1,028,239</u>
Net cash used in investing activities	<u>(134,551)</u>	<u>(106,123)</u>
Net increase (decrease) in cash and cash equivalents	46,077	(251,508)
Cash and cash equivalents, beginning of year	<u>763,298</u>	<u>1,014,806</u>
Cash and cash equivalents, end of year	\$ <u>809,375</u>	<u>763,298</u>

See accompanying notes to financial statements.



THE FOUNDATION OF HOPE  
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Notes to Financial Statements

December 31, 2018 and 2017

(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 which promotes research aimed at discovering the causes, more effective treatments and cures for mental illness. It is devoted to raising community awareness and supporting effective treatment programs. 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 \$33,236 and \$18,639 during 2018 and 2017, 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.

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Notes to Financial Statements, Continued

December 31, 2018 and 2017

(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 \$417,771 and \$376,953 for 2018 and 2017, respectively.

(h) Advertising

Advertising is expensed as paid. In 2018 and 2017, these costs totaled \$11,242 and \$5,398, respectively.

(i) New Accounting Pronouncement

For 2018, the Foundation began to include in its financial statements informative disclosures similar to those required by GAAP under the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, 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 between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the description of the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions. In addition, a statement of functional expenses is presented with the financial statements. Certain expenses have been reclassified to conform to the current year presentation. These reclassifications have no impact on net assets or the change in net assets as previously reported. Also, information regarding liquidity and availability of resources is presented in the notes to the financial statements.

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Notes to Financial Statements, Continued

December 31, 2018 and 2017

(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's financial assets as of December 31, 2018 consist of cash, investments, and accounts receivable, reduced by board-designated reserves, resulting in net financial assets of \$807,559, all of which are available to meet general expenditures within one year of the financial statement date.

Financial assets, at year end:	
Cash and cash equivalents	\$ 809,375
Investments, at market value	4,176,870
Accounts receivable	<u>4,510</u>
Total financial assets	4,990,755
Less:	
Board-designated reserves, at market value	<u>(4,183,196)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <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.

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Notes to Financial Statements, Continued

December 31, 2018 and 2017

(3) Marketable Securities

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

		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		<u>2,930,561</u>	<u>638</u>	<u>(241,336)</u>	<u>2,689,863</u>
	\$	<u>4,591,269</u>	<u>638</u>	<u>(415,037)</u>	<u>4,176,870</u>
		2017			
		<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Quoted market value</u>
Debt and equity securities:					
SPDR S&P 500 ETF	\$	676,924	289,314	-	966,238
Vanguard Index Mid-Cap ETF		421,238	114,041	-	535,279
Ishares MSCI EAFE ETF		533,815	116,812	-	650,627
Guggenheim Total Return		463,721	10,451	-	474,172
Other		<u>1,667,248</u>	<u>122,877</u>	<u>(37,136)</u>	<u>1,752,989</u>
	\$	<u>3,762,946</u>	<u>653,495</u>	<u>(37,136)</u>	<u>4,379,305</u>

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.

(4) Net Assets

*Board-Designated*

Board-designated reserves are summarized and invested as follows:

		2018		2017	
		<u>Cost</u>	<u>Quoted market value</u>	<u>Cost</u>	<u>Quoted market value</u>
Debt and equity securities	\$	4,591,269	4,176,870	3,762,946	4,379,305
Interest-bearing deposits		<u>6,326</u>	<u>6,326</u>	<u>17,685</u>	<u>17,685</u>
	\$	<u>4,597,595</u>	<u>4,183,196</u>	<u>3,780,631</u>	<u>4,396,990</u>

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Notes to Financial Statements, Continued

December 31, 2018 and 2017

(4) Net Assets, Continued

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 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. As of December 31, 2018 and 2017, the Foundation had no net assets with donor restrictions.

(5) Office Rent

During 2018 and 2017, 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.

(7) Grants

Since its inception and through 2018, the Foundation has awarded and disbursed research and community grants totaling approximately \$5,934,000. Funds awarded but not yet disbursed as of December 31, 2018 totaled approximately \$228,000.

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Notes to Financial Statements, Continued

December 31, 2018 and 2017

(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) Subsequent Events

The date to which events occurring after December 31, 2018, 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 May 2, 2019, the date the financial statements were available to be issued.