

Hope for Depression Research Foundation

Financial Report
August 31, 2017

Contents

Independent auditor's report	1
<hr/>	
Financial statements	
Statements of financial position	2
Statements of activities	3
Statements of functional expenses	4
Statements of cash flows	5
Notes to financial statements	6-8



Independent Auditor's Report

RSM US LLP

To the Board of Directors
Hope for Depression Research Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Hope for Depression Research Foundation (HDRF), which comprise the statements of financial position of as of August 31, 2017 and 2016, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope for Depression Research Foundation as of August 31, 2017 and 2016, 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.

RSM US LLP

West Palm Beach, Florida
December 21, 2017

Hope for Depression Research Foundation

Statements of Financial Position
August 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 1,190,515	\$ 1,143,811
Contributions receivable	24,737	6,170
Prepaid expenses	52,635	5,024
Property and equipment, net of accumulated depreciation 2017 \$45,759; 2016 \$45,265	<u>606</u>	<u>1,100</u>
Total assets	<u>\$ 1,268,493</u>	<u>\$ 1,156,105</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 20,012	\$ 24,492
Deferred event contributions	22,520	11,500
Due to affiliate (Note 2)	<u>17,044</u>	<u>17,075</u>
Total liabilities	59,576	53,067
Net unrestricted assets	<u>1,208,917</u>	<u>1,103,038</u>
Total liabilities and net unrestricted assets	<u>\$ 1,268,493</u>	<u>\$ 1,156,105</u>

See notes to financial statements.

Hope for Depression Research Foundation

Statements of Activities
Years Ended August 31, 2017 and 2016

	2017	2016
Support and revenue:		
Contributions	\$ 5,142,120	\$ 5,028,544
Interest and other income (Notes 4 and 5)	2,945	274,568
Total support and revenue	5,145,065	5,303,112
Expenses:		
Program services:		
Research grants	3,853,188	4,167,483
Educational outreach	410,176	482,398
Total program services	4,263,364	4,649,881
Supporting services:		
Fundraising*	398,818	531,056
Administration* (Note 4)	377,004	397,486
Total supporting services	775,822	928,542
Total expenses	5,039,186	5,578,423
Change in net unrestricted assets	105,879	(275,311)
Net unrestricted assets:		
Beginning	1,103,038	1,378,349
Ending	\$ 1,208,917	\$ 1,103,038

See notes to financial statements.

*Certain program support, fundraising and administrative expenses are funded by certain contributions (see Note 2).

Hope for Depression Research Foundation

Statements of Functional Expenses Years Ended August 31, 2017 and 2016

	Program Services			Supporting Services			2017 Total
	Research Grants	Educational Outreach	Total	Fundraising	Administration	Total	
Expenses:							
Research grants	\$ 3,853,188	\$ -	\$ 3,853,188	\$ -	\$ 1,540	\$ 1,540	\$ 3,854,728
Salaries, payroll taxes and employee benefits*	-	168,704	168,704	144,603	255,155	399,758	568,462
Professional fees* **	-	5,910	5,910	-	24,318	24,318	30,228
Occupancy*	-	39,242	39,242	33,636	39,242	72,878	112,120
Office expenses*	-	28,931	28,931	51,846	48,736	100,582	129,513
Travel*	-	25,686	25,686	25,099	1,651	26,750	52,436
Events*	-	141,070	141,070	129,121	-	129,121	270,191
Miscellaneous*	-	633	633	14,513	5,868	20,381	21,014
Depreciation	-	-	-	-	494	494	494
Total expenses	\$ 3,853,188	\$ 410,176	\$ 4,263,364	\$ 398,818	\$ 377,004	\$ 775,822	\$ 5,039,186

	Program Services			Supporting Services			2016 Total
	Research Grants	Educational Outreach	Total	Fundraising	Administration	Total	
Expenses:							
Research grants	\$ 4,167,483	\$ -	\$ 4,167,483	\$ -	\$ 200	\$ 200	\$ 4,167,683
Salaries, payroll taxes and employee benefits*	-	150,263	150,263	128,797	219,542	348,339	498,602
Professional fees* **	-	-	-	25,037	23,598	48,635	48,635
Intangible development costs* **	-	-	-	-	65,415	65,415	65,415
Occupancy*	-	37,123	37,123	31,820	37,123	68,943	106,066
Office expenses*	-	36,776	36,776	39,964	43,989	83,953	120,729
Travel*	-	8,901	8,901	44,510	3,228	47,738	56,639
Events*	-	249,089	249,089	246,623	-	246,623	495,712
Miscellaneous*	-	246	246	14,305	3,604	17,909	18,155
Depreciation	-	-	-	-	787	787	787
Total expenses	\$ 4,167,483	\$ 482,398	\$ 4,649,881	\$ 531,056	\$ 397,486	\$ 928,542	\$ 5,578,423

See notes to financial statements.

*Certain program support, fundraising and administrative expenses are funded by certain contributions (see Note 2).

**See Note 4.

Hope for Depression Research Foundation

Statements of Cash Flows
Years Ended August 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net unrestricted assets	\$ 105,879	\$ (275,311)
Adjustments to reconcile change in net unrestricted assets to net cash provided by (used in) operating activities:		
Depreciation	494	787
Changes in assets and liabilities:		
Decrease (increase) in:		
Contribution receivable	(18,567)	(5,645)
Prepaid expenses	(47,611)	56
Due from related party	-	15,508
(Decrease) increase in:		
Accounts payable and accrued expenses	(4,480)	(10,887)
Deferred event contributions	11,020	(182,840)
Due to affiliate	(31)	(118,412)
Net cash provided by (used in) operating activities	46,704	(576,744)
Cash and cash equivalents:		
Beginning	1,143,811	1,720,555
Ending	<u>\$ 1,190,515</u>	<u>\$ 1,143,811</u>

See notes to financial statements.

Hope for Depression Research Foundation

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Hope for Depression Research Foundation (HDRF) was incorporated in Delaware in March 2006 to advance the understanding and treatment of depression. Our mission is two-fold: First and foremost, HDRF funds the most innovative neuroscience research into the origins, diagnosis, treatment and prevention of depression and its related mood disorders – bipolar disorder, postpartum depression, post-traumatic stress disorder, anxiety disorder and suicide. Our second goal is to raise awareness of depression as a medical illness and to educate the public about the facts of depression. We educate and inform in order to help remove the stigma of depression.

HDRF's founder is a member of the HDRF Board of Directors and appoints the remaining members of the Board. The Board is responsible for managing the affairs and property of HDRF, including grant-making decisions.

A summary of HDRF's significant accounting policies follows:

Basis of presentation: A nonprofit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions. A specific financial statement format has been established for nonprofit organizations and requires the statement of activities to reflect all changes in each of the three classes of net assets. HDRF does not have any donor-imposed temporarily or permanently restricted net assets.

Accounting estimates: The preparation of financial statements in conformity 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.

Contributions: Contributions receivable and the related contributions revenue include unconditional promises to give and are recognized at their fair values when the promise is made. HDRF reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. A promise to give with a donor-imposed condition is not reported until the condition has been substantially met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

In-kind contributions: Donated assets are reflected as contributions and are recorded at their fair value on the date of contribution. Donated services are recognized at fair value if the services would typically need to be purchased, require specialized skills and are provided by individuals with those skills.

Cash and cash equivalents: For the purposes of reporting cash flows, HDRF considers money market funds to be cash equivalents. All of HDRF's cash and cash equivalents are held at one financial institution, which at times, may exceed federally-insured limits. HDRF has not experienced any losses in such accounts.

Property and equipment: Property and equipment is stated at cost. Depreciation is provided using the straight-line method for computer software and hardware over three and five years, respectively, of estimated useful life.

Hope for Depression Research Foundation

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Income taxes: HDRF is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and from state and local taxes under comparable laws. The Code provides for taxation of unrelated business income under certain circumstances.

Functional allocation of expenses: Expenses by function have been allocated among program and supporting services classifications on the basis of estimates and summarized in the accompanying statements of activities on a functional basis.

Grants: Grants to other organizations are recorded as a liability and expensed upon approval by the Board of Directors.

Recent accounting pronouncement: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 amends the requirements for financial statements and notes in Topic 958 to require a not-for-profit entity (NFP) to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period rather than the three classes currently required, and on the face of the statement of activities the amount of the change in each of the two classes of net assets. A NFP will now report amounts for net assets with donor restrictions and net assets without donor restrictions. In addition, a NFP will be required to present the amounts of expenses by both their natural classification and their functional classification. Additional qualitative and quantitative disclosure information on the NFP's liquidity and availability of the NFP's financial assets will be required, as well as the elimination of the requirement to present or disclose the indirect method (reconciliation) if the NFP uses the direct method for the presentation of the statement of cash flows. ASU No. 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018, with early application permitted, applied on a retrospective basis in the year adopted. HDRF is currently evaluating the effect the adoption of this standard will have on its financial statements.

Subsequent events: HDRF has evaluated subsequent events through December 31, 2017, the date on which the financial statements were available to be issued.

Note 2. Related Party Transactions

During the years ended August 31, 2017 and 2016, HDRF received administrative services from an affiliate of the founder, including (i) office space, (ii) telephone and equipment usage and (iii) employee assistance. The fair value of these services included in the accompanying statements of activities, for the years ended August 31, 2017 and 2016, was \$198,572 and \$175,343, respectively.

In addition, the affiliate provides other services to HDRF at cost. The balance due to the affiliate, as of August 31, 2017 and 2016, was \$17,044 and \$17,075, respectively.

HDRF's founder and chairman is an officer of the affiliate and the secretary/treasurer is an employee of the affiliate. A member of the Board of Directors has committed to underwrite all program support, fundraising and administrative expenses so that all funds raised by the foundation will support research activities.

Hope for Depression Research Foundation

Notes to Financial Statements

Note 3. Commitments

In February 2015, the Board of Directors decided to establish Phase II of its research plan. The Phase II preempted the third and final year of Phase I grants and consisted of two-year research grants, which totaled approximately \$8,300,000.

During the year ended August 31, 2017, the Board of Directors decided to establish Phase III of its research plan. The research plan preempted any remaining Phase II grants. Of the total Phase III grants committed of approximately \$7,400,000, there remains approximately \$3,700,000 to be paid as of August 31, 2017.

Note 4. Development Costs

During the year ended August 31, 2016, HDRF incurred \$65,415 in intangible development costs and \$6,124 in legal expenses toward the development of intellectual property HDRF intended to license in future years. HDRF previously incurred \$28,140 in intangible development costs and \$8,903 in legal expenses during the six months ended August 31, 2015. These costs are included in administration expenses on the statements of activities. These intangible assets were sold in the year ended August 31, 2016, for \$275,000 (see Note 5).

Note 5. Sale of Intangible Assets

On June 8, 2016, HDRF sold trademark rights pertaining to the name "Hope" in the context of cosmetics, namely, perfume, bath and body perfume, cologne, dusting powder and body lotion for \$275,000. The assets also include a packaging design contract to create a major fragrance brand, primary and secondary package designs and other intangible development costs and associated legal fees.

The Board and the officers determined it was not in the best interests of HDRF to conduct an active business because of tax and liability concerns.

The assets were sold to Hope Fragrances, LLC, an entity wholly owned by the chairman of HDRF. A valuation of the assets was performed by an independent valuation firm, as of March 31, 2016, which led to the determination of the sale price. The independent valuation firm has been providing business appraisals and valuations for over 75 years.

Actual costs incurred by HDRF in creation of the assets were \$108,582.