



**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY**

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY**

Contents
December 31, 2015 and 2014

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Independent Auditor's Report

To the Boards of Directors of
ALS Therapy Development Foundation, Inc.
d/b/a ALS Therapy Development Institute and Subsidiary:

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of ALS Therapy Development Foundation, Inc. d/b/a ALS Therapy Development Institute (ALS TDI) (a Massachusetts corporation, not for profit) and its subsidiary, Anelixis Pharmaceuticals, Inc. (Anelixis) (a Delaware corporation), which comprise the consolidating statement of financial position as of December 31, 2015, and the related consolidating statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidating financial statements. We have also audited the accompanying financial statements of ALS TDI, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating 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 audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating financial statements.

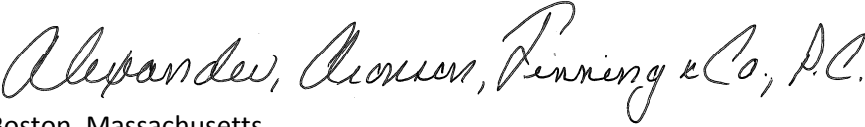
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2015 consolidating financial statements referred to on page one present fairly, in all material respects, the consolidating financial position of ALS TDI and Anelixis as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2014 financial statements present fairly, in all material respects, the financial position of ALS TDI as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accept in the United States of America.

Emphasis of a Matter

Anelixis was organized in May 2015, as a subsidiary of ALS TDI. In accordance with Accounting Standards Codification, *Consolidation (Topic 810)*, ALS TDI and Anelixis issue consolidating financial statements due to ownership, common Board of Directors and management. As a result of the incorporation of Anelixis, the 2015 consolidating financial statements include the financial activity of Anelixis (see Note 2), whereas the 2014 financial statements do not. Our opinion on the consolidating financial statements is not modified with respect to this matter.



Boston, Massachusetts
April 11, 2016

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Consolidating Statements of Financial Position
December 31, 2015 and 2014

Assets	2015			2014	
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI
Current Assets:					
Cash and cash equivalents	\$ 3,591,218	\$ 614,618	\$ -	\$ 4,205,836	\$ 7,061,084
Cash held for others	856,783	-	-	856,783	1,245,745
Accounts receivable	17,146	-	-	17,146	234,014
Current portion of pledges receivable	555,000	-	-	555,000	630,000
Prepaid expenses and other	288,775	-	-	288,775	279,514
Total current assets	5,308,922	614,618	-	5,923,540	9,450,357
Other Assets:					
Pledges receivable, net of current portion and discount	24,510	-	-	24,510	543,637
Certificate of deposit - restricted	293,593	-	-	293,593	292,555
Due from related party	1,280,244	-	(1,280,244)	-	-
Property and equipment, net	1,185,117	-	-	1,185,117	876,560
Capitalized costs, net	265,478	-	-	265,478	185,961
Total other assets	3,048,942	-	(1,280,244)	1,768,698	1,898,713
Total assets	\$ 8,357,864	\$ 614,618	\$ (1,280,244)	\$ 7,692,238	\$ 11,349,070
Liabilities and Net Assets					
Current Liabilities:					
Current portion of capital lease obligations	\$ 238,974	\$ -	\$ -	\$ 238,974	\$ 109,894
Accounts payable	275,839	106,269	-	382,108	384,170
Accrued expenses	620,749	-	-	620,749	417,091
Deferred revenue	72,059	-	-	72,059	109,206
Cash held for others	856,783	-	-	856,783	1,245,745
Total current liabilities	2,064,404	106,269	-	2,170,673	2,266,106
Capital lease obligations, net of current portion	751,092	-	-	751,092	375,736
Deferred rent liability	112,924	-	-	112,924	-
Due to related party	-	1,280,244	(1,280,244)	-	-
Total liabilities	2,928,420	1,386,513	(1,280,244)	3,034,689	2,641,842
Net Assets:					
Unrestricted:					
Operating	4,414,405	(771,895)	-	3,642,510	6,956,700
Property and equipment and capitalized costs	460,529	-	-	460,529	576,891
Total unrestricted	4,874,934	(771,895)	-	4,103,039	7,533,591
Temporarily restricted	554,510	-	-	554,510	1,173,637
Total net assets	5,429,444	(771,895)	-	4,657,549	8,707,228
Total liabilities and net assets	\$ 8,357,864	\$ 614,618	\$ (1,280,244)	\$ 7,692,238	\$ 11,349,070

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Consolidating Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2015 and 2014

	2015			Total	2014
	ALS TDI	Anelixis	Eliminations		ALS TDI
Changes in Unrestricted Net Assets:					
Revenue:					
Special event contributions, support and donated goods	\$ 9,319,134	\$ -	\$ -	\$ 9,319,134	\$ 10,133,186
Less - direct expenses	1,283,562	-	-	1,283,562	877,835
Special event contributions, support and donated goods, net	8,035,572	-	-	8,035,572	9,255,351
Contributions	705,104	-	-	705,104	4,314,317
Fee for service	293,663	-	-	293,663	435,914
Grants and contracts	205,185	-	-	205,185	188,000
Interest and other	150,134	-	(141,131)	9,003	5,151
Donated services	3,832	-	-	3,832	12,751
Net assets released from time restrictions	630,000	-	-	630,000	530,000
Total revenue	10,023,490	-	(141,131)	9,882,359	14,741,484
Operating Expenses:					
Program services:					
Research and development:					
Science programs	8,524,074	-	-	8,524,074	7,696,978
Informatics	471,624	-	-	471,624	400,761
Patient services	146,625	-	-	146,625	75,508
Anelixis	-	771,895	(141,131)	630,764	-
Total research and development	9,142,323	771,895	(141,131)	9,773,087	8,173,247
Communications	1,900,510	-	-	1,900,510	1,389,898
Business development	224,167	-	-	224,167	414,361
Total program services	11,267,000	771,895	(141,131)	11,897,764	9,977,506
Support services:					
General and administrative	559,358	-	-	559,358	585,196
Fundraising	855,789	-	-	855,789	939,459
Total support services	1,415,147	-	-	1,415,147	1,524,655
Total expenses	12,682,147	771,895	(141,131)	13,312,911	11,502,161
Changes in unrestricted net assets	(2,658,657)	(771,895)	-	(3,430,552)	3,239,323
Changes in Temporarily Restricted Net Assets:					
Contributions	10,873	-	-	10,873	121,052
Net assets released from time restrictions	(630,000)	-	-	(630,000)	(530,000)
Changes in temporarily restricted net assets	(619,127)	-	-	(619,127)	(408,948)
Changes in net assets	(3,277,784)	(771,895)	-	(4,049,679)	2,830,375
Net Assets:					
Beginning of year	8,707,228	-	-	8,707,228	5,876,853
End of year	\$ 5,429,444	\$ (771,895)	\$ -	\$ 4,657,549	\$ 8,707,228

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Consolidating Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015			2014
	ALS TDI	Anelixis	Total	ALS TDI
Cash Flows from Operating Activities:				
Changes in net assets	\$ (3,277,784)	\$ (771,895)	\$ (4,049,679)	\$ 2,830,375
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	376,187	-	376,187	272,262
Change in discount on pledges receivable	(10,873)	-	(10,873)	(21,052)
Bad debt	-	-	-	50,000
Changes in operating assets and liabilities:				
Accounts receivable	216,868	-	216,868	355,234
Pledges receivable	605,000	-	605,000	429,996
Due to (from) related party	(1,280,244)	1,280,244	-	-
Prepaid expenses and other	(9,261)	-	(9,261)	(187,332)
Accounts payable	(110,539)	106,269	(4,270)	162,476
Accrued expenses	203,658	-	203,658	27,172
Deferred rent liability	112,924	-	112,924	-
Deferred revenue	(37,147)	-	(37,147)	44,381
Net cash provided by (used in) operating activities	(3,211,211)	614,618	(2,596,593)	3,963,512
Cash Flows from Investing Activities:				
Acquisition of property and equipment	-	-	-	(175,896)
Cash paid for capitalized costs	(104,155)	-	(104,155)	(70,758)
Interest earned on certificate of deposit - restricted	(1,038)	-	(1,038)	(1,035)
Net cash used in investing activities	(105,193)	-	(105,193)	(247,689)
Cash Flows from Financing Activities:				
Principal payments on capital lease obligations	(153,462)	-	(153,462)	(74,287)
Net Change in Cash and Cash Equivalents	(3,469,866)	614,618	(2,855,248)	3,641,536
Cash and Cash Equivalents:				
Beginning of year	7,061,084	-	7,061,084	3,419,548
End of year	\$ 3,591,218	\$ 614,618	\$ 4,205,836	\$ 7,061,084
Supplemental Disclosure of Non-Cash Transactions:				
Assets acquired under capital lease obligations	\$ 657,898	\$ -	\$ 657,898	\$ 366,839
Capitalized costs financed with accounts payable	\$ 2,208	\$ -	\$ 2,208	\$ -
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	\$ 52,683	\$ -	\$ 52,683	\$ 19,276

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
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Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2015
(With Summarized Comparative Totals for the Year Ended December 31, 2014)

	2015												2014	
	Program Services						Support Services						Total	
	Research and Development			Total Research and Development	Communi- cations	Business Development	Total Program Services	General and Adminis- trative		Fund- raising	Total ALS TDI	Anelixis		Eliminations
Science Programs	Informatics	Patient Services	General and Adminis- trative					Fund- raising						
Personnel and Related:														
Salaries	\$ 2,613,306	\$ 224,074	\$ 101,191	\$ 2,938,571	\$ 980,183	\$ 125,221	\$ 4,043,975	\$ 168,095	\$ 373,189	\$ 4,585,259	\$ -	\$ -	\$ 4,585,259	\$ 4,371,619
Payroll taxes and fringe benefits	556,491	47,292	22,197	625,980	219,911	27,513	873,404	44,745	80,208	998,357	-	-	998,357	881,121
Consultants	242,081	19,370	8,846	270,297	141,739	13,420	425,456	28,031	92,296	545,783	165,182	(141,131)	569,834	467,794
Total personnel and related	<u>3,411,878</u>	<u>290,736</u>	<u>132,234</u>	<u>3,834,848</u>	<u>1,341,833</u>	<u>166,154</u>	<u>5,342,835</u>	<u>240,871</u>	<u>545,693</u>	<u>6,129,399</u>	<u>165,182</u>	<u>(141,131)</u>	<u>6,153,450</u>	<u>5,720,534</u>
Other Expenses:														
Testing and lab expense	2,661,518	-	-	2,661,518	1,383	-	2,662,901	-	-	2,662,901	480,616	-	3,143,517	2,210,037
Facility	1,131,578	26,466	-	1,158,044	94,097	25,447	1,277,588	62,904	-	1,340,492	36,788	-	1,377,280	1,223,184
Maintenance	564,903	14,612	2,607	582,122	24,576	11,258	617,956	21,127	9,455	648,538	18,745	-	667,283	510,756
Small equipment	140,454	111,638	728	252,820	24,356	574	277,750	4,765	13,452	295,967	-	-	295,967	189,969
Meetings and conferences	50,518	-	-	50,518	133,133	-	183,651	19,966	12,149	215,766	15,257	-	231,023	318,308
Utilities	186,680	4,774	228	191,682	11,601	4,387	207,670	8,435	1,009	217,114	6,065	-	223,179	180,681
Miscellaneous	5,490	475	219	6,184	2,163	322	8,669	29,602	151,009	189,280	1,946	-	191,226	240,066
Professional services	2,438	-	-	2,438	-	-	2,438	124,671	-	127,109	44,680	-	171,789	163,504
Printing and postage	59,167	1,025	418	60,610	66,831	642	128,083	1,594	22,742	152,419	-	-	152,419	131,013
Communications	14,466	1,813	561	16,840	90,215	961	108,016	2,047	4,316	114,379	708	-	115,087	143,920
Advertising	-	-	-	-	7,818	-	7,818	-	53,141	60,959	438	-	61,397	21,335
Interest	52,683	-	-	52,683	-	-	52,683	-	-	52,683	-	-	52,683	19,276
Insurance	16,507	1,462	684	18,653	6,823	760	26,236	17,922	2,491	46,649	1,303	-	47,952	50,191
Program supplies and materials	12,978	814	360	14,152	7,094	647	21,893	2,285	9,653	33,831	-	-	33,831	33,286
Staff training and travel	6,132	-	-	6,132	2,235	511	8,878	577	168	9,623	-	-	9,623	11,086
Dues and subscriptions	2,019	-	-	2,019	104	-	2,123	6,728	-	8,851	167	-	9,018	12,753
Bad debt	-	-	-	-	-	-	-	-	-	-	-	-	-	50,000
Total other expenses	<u>4,907,531</u>	<u>163,079</u>	<u>5,805</u>	<u>5,076,415</u>	<u>472,429</u>	<u>45,509</u>	<u>5,594,353</u>	<u>302,623</u>	<u>279,585</u>	<u>6,176,561</u>	<u>606,713</u>	<u>-</u>	<u>6,783,274</u>	<u>5,509,365</u>
Depreciation and Amortization	<u>204,665</u>	<u>17,809</u>	<u>8,586</u>	<u>231,060</u>	<u>86,248</u>	<u>12,504</u>	<u>329,812</u>	<u>15,864</u>	<u>30,511</u>	<u>376,187</u>	<u>-</u>	<u>-</u>	<u>376,187</u>	<u>272,262</u>
Total expenses	<u>\$ 8,524,074</u>	<u>\$ 471,624</u>	<u>\$ 146,625</u>	<u>\$ 9,142,323</u>	<u>\$ 1,900,510</u>	<u>\$ 224,167</u>	<u>\$ 11,267,000</u>	<u>\$ 559,358</u>	<u>\$ 855,789</u>	<u>\$ 12,682,147</u>	<u>\$ 771,895</u>	<u>\$ (141,131)</u>	<u>\$ 13,312,911</u>	<u>\$ 11,502,161</u>

ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY

Statement of Functional Expenses
For the Year Ended December 31, 2014

	Program Services						Support Services			Total
	Research and Development			Total Research and Development	Communi- cations	Business Development	Total Program Services	General and Adminis- trative	Fund- raising	
	Science Programs	Informatics	Patient Services							
Personnel and Related:										
Salaries	\$ 2,601,795	\$ 230,824	\$ 52,952	\$ 2,885,571	\$ 666,278	\$ 268,825	\$ 3,820,674	\$ 115,646	\$ 435,299	\$ 4,371,619
Payroll taxes and fringe benefits	519,781	46,432	11,861	578,074	135,819	51,404	765,297	27,844	87,980	881,121
Consultants	242,525	19,522	4,742	266,789	65,667	21,458	353,914	71,002	42,878	467,794
Total personnel and related	<u>3,364,101</u>	<u>296,778</u>	<u>69,555</u>	<u>3,730,434</u>	<u>867,764</u>	<u>341,687</u>	<u>4,939,885</u>	<u>214,492</u>	<u>566,157</u>	<u>5,720,534</u>
Other Expenses:										
Testing and lab expense	2,209,996	-	-	2,209,996	41	-	2,210,037	-	-	2,210,037
Facility	1,041,968	23,953	-	1,065,921	71,126	29,942	1,166,989	56,195	-	1,223,184
Maintenance	453,284	10,318	304	463,906	12,044	12,857	488,807	19,530	2,419	510,756
Small equipment	110,159	43,540	595	154,294	7,009	245	161,548	13,555	14,866	189,969
Meetings and conferences	28,539	4	-	28,543	197,818	5	226,366	33,972	57,970	318,308
Utilities	157,192	3,614	-	160,806	8,131	4,517	173,454	7,227	-	180,681
Miscellaneous	6,763	499	125	7,387	2,922	545	10,854	41,842	187,370	240,066
Professional services	-	-	-	-	-	-	-	161,410	2,094	163,504
Printing and postage	23,216	1,089	271	24,576	76,127	1,300	102,003	1,071	27,939	131,013
Communications	18,095	3,312	419	21,826	73,759	1,586	97,171	11,171	35,578	143,920
Advertising	1,867	27	8	1,902	12,866	10	14,778	-	6,557	21,335
Interest	19,276	-	-	19,276	-	-	19,276	-	-	19,276
Insurance	22,577	2,022	524	25,123	5,945	2,017	33,085	13,321	3,785	50,191
Program supplies and materials	12,548	879	225	13,652	9,034	909	23,595	2,673	7,018	33,286
Staff training and travel	3,826	241	67	4,134	3,659	2,373	10,166	398	522	11,086
Dues and subscriptions	11,459	-	-	11,459	7	-	11,466	1,137	150	12,753
Bad debt	50,000	-	-	50,000	-	-	50,000	-	-	50,000
Total other expenses	<u>4,170,765</u>	<u>89,498</u>	<u>2,538</u>	<u>4,262,801</u>	<u>480,488</u>	<u>56,306</u>	<u>4,799,595</u>	<u>363,502</u>	<u>346,268</u>	<u>5,509,365</u>
Depreciation and Amortization	<u>162,112</u>	<u>14,485</u>	<u>3,415</u>	<u>180,012</u>	<u>41,646</u>	<u>16,368</u>	<u>238,026</u>	<u>7,202</u>	<u>27,034</u>	<u>272,262</u>
Total expenses	<u>\$ 7,696,978</u>	<u>\$ 400,761</u>	<u>\$ 75,508</u>	<u>\$ 8,173,247</u>	<u>\$ 1,389,898</u>	<u>\$ 414,361</u>	<u>\$ 9,977,506</u>	<u>\$ 585,196</u>	<u>\$ 939,459</u>	<u>\$ 11,502,161</u>

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

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY**

Notes to Consolidating Financial Statements
December 31, 2015 and 2014

1. OPERATIONS

ALS Therapy Development Foundation, Inc. d/b/a ALS Therapy Development Institute (ALS TDI) is a not-for-profit corporation formed to conduct medical research associated with discovering cures for and the treatment of amyotrophic lateral sclerosis (ALS) or, more commonly referred to as Lou Gehrig's disease.

During 2013, ALS TDI formed the following entities (collectively, the LLCs):

- Anelixis Therapeutics, LLC, a Delaware limited liability company. ALS TDI is the sole corporate member of Anelixis.
- Neurocatharsis Therapeutics, LLC, a Delaware limited liability company. Anelixis is the sole corporate member of Neurocatharsis.
- Neurostysis Therapeutics, LLC, a Delaware limited liability company. Anelixis is the sole corporate member of Neurostysis.

During 2014, the LLCs incurred approximately \$28,000 of startup expenses and are included in general and administrative expenses on the accompanying statement of activities and changes in net assets for the year ended December 31, 2014.

In May 2015, the LLCs were dissolved and ALS TDI formed a subsidiary, Anelixis Pharmaceuticals, Inc. (Anelixis), a Delaware corporation. ALS TDI currently owns 100% of Anelixis' stock. Anelixis was established to assist in providing mechanisms to ALS TDI to support research, scientific discoveries, inventions and processes to be developed, applied or patented. Anelixis was also established as a means to generate capital from investors to support discoveries and patents related to ALS TDI's mission.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidating financial statements include the accounts of ALS TDI and Anelixis (collectively, the Organization), as ALS TDI owns 100% of Anelixis' stock.

The Organization prepares its consolidating financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

All intercompany balances and transactions have been eliminated in the accompanying consolidating financial statements.

Estimates

The preparation of consolidating financial statements in accordance with U.S. GAAP 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 consolidating financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**ALS THERAPY DEVELOPMENT FOUNDATION, INC.
D/B/A ALS THERAPY DEVELOPMENT INSTITUTE AND SUBSIDIARY**

Notes to Consolidating Financial Statements
December 31, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable are recorded as unconditionally committed. Long-term pledges receivable have been discounted to present value using a discount rate of 2% (see Note 5).

Property, Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as they are incurred.

Expenditures for property and equipment in excess of \$5,000, and leases representing the purchase of equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Leasehold improvements	Life of lease
Equipment	3 - 5 years

Capitalized Costs and Amortization

Capitalized costs totaling \$327,997 consist of patent costs on ALS TDI's medical procedures, as well as costs related to the redesign and implementation of ALS TDI's website (see Note 4). Costs incurred for developing a new website or adding new components to an existing website are capitalized. Costs incurred for renovations, upgrades, and uploading of content to the websites is considered routine maintenance and is expensed as incurred. The carrying value of these capitalized costs is assessed for impairment on an annual basis.

These costs are capitalized and amortized over the expected life of the asset as follows:

Patent costs	15 years
Website costs	3 years

Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Organization. The Organization has grouped its unrestricted net assets into the following categories:

Operating net assets represent net assets which are available for operations and include the accumulated deficit of Anelixis.

Property and equipment and capitalized costs net assets represent the net book value of property and equipment and capitalized costs, net of related debt.

Temporarily restricted net assets represent amounts received or committed by donors with time restrictions that have not yet been met.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Special event revenue is recognized in the period in which the event takes place. Special event revenue received in advance is recorded as deferred revenue until the event takes place. Unrestricted grants, contributions and donated goods and services are recognized as revenue when unconditionally committed or received. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions lapse. Donor restricted grants received and satisfied in the same period are included in unrestricted net assets. Contract and fee for service revenue is recognized as income when services are rendered, costs are incurred or milestones are achieved. Interest and other revenue are recorded as earned.

Donated Goods and Services

Volunteers and other organizations contribute goods and services to ALS TDI in support of various aspects of its programs and special events. These goods and services are reflected in the accompanying consolidating financial statements based upon the estimated value assigned to them by the donating volunteers, agencies or by management.

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements* for qualifying assets and liabilities. Fair value is defined as the price that The Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An 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. All qualifying assets and liabilities are valued using Level 1 inputs.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the consolidating statements of cash flows, management considers cash and cash equivalents to be any amounts held in checking, savings and money market accounts. Cash held for others is not included in cash and cash equivalents for the purpose of the consolidating statements of cash flows.

Certificate of Deposit - Restricted

Certificate of deposit-restricted (CD) consists of a CD with an initial maturity of twelve months maturing in November 2016, and earning interest at .45% per annum. This CD is collateral for a standby letter of credit (see Note 8). The CD that existed as of December 31, 2014, bore interest at .35% and matured in November 2015, at which time it was renewed. Given the restrictions on the CD, its inherent lack of liquidity and the intention to re-invest the CD for long-term purposes, it has been reflected as a long-term asset on the accompanying consolidating statements of financial position.

Cash Held for Others

Cash held for others represents amounts collected by ALS TDI on behalf of other public charities as directed by the donors. These amounts will be remitted to these charities in the following fiscal year.

Income Taxes

ALS TDI is exempt 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). ALS TDI is also exempt from state income taxes. Donors may deduct contributions made to ALS TDI within the IRC requirements.

Anelixis has elected to be taxed as a corporation and is subject to Federal and state income taxes. Anelixis accounts for income taxes according to the asset and liability method. The differences between the financial statement amounts and the tax bases of assets and liabilities are determined annually. Deferred tax assets and liabilities are computed for those differences that will result in taxable or deductible amounts in future periods using currently enacted tax laws and rates that apply to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that will more likely than not be realized.

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at December 31, 2015 and 2014.

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are expensed when incurred.

Subsequent Events

Subsequent events have been evaluated through April 11, 2016, which is the date the consolidating financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidating financial statements.

3. PROPERTY AND EQUIPMENT AND DEPRECIATION

As of December 31, 2015 and 2014, property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 3,367,402	\$ 2,709,504
Leasehold improvements	<u>375,683</u>	<u>375,683</u>
	3,743,085	3,085,187
Less - accumulated depreciation	<u>2,557,968</u>	<u>2,208,627</u>
	<u>\$ 1,185,117</u>	<u>\$ 876,560</u>

Depreciation expense was \$349,341 and \$257,486 for the years ended December 31, 2015 and 2014, respectively, and is included in depreciation and amortization on the accompanying consolidating statements of functional expenses.

The cost of equipment acquired under capital leases was \$1,245,768 and \$587,870 as of December 31, 2015 and 2014, respectively. Accumulated depreciation of equipment acquired under capital leases was \$286,455 and \$103,092 as of December 31, 2015 and 2014, respectively. Depreciation expense on equipment acquired under capital leases was \$183,363 and \$80,939 for the years ended December 31, 2015 and 2014, respectively (see Note 8). During fiscal year 2014, capital leases pertaining to equipment with a cost basis of \$419,969 expired, and the assets remained in service.

4. CAPITALIZED COSTS AND AMORTIZATION

Capitalized costs, net consisted of the following as of December 31:

	<u>2015</u>	<u>2014</u>
Patents	\$ 278,197	\$ 221,634
Website costs	<u>49,800</u>	<u>-</u>
	327,997	221,634
Less - accumulated amortization	<u>62,519</u>	<u>35,673</u>
	<u>\$ 265,478</u>	<u>\$ 185,961</u>

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4. CAPITALIZED COSTS AND AMORTIZATION (Continued)

Amortization expense related to capitalized costs was \$26,846 and \$14,776 for the years ended December 31, 2015 and 2014, respectively, and is included in depreciation and amortization on the accompanying consolidating statements of functional expenses. Amortization expense over the next five years is expected to be as follows:

2016	\$ 35,146
2017	\$ 35,146
2018	\$ 26,846
2019	\$ 18,546
2020	\$ 18,546

5. PLEDGES RECEIVABLE

Pledges receivable are due as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 555,000	\$ 630,000
One to five years	<u>25,000</u>	<u>555,000</u>
	580,000	1,185,000
Less - discount	<u>490</u>	<u>11,363</u>
	579,510	1,173,637
Less - current portion	<u>555,000</u>	<u>630,000</u>
	\$ 24,510	\$ 543,637
Long-term pledges receivable, net	<u>\$ 24,510</u>	<u>\$ 543,637</u>

6. DONATED GOODS AND SERVICES

Donated professional services are included in donated services on the accompanying consolidating statements of activities and changes in net assets, for the years ended December 31, 2015 and 2014.

Donated special events - supplies and materials are included in special event contributions, support and donated goods on the accompanying consolidating statements of activities and changes in net assets, for the years ended December 31, 2015 and 2014.

The value of these goods and services are as follows:

	<u>2015</u>	<u>2014</u>
Special events - supplies and material (see Note 7)	\$ 91,967	\$ 69,435
Professional services	<u>3,832</u>	<u>12,751</u>
	<u>\$ 95,799</u>	<u>\$ 82,186</u>

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Notes to Consolidating Financial Statements
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7. SPECIAL EVENT CONTRIBUTIONS, SUPPORT AND DONATED GOODS

Included in special event contributions, support and donated goods are the results of various special events, which are shown net of related expenses in the accompanying consolidating statements of activities and changes in net assets. Special event revenue and direct expenses are summarized as follows for the years ended December 31:

<u>Special Event</u>	<u>2015</u>	<u>2014</u>
Special event contributions and support	\$ 6,730,430	\$ 8,712,628
Special event revenue	2,496,737	1,351,123
Special event donated goods (see Note 7)	91,967	69,435
Less - direct expenses	<u>(1,283,562)</u>	<u>(877,835)</u>
Special event contributions, support and donated goods, net	<u>\$ 8,035,572</u>	<u>\$ 9,255,351</u>

8. LEASE COMMITMENTS

Operating Facility and Equipment Leases

The Organization leases office and lab space located in Cambridge, Massachusetts under an operating lease. The lease commenced on March 2, 2012, and was set to expire on February 28, 2017. In June 2015, the terms of this lease were extended through February 2027. As part of this agreement, ALS TDI has presented the landlord with a standby letter of credit from a bank in the amount of \$288,733. The letter of credit is secured by a CD held at the same bank (see Note 2). The Organization is also responsible for its proportionate share of operating expenses, payable monthly.

In accordance with *Leases* under U.S. GAAP, upon extension of these lease terms in June 2015 the Organization began recording rent expense on a straight-line basis over the remaining term of the lease, regardless of actual cash payments. Accordingly, the Organization recorded additional rent expense and a corresponding deferred rent liability totaling \$112,924 as of and for the year ended December 31, 2015. Rent expense under this lease for the years ended December 31, 2015 and 2014, was \$1,334,558 and \$1,197,663, respectively, and is comprised of the following:

	<u>2015</u>	<u>2014</u>
Minimum rent due	\$ 1,221,634	\$ 1,197,663
Accrual of deferred rent	<u>112,924</u>	<u>-</u>
	<u>\$ 1,334,558</u>	<u>\$ 1,197,663</u>

During 2014, ALS TDI began renting additional office space, as well as warehouse space, under tenant-at-will agreements. Total rent expense for these spaces totaled \$20,257 and \$13,540 in 2015 and 2014, respectively.

Rent expense under these facilities leases is included in facility in the accompanying consolidating statements of functional expenses.

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8. LEASE COMMITMENTS (Continued)

Operating Facility and Equipment Leases (Continued)

ALS TDI also leases office equipment under various operating lease agreements expiring at various dates through September 2017, with monthly payments ranging from \$293 to \$710.

Future minimum lease payments under these agreements over the remainder of the lease terms are as follows:

	<u>Facility</u>	<u>Equipment</u>
2016	\$ 1,246,044	\$ 12,036
2017	\$ 1,355,094	\$ 9,027
2018	\$ 1,396,566	\$ -
2019	\$ 1,421,139	\$ -
2020	\$ 1,445,712	\$ -
Thereafter	\$ 9,456,510	\$ -

Capital Leases

ALS TDI leases certain research and laboratory equipment under capital lease obligations, which are included in equipment (see Note 3). The interest rates under these agreements range from 4.5% to 8.3% per annum. These agreements expire at various dates through September 2020.

Future minimum lease payments under these agreements are as follows:

2016	\$ 290,524
2017	290,518
2018	250,019
2019	196,477
2020	<u>85,630</u>
Total future minimum payments	1,113,168
Less - amounts representing interest	<u>123,102</u>
Future minimum principal payments	990,066
Less - current portion	<u>238,974</u>
	<u>\$ 751,092</u>

9. RETIREMENT PLAN

ALS TDI contributes to a defined contribution pension plan (the Plan) under IRC Section 403(b). All employees are eligible to participate in the Plan upon the commencement of employment at ALS TDI. ALS TDI matches 50% of employee contributions, not to exceed \$1,000 of total matching contributions per employee each year. Employees vest immediately in all contributions. For 2015 and 2014, ALS TDI contributed \$43,286 and \$35,288, respectively, to the Plan, which is included in payroll taxes and fringe benefits on the accompanying consolidating statements of functional expenses for the years ended December 31, 2015 and 2014.

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10. CONCENTRATIONS

ALS TDI maintains its cash balances in three banks. The Federal Deposit Insurance Corporation (FDIC) insures balances up to certain amounts. At certain times during the year, cash balances may exceed the insured amounts. ALS TDI has not experienced any losses in such accounts. ALS TDI believes it is not exposed to any significant credit risk on cash.

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less and are reported at cost, which approximates fair value. ALS TDI deposits its cash equivalents in major financial institutions, and these accounts are not insured. ALS TDI has not experienced any losses in such accounts. ALS TDI believes it is not exposed to any significant credit risk on cash equivalents.

Approximately, 86% of ALS TDI's net pledges receivable are from one donor and all of ALS TDI's accounts receivable is from one customer as of December 31, 2015. Approximately, 84% of ALS TDI's net pledges receivable are from one donor and all of ALS TDI's accounts receivable are from two customers as of December 31, 2014.

11. RELATED PARTY TRANSACTIONS

ALS TDI entered into the following related party transactions:

- A family member of a member of the Board of Directors is employed by ALS TDI in the fundraising and development department.
- The Chairman of the Board of Directors is married to another board member.
- The Chairman of the Board of Directors is the brother-in-law of another board member.
- A board member is the son of another board member.
- The President, Chief Scientific Officer (CSO) and Chief Executive Officer (CEO) of the Organization is also a voting member of the Board of Directors. He is only compensated for his services performed as the President, CSO and CEO of the Organization.
- During 2015, ALS TDI made advances totaling \$1,280,244 to Anelixis for operating costs. These amounts are reflected as due (to) from related party on the accompanying 2015 consolidating statement of financial position and are eliminated in the consolidated totals.

12. MANAGEMENT AGREEMENT

The Organization has an agreement with a management agent (the Agent) to carry on the fiscal, human resources, and information technology responsibilities of the Organization. The Agent receives management fees for services provided, as defined in the agreement, payable in monthly installments. Total fees incurred under this agreement for the years ended December 31, 2015 and 2014, were \$412,136 and \$384,930, respectively, and are included in consultants in the accompanying consolidating statements of functional expenses. This agreement continues until either the Organization or the Agent terminates the agreement with thirty-day written notice.

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13. INCOME TAXES

At December 31, 2015, Anelixis had for Federal and state income tax purposes, net operating loss carryforwards (NOL) of approximately \$32,500 and \$8,500, available to offset future taxable income. These carryforwards expire at various times through 2035. Due to the uncertainty of recognizing these carry-forwards in future periods, they have been fully reserved as of December 31, 2015. These Federal and state net operating losses may be carried forward for twenty years and five years, respectively.

14. RECLASSIFICATIONS

Certain amounts in the 2014 financial statements have been reclassified to conform with the 2015 consolidating presentation.