



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

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

Contents
December 31, 2016 and 2015

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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 (a Massachusetts corporation, not for profit) and its subsidiary, Anelixis Pharmaceuticals, Inc. (a Delaware corporation), which comprise the consolidating statements of financial position as of December 31, 2016 and 2015, and the related consolidating statements of activities and changes in net assets, cash flows and functional expenses for the years 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 consolidating financial statements referred to on page one present fairly, in all material respects, the consolidating financial position of ALS Therapy Development Foundation, Inc. d/b/a ALS Therapy Development Institute and Anelixis Pharmaceuticals, Inc. as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Brown, Fenning & Co., P.C.

Boston, Massachusetts
April 12, 2017

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

Consolidating Statements of Financial Position
December 31, 2016 and 2015

Assets	2016				2015			
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI	Anelixis	Eliminations	Total
Current Assets:								
Cash and cash equivalents	\$ 3,058,974	\$ 180,509	\$ -	\$ 3,239,483	\$ 3,591,218	\$ 614,618	\$ -	\$ 4,205,836
Cash held for others	1,208,523	-	-	1,208,523	856,783	-	-	856,783
Accounts receivable	129,172	-	-	129,172	17,146	-	-	17,146
Current portion of pledges receivable	250,000	-	-	250,000	555,000	-	-	555,000
Prepaid expenses and other	370,313	-	-	370,313	288,775	-	-	288,775
Total current assets	5,016,982	180,509	-	5,197,491	5,308,922	614,618	-	5,923,540
Other Assets:								
Pledges receivable, net of current portion and discount	-	-	-	-	24,510	-	-	24,510
Certificate of deposit - restricted	294,918	-	-	294,918	293,593	-	-	293,593
Due from related party	2,689,355	-	(2,689,355)	-	1,280,244	-	(1,280,244)	-
Property and equipment, net	804,503	-	-	804,503	1,185,117	-	-	1,185,117
Capitalized costs, net	278,459	-	-	278,459	265,478	-	-	265,478
Total other assets	4,067,235	-	(2,689,355)	1,377,880	3,048,942	-	(1,280,244)	1,768,698
Total assets	\$ 9,084,217	\$ 180,509	\$ (2,689,355)	\$ 6,575,371	\$ 8,357,864	\$ 614,618	\$ (1,280,244)	\$ 7,692,238
Liabilities and Net Assets								
Current Liabilities:								
Current portion of capital lease obligations	\$ 253,261	\$ -	\$ -	\$ 253,261	\$ 236,438	\$ -	\$ -	\$ 236,438
Note payable - related party	-	750,000	-	750,000	-	-	-	-
Accounts payable	397,764	33,465	-	431,229	275,839	106,269	-	382,108
Accrued expenses	265,057	-	-	265,057	620,749	-	-	620,749
Deferred revenue	145,961	-	-	145,961	72,059	-	-	72,059
Cash held for others	1,208,523	-	-	1,208,523	856,783	-	-	856,783
Total current liabilities	2,270,566	783,465	-	3,054,031	2,061,868	106,269	-	2,168,137
Capital lease obligations, net of current portion	500,367	-	-	500,367	753,628	-	-	753,628
Deferred rent liability	318,355	-	-	318,355	112,924	-	-	112,924
Due to related party	-	2,689,355	(2,689,355)	-	-	1,280,244	(1,280,244)	-
Total liabilities	3,089,288	3,472,820	(2,689,355)	3,872,753	2,928,420	1,386,513	(1,280,244)	3,034,689
Net Assets:								
Unrestricted:								
Operating	5,645,827	(3,292,311)	-	2,353,516	4,416,613	(771,895)	-	3,644,718
Property and equipment and capitalized costs	324,102	-	-	324,102	458,321	-	-	458,321
Total unrestricted	5,969,929	(3,292,311)	-	2,677,618	4,874,934	(771,895)	-	4,103,039
Temporarily restricted	25,000	-	-	25,000	554,510	-	-	554,510
Total net assets	5,994,929	(3,292,311)	-	2,702,618	5,429,444	(771,895)	-	4,657,549
Total liabilities and net assets	\$ 9,084,217	\$ 180,509	\$ (2,689,355)	\$ 6,575,371	\$ 8,357,864	\$ 614,618	\$ (1,280,244)	\$ 7,692,238

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

Consolidating Statements of Activities and Changes in Net Assets
December 31, 2016 and 2015

	2016				2015			
	ALS TDI	Anelixis	Eliminations	Total	ALS TDI	Anelixis	Eliminations	Total
Changes in Unrestricted Net Assets:								
Revenue:								
Special event contributions, support and donated goods	\$ 10,107,760	\$ -	\$ -	\$ 10,107,760	\$ 9,319,134	\$ -	\$ -	\$ 9,319,134
Less - direct expenses	1,666,571	-	-	1,666,571	1,283,562	-	-	1,283,562
Special event contributions, support and donated goods, net	8,441,189	-	-	8,441,189	8,035,572	-	-	8,035,572
Grants and contracts	1,876,365	-	-	1,876,365	205,185	-	-	205,185
Contributions	669,386	-	-	669,386	705,104	-	-	705,104
Fee for service	461,779	-	-	461,779	293,663	-	-	293,663
Donated services	6,613	-	-	6,613	3,832	-	-	3,832
Interest and other	385,101	-	(378,986)	6,115	150,134	-	(141,131)	9,003
Net assets released from time restrictions	529,510	-	-	529,510	630,000	-	-	630,000
Total revenue	12,369,943	-	(378,986)	11,990,957	10,023,490	-	(141,131)	9,882,359
Operating Expenses:								
Program services:								
Research and development:								
Science programs	6,833,679	-	-	6,833,679	8,524,074	-	-	8,524,074
Informatics	398,601	-	-	398,601	471,624	-	-	471,624
Patient services	160,584	-	-	160,584	146,625	-	-	146,625
Anelixis	-	2,520,416	(378,986)	2,141,430	-	771,895	(141,131)	630,764
Total research and development	7,392,864	2,520,416	(378,986)	9,534,294	9,142,323	771,895	(141,131)	9,773,087
Communications	2,056,929	-	-	2,056,929	1,900,510	-	-	1,900,510
Business development	255,508	-	-	255,508	224,167	-	-	224,167
Total program services	9,705,301	2,520,416	(378,986)	11,846,731	11,267,000	771,895	(141,131)	11,897,764
Support services:								
General and administrative	659,258	-	-	659,258	559,358	-	-	559,358
Fundraising	910,389	-	-	910,389	855,789	-	-	855,789
Total support services	1,569,647	-	-	1,569,647	1,415,147	-	-	1,415,147
Total expenses	11,274,948	2,520,416	(378,986)	13,416,378	12,682,147	771,895	(141,131)	13,312,911
Changes in unrestricted net assets	1,094,995	(2,520,416)	-	(1,425,421)	(2,658,657)	(771,895)	-	(3,430,552)
Changes in Temporarily Restricted Net Assets:								
Contributions	-	-	-	-	10,873	-	-	10,873
Net assets released from time restrictions	(529,510)	-	-	(529,510)	(630,000)	-	-	(630,000)
Changes in temporarily restricted net assets	(529,510)	-	-	(529,510)	(619,127)	-	-	(619,127)
Changes in net assets	565,485	(2,520,416)	-	(1,954,931)	(3,277,784)	(771,895)	-	(4,049,679)
Net Assets:								
Beginning of year	5,429,444	(771,895)	-	4,657,549	8,707,228	-	-	8,707,228
End of year	\$ 5,994,929	\$ (3,292,311)	\$ -	\$ 2,702,618	\$ 5,429,444	\$ (771,895)	\$ -	\$ 4,657,549

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**

Consolidating Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	ALS TDI	Anelixis	Total	ALS TDI	Anelixis	Total
Cash Flows from Operating Activities:						
Changes in net assets	\$ 565,485	\$ (2,520,416)	\$ (1,954,931)	\$ (3,277,784)	\$ (771,895)	\$ (4,049,679)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:						
Depreciation and amortization	420,806	-	420,806	376,187	-	376,187
Change in discount on pledges receivable	(490)	-	(490)	(10,873)	-	(10,873)
Changes in operating assets and liabilities:						
Accounts receivable	(112,026)	-	(112,026)	216,868	-	216,868
Pledges receivable	330,000	-	330,000	605,000	-	605,000
Due to (from) related party	(1,409,111)	1,409,111	-	(1,280,244)	1,280,244	-
Prepaid expenses and other	(81,538)	-	(81,538)	(9,261)	-	(9,261)
Accounts payable	118,901	(72,804)	46,097	(110,539)	106,269	(4,270)
Accrued expenses	(355,692)	-	(355,692)	203,658	-	203,658
Deferred rent liability	205,431	-	205,431	112,924	-	112,924
Deferred revenue	73,902	-	73,902	(37,147)	-	(37,147)
Net cash provided by (used in) operating activities	(244,332)	(1,184,109)	(1,428,441)	(3,211,211)	614,618	(2,596,593)
Cash Flows from Investing Activities:						
Cash paid for capitalized costs	(50,149)	-	(50,149)	(104,155)	-	(104,155)
Interest earned on certificate of deposit - restricted	(1,325)	-	(1,325)	(1,038)	-	(1,038)
Net cash used in investing activities	(51,474)	-	(51,474)	(105,193)	-	(105,193)
Cash Flows from Financing Activities:						
Principal payments on capital lease obligations	(236,438)	-	(236,438)	(153,462)	-	(153,462)
Proceeds from note payable - related party	-	750,000	750,000	-	-	-
Net cash provided by (used in) financing activities	(236,438)	750,000	513,562	(153,462)	-	(153,462)
Net Change in Cash and Cash Equivalents	(532,244)	(434,109)	(966,353)	(3,469,866)	614,618	(2,855,248)
Cash and Cash Equivalents:						
Beginning of year	3,591,218	614,618	4,205,836	7,061,084	-	7,061,084
End of year	\$ 3,058,974	\$ 180,509	\$ 3,239,483	\$ 3,591,218	\$ 614,618	\$ 4,205,836
Supplemental Disclosure of Cash Flow Information:						
Cash paid for interest	\$ 53,275	\$ -	\$ 53,275	\$ 52,683	\$ -	\$ 52,683
Supplemental Disclosure of Non-Cash Transactions:						
Assets acquired under capital lease obligations	\$ -	\$ -	\$ -	\$ 657,898	\$ -	\$ 657,898
Capitalized costs financed with accounts payable	\$ 5,232	\$ -	\$ 5,232	\$ 2,208	\$ -	\$ 2,208

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

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Summarized Comparative Totals for the Year Ended December 31, 2015)

	2016											2015		
	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	Total									Total		Total
Personnel and Related:														
Salaries	\$ 2,126,406	\$ 204,387	\$ 105,726	\$ 2,436,519	\$ 1,083,280	\$ 137,634	\$ 3,657,433	\$ 223,439	\$ 377,287	\$ 4,258,159	\$ -	\$ -	\$ 4,258,159	\$ 4,585,259
Payroll taxes and fringe benefits	535,044	51,174	26,318	612,536	271,382	33,544	917,462	64,194	92,917	1,074,573	-	-	1,074,573	998,357
Consultants	266,428	21,530	10,883	298,841	159,848	14,100	472,789	64,942	69,394	607,125	452,777	(378,986)	680,916	569,834
Total personnel and related	<u>2,927,878</u>	<u>277,091</u>	<u>142,927</u>	<u>3,347,896</u>	<u>1,514,510</u>	<u>185,278</u>	<u>5,047,684</u>	<u>352,575</u>	<u>539,598</u>	<u>5,939,857</u>	<u>452,777</u>	<u>(378,986)</u>	<u>6,013,648</u>	<u>6,153,450</u>
Other Expenses:														
Testing and lab expense	1,560,133	-	-	1,560,133	925	-	1,561,058	-	-	1,561,058	1,856,379	-	3,417,437	3,143,517
Facility	1,171,954	26,941	-	1,198,895	93,395	33,676	1,325,966	62,465	-	1,388,431	104,407	-	1,492,838	1,377,280
Maintenance	444,996	14,377	3,572	462,945	30,071	13,725	506,741	21,801	12,643	541,185	43,224	-	584,409	667,283
Meetings and conferences	51,777	151	89	52,017	128,242	116	180,375	18,525	29,417	228,317	4,813	-	233,130	231,023
Utilities	159,133	3,665	-	162,798	8,538	4,581	175,917	15,581	-	191,498	14,651	-	206,149	223,179
Small equipment	98,165	49,665	747	148,577	15,242	695	164,514	9,556	24,145	198,215	-	-	198,215	295,967
Miscellaneous	8,236	787	400	9,423	4,078	527	14,028	60,039	122,204	196,271	1,356	-	197,627	191,226
Printing and postage	87,248	693	352	88,293	37,041	433	125,767	4,181	35,164	165,112	-	-	165,112	152,419
Telephone and internet	14,569	1,726	641	16,936	98,811	829	116,576	2,139	14,935	133,650	-	-	133,650	115,087
Professional services	-	-	-	-	-	-	-	80,191	-	80,191	39,341	-	119,532	171,789
Advertising	-	-	-	-	1,431	-	1,431	-	61,242	62,673	-	-	62,673	61,397
Interest	53,275	-	-	53,275	-	-	53,275	-	-	53,275	-	-	53,275	52,683
Program supplies and materials	10,056	752	371	11,179	6,193	484	17,856	965	30,085	48,906	-	-	48,906	33,831
Insurance	22,795	2,233	1,125	26,153	11,380	1,429	38,962	2,373	3,997	45,332	3,468	-	48,800	47,952
Dues and subscriptions	5,323	-	-	5,323	-	-	5,323	6,609	-	11,932	-	-	11,932	9,018
Staff training and travel	5,717	-	-	5,717	1,489	285	7,491	433	315	8,239	-	-	8,239	9,623
Total other expenses	<u>3,693,377</u>	<u>100,990</u>	<u>7,297</u>	<u>3,801,664</u>	<u>436,836</u>	<u>56,780</u>	<u>4,295,280</u>	<u>284,858</u>	<u>334,147</u>	<u>4,914,285</u>	<u>2,067,639</u>	<u>-</u>	<u>6,981,924</u>	<u>6,783,274</u>
Depreciation and Amortization	<u>212,424</u>	<u>20,520</u>	<u>10,360</u>	<u>243,304</u>	<u>105,583</u>	<u>13,450</u>	<u>362,337</u>	<u>21,825</u>	<u>36,644</u>	<u>420,806</u>	<u>-</u>	<u>-</u>	<u>420,806</u>	<u>376,187</u>
Total expenses	<u>\$ 6,833,679</u>	<u>\$ 398,601</u>	<u>\$ 160,584</u>	<u>\$ 7,392,864</u>	<u>\$ 2,056,929</u>	<u>\$ 255,508</u>	<u>\$ 9,705,301</u>	<u>\$ 659,258</u>	<u>\$ 910,389</u>	<u>\$ 11,274,948</u>	<u>\$ 2,520,416</u>	<u>\$ (378,986)</u>	<u>\$ 13,416,378</u>	<u>\$ 13,312,911</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, 2015

	Program Services						Support Services						
	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	Total
	Science Programs	Informatics	Patient Services										
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
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
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
Total personnel and related	3,411,878	290,736	132,234	3,834,848	1,341,833	166,154	5,342,835	240,871	545,693	6,129,399	165,182	(141,131)	6,153,450
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
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
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
Meetings and conferences	50,518	-	-	50,518	133,133	-	183,651	19,966	12,149	215,766	15,257	-	231,023
Utilities	186,680	4,774	228	191,682	11,601	4,387	207,670	8,435	1,009	217,114	6,065	-	223,179
Small equipment	140,454	111,638	728	252,820	24,356	574	277,750	4,765	13,452	295,967	-	-	295,967
Miscellaneous	5,490	475	219	6,184	2,163	322	8,669	29,602	151,009	189,280	1,946	-	191,226
Printing and postage	59,167	1,025	418	60,610	66,831	642	128,083	1,594	22,742	152,419	-	-	152,419
Telephone and internet	14,466	1,813	561	16,840	90,215	961	108,016	2,047	4,316	114,379	708	-	115,087
Professional services	2,438	-	-	2,438	-	-	2,438	124,671	-	127,109	44,680	-	171,789
Advertising	-	-	-	-	7,818	-	7,818	-	53,141	60,959	438	-	61,397
Interest	52,683	-	-	52,683	-	-	52,683	-	-	52,683	-	-	52,683
Program supplies and materials	12,978	814	360	14,152	7,094	647	21,893	2,285	9,653	33,831	-	-	33,831
Insurance	16,507	1,462	684	18,653	6,823	760	26,236	17,922	2,491	46,649	1,303	-	47,952
Dues and subscriptions	2,019	-	-	2,019	104	-	2,123	6,728	-	8,851	167	-	9,018
Staff training and travel	6,132	-	-	6,132	2,235	511	8,878	577	168	9,623	-	-	9,623
Total other expenses	4,907,531	163,079	5,805	5,076,415	472,429	45,509	5,594,353	302,623	279,585	6,176,561	606,713	-	6,783,274
Depreciation and Amortization	204,665	17,809	8,586	231,060	86,248	12,504	329,812	15,864	30,511	376,187	-	-	376,187
Total expenses	\$ 8,524,074	\$ 471,624	\$ 146,625	\$ 9,142,323	\$ 1,900,510	\$ 224,167	\$ 11,267,000	\$ 559,358	\$ 855,789	\$ 12,682,147	\$ 771,895	\$ (141,131)	\$ 13,312,911

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

Notes to Consolidating Financial Statements
December 31, 2016 and 2015

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.

In May 2015, 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.

Pledges Receivable

Pledges receivable are recorded as unconditionally committed. Long-term pledges receivable at December 31, 2015 have been discounted to present value using a discount rate of 2% (see Note 5). Pledges receivable at December 31, 2016 are expected to be collected in 2017. As a result, a present value discount has not been recorded as of December 31, 2016 as all amounts are reflected as a current asset.

Allowance for Doubtful Accounts and Pledges Receivable

An allowance for uncollectible accounts and pledges receivables is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. Amounts are written off against the allowance when they are determined to be uncollectible. No allowance for doubtful accounts has been recorded as of December 31, 2016 and 2015.

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Notes to Consolidating Financial Statements
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. No impairment was recognized in 2016 or 2015.

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 2017, 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, 2015, bore interest at .45% and matured in November 2016, at which time it was renewed with similar terms through November 2017. 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 basis 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, 2016 and 2015.

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 12, 2017, which is the date the consolidating financial statements were available to be issued. There were two events that met the criteria for disclosure in the consolidating financial statements, see Note 16.

3. PROPERTY AND EQUIPMENT AND DEPRECIATION

As of December 31, 2016 and 2015, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 2,537,817	\$ 3,367,402
Leasehold improvements	<u>375,683</u>	<u>375,683</u>
	2,913,500	3,743,085
Less - accumulated depreciation	<u>2,108,997</u>	<u>2,557,968</u>
	<u>\$ 804,503</u>	<u>\$ 1,185,117</u>

Depreciation expense was \$380,614 and \$349,341 for the years ended December 31, 2016 and 2015, 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 as of December 31, 2016 and 2015. Accumulated depreciation of equipment acquired under capital leases was \$535,609 and \$286,455 as of December 31, 2016 and 2015, respectively. Depreciation expense on equipment acquired under capital leases was \$249,154 and \$183,363 for the years ended December 31, 2016 and 2015, respectively (see Note 8).

4. CAPITALIZED COSTS AND AMORTIZATION

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

	<u>2016</u>	<u>2015</u>
Patents	\$ 316,370	\$ 278,197
Website costs	<u>64,800</u>	<u>49,800</u>
	381,170	327,997
Less - accumulated amortization	<u>102,711</u>	<u>62,519</u>
	<u>\$ 278,459</u>	<u>\$ 265,478</u>

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4. CAPITALIZED COSTS AND AMORTIZATION (Continued)

Amortization expense related to capitalized costs was \$40,192 and \$26,846 for the years ended December 31, 2016 and 2015, 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:

2017	\$ 42,691
2018	\$ 34,391
2019	\$ 23,591
2020	\$ 21,091
2021	\$ 21,091

5. PLEDGES RECEIVABLE

Pledges receivable are due as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 250,000	\$ 555,000
One to five years	-	25,000
	<u>250,000</u>	<u>580,000</u>
Less - discount	-	490
	<u>250,000</u>	<u>579,510</u>
Less - current portion	<u>250,000</u>	<u>555,000</u>
Long-term pledges receivable, net	<u>\$ -</u>	<u>\$ 24,510</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, 2016 and 2015.

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, 2016 and 2015.

The value of these goods and services are as follows:

	<u>2016</u>	<u>2015</u>
Special events - supplies and material (see Note 7)	\$ 433,748	\$ 91,967
Professional services	<u>6,613</u>	<u>3,832</u>
	<u>\$ 440,361</u>	<u>\$ 95,799</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>2016</u>	<u>2015</u>
Special event contributions and support	\$ 7,821,478	\$ 6,730,430
Special event revenue	1,852,534	2,496,737
Special event donated goods (see Note 6)	433,748	91,967
Less - direct expenses	<u>(1,666,571)</u>	<u>(1,283,562)</u>
Special event contributions, support and donated goods, net	<u>\$ 8,441,189</u>	<u>\$ 8,035,572</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 term 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 totaling \$205,432 and \$112,924 during 2016 and 2015, respectively. Rent expense and the deferred rent liability under this lease as of and for the years ended December 31, 2016 and 2015, is comprised of the following:

	<u>2016</u>	<u>2015</u>
Rent Expense:		
Minimum rent due	\$ 1,246,048	\$ 1,221,634
Accrual of deferred rent	<u>205,432</u>	<u>112,924</u>
	<u>\$ 1,451,480</u>	<u>\$ 1,334,558</u>
Deferred rent liability	<u>\$ 318,355</u>	<u>\$ 112,924</u>

ALS TDI rents additional office space, as well as warehouse space, under tenant-at-will agreements. Total rent expense for these spaces totaled \$17,580 and \$20,257 in 2016 and 2015, 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 two operating lease agreements expiring in September 2017, with monthly payments of \$293 and \$710.

Rent expense under these operating equipment leases for the years ended December 31, 2016 and 2015, totaled \$12,036 and is included in small equipment on the accompanying consolidating statements of function expenses.

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

	<u>Facility</u>	<u>Equipment</u>
2017	\$ 1,355,094	\$ 9,027
2018	\$ 1,396,566	\$ -
2019	\$ 1,421,139	\$ -
2020	\$ 1,445,712	\$ -
2021	\$ 1,470,285	\$ -
Thereafter	\$ 7,986,225	\$ -

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:

2017	\$ 290,521
2018	251,912
2019	197,118
2020	<u>85,629</u>
Total future minimum payments	825,180
Less - amounts representing interest	<u>71,552</u>
Future minimum principal payments	753,628
Less - current portion	<u>253,261</u>
	<u>\$ 500,367</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 2016 and 2015, ALS TDI contributed \$40,700 and \$43,286, respectively, to the Plan, which is included in payroll taxes and fringe benefits on the accompanying consolidating statements of functional expenses.

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10. CONCENTRATIONS

ALS TDI maintains its cash balances in certain 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.

100% of ALS TDI's pledges receivable are from three donors and 100% of ALS TDI's accounts receivable is from three customers as of December 31, 2016. Approximately, 86% of ALS TDI's net pledges receivable are from one donor and 100% of ALS TDI's accounts receivable is from one customer as of December 31, 2015.

Approximately, 55% of ALS TDI's grants and contracts are from three grantors for the year ended December 31, 2016. There were no grants and contracts concentrations included in ALS TDI's consolidating financial statements for the year ended December 31, 2015.

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 information technology department.
- The Chairman of the Board of Directors is married to another board member and is the brother-in-law 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.
- A member of the Board of Directors entered into a \$750,000 demand note payable agreement with Anelixis (see Note 14).
- ALS TDI made advances to Anelixis for operating costs during 2016 and 2015. The outstanding balance of these advances totaled \$2,689,355 and \$1,280,244 at December 31, 2016 and 2015, respectively, and are reflected as due (to) from related party on the accompanying consolidating statements of financial position and are eliminated in the consolidated totals. It is the Organization's intention for these advances to be converted into equity in Anelixis. This conversion has not occurred as of December 31, 2016.
- ALS TDI charges Anelixis a management fee for managing its operations, which totaled \$378,986 and \$141,131 for the years ended December 31, 2016 and 2015. These amounts are included in interest and other revenue and consultants expense in the accompanying consolidating financial statements and are eliminated in the consolidated totals.

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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, 2016 and 2015, were \$442,834 and \$412,136, 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-days written notice.

13. INCOME TAXES

At December 31, 2016, Anelixis had, for Federal and state income tax purposes, net operating loss carryforwards (NOL) of approximately \$267,000 and \$150,000, respectively, available to offset future taxable income. At December 31, 2015, Anelixis had, for Federal and state income tax purposes, NOL carryforwards of approximately \$32,500 and \$8,500, respectively, available to offset future taxable income. These carryforwards expire at various times through 2036. Due to the uncertainty of recognizing these carry-forwards in future periods, they have been fully reserved as of December 31, 2016 and 2015. These Federal and state net operating losses may be carried forward for twenty years and five years, respectively.

14. NOTE PAYABLE - RELATED PARTY

During 2016, Anelixis entered into a \$750,000 demand note payable agreement with a member of ALS TDI's Board of Directors. The outstanding balance of this note bears interest at .75% and is due on demand. This intention is for Anelixis to utilize additional advances from ALS TDI to repay the outstanding principal and accrued interest on this note during 2017, and ALS TDI will then subsequently convert the advances into equity (see note 11). This note is not secured.

15. CONDITIONAL GRANTS

During 2016, ALS TDI received grants that were conditional based on various criteria, as defined in the agreements. Remaining installments on these grants totaling \$690,000 as of December 31, 2016, are conditional upon ALS TDI reaching specific milestones, as defined in the grant agreements. This amount has not been recorded in the accompanying consolidating financial statements as of December 31, 2016 as the conditions have not yet been met.

16. SUBSEQUENT EVENTS

In January 2017 and March 2017 Anelixis received commitments from two individuals for each to purchase 1.56% of the outstanding shares of Anelixis' stock for \$250,000.

17. RECLASSIFICATIONS

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 consolidating presentation.