

**Alzheimer's Drug Discovery Foundation**

**Financial Statements  
Together with Report of Independent  
Certified Public Accountants**

**December 31, 2016**

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## **Report of Independent Certified Public Accountants**

### **To the Board of Governors of Alzheimer's Drug Discovery Foundation:**

#### **Report on the Financial Statements**

We have audited the accompanying statement of financial position of the Alzheimer's Drug Discovery Foundation (a not-for-profit organization) ("Foundation") as of December 31, 2016 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Foundation's 2015 combined financial statements and, in our report dated May 9, 2016, we expressed an unmodified opinion on those 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 of 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 audit 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 of 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Alzheimer's Drug Discovery Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## BENCIVENGA WARD & COMPANY, CPA's, P.C.

*A Registered Professional Services Firm*

### Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statement of functional expenses is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Bencivenga Ward & Company, CPA's, P.C.*

**BENCIVENGA WARD & COMPANY, CPA'S, P.C.**

Valhalla, New York  
June 28, 2017



# ALZHEIMER'S DRUG DISCOVERY FOUNDATION

## STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2016 (WITH COMPARATIVE AMOUNTS FOR 2015)

|   | 2016                 | 2015                 |
|---|----------------------|----------------------|
| <b>Assets</b>                                   |                      |                      |
| Cash and cash equivalents                       | \$ 4,955,417         | \$ 4,903,074         |
| Investments, at fair value                      | 23,862,266           | 20,649,664           |
| Contributions receivable                        | 16,433,336           | 4,962,392            |
| Program related investments                     | -                    | 536,800              |
| Due from Institute for the Study of Aging, Inc. | 75,712               | 82,008               |
| Other assets                                    | 52,697               | 25,366               |
| <b>Total assets</b>                             | <b>45,379,428</b>    | <b>31,159,304</b>    |
| <b>Liabilities and Net Assets</b>               |                      |                      |
| <b>Liabilities</b>                              |                      |                      |
| Accounts payable and accrued liabilities        | 7,818                | 100,536              |
| Grants payable                                  | 21,761,264           | 13,504,012           |
| Deferred revenue                                | 19,350               | 3,680                |
| <b>Total liabilities</b>                        | <b>21,788,432</b>    | <b>13,608,228</b>    |
| <b>Net Assets</b>                               |                      |                      |
| Unrestricted                                    | 7,158,473            | 13,004,344           |
| Temporarily restricted                          | 16,432,523           | 4,546,732            |
| <b>Total net assets</b>                         | <b>23,590,996</b>    | <b>17,551,076</b>    |
| <b>Total liabilities and net assets</b>         | <b>\$ 45,379,428</b> | <b>\$ 31,159,304</b> |

The accompanying notes are an integral part of this statement.

ALZHEIMER'S DRUG DISCOVERY FOUNDATION

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

|  | 2016                |                        | 2015                 |                      |
|--|---------------------|------------------------|----------------------|----------------------|
|  | Unrestricted        | Temporarily Restricted | Total                | Total                |
| <b>Support and Revenues</b>  |                     |                        |                      |                      |
| Support-   |                     |                        |                      |                      |
| Contributions and grants   | \$ 2,553,922        | \$ 15,214,245          | \$ 17,768,167        | \$ 17,524,509        |
| In-Kind services and contributions-                                      |                     |                        |                      |                      |
| Contribution of services from the Institute for the Study of Aging, Inc. | 3,682,032           | -                      | 3,682,032            | 3,098,678            |
| Contribution of advertising  | -                   | -                      | -                    | 440,200              |
| Contribution of professional services                                    | -                   | -                      | -                    | 35,000               |
| Proceeds from special events, net of direct expenses                     | 4,038,612           | -                      | 4,038,612            | 3,590,294            |
| Net assets released from restrictions                                    | 3,474,200           | (3,474,200)            | -                    | -                    |
| Revenues-  |                     |                        |                      |                      |
| Grant returns, net of payments   | 325,348             | 145,746                | 471,094              | 920,018              |
| Conference registration fees and other income                            | 194,269             | -                      | 194,269              | 335,118              |
| Investment income  | 576,947             | -                      | 576,947              | 4,668                |
| Foreign currency exchange (loss)   | -                   | -                      | -                    | (23,025)             |
| <b>Total support and revenues</b>  | <b>14,845,330</b>   | <b>11,885,791</b>      | <b>26,731,121</b>    | <b>25,925,460</b>    |
| <b>Expenses</b>  |                     |                        |                      |                      |
| Program services - grants  | 16,337,516          | -                      | 16,337,516           | 12,471,388           |
| Program services - other   | 2,015,445           | -                      | 2,015,445            | 1,989,005            |
| Total program services   | 18,352,961          | -                      | 18,352,961           | 14,460,393           |
| Fund raising   | 1,643,278           | -                      | 1,643,278            | 1,772,890            |
| Management and general   | 694,962             | -                      | 694,962              | 469,614              |
| <b>Total expenses</b>  | <b>20,691,201</b>   | <b>-</b>               | <b>20,691,201</b>    | <b>16,702,897</b>    |
| <b>Change in net assets</b>  | <b>(5,845,871)</b>  | <b>11,885,791</b>      | <b>6,039,920</b>     | <b>9,222,563</b>     |
| <b>Net assets, beginning of year</b>                                     | <b>13,004,344</b>   | <b>4,546,732</b>       | <b>17,551,076</b>    | <b>8,328,513</b>     |
| <b>Net assets, end of year</b>   | <b>\$ 7,158,473</b> | <b>\$ 16,432,523</b>   | <b>\$ 23,590,996</b> | <b>\$ 17,551,076</b> |

The accompanying notes are an integral part of this statement.

**ALZHEIMER'S DRUG DISCOVERY FOUNDATION**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(WITH COMPARATIVE AMOUNTS FOR 2015)**

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| <b>Cash Flows From Operating Activities</b>   |                     |                     |
| Change in net assets  | \$ 6,039,920        | \$ 9,222,563        |
| Adjustments to reconcile change in net assets to<br>net cash provided (used) by operating activities- |                     |                     |
| Donated investments   | (2,584,587)         | (7,901,915)         |
| Realized and unrealized (gain) loss on investments , net  | (279,624)           | 23,153              |
| Changes in operating assets and liabilities-  |                     |                     |
| Increase in contributions receivable  | (11,470,944)        | (902,675)           |
| Decrease in Due from the Institute for<br>the Study of Aging, Inc.                                    | 6,296               | 51,207              |
| (Increase) decrease in other assets   | (27,331)            | 737                 |
| (Decrease) increase in accounts payable and<br>accrued liabilities                                    | (92,718)            | 51,212              |
| Increase in grants payable  | 8,257,252           | 1,990,876           |
| Increase (decrease) in deferred revenue   | 15,670              | (57,670)            |
| <b>Net cash (used) provided by operating activities</b>   | <b>(136,066)</b>    | <b>2,477,488</b>    |
| <b>Cash Flows From Investing Activities</b>   |                     |                     |
| Proceeds from sales of investments  | 58,463,079          | 91,099,387          |
| Purchases of investments  | (58,811,470)        | (93,060,326)        |
| Program related investments/reclassified in 2016  | 536,800             | (536,800)           |
| <b>Net cash flows provided (used) by investing activities</b>   | <b>188,409</b>      | <b>(2,497,739)</b>  |
| <b>Net change in cash and cash equivalents</b>  | <b>52,343</b>       | <b>(20,251)</b>     |
| <b>Cash and cash equivalents, beginning of year</b>   | <b>4,903,074</b>    | <b>4,923,325</b>    |
| <b>Cash and cash equivalents, end of year</b>   | <b>\$ 4,955,417</b> | <b>\$ 4,903,074</b> |

The accompanying notes are an integral part of this statement.



**1. ORGANIZATION**

Alzheimer's Drug Discovery Foundation ("Foundation") is a not-for-profit, tax-exempt organization incorporated in Delaware in April 2004 to fund drug discovery and drug development research programs to prevent, treat and cure Alzheimer's disease, related dementias and cognitive aging.

In March 2012, the Foundation formed Alzheimer's Drug Discovery Foundation of Canada ("Canada") to raise and maintain funds and to provide part of the income and principal of such funds to donees under the Income Tax Act (Canada) for research to advance the discovery and development of novel therapeutics and diagnostic tools for the prevention, treatment and cure of Alzheimer's disease, related dementias and cognitive aging. At the end of 2015, Canada ceased operations and there was no activity during 2016 relating to this organization. The formal dissolution documents from the Canadian government are expected to be received in 2017.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Combination**

The summarized combined financial information in this report for 2015, include the financial position, operating activities and cash flows of the Foundation and Canada, (collectively the "Organization") because the Foundation has both control and economic interest in the entity. All significant intercompany balances and transactions have been eliminated in combination.

**Basis of Accounting**

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to not-for-profit organizations.

**Tax Status**

The Foundation is exempt from federal income taxes under Section 501(a) of the United States Internal Revenue Code (the "Code") as an organization described in Section 501(c)(3) and has been classified as an organization that is not a private foundation under Section 509(a) of the Code. Contributions to the Foundation are tax deductible within the limits prescribed by the Code. The Foundation is also exempt from state and local income taxes.

As it relates to 2015, Canada was registered as a public foundation for income tax purposes under the Canada Revenue Agency and, therefore, qualifies for tax exempt status under the Income Tax Act of Canada.

The Foundation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has a nexus; and to review other matters that may be considered tax positions.

**Income Taxes**

The Foundation is subject to the provisions of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") Topic 740-10-05 relating to accounting and reporting for uncertainty in income taxes. This requires management to evaluate tax positions taken and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service ("IRS"). Due to the Foundation's general not-for-profit status, management believes there are no tax positions that would have a material impact on its financial statements.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (continued)****Income Taxes- (continued)**

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Due to the expiration of the statute of limitations, the Foundation is no longer subject to income tax examinations for years prior to 2013.

**Classification of Net Assets**

In accordance with the provisions of the Financial Accounting Standards Board ("FASB"), net assets, revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. The Foundation's net assets and changes therein are classified and reported as follows:

**Unrestricted-** Net assets that are not subject to donor-imposed stipulations and are available for support of the operations of the Foundation.

**Temporarily Restricted-** Net assets represent those resources that are subject to donor-imposed stipulations that will be met either by satisfaction of program restrictions or the passage of time. At December 31, 2016, and 2015, there were temporarily restricted net assets in the amount of \$16,432,523 and \$4,546,732, respectively.

**Permanently Restricted-** Net assets represent those endowment-related assets that are subject to restrictions of gift instruments, which require that the principal be held in perpetuity and the income be used for such purposes, if any, as the donors may direct. At December 31, 2016, and 2015, the Foundation did not have permanently restricted net assets.

**Investments**

The Foundation has an investment policy in compliance with the New York State Prudent Management of Institutional Funds Act ("NYPMIFA"). Investments in equity and fixed-income securities and mutual funds are reported at their fair values, based on quoted market prices in active markets at the published market closing prices at the Statement of Financial Position date.

Gains and losses on securities are determined by a comparison of specific costs at acquisition to proceeds at the time of disposal, or to the fair values at year end, and are reported in the accompanying Statement of Activities. Purchases and sales of securities are reflected on a trade-date basis. Dividend and interest income are recognized when earned.

Donated securities are recorded at their fair values at the dates of donation and are sold as expeditiously as possible, upon receipt.

**Program Related Investments**

Certain grants for medical research are structured to enable the Foundation to share financially in the further commercial development of successful products. The primary purpose of the grants is to further the tax-exempt objectives of the Foundation and the production of income, or the appreciation of the asset, is not a significant purpose of the grant. Due to the highly uncertain nature of early stage medical research conducted by the grantees, it is the Foundation's policy to value these grants and classify them as Program Related Investments ("PRI's") only when the PRI is monetized as a publicly traded security. PRI's are treated as qualifying distributions for tax reporting purposes when disbursed.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (continued)****Program Related Investments – (continued)**

During 2016, the investment in a company that had previously been reflected as a program related investment was determined to be an actively traded security on a national exchange. The Foundation included this with other investments carried at fair value on the Statement of Financial Position.

**Contributions and Grants**

The Foundation records contributions of cash and other assets when received or when the unconditional promise to give such assets is received from the donor. Contributions are recorded at the fair value of the assets received and are classified as unrestricted, temporarily restricted or permanently restricted, based on the existence and/or nature of donor restrictions. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a 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. Donor-restricted contributions whose restrictions are met in the same reporting period in which they are received are reported as unrestricted support in the financial statements.

**Contributed Services**

The Foundation recognizes contributions of services which: create or enhance non-financial assets, require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Contributed services and promises to give services that do not meet the above criteria are not recognized in the financial statements. In 2015, the Organization recognized financial services in the amount of \$35,000 contributed by a related party, which services are included in professional fees in the Statement of Functional Expenses. No such services were contributed in 2016. In 2016 and 2015, the Foundation and Organization, respectively, recorded in-kind contributions provided by the Institute for the Study of Aging, Inc. (the "Institute"), which are described in Note 9 to the financial statements.

Individuals contribute freely of their time and talent in furtherance of the Foundation's goals. The Foundation has not recorded the value of these services in its financial statements since a clearly measurable basis for a determination of such a value does not exist.

**Functional Expenses**

The costs of providing various programs and supporting services have been summarized on a functional basis in the Statements of Activities and Functional Expenses. The majority of the Foundation's expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function are allocated to components of these services based on allocation factors determined by management.

**Cash and Cash Equivalents**

The Foundation considers all highly liquid investments, with maturities of three months or less when purchased, to be cash equivalents, except for cash held as part of the investment portfolio. Cash and cash equivalents are carried at cost, which approximates fair value.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (continued)****Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Significant estimates and assumptions include the valuation of contributions receivable, program related investments and the allocation of expenses to functional classifications.

**Fair Value Measurements**

As further described in Note 5, the Foundation is subject to ASC Topic 820-10-05 relating to fair-value measurement. Accordingly, the Foundation reports a fair value measurement of all applicable financial assets and liabilities, including investments, program related investments, contributions receivable and payables.

**Subsequent Events**

The Foundation considers all accounting treatments and the related disclosures in the current year's financial statements, that may be required as the result of all events or transactions that occur after year-end through the date of the audit report.

**Foreign Currency Translation and Exchange Gain/Loss**

As it applies to the 2015 summarized financial information, the Canadian dollar is the functional currency of Canada. The day-to-day operations are dependent on the economic environment of the functional currency, excluding the in-kind contribution from the Institute, which is in U.S. dollars. The 2015 summarized information appearing in the accompanying Statements of Financial Position, Activities, Cash Flows and Functional Expenses have been prepared on the basis of Canada's functional currency and were subsequently translated to U.S. dollars. Foreign accounts have been translated into U.S. dollar exchange rates as follows: (i) financial position accounts at year-end rates, and (ii) changes in net asset accounts at weighted average rates. Translation gains and losses are reflected in the Statement of Activities.

**3. INVESTMENTS**

Investments consisted of the following at December 31, 2016 and 2015:

|                                | <u>2016</u>          |                      | <u>2015</u>          |                      |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                | <u>Cost</u>          | <u>Fair Value</u>    | <u>Cost</u>          | <u>Fair Value</u>    |
| U.S. Government Securities-    |                      |                      |                      |                      |
| Treasury Bills                 | \$ 13,434,005        | \$ 13,442,995        | \$ 12,399,227        | \$ 12,399,028        |
| Other Government Agencies      | 7,173,249            | 7,175,007            | 1,025,078            | 1,024,547            |
| Certificates of Deposit        | 2,400,000            | 2,400,022            | 5,720,000            | 5,716,309            |
| Fixed Income Securities        | -                    | -                    | 1,497,725            | 1,497,815            |
| Mutual Funds and Common Stocks | 557,713              | 844,242              | 11,739               | 11,965               |
|                                | <u>\$ 23,564,967</u> | <u>\$ 23,862,266</u> | <u>\$ 20,653,769</u> | <u>\$ 20,649,664</u> |

**4. SIGNIFICANT CONTRIBUTORS AND CONCENTRATION OF CREDIT RISK**

In 2016 and 2015, the Foundation received support totaling approximately \$12,600,000 and \$16,900,000 from seven and five contributors, respectively, including donated securities in 2016 and 2015, which approximates forty-seven and sixty-five percent of total support and revenues, respectively. Four of the contributors are related parties, including the Institute. The operation of the Foundation's programs, at present levels, is dependent upon continued funding and continued in-kind contributions from the Institute.

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, and investments. The Foundation maintains its cash accounts with banks located in New York State. The cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Foundation's amounts during December 31, 2016 exceeded the balance insured by the FDIC. Management does not believe cash is exposed to any significant credit risk on cash and cash equivalents.

**5. FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows: Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access; Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or other inputs that are derived principally from, or corroborated by, observable market data by correlation or other means. , the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Assets and liabilities (Level 1) - Cash and cash equivalents, contributions receivable, other assets and liabilities have a carrying amount that is a reasonable estimate of fair value because of the short-term maturity of these instruments.



**5. FAIR VALUE MEASUREMENTS- (continued)**Investments-

|                                | <u>2016</u>          | <u>2015</u>          |
|--------------------------------|----------------------|----------------------|
|                                | <u>Level 1</u>       | <u>Level 1</u>       |
| U.S. Government Securities-    |                      |                      |
| Treasury Bills                 | \$ 13,442,995        | \$ 12,399,028        |
| Other Government Agencies      | 7,175,007            | 1,024,547            |
| Certificates of Deposit        | 2,400,022            | 5,716,309            |
| Fixed Income Securities        | -                    | 1,497,815            |
| Mutual Funds and Common Stocks | 844,242              | 11,965               |
|                                | <u>\$ 23,862,266</u> | <u>\$ 20,649,664</u> |

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**6. THE FUND FOR ALZHEIMER'S DRUG DISCOVERY**

In 2006, the Foundation structured The Fund for Alzheimer's Drug Discovery (the "Fund") to raise funds in the form of contributions using a non-profit venture fund model to further the mission of the Foundation. The Fund made grants in support of early stage Alzheimer's drug discovery research designed to accelerate the discovery and development of drugs that prevent, treat or cure Alzheimer's disease. Each Fund grant was structured to enable the Fund to share financially in the further commercial development of successful products or procedures, if any. Grants by the Fund were based primarily on the Foundation's evaluation of the likelihood that the grant supported work will advance treatment of Alzheimer's disease and only secondarily on the potential monetary return from the grants.

Contributors to the Fund understand that the Fund may recover little or none of the amounts granted. Contributors to the Fund were entitled to designate a charitable organization tax-exempt under Section 501(c)(3) of the Code as a beneficiary to share with the Foundation in the return, if any, from the grant. Any returns from successful grants by the Fund will be shared as follows: 80% to the charitable designee organization of the contributor and 20% to the Foundation. The Fund received grant returns in the amounts of \$145,746 in 2016 and \$240,641 in 2015, net of payments made to charitable designee organizations.

The Foundation received for these grants: the right to recover defined amounts based on meeting certain milestones, common stock, convertible notes, bonds and warrants, which are convertible into equity securities or units. The Foundation has not valued these securities in the financial statements because the success of the early stage research conducted by the grantees is highly uncertain.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**7. CASH AND CASH EQUIVALENTS**

The composition of cash and cash equivalents as of December 31, 2016 and 2015 is as follows:

|                            | <b>2016</b>         | <b>2015</b>         |
|----------------------------|---------------------|---------------------|
| Cash in banks              | \$ 78,580           | \$ 1,090,874        |
| Money market funds         | 4,876,837           | 3,803,411           |
| Cash held by related party | -                   | 8,789               |
|                            | <u>\$ 4,955,417</u> | <u>\$ 4,903,074</u> |

See Note 4 to the financial statements for concentration of credit risk. Cash in banks are insured by the FDIC. The Foundation's cash in money market funds and cash held by a related party are not FDIC insured.

**8. CONTRIBUTIONS RECEIVABLE**

The Foundation records contributions receivable that are expected to be collected within one year at realizable value and multi-year contributions receivable at the present value of the estimated future cash flows.

Contributions receivable consists of the following at December 31, 2016 and 2015:

|                             | <b>2016</b>          | <b>2015</b>         |
|-----------------------------|----------------------|---------------------|
| Due within one year         | \$ 4,101,785         | \$ 1,389,344        |
| Due in two to five years    | 8,132,290            | 2,967,350           |
| Due in more than five years | 4,904,700            | 804,698             |
|                             | 17,138,775           | 5,161,392           |
| Less unamortized discount   | (705,439)            | (199,000)           |
|                             | <u>\$ 16,433,336</u> | <u>\$ 4,962,392</u> |

**9. RELATED PARTY TRANSACTIONS**

On January 1, 2011, the Foundation and the Institute entered into a five-year "Services and In-Kind Donation Agreement" ("Services Agreement"), and on April 25, 2012, Canada and the Institute entered into a similar agreement. These agreements can be renewed annually with the approval of the Institute and with the Foundation's and Canada's approval. The agreement with the Foundation has been renewed to December 31, 2017. Under the Services Agreements, the Institute provides office space, equipment, personnel and related employee benefits, independent contractors and other administrative support to the Foundation during 2016 and the Organization during 2015, free of charge. Contributions under these agreements totaled \$3,682,032 in 2016 and \$3,098,678 in 2015. These in-kind contributions are shown in the Statement of Activities and are included as salaries, payroll taxes and employee benefits and other expense categories in the Statement of Functional Expenses.

During 2016, a Board member donated investment securities valued at \$2,074,853.

# ALZHEIMER'S DRUG DISCOVER FOUNDATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

### 10. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2016 and 2015, the Organization had temporarily restricted net assets of \$16,432,523 and \$4,546,732, respectively, consisting of the following time and purpose restrictions:

|                                   | 2016                 | 2015                |
|-----------------------------------|----------------------|---------------------|
| Time-restricted funds             | \$ 13,892,600        | \$ 1,716,740        |
| Purpose-restricted funds          | 2,393,466            | 2,829,281           |
| Fund for Alzheimer Drug Discovery | 146,457              | 711                 |
|                                   | <u>\$ 16,432,523</u> | <u>\$ 4,546,732</u> |

The purpose restricted net assets consist of funds for the aging and Alzheimer's disease prevention program, the access website program and for an awards research program. In 2016 and 2015, net assets of \$3,474,200 and \$1,276,969 were released from restrictions, respectively.

### 11. GRANT PAYABLES AND COMMITMENTS

The Foundation has accrued grants for medical research that have been approved by the Foundation's Grant Approval Board or Board of Governors in the amount of \$21,761,263 and \$13,504,012 in 2016 and 2015, respectively. These grants are in the areas of drug discovery, clinical trials, early detection and prevention for cognitive aging and Alzheimer's disease.

Certain grants are structured to enable the Foundation to share financially in the further commercial development of successful products or procedures. The Foundation received for these grants: the right to recover defined amounts based on meeting certain milestones, common stock, convertible notes, bonds and warrants, which are convertible into equity securities or units. The Foundation values these securities as PRI's in the financial statements only when the early stage research conducted by the grantees is monetized as a publicly traded security.

In 2016, the Foundation received grant returns in the amounts of \$471,094, inclusive of \$145,746 that are restricted to the Fund. In 2015, the Organization received grant returns in the amount of \$920,018.

### 12. SPECIAL FUND RAISING EVENTS

Proceeds for special events are shown in the Statement of Activities net of direct costs for the years ended December 31, 2016 and 2015 as follows:

|                         | 2016                | 2015                |
|-------------------------|---------------------|---------------------|
| Special events proceeds | \$ 4,587,609        | \$ 4,106,068        |
| Less direct expenses    | (548,997)           | (515,774)           |
| Net event proceeds      | <u>\$ 4,038,612</u> | <u>\$ 3,590,294</u> |



**13. PRIOR-YEAR FINANCIAL STATEMENTS**

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in connection with the Organization's combined financial statements for the year ended December 31, 2015, from which the summarized information was derived.

**14. FOREIGN OPERATIONS**

In 2012, the Foundation formed Canada, which primarily administers contributions that are restricted for grants to be made to Canadian organizations. In 2015, a grant payable was transferred from Canada to the Foundation. As explained in Note 1, Canada ceased operations at the end of 2015 and the remaining assets were transferred to the Foundation during 2016. There was no activity for 2016.

As of December 31, 2015 and for the year then ended, the following balances and activities are attributable to Canada:

**Balances as of December 31, 2015-****Assets**

|                           |           |
|---------------------------|-----------|
| Cash and cash equivalents | \$ 29,377 |
|---------------------------|-----------|

|                                    |                  |
|------------------------------------|------------------|
| <b>Total assets and net assets</b> | <b>\$ 29,377</b> |
|------------------------------------|------------------|

**Activities for the year ended****December 31, 2015-**

|                      |            |
|----------------------|------------|
| Support and revenues | \$ 118,415 |
|----------------------|------------|

|          |          |
|----------|----------|
| Expenses | (61,722) |
|----------|----------|

|   |                  |
|---|------------------|
| <b>Excess of support and revenues<br/>over expenses</b> | <b>\$ 56,693</b> |
|---|------------------|

**15. OTHER MATTER**

In connection with an application for a trademark of the "Alzheimer's Drug Discovery Foundation," the Foundation has received a Notice of Opposition from another organization. The Foundation has been and intends to continue to vigorously fight the opposition proceeding.

**16. NEW ACCOUNTING PRONOUNCEMENT**

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. ASU 2016-14 will amend financial statement presentations and disclosures, with the goal of assisting not-for-profit entities in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Foundation will adopt this pronouncement when it becomes effective.

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ALZHEIMER'S DRUG DISCOVERY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(WITH SUMMARIZED TOTALS FOR 2015)

|   | 2016                 |                     | 2015                      |                      |
|---|----------------------|---------------------|---------------------------|----------------------|
|   | Program<br>Services  | Fund<br>Raising     | Management<br>and General | Total<br>Expenses    |
| Grants  | \$ 16,337,516        | \$ -                | \$ -                      | \$ 16,337,516        |
| Salaries, payroll taxes and employee benefits   | 1,274,909            | 1,180,929           | 354,630                   | 2,810,468            |
| Advertising (In-Kind services)                  | -                    | -                   | -                         | -                    |
| Website design, public relations and rebranding | -                    | 133,975             | -                         | 133,975              |
| Professional fees                               | 169,611              | 120,056             | 218,838                   | 508,505              |
| Research, honorarium and internships            | 17,500               | -                   | -                         | 17,500               |
| Communications and publications                 | 59,349               | 20,649              | 3,868                     | 83,866               |
| Occupancy                                       | 103,060              | 94,198              | 51,158                    | 248,416              |
| Sponsored conferences, meetings and travel      | 198,864              | -                   | -                         | 198,864              |
| Office  | 192,152              | 93,471              | 66,468                    | 352,091              |
| <b>Total expenses</b>                           | <b>\$ 18,352,961</b> | <b>\$ 1,643,278</b> | <b>\$ 694,962</b>         | <b>\$ 20,691,201</b> |
|   |                      |                     |                           | <b>\$ 16,702,897</b> |

See report of Independent Certified Public Accountants.