

Alzheimer's Drug Discovery Foundation

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

December 31, 2017

ALZHEIMER'S DRUG DISCOVERY FOUNDATION

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Report of Independent Certified Public Accountants

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

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, 2017 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



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
May 23, 2018

ALZHEIMER'S DRUG DISCOVERY FOUNDATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(WITH COMPARATIVE AMOUNTS FOR 2016)

	2017	2016
Assets		
Cash and cash equivalents	\$ 4,281,702	\$ 4,955,417
Investments, at fair value	26,571,127	23,862,266
Contributions receivable	14,902,876	16,433,336
Due from Institute for the Study of Aging, Inc.	86,761	75,712
Other assets	130,943	52,697
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Total assets	45,973,409	45,379,428
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Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	33,568	7,818
Grants payable	25,433,267	21,761,264
Deferred revenue	199,247	19,350
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Total liabilities	25,666,082	21,788,432
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Net Assets		
Unrestricted	5,226,794	7,158,473
Temporarily restricted	15,080,533	16,432,523
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Total net assets	20,307,327	23,590,996
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Total liabilities and net assets	\$ 45,973,409	\$ 45,379,428

The accompanying notes are an integral part of this statement.

ALZHEIMER'S DRUG DISCOVERY FOUNDATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenues				
Support-				
Contributions and grants	\$ 6,516,066	\$ 3,495,162	\$ 10,011,228	\$ 17,768,167
In-kind services and contributions-				
Contribution of services from the Institute for the Study of Aging, Inc.	3,502,147	-	3,502,147	3,682,032
Proceeds from special events, net of direct expenses	3,266,247	-	3,266,247	4,038,612
Net assets released from restrictions	4,968,709	(4,968,709)	-	-
Revenues-				
Grant returns	446,726	121,557	568,283	471,094
Conference registration fees and other income	187,548	-	187,548	194,269
Investment income	361,984	-	361,984	576,947
Total support and revenues	19,249,427	(1,351,990)	17,897,437	26,731,121
Expenses				
Program services - grants	16,566,234	-	16,566,234	16,337,516
Program services - unexecuted prior year grants	(325,000)	-	(325,000)	-
Program services - other	2,237,637	-	2,237,637	2,015,445
Total program services	18,478,871	-	18,478,871	18,352,961
Fund raising	2,163,272	-	2,163,272	1,643,278
Management and general	538,963	-	538,963	694,962
Total expenses	21,181,106	-	21,181,106	20,691,201
Change in net assets	(1,931,679)	(1,351,990)	(3,283,669)	6,039,920
Net assets, beginning of year	7,158,473	16,432,523	23,590,996	17,551,076
Net assets, end of year	\$ 5,226,794	\$ 15,080,533	\$ 20,307,327	\$ 23,590,996

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, 2017
(WITH COMPARATIVE AMOUNTS FOR 2016)**

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ (3,283,669)	\$ 6,039,920
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Donated investments	(4,730,100)	(2,584,587)
Realized and unrealized (gain) loss on investments, net	(236,168)	(279,624)
Changes in operating assets and liabilities-		
Decrease (increase) in contributions receivable	1,530,460	(11,470,944)
(Increase) decrease in Due from the Institute for the Study of Aging, Inc.	(11,049)	6,296
(Increase) in other assets	(78,246)	(27,331)
Increase (decrease) in accounts payable and accrued liabilities	25,750	(92,718)
Increase in grants payable	3,672,003	8,257,252
Increase in deferred revenue	179,897	15,670
Net cash used by operating activities	(2,931,122)	(136,066)
Cash Flows From Investing Activities		
Proceeds from sales of investments	86,545,486	58,463,079
Purchases of investments	(84,288,079)	(58,811,470)
Program related investments/reclassified in 2016	-	536,800
Net cash flows provided by investing activities	2,257,407	188,409
Net change in cash and cash equivalents	(673,715)	52,343
Cash and cash equivalents, beginning of year	4,955,417	4,903,074
Cash and cash equivalents, end of year	\$ 4,281,702	\$ 4,955,417

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. The formal dissolution documents from the Canadian government are pending receipt.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (continued)**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, 2017 and 2016, there were temporarily restricted net assets in the amounts of \$15,080,533 and \$16,432,523, 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, 2017, and 2016, 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 drug 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. 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 drug 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.

During 2016, the investment in a company that had previously been reflected as a PRI was determined to be an actively traded security on a national exchange. The Foundation included this amount of approximately \$938,000 with common stock carried at fair value with other investments on the Statement of Financial Position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (continued)**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 2017 and 2016, the Foundation 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.

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.

ALZHEIMER'S DRUG DISCOVER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (continued)

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.

3. INVESTMENTS

Investments consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Government Securities-				
Treasury Bills	\$ 10,634,976	\$ 10,662,827	\$ 13,434,005	\$ 13,442,995
Other Government Agencies	11,445,251	11,447,445	7,173,249	7,175,007
Certificates of Deposit	3,600,000	3,597,216	2,400,000	2,400,022
Mutual Funds and Common Stocks	589,846	863,639	557,713	844,242
	<u>\$ 26,270,073</u>	<u>\$ 26,571,127</u>	<u>\$ 23,564,967</u>	<u>\$ 23,862,266</u>

4. SIGNIFICANT CONTRIBUTORS AND CONCENTRATION OF CREDIT RISK

In 2017 and 2016, the Foundation received support totaling approximately \$7,400,000 and \$12,600,000 from six and seven contributors, respectively, including donated securities in 2017 and 2016, which approximates forty-one and forty-seven 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, 2017 exceeded the balance insured by the FDIC. Management does not believe cash is exposed to any significant credit risk on cash and cash equivalents.

ALZHEIMER'S DRUG DISCOVER FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

5. FAIR VALUE MEASUREMENTS

The FASB's ASC Topic 820, Fair Value Measurements, establishes a three-level valuation hierarchy of fair value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1- Valuations are based on observable inputs that reflect unadjusted quoted market prices in active markets for those investments, or similar investments, at the reporting date.

Level 2 - Valuations are based on: (i) quoted prices for those investments, or similar investments, in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.

Level 3 - Valuations are based on pricing inputs that are unobservable and include situations where: (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

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.

The fair values of mutual funds and common stocks are based on the closing price reported on the active market where the individual securities are traded.

Investments in U.S. government securities and other government agencies are valued using a market approach on yields currently available on comparable securities of issuers with similar credit ratings.

Investments-

	2017			2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
U.S. Government Securities-						
Treasury Bills	\$ -	\$10,662,827	\$10,662,827	\$ -	\$13,442,995	\$13,442,995
Other Government Agencies	-	11,447,445	11,447,445	-	7,175,007	7,175,007
Certificates of Deposit	3,597,216	-	3,597,216	2,400,022	-	2,400,022
Mutual Funds and Common Stocks	863,639	-	863,639	844,242	-	844,242
	<u>\$4,460,855</u>	<u>\$22,110,272</u>	<u>\$26,571,127</u>	<u>\$3,244,264</u>	<u>\$20,618,002</u>	<u>\$23,862,266</u>

ALZHEIMER'S DRUG DISCOVER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

5. FAIR VALUE MEASUREMENTS- (continued)

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 \$121,557 in 2017 and \$145,746 in 2016, 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. 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.

7. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Cash in banks	\$ 500,577	\$ 78,580
Money market funds	3,781,125	4,876,837
	<u>\$ 4,281,702</u>	<u>\$ 4,955,417</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.

ALZHEIMER'S DRUG DISCOVER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 4,994,385	\$ 4,101,785
Due in two to five years	6,689,372	8,132,290
Due in more than five years	3,779,230	4,904,700
	<u>15,462,987</u>	<u>17,138,775</u>
Less unamortized discount	(560,111)	(705,439)
	<u>\$ 14,902,876</u>	<u>\$ 16,433,336</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"), which can be renewed annually with the approval of the Institute and with the Foundation's approval. The agreement with the Foundation has been renewed to December 31, 2018. Under the Services Agreement, the Institute provides office space, equipment, personnel and related employee benefits, independent contractors and other administrative support to the Foundation free of charge. Contributions under this agreement totaled \$3,502,147 in 2017 and \$3,682,032 in 2016. 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 2017 and 2016, Board members donated investment securities valued at \$4,110,653 and \$2,074,853, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2017, and 2016, the Foundation had temporarily restricted net assets of \$15,080,533 and \$16,432,523, respectively, consisting of the following time and purpose restrictions:

	<u>2017</u>	<u>2016</u>
Time-restricted funds	\$ 12,673,756	\$ 13,892,600
Purpose-restricted funds	2,138,763	2,393,466
Fund for Alzheimer Drug Discovery	268,014	146,457
	<u>\$ 15,080,533</u>	<u>\$ 16,432,523</u>

ALZHEIMER'S DRUG DISCOVER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

10. TEMPORARILY RESTRICTED NET ASSETS -(continued)

The purpose restricted net assets consist of funds for the aging and Alzheimer's disease prevention program, the access website program support for special events and for an awards research program. In 2017 and 2016, net assets of \$4,968,709 and \$3,474,200 were released from restrictions, respectively.

11. GRANT PAYABLES AND COMMITMENTS

The Foundation has accrued grants for drug research that have been approved by the Foundation's Grant Approval Board or Board of Governors in the amount of \$25,433,267 and \$21,761,264 in 2017 and 2016, 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. 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.

During 2017, two grants approved in 2016 totaling \$325,000, were cancelled due to the inability of the grantee to meet the grant requirements. These amounts had been accrued as grants payable as of December 31, 2016. In 2017, these amounts are included in program expenses a separate disclosure line item.

In 2017, the Foundation received grant returns in the amounts of \$568,283, inclusive of \$121,557 that are restricted to the Fund. In 2016, the Foundation received grant returns in the amount of \$471,094, inclusive of \$145,746 that are restricted to the Fund.

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, 2017 and 2016 as follows:

	2017	2016
Special events proceeds	\$ 3,813,013	\$ 4,587,609
In-kind contribution of venue costs	209,915	-
Less direct expenses	(756,681)	(548,997)
Net event proceeds	<u>\$ 3,266,247</u>	<u>\$ 4,038,612</u>

The direct expenses are funded by support from specific donors separate from any other contributions.

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 Foundation's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

14. 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.

15. 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.

ALZHEIMER'S DRUG DISCOVERY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED TOTALS FOR 2016)

	2017			2016	
	Program Services	Fund Raising	Management and General	Total Expenses	Total Expenses
Grants	\$ 16,566,234	\$ -	\$ -	\$ 16,566,234	\$ 16,337,516
Unexecuted prior year grants	(325,000)	-	-	(325,000)	-
Salaries, payroll taxes and employee benefits	1,575,940	1,542,181	297,245	3,415,366	2,810,468
Website design, public relations and rebranding	988	227,002	388	228,378	133,975
Professional fees	212,862	106,285	48,484	367,631	508,505
Research, honorarium and internships	28,746	-	-	28,746	17,500
Communications and publications	76,702	12,864	34,096	123,662	83,866
Occupancy	112,141	135,495	44,044	291,680	248,416
Sponsored conferences, meetings and travel	138,324	-	48,040	186,364	198,864
Office	91,934	139,445	66,666	298,045	352,091
Total expenses	\$ 18,478,871	\$ 2,163,272	\$ 538,963	\$ 21,181,106	\$ 20,691,201

See report of Independent Certified Public Accountants.