

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JANUARY 31, 2018 AND 2017**

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION  
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YEARS ENDED JANUARY 31, 2018 AND 2017**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
The Amyotrophic Lateral Sclerosis Association  
Washington, DC

We have audited the accompanying financial statements of The Amyotrophic Lateral Sclerosis Association, which comprise the statements of financial position as of January 31, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Board of Trustees  
The Amyotrophic Lateral Sclerosis Association

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Amyotrophic Lateral Sclerosis Association as of January 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
May 16, 2018

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**JANUARY 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,770,730	\$ 9,485,974
Investments in marketable securities	84,273,526	88,965,198
Receivables:		
Bequests, net	1,259,003	1,849,295
Chapter, net	3,873,449	3,281,394
Pledges, net	2,778,276	4,475,576
Other	98,291	284,689
Prepaid expenses and other assets	73,591	207,667
Beneficial interest in perpetual trusts	1,071,545	1,000,724
Contributions receivable from remainder trusts	308,405	237,964
Property and equipment, net	126,189	256,867
<b>TOTAL ASSETS</b>	<b>\$ 99,633,005</b>	<b>\$ 110,045,348</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Grants payable	\$ 174,741	\$ 3,453,065
Accounts payable and accrued expenses	2,077,642	1,163,767
Annuity payment liability	851,460	872,645
Deferred rent	81,272	87,275
Total liabilities	3,185,115	5,576,752
<b>NET ASSETS</b>		
Unrestricted	83,168,855	82,712,789
Temporarily restricted	12,271,237	20,794,826
Permanently restricted	1,007,798	960,981
Total net assets	96,447,890	104,468,596
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 99,633,005</b>	<b>\$ 110,045,348</b>

See accompanying Notes to Financial Statements.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JANUARY 31, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 9,261,983	\$ 2,721,569	\$ -	\$ 11,983,552
Bequests	455,808	24,004	-	479,812
Chapters	6,109,901	3,269,540	-	9,379,441
Events, net of expenses	968,267	-	-	968,267
Federated campaigns	196,078	-	-	196,078
Investment income	6,413,591	182,494	-	6,596,085
Other income	116,247	-	-	116,247
Gain on beneficial interest in perpetual trusts	-	-	46,817	46,817
Change in value of split-interest agreements	-	31,206	-	31,206
	<u>23,521,875</u>	<u>6,228,813</u>	<u>46,817</u>	<u>29,797,505</u>
Net assets released from restrictions	<u>14,752,402</u>	<u>(14,752,402)</u>	<u>-</u>	<u>-</u>
 Total support and revenue	 <u>38,274,277</u>	 <u>(8,523,589)</u>	 <u>46,817</u>	 <u>29,797,505</u>
<b>EXPENSES</b>				
Research grants	19,224,349	-	-	19,224,349
Patient and community services	9,291,687	-	-	9,291,687
Public and professional education	3,025,301	-	-	3,025,301
Total program services	31,541,337	-	-	31,541,337
Fundraising	4,257,115	-	-	4,257,115
Management and general	2,019,759	-	-	2,019,759
 Total expenses	 <u>37,818,211</u>	 <u>-</u>	 <u>-</u>	 <u>37,818,211</u>
 <b>CHANGES IN NET ASSETS</b>	 456,066	 (8,523,589)	 46,817	 (8,020,706)
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 <u>82,712,789</u>	 <u>20,794,826</u>	 <u>960,981</u>	 <u>104,468,596</u>
 <b>NET ASSETS, END OF YEAR</b>	 <u>\$ 83,168,855</u>	 <u>\$ 12,271,237</u>	 <u>\$ 1,007,798</u>	 <u>\$ 96,447,890</u>

See accompanying Notes to Financial Statements.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JANUARY 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 8,623,720	\$ 6,131,044	\$ -	\$ 14,754,764
Bequests	2,450,459	189,769	-	2,640,228
Chapters	5,830,980	3,387,237	-	9,218,217
Events, net of expenses	515,340	2,275	-	517,615
Federated campaigns	219,143	-	-	219,143
Investment income	5,791,723	151,116	-	5,942,839
Other income	148,176	-	-	148,176
Gain on beneficial interest in perpetual trusts	-	-	24,672	24,672
Change in value of split-interest agreements	-	(63,508)	-	(63,508)
	23,579,541	9,797,933	24,672	33,402,146
Net assets released from restrictions	16,047,766	(16,047,766)	-	-
 Total support and revenue	 39,627,307	 (6,249,833)	 24,672	 33,402,146
 <b>EXPENSES</b>				
Research grants	16,781,132	-	-	16,781,132
Patient and community services	7,988,597	-	-	7,988,597
Public and professional education	3,780,057	-	-	3,780,057
Total program services	28,549,786	-	-	28,549,786
Fundraising	4,673,884	-	-	4,673,884
Management and general	1,751,060	-	-	1,751,060
	34,974,730	-	-	34,974,730
 Total expenses	 34,974,730	 -	 -	 34,974,730
 <b>CHANGES IN NET ASSETS</b>	 4,652,577	 (6,249,833)	 24,672	 (1,572,584)
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 78,060,212	 27,044,659	 936,309	 106,041,180
 <b>NET ASSETS, END OF YEAR</b>	 \$ 82,712,789	 \$ 20,794,826	 \$ 960,981	 \$ 104,468,596

See accompanying Notes to Financial Statements.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JANUARY 31, 2018**

	Program Services			Supporting Services			Total Functional Expenses	
	Research	Patient and Community Services	Public and Professional Education	Total Program Services	Fund- Raising	Management and General		Total Supporting Services
<b>EXPENSES</b>								
Grant awards	\$18,373,884	\$ -	\$ -	\$18,373,884	\$ -	\$ -	\$ -	\$18,373,884
Chapter support	162,817	3,617,339	2,203	3,782,359	8,381	140,183	148,564	3,930,923
Salaries and related expenses	111,606	3,778,826	1,311,569	5,202,001	1,902,715	831,805	2,734,520	7,936,521
Printing and publications	194	529,010	45,469	574,673	22,557	878	23,435	598,108
Professional fees and contract services	317,189	255,939	860,103	1,433,231	1,765,496	424,891	2,190,387	3,623,618
Postage and shipping	245	12,449	5,761	18,455	17,974	7,172	25,146	43,601
Occupancy	28,079	334,676	116,812	479,567	184,157	73,313	257,470	737,037
Travel and conferences	187,678	533,585	454,815	1,176,078	179,205	228,756	407,961	1,584,039
Telecommunications	11,312	72,006	114,867	198,185	32,729	16,861	49,590	247,775
Office supplies	591	15,418	14,427	30,436	7,773	4,034	11,807	42,243
Dues and subscriptions	18,230	12,567	76,100	106,897	19,639	82,186	101,825	208,722
Bad debts	-	-	-	-	-	84,191	84,191	84,191
Depreciation and miscellaneous equipment	12,449	71,924	34,770	119,143	36,903	37,380	74,283	193,426
Credit card fees and other	75	57,948	(11,595)	46,428	79,586	88,109	167,695	214,123
<b>TOTAL EXPENSES</b>	<u>\$19,224,349</u>	<u>\$ 9,291,687</u>	<u>\$ 3,025,301</u>	<u>\$31,541,337</u>	<u>\$ 4,257,115</u>	<u>\$ 2,019,759</u>	<u>\$ 6,276,874</u>	<u>\$37,818,211</u>

See accompanying Notes to Financial Statements.



**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JANUARY 31, 2017**

	Program Services			Supporting Services			Total Functional Expenses	
	Research	Patient and Community Services	Public and Professional Education	Total Program Services	Fund- Raising	Management and General		Total Supporting Services
<b>EXPENSES</b>								
Grant awards	\$16,044,063	\$ -	\$ -	\$16,044,063	\$ -	\$ -	\$ -	\$16,044,063
Chapter support	418	2,505,017	2,046	2,507,481	2,768	1,011	3,779	2,511,260
Salaries and related expense	92,159	3,302,878	1,711,243	5,106,280	2,008,186	787,509	2,795,695	7,901,975
Printing and publications	393	297,560	84,159	382,112	39,694	1,212	40,906	423,018
Professional fees and contract services	309,742	581,230	1,206,007	2,096,979	2,009,280	477,218	2,486,498	4,583,477
Postage and shipping	659	11,038	13,209	24,906	88,858	8,477	97,335	122,241
Occupancy	28,154	336,037	137,897	502,088	186,528	68,119	254,647	756,735
Travel and conferences	273,350	778,129	450,516	1,501,995	164,957	218,563	383,520	1,885,515
Telecommunications	5,646	46,669	101,354	153,669	23,703	10,053	33,756	187,425
Office supplies	809	15,629	14,685	31,123	8,448	6,057	14,505	45,628
Dues and subscriptions	15,587	22,085	25,915	63,587	15,944	69,923	85,867	149,454
Bad debts	-	-	-	-	-	(32,321)	(32,321)	(32,321)
Depreciation and miscellaneous equipment	10,106	64,638	29,239	103,983	40,210	36,284	76,494	180,477
Credit card fees and other	46	27,687	3,787	31,520	85,308	98,955	184,263	215,783
<b>TOTAL EXPENSES</b>	<u>\$16,781,132</u>	<u>\$ 7,988,597</u>	<u>\$ 3,780,057</u>	<u>\$28,549,786</u>	<u>\$ 4,673,884</u>	<u>\$ 1,751,060</u>	<u>\$ 6,424,944</u>	<u>\$34,974,730</u>

See accompanying Notes to Financial Statements.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JANUARY 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (8,020,706)	\$ (1,572,584)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	133,255	140,463
Loss on disposal of property and equipment	-	36,868
Change in value of charitable remainder trusts	(70,441)	(11,161)
Net realized and unrealized gains in beneficial interests in perpetual trusts	(70,821)	(34,788)
Net realized and unrealized gains on investments	(4,439,383)	(3,309,046)
Changes in operating assets and liabilities:		
Receivables:		
Bequests, net	590,292	(10,023)
Chapters, net	(592,055)	(132,857)
Pledges, net	1,697,300	(3,845,190)
Other	186,398	(157,811)
Prepaid expenses and other assets	134,076	234,767
Grants payable	(3,278,324)	(1,286,807)
Accounts payable and accrued expenses	913,875	(149,188)
Annuity payment liability	(21,185)	(15,810)
Deferred rent	(6,003)	12,569
Deferred revenue	-	(10,000)
Net cash used by operating activities	<u>(12,843,722)</u>	<u>(10,110,598)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(2,577)	(101,509)
Purchases of investments	(2,407,521)	(7,113,413)
Proceeds from sold and matured investments	11,538,576	24,243,117
Net cash provided by investing activities	<u>9,128,478</u>	<u>17,028,195</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(3,715,244)	6,917,597
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>9,485,974</u>	<u>2,568,377</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 5,770,730</u>	<u>\$ 9,485,974</u>

See accompanying Notes to Financial Statements.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Amyotrophic Lateral Sclerosis Association (the Association) was organized in 1985 through the merger of its predecessors, The Amyotrophic Lateral Sclerosis Society of America and The National ALS Foundation, Inc. The Association's mission priorities are to fund research directed at finding a treatment, the cause and cure for the disease, amyotrophic lateral sclerosis (ALS), commonly known as "Lou Gehrig's Disease;" to provide clinical, educational and other programs and services to people living with ALS and their families, health care professionals and other key stakeholders; and to increase public awareness through public policy and advocacy efforts at both the national and state levels.

The Association is a not-for-profit, voluntary health organization, exempt, together with its affiliated chapters, from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). The Association and its chapters are classified collectively as a publicly supported charitable organization under Section 509(a)(1) and qualify for the maximum charitable contribution deduction by donors under Section 170 (b)(1)(A)(vi) of the Code.

These financial statements do not include the accounts of affiliated chapters since, subject to their agreements with the Association, they are independently controlled by their own governing boards.

During the year ended January 31, 2015, the Association was the main benefactor of a significant fundraising activity known as the Ice Bucket Challenge. The Association received approximately \$115 million in contributions. The Association continues to utilize these funds in the fight against ALS.

**Basis of Accounting**

The Association prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned, while expense is recognized when the obligation is incurred.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of money market funds and other highly liquid investments with original maturities of 90 days or less to be cash equivalents.

At January 31, 2018 and 2017, the cash and cash equivalents balance included approximately \$28,000 and \$43,000, respectively, which are earmarked for annuity obligations.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

Investments are initially recorded at cost if purchased, or at fair value at the date of donation if contributed. Subsequent to acquisition, investments are reported at their fair value. Investment income and realized and unrealized gains and losses are recognized as unrestricted net assets unless their use is temporarily or permanently restricted by donors to a specified purpose or future period. The fair value of investments in securities traded on a national securities exchange are valued at the closing price on the last business day of the fiscal year, whereas securities traded on the over-the-counter market are valued at the last reported bid price.

**Property and Equipment**

Expenditures for property and equipment in excess of \$1,000 are capitalized at cost or, for donated assets, fair value as of the date of acquisition. Depreciated and amortization is calculated on a straight-line basis over the estimated useful lives of three to five years.

**Research Grant Expense**

Conditional research grants are expensed by the Association as the researchers substantially meet the terms and conditions of the grant during the grant period. Unconditional research grants are expensed when made.

**Chapter Support**

The Association has a revenue sharing practice with affiliated chapters. Chapter support is recognized as support revenue when earned by the affiliated chapter based on the current revenue sharing plan.

From time to time the Association may provide loans for working capital needs to affiliated chapters. These loans usually require annual installments payments, but can be more frequent. During the year ended January 31, 2018, the Association entered into a new loan arrangement with a chapter for approximately \$75,000. This loan is in addition to three older loans executed in previous years with other chapters. Loans to affiliated chapters are discounted at 3% based on the long-term Applicable Federal Rate, which is what the Internal Revenue Service would use to determine the unstated interest rate.

**Net Assets**

For financial statement purposes, net assets consist of the following:

- Unrestricted net assets include net assets which are available for general operations of the Association. The Association's unrestricted net assets are undesignated.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or for use in future time periods.
- Permanently restricted net assets represent net assets that are to be held in perpetuity as directed by the original donor.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions and Bequests**

Contributions, including endowment gifts and pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Bequests are recognized at the time the Association's right to them is established by a court and the proceeds are subject to reasonable estimation. Bequests receivable are shown net of an allowance for present value discount of \$361,561 and \$397,602 at January 31, 2018 and 2017, respectively.

Donations and bequests received with donor stipulations as to their intended use are reported in the statements of activities as restricted support. Temporarily restricted net assets are reclassified as unrestricted net assets when restrictions are met (that is, when a stipulated time restriction ends or a purpose restriction is accomplished).

**Contributed Services**

Contributed services are reported at fair value in the accompanying financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. The Association receives a substantial number of volunteer hours donated by individuals in program services and fund-raising campaigns which are not recorded in the financial statements. Donated materials are recorded at their fair value at the date of the gift. If donors stipulate how long donated assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of goods are recorded as unrestricted support. There were no contributed services that met the requirements for recognition during the years ended January 31, 2018 and 2017.

**Split-interest Agreements and Beneficial Interests in Trusts**

The Association is the beneficiary in various split-interest agreements with donors primarily consisting of charitable gift annuities, perpetual trusts and charitable remainder trusts. The Association recognizes contribution revenue on the net amount of assets received and liabilities assumed on the agreements, either as temporarily or permanently restricted based on donors' restrictions. Assets held under the agreements are stated at fair value.

The Association pays a variable annuity amount equal to the specified percentage of the fair value of assets on the date of payment to the donors or the donors' designees for the remainder of their lives. The liability under these agreements is recognized at the present value of estimated future payments based on actuarial assumptions. Adjustments to the liability to reflect changes in actuarial assumptions and amortization of discount are recognized in the statements of activities.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Split-interest Agreements and Beneficial Interests in Trusts (Continued)**

Beneficial interests in perpetual trusts are recognized as revenue when the Association is notified of the trust's existence in accordance with the terms and provisions of the trust. The fair value of the contribution is estimated using the fair value of the assets contributed to the trust, unless facts and circumstances indicate that the fair value of the beneficial interest differs from the fair value of the assets contributed to the trust. The contribution is classified as temporarily or permanently restricted support, depending on the nature of donor restriction, and annual distributions from the trust are reported as investment income that increases unrestricted net assets. At each reporting date, the beneficial interest is remeasured at fair value using the same valuation technique that was used to measure the asset initially and the change in fair value is recognized as temporarily or permanently restricted gains or losses.

The Association is the beneficiary of two charitable remainder trusts for which the Association is not the trustee. The Association recognizes the present value of the estimated future benefits to be received when the trust assets are distributed as temporarily restricted contribution revenue and as a receivable. Adjustments to the receivable to reflect amortization of the discount and revaluation of the present value of the estimated future payments to the lifetime beneficiary are recognized in the statements of activities as change in value of split-interest agreements.

**Functional Expenses**

The costs of providing various programs and activities of the Association have been summarized on a functional basis in the statements of activities and functional expenses. The majority of expenses are directly identified with a program, activity, or supporting service and allocated accordingly. Expenses not directly identified are allocated among programs, activities and supporting services based on the judgment of management.

**Allocation of Joint Costs**

The Association incurred joint costs for informational mailings that included fundraising appeals. The Association is permitted through accounting guidance to allocate to its programs a portion of its costs associated with its fundraising efforts. Costs are allocated between program and fundraising based on the percentage of words used for each purpose in a mailing.

For the year ended January 31, 2018, joint costs approximated \$971,000 and \$194,000 for fundraising and program services, respectively. For the year ended January 31, 2017, joint costs approximated \$1,181,000 and \$209,000 for fundraising and program services, respectively.

**Income Taxes**

The Association had no unrelated taxable income for the years ended January 31, 2018 and 2017. Accordingly, no provision for income taxes has been provided in the financial statements.

**THE AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes (Continued)**

The Association follows the accounting standard regarding the recognition and measurement of uncertain tax positions. The Association evaluated its tax positions and determined that its positions are more-likely-than-not to be sustained on examination. The Association's tax returns are subject to review and examination by federal and state authorities.

**Fair Value of Financial Instruments**

**Fair Value Measurements**

The Association accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Association has categorized these financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Association has the ability to access.

*Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include, among others, quoted prices for similar assets or liabilities in active market or non-active market.

*Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

**Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on the previously reported change in net assets.

**Subsequent Events**

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 16, 2018, the date the financial statements were available to be issued.

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**NOTE 2    CONCENTRATIONS**

**Credit Risk**

The Association maintains demand deposits and money market funds with commercial financial institutions, the aggregate balance of which may, at times, exceed the Federal Deposit Insurance Corporation insured limit. The uninsured portions of these accounts are backed solely by the assets of the underlying institutions. Therefore, the failure of an underlying institution could result in financial loss to the Association.

**Market Value Risk**

The Association also invests in professionally managed portfolios containing various marketable debt and equity securities. Such investments are exposed to market and credit risks and may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

**NOTE 3    INVESTMENTS AND FAIR VALUE MEASUREMENTS**

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the valuation methodologies used at January 31, 2018 and 2017.

*Mutual Funds* – The mutual funds in which the Association invests make their net asset values publicly available daily, to set the price for purchases and redemptions the following day. The investments held by these mutual funds are required by the Securities and Exchange Commission (SEC) to be measured daily at fair value. Therefore, mutual funds are valued at the published net asset value of share at the measurement date. The resulting fair value estimate is a level 1 measure.

*Equity securities* – Values measured using quoted market prices. The resulting fair value estimate is a level 1 measure.

*Corporate bonds, government agency securities, mortgage securities* – Values measured using identical assets in less active markets, such as dealer or broker markets, or survey of the dealer community by obtaining broker/dealer quotes on a daily basis. The resulting fair value estimate is a level 2 measure.

*Split-interest agreements and beneficial interests in perpetual trusts* – Values measured using assumptions about the fair value of underlying trust assets, discounted cash flows and other present value techniques. The resulting fair value estimate is a level 3 measure.



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**NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables present the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of January 31, 2018:

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Mutual funds	\$ 56,839,950	\$ -	\$ -	\$ 56,839,950
Equity securities	13,910,677	-	-	13,910,677
Corporate bonds	-	8,033,235	-	8,033,235
Government agency obligations	-	5,489,664	-	5,489,664
Total investments	<u>70,750,627</u>	<u>13,522,899</u>	-	<u>84,273,526</u>
Beneficial interest in perpetual trusts	-	-	1,071,545	1,071,545
Contributions receivable from charitable remainder trusts	-	-	308,405	308,405
Total assets at fair value	<u>\$ 70,750,627</u>	<u>\$ 13,522,899</u>	<u>\$ 1,379,950</u>	<u>\$ 85,653,476</u>
<u>Liabilities</u>				
Annuity payment liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 851,460</u>	<u>\$ 851,460</u>

The following tables present the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of January 31, 2017:

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Mutual funds	\$ 53,518,240	\$ -	\$ -	\$ 53,518,240
Equity securities	10,850,277	-	-	10,850,277
Corporate bonds	-	14,088,255	-	14,088,255
Government agency obligations	-	10,508,426	-	10,508,426
Total investments	<u>64,368,517</u>	<u>24,596,681</u>	-	<u>88,965,198</u>
Beneficial interest in perpetual trusts	-	-	1,000,724	1,000,724
Contributions receivable from charitable remainder trusts	-	-	237,964	237,964
Total assets at fair value	<u>\$ 64,368,517</u>	<u>\$ 24,596,681</u>	<u>\$ 1,238,688</u>	<u>\$ 90,203,886</u>
<u>Liabilities</u>				
Annuity payment liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 872,645</u>	<u>\$ 872,645</u>

Investments include approximately \$1,519,000 and \$1,409,000 to cover annuity obligations for the years ended January 31, 2018 and 2017, respectively.

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**NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table provides a summary of changes in the fair value of the Association's Level 3 assets and liabilities:

	Beneficial Interest in Perpetual Trusts	Contributions Receivable from Charitable Remainder Trusts	Annuity Payment Liability
Balance, January 31, 2016	\$ 965,936	\$ 226,803	\$ (888,455)
Change in valuation	34,788	11,161	-
New annuities	-	-	(35,000)
Annuity payments and releases	-	-	114,668
Loss from annuity	-	-	(63,858)
Balance, January 31, 2017	1,000,724	237,964	(872,645)
Change in valuation	70,821	70,441	-
New annuities	-	-	(41,069)
Annuity payments and releases	-	-	97,194
Loss from annuity	-	-	(34,940)
Balance, January 31, 2018	<u>\$ 1,071,545</u>	<u>\$ 308,405</u>	<u>\$ (851,460)</u>

Investment income consists of the following for the years ended January 31:

	2018	2017
Interest and dividends	\$ 2,391,951	\$ 2,952,436
Realized/unrealized gain	4,439,383	3,309,046
Investment fees	(235,249)	(318,643)
<b>Total</b>	<u>\$ 6,596,085</u>	<u>\$ 5,942,839</u>

**NOTE 4 CHAPTER RECEIVABLES**

Amounts receivable from Chapters consisted of the following at January 31:

	2018	2017
Revenue sharing	\$ 3,645,304	\$ 3,016,059
Less: reserve for doubtful collection	(108,907)	(67,836)
	<u>3,536,397</u>	<u>2,948,223</u>
Loans receivable	653,349	617,889
Less: reserve for doubtful collection	(223,491)	(185,137)
Less: discount to present value	(92,806)	(99,581)
	<u>337,052</u>	<u>333,171</u>
<b>Total</b>	<u>\$ 3,873,449</u>	<u>\$ 3,281,394</u>

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**NOTE 5 PLEDGES RECEIVABLE**

The Association anticipates collection of outstanding pledges receivable as follows as of January 31:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 1,478,465	\$ 2,703,420
Due in one to five years	1,566,250	2,016,250
	<u>3,044,715</u>	<u>4,719,670</u>
Less: discount to present value	(102,723)	(164,569)
Less: reserve for uncollectible pledges	<u>(163,716)</u>	<u>(79,525)</u>
<b>Total</b>	<u><u>\$ 2,778,276</u></u>	<u><u>\$ 4,475,576</u></u>

Amounts presented above have been discounted to present value using rates ranging from 0.84% to 4.12%.

**NOTE 6 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at January 31:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 424,776	\$ 422,200
Software	396,302	396,302
Leasehold improvements	146,535	146,537
	<u>967,613</u>	<u>965,039</u>
Less: accumulated depreciation and amortization	<u>(841,424)</u>	<u>(708,172)</u>
<b>Total</b>	<u><u>\$ 126,189</u></u>	<u><u>\$ 256,867</u></u>

**NOTE 7 RELATED PARTY TRANSACTIONS**

During the years ended January 31, 2018 and 2017, the Association recorded contributions from Board members of approximately \$67,000 and \$2,600,000, respectively. As of January 31, 2018 and 2017, outstanding pledges from Board members approximated \$2,025,000 and \$2,530,000, respectively.

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**NOTE 8 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets and related activity consist of the following as of and for the years ended January 31:

	2018			
	Beginning	Additions	Releases	Ending
Research awards	\$ 11,835,267	\$ 4,304,125	\$ (12,194,475)	\$ 3,944,917
Term endowment supporting research	6,276,315	-	-	6,276,315
Other programs	2,683,244	1,924,688	(2,557,927)	2,050,005
<b>Total</b>	<u>\$ 20,794,826</u>	<u>\$ 6,228,813</u>	<u>\$ (14,752,402)</u>	<u>\$ 12,271,237</u>

	2017			
	Beginning	Additions	Releases	Ending
Research awards	\$ 18,689,765	\$ 9,184,290	\$ (16,038,788)	\$ 11,835,267
Term endowment supporting research	6,276,315	-	-	6,276,315
Other programs	2,078,579	613,643	(8,978)	2,683,244
<b>Total</b>	<u>\$ 27,044,659</u>	<u>\$ 9,797,933</u>	<u>\$ (16,047,766)</u>	<u>\$ 20,794,826</u>

**NOTE 9 PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets include the beneficial interests in two trusts that the Association does not administer. The investments of each trust are administered by a trustee, who is independent of the Association, and distributions are made to the Association in accordance with the trust agreement for each trust. The beneficial interests in these trusts approximated \$768,000 and \$721,000 at January 31, 2018 and 2017, respectively.

Permanently restricted net assets also include research endowment principal of \$240,000, which is held in perpetuity to generate earnings to support research expenditures.

**NOTE 10 ENDOWMENTS**

In 2013 and 2014, the Association received a bequest totaling \$6,276,315, establishing a term endowment according to designations made by the donor. The proceeds of this bequest are to be maintained by the Association in an endowment fund for a period of ten years. Earnings from the fund are restricted to support research and may be spent on a current basis. Upon expiration of the endowment term, the corpus of the fund must also be used to support research.

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**NOTE 10 ENDOWMENTS (CONTINUED)**

In addition, the Association has a permanent donor-restricted endowment fund. The principal of the endowment fund is to be held in perpetuity and the net earnings used to support research expenditures.

**Interpretation of Relevant Law**

The Board of Trustees of the Association have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Association classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds, if any, that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Association and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Association
- (7) The investment policies of the Association

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity. Under this policy approved by the Board of Trustees the endowment assets are invested in a manner with long-term orientation and without undue exposure to risk.

Over the long term, the Association expects to allow its endowment to grow annually, consistent with the Association's objectives to maintain the purchasing power of the endowment assets held in-perpetuity and to provide additional real growth through investment returns.

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**NOTE 10 ENDOWMENTS (CONTINUED)**

Endowment net asset composition by type and changes in endowment net assets for the years ended January 31 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Balance, January 31, 2016</b>	\$ (182,653)	\$ 6,276,315	\$ 240,000	\$ 6,333,662
Contribution		386,180		386,180
Total Investment Return	-	(203,527)	-	(203,527)
Appropriations	182,653	(182,653)	-	-
<b>Balance, January 31, 2017</b>	-	6,276,315	240,000	6,516,315
Total Investment Return	-	482,577	-	482,577
Appropriations	-	(482,577)	-	(482,577)
<b>Balance, January 31, 2018</b>	<u>\$ -</u>	<u>\$ 6,276,315</u>	<u>\$ 240,000</u>	<u>\$ 6,516,315</u>

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

**Research Grants**

The Association enters into conditional commitments semiannually to award scientific research grants. Research grants can be awarded either as a result of recommendations of the Scientific Review Committee which are approved by the Board of Trustees or by general authority through the research budget approved by the Board of Trustees. Subject to an annual review and re-approval process, these grants generally cover a period of one to three years.

Subject to the grantees' meeting the applicable terms and conditions timely, conditional grants awarded to date will become payable as follows:

<u>Year Ending January 31,</u>	<u>Amounts</u>
2019	\$ 10,542,605
2020	4,160,820
2021	1,550,854
2022	164,500
2023	56,000
<b>Total</b>	<u>\$ 16,474,779</u>

Except as previously provided for by restricted gifts, the Association's ability to meet these grant commitments may be dependent on future contributions to be received.

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**NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Leases**

The Association leases offices in Washington, D.C., South Carolina, Michigan, and New Hampshire under noncancellable operating leases expiring at various dates through 2022. The leases require monthly rental payments and contain certain escalation clauses. In addition, the Association pays a pro rata share of real estate taxes and other operating expenses.

The Association also leases certain office equipment under leases expiring at various dates through 2022.

Minimum rental payments are due under the office and equipment leases as follows:

<u>Year Ending January 31,</u>	<u>Amounts</u>
2019	\$ 733,374
2020	748,546
2021	96,530
2022	6,221
<b>Total</b>	<b>\$ 1,584,671</b>

Rent expense under office and equipment leases amounted to approximately \$752,000 and \$755,000 for the years ended January 31, 2018 and 2017, respectively.

**Purchase Commitments**

The Association has entered into various purchase agreements with a hotel for guest rooms relating to its annual conferences. Should the agreement be cancelled, the Association may be subject to cancellation fees contingent on the ability of the rooms to be resold. At January 31, 2018, the Association's maximum commitment for potential liquidated damages, assuming no rooms or convention space were resold, was approximately \$718,000. In addition, the Association entered into other noncancellable agreements for various services. The Association's maximum commitment for these services is approximately \$110,000 as of January 31, 2018.

**NOTE 12 EMPLOYEE BENEFIT PLAN**

The Association maintains a 401(k) defined contribution plan which is subject to limitations set forth by the Internal Revenue Code. The plan covers all employees who meet the requirements of the plan. The total expenses relating to the plan were approximately \$177,000 and \$182,000 for the years ended January 31, 2018 and 2017, respectively.