

THE ALS ASSOCIATION-TEXAS CHAPTER

FINANCIAL STATEMENTS
&
INDEPENDENT AUDITOR'S REPORT

JANUARY 31, 2018

THE ALS ASSOCIATION-TEXAS CHAPTER

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A Certified Public Accounting Firm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The ALS Association-Texas Chapter

We have audited the accompanying financial statements of The ALS Association-Texas Chapter (a nonprofit organization), which comprise the statement of financial position as of January 31, 2018, and the related statements of activities, functional expenses, 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 from 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 qualified audit opinion.

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence concerning the amount of durable medical equipment reported as assets at January 31, 2018, and of recognized revenue from donated durable medical equipment and contribution expense related to the contribution of such equipment to individuals during the year ended January 31, 2018, because sufficient controls were not exercised to track inflows and outflows of such equipment at various warehouse locations. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial

position of The ALS Association-Texas Chapter as of January 31, 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, net assets as of January 31, 2017, have been restated to recognize a prior-period adjustment. Our audit opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "CM Rosen, LLC". The signature is written in a cursive, flowing style.

Dallas, Texas
November 20, 2018

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STATEMENT OF FINANCIAL POSITION

(As of January 31, 2018)

ASSETS

Cash and cash equivalents	\$	884,658
Contributions receivable		66,160
Prepaid expenses		11,271
Durable medical equipment		3,880,601
Security deposits		<u>6,200</u>
Total assets		<u><u>4,848,890</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses		60,673
Revenue sharing due to National		114,433
Note payable, net		<u>189,430</u>
		364,536

NET ASSETS

Unrestricted		4,453,030
Temporarily restricted		<u>31,324</u>
		4,484,354
Total liabilities and net assets		<u><u>4,848,890</u></u>

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STATEMENT OF ACTIVITIES

(For the year ended January 31, 2018)

	Unrestricted	Temporarily Restricted	Total
REVENUES AND GAINS			
Fundraising events, net of benefits of \$117,878	\$ 1,467,731	\$ -	\$ 1,467,731
Donated durable medical equipment	1,354,956	-	1,354,956
General contributions	934,535	-	934,535
Merchandise sales	500	-	500
Net assets released from restrictions	4,479	(4,479)	-
Total revenues and gains	3,762,201	(4,479)	3,757,722
EXPENSES AND LOSSES			
Programs	2,134,636	-	2,134,636
Management and general	114,541	-	114,541
Fundraising	450,702	-	450,702
Total expenses and losses	2,699,879	-	2,699,879
CHANGES IN NET ASSETS	1,062,322	(4,479)	1,057,843
Net assets at beginning of year	846,485	-	846,485
Net assets at beginning of year, as restated	3,390,708	35,803	3,426,511
Net assets at end of year	<u>4,453,030</u>	<u>31,324</u>	<u>4,484,354</u>

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STATEMENT OF FUNCTIONAL EXPENSES

(For the year ended January 31, 2018)

	Programs	Management & General	Fundraising	Total
Employee compensation	\$ 889,775	\$ 64,514	\$ 270,205	\$ 1,224,494
Medical equipment provided to clients	479,354	-	-	479,354
Payments to National (incl. \$31,824 for research)	282,035	17,923	38,213	338,171
Office expenses	69,567	2,786	58,956	131,309
Occupancy	89,875	7,148	26,442	123,465
General grants and support	123,140	-	-	123,140
Cost of direct benefits to donors	-	-	117,878	117,878
Clinic support	92,000	-	-	92,000
Travel	59,407	2,819	14,619	76,845
Conferences and meetings	20,573	2,365	28,910	51,848
Contract service fees	18,268	6,750	3,628	28,646
Insurance	2,720	1,360	1,360	5,440
Advertising and promotion	216	4,252	324	4,792
Interest	-	4,479	-	4,479
Information technology	71	6	21	98
Other	7,635	139	8,024	15,798
	2,134,636	114,541	568,580	2,817,757
 <u>Less: Items included in revenue section</u>				
Cost of direct benefits to donors	-	-	(117,878)	(117,878)
Total expenses	2,134,636	114,541	450,702	2,699,879

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STATEMENT OF CASH FLOWS

(For the year ended January 31, 2018)

CASH FLOWS FROM OPERATING ACTIVITIES

RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS

Change in net assets	\$	1,057,843
Imputed interest expense		4,479
Changes in operating assets and liabilities, net		
Contributions receivable		(37,978)
Prepaid expenses		(1,330)
Durable medical equipment		(893,326)
Accounts payable and accrued expenses		22,747
Revenue sharing due to National		58,115
Net cash provided by (used in) operating activities		<u>210,550</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on note payable		<u>(15,000)</u>
Net cash provided by (used in) financing activities		(15,000)

INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS 195,550

Cash and cash equivalents, beginning of year	689,108
Cash and cash equivalents, end of year	<u><u>884,658</u></u>

SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid for interest, net of amounts capitalized of \$0	\$	4,479
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NOTES TO FINANCIAL STATEMENTS

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The ALS Association-Texas Chapter (the “Organization”) is a nonprofit corporation formed in 1994 and serves as the sole successor entity resulting from mergers among various regional chapters throughout the State of Texas. Its purpose is to discover treatments and a cure for ALS (amyotrophic lateral sclerosis, commonly known as “Lou Gehrig’s Disease”) and to serve, advocate for, and empower people affected by ALS to live their lives to the fullest. During the year ended January 31, 2018, this was fulfilled by funding ALS research, supporting local clinics, lending expensive medical equipment to patients free of charge, providing emotional support for patients, and continuing the perpetual campaign to educate the public and raise awareness about this horrible disease.

These activities were offered throughout the entire State of Texas and were supported mainly by contributions and fundraising events.

Chapter Relationship

The Organization is one of many geographically segregated chapters of The Amyotrophic Lateral Sclerosis Association (“National”) which are meant to help fulfill National’s mission at the local level. Various aspects of the Organization’s relationship with National are formally defined, including specifying in its articles of formation that any assets be provided to National upon dissolution, subject to certain restrictions.

The Organization’s bylaws and the Chapter Charter Agreement with National further define this relationship. Its purpose and activities are designed to be aligned with that of National, it adopted National’s bylaws in addition to its own, and it is required to devote all of its assets for National’s benefit. The Organization is awarded membership in National’s board of representatives which elects National’s board of trustees, and it can vote on matters requiring a member vote and can bring issues to the board of representatives. It also “piggy-backs” on National’s efforts, such as the recent fundraising campaign known as the Ice Bucket Challenge and National’s extensive research grant program, which the Organization is required to fund when incurring its own research grant expenses.

In accordance with the terms of this relationship, the Organization is required to share a calculated portion of its revenue with National. This “revenue sharing” is determined in two steps. First, the Organization’s gross revenue net of any contributions restricted for research (which are already required to be sent to National) and any contributions received from National is multiplied by 13.60%. The result is then reduced by 46.40% of the Organization’s contribution revenue restricted for research. This revenue sharing is calculated and paid quarterly.

Both parties have the right to terminate the arrangement with notice. Upon any termination of the Charter Agreement, the Organization is required to distribute its remaining assets to National, subject to certain restrictions, as if it had dissolved as mentioned above.

Tax-Exempt Status

The Organization has been determined by the Internal Revenue Service to be a Section 501(c)(3) charitable organization exempt from federal income taxes. Contributions to the Organization are

NOTES TO FINANCIAL STATEMENTS

considered tax-deductible under Section 170 of the Internal Revenue Code. The Organization did not have any unrelated business income for the year ended January 31, 2018.

Management has concluded that any tax positions which would not meet the more-likely-than-not criterion of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740-10, *Accounting for Income Taxes*, would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the operating statement or accrued in the statement of financial position. Federal and state tax returns of the Organization are generally open to examination by the relevant taxing authorities for a period of three years from the date on which the returns are filed.

Estimates

The accompanying financial statements have been prepared on the accrual basis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amount of assets, liabilities, and disclosures of contingencies at the date of the financial statements, and revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Net Asset Classifications

Net assets, revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Those that are not subject to donor-imposed stipulations. Board-designated items are considered part of this unrestricted classification.

Temporarily restricted – Those subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently restricted – Those subject to donor-imposed stipulations that they be maintained permanently by the Organization or, in the case of perpetual trusts, by third parties. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for program expenses.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Donor-imposed restrictions which are satisfied in the current period are reported as unrestricted revenue. The Organization does not imply a time restriction on the contribution of long-lived assets.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of three months or less at time of purchase.

Fixed Assets

Expenditures for fixed assets are capitalized if each recorded value exceeds \$5,000 and if each has an estimated useful life of greater than one year. They are recorded at cost, if purchased, or fair value on the date received, if donated. Depreciation is provided over their estimated useful lives on a straight-line basis for fixed assets held and used. Durable medical equipment is held specifically for disposal and is never placed in service by the Organization. Accordingly, such items are not depreciated, and no impairment was recognized during the year ended January 31, 2018.

Revenue Recognition

Contributions are recognized as revenue in the period made. Any donated services are recognized as revenue in the period in which they were performed if they either enhance the Organization's non-financial assets or if they require specialized skills, were performed by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Any recognized revenue is offset by a corresponding expense or asset. Values of donated materials which are sold at auction during fundraising events are adjusted to the amounts of the winning bids.

Functional Allocation of Expenses

The expenses related to providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the program and supporting services benefited.

Payments to National have been allocated based upon National's overall functional allocation percentages for the year ended January 31, 2018, as reflected on its recent audited financial statements.

Advertising Costs

The Organization's advertising costs, which totaled \$4,792 during the year ended January 31, 2018, are expensed as incurred.

2. CHANGE IN METHOD OF ACCOUNTING

The Organization changed its method of accounting for durable medical equipment which had been leased out to patients. Previously, such equipment remained on the statement of financial position as assets. However, it has been determined that expensing the equipment upon leasing is preferable because of the particular and unique circumstances of these leases. Due to the sensitive nature of the disease and the Organization's desire to respect patients and their privacy, there are no specified lease terms, there are no penalties for patients or their families who return damaged equipment or fail to return anything at all, and each piece of equipment is typically leased for the majority, if not all, of its useful life. The Organization believes that expensing the equipment more accurately matches the economic substance of these transactions. This accounting change requires a prior-period adjustment which has been entered to

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restate net assets at January 31, 2017, and the accompanying financial statements reflect this change. Ending unrestricted and temporarily restricted net assets at January 31, 2017, were under-stated by \$2,544,223 and \$35,803, respectively, for a total of \$2,580,026. The effect on the change in net assets for the year ended January 31, 2017, in class and in total was impracticable to determine.

3. CASH AND CASH EQUIVALENTS

The Organization maintains cash in bank accounts which, at times, may exceed federally insured limits. As of January 31, 2018, it had uninsured deposits totaling \$634,658.

4. CONTRIBUTIONS RECEIVABLE

At January 31, 2018, the Organization expected to collect its receivables in full. Accordingly, no allowance has been recognized. All amounts are expected to be collected within one year.

5. NOTE PAYABLE

The Organization received an unsecured, interest-free loan from National in August 2012 for \$295,149. Payments consisting of the greater of \$15,000 or 1% of annual fiscal-year revenues are payable by January 31st of each year until January 31, 2033, when the remaining principal must be repaid. Interest is imputed at a rate of 2.24% annually. As of January 31, 2018, the loan had a principal balance due of \$220,754 less a discount of \$31,324 for a net payable of \$189,430. Maturities for each of the subsequent five years and thereafter were as follows as of January 31, 2018:

2019	\$ 49,631
2020	15,000
2021	15,000
2022	15,000
2023	15,000
Thereafter	<u>111,123</u>
	220,754

Total interest of \$4,479 was incurred during the year ended January 31, 2018, and was entirely expensed.

6. NET ASSETS

Net assets at January 31, 2018, included amounts temporarily restricted by time totaling \$31,324, resulting from imputing interest in the note payable.

NOTES TO FINANCIAL STATEMENTS

7. IN-KIND CONTRIBUTIONS

The Organization received durable medical equipment valued at \$1,354,956 during the year ended January 31, 2018.

The Organization also benefited from services of many volunteers who assisted in delivering its programs and running fundraising events. These include vendors who received, stored, delivered, and maintained the durable medical equipment. The value of these services has been impracticable to determine, and they are not recognized in the accompanying financial statements because they do not meet the criteria for recognition.

8. JOINT COSTS

During the year ended January 31, 2018, the Organization incurred joint costs related to its walk programs. These walks did more than just solicit funds by providing a support network for patients suffering from ALS, connecting patients to care services, and educating participants by means of patient speakers, “Walk with a Doc” activities, and providing information on medical equipment and healthcare providers. Such costs have been allocated as follows:

Programs	\$	174,950
Fundraising		<u>262,426</u>
		437,376

9. LEASES

The Organization rents its four main office facilities as well as some insignificant temporary workspace and equipment via operating leases. Its Dallas office was subleased until November 2017, when a new location was subleased on a month-to-month basis. Its Houston lease has a term expiring in June 2021, and containing an option to renew for an additional five years at the then-market rate. Its Austin location is rented for a term which expired after year-end in March 2018, but was later renewed until December 2019. Its San Antonio location’s lease expires in May 2020.

A total of \$121,423 in rent expense related to all leases was recognized during the year ended January 31, 2018. Future minimum lease payments consisted of the following for the years ended January 31,

2019	\$	62,465
2020		57,532
2021		41,154
2022		13,768
2023		-
Thereafter		<u>-</u>
		174,919

NOTES TO FINANCIAL STATEMENTS

10. RELATED PARTY TRANSACTIONS

The Organization engaged in several transactions with National during the year ended January 31, 2018. Its revenue sharing totaled \$306,348, with \$114,233 reported as a liability at year-end. Research payments to National totaled \$31,824 during the year. Principal of \$15,000 on the Organization's note payable was paid, with \$235,754 remaining payable at year-end. Costs of \$41,151 for information technology and data processing and of \$5,440 for insurance were paid to National, with no amounts outstanding at year-end.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 20, 2018, which is the date on which the financial statements were available to be issued.