

**Alzheimer's Association –
Houston and Southeast Texas Chapter**

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2011 and 2010

Independent Auditors' Report

To the Board of Directors of
Alzheimer's Association – Houston and Southeast Texas Chapter:

We have audited the accompanying statements of financial position of Alzheimer's Association – Houston and Southeast Texas Chapter as of June 30, 2011 and 2010 and the related statements of activities, of cash flows, and of functional expenses for the years then ended. These financial statements are the responsibility of the management of Alzheimer's Association – Houston and Southeast Texas Chapter. 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 our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alzheimer's Association – Houston and Southeast Texas Chapter as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

September 19, 2011

Alzheimer's Association – Houston and Southeast Texas Chapter

Statements of Financial Position as of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$ 2,866,559	\$ 2,882,084
Grants receivable	12,030	3,470
Prepaid expenses and other assets	18,944	27,572
Investments (<i>Note 3</i>)	2,425,942	1,975,325
Property, net (<i>Note 4</i>)	<u>18,866</u>	<u>35,762</u>
 TOTAL ASSETS	 <u>\$ 5,342,341</u>	 <u>\$ 4,924,213</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 10,940	\$ 20,315
Accrued expenses	57,572	47,940
Due to National Association	23,439	18,451
Funds held for others (<i>Note 5</i>)	<u>11,799</u>	<u>13,672</u>
Total liabilities	<u>103,750</u>	<u>100,378</u>
Net assets:		
Unrestricted (<i>Note 6</i>)	4,885,735	4,680,568
Temporarily restricted (<i>Note 7</i>)	<u>352,856</u>	<u>143,267</u>
Total net assets	<u>5,238,591</u>	<u>4,823,835</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,342,341</u>	 <u>\$ 4,924,213</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Statement of Activities for the year ended June 30, 2011

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 296,518	\$ 344,604	\$ 641,122
Fundraising events	1,028,893	185,589	1,214,482
Direct donor benefit costs	(38,843)		(38,843)
Program revenue	220,488		220,488
Investment return (Note 3)	416,278		416,278
Other revenue	<u>2,248</u>		<u>2,248</u>
Total revenue	1,925,582	530,193	2,455,775
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>320,604</u>	<u>(320,604)</u>	
Total	<u>2,246,186</u>	<u>209,589</u>	<u>2,455,775</u>
EXPENSES:			
Program services	1,591,749		1,591,749
Management and general	129,869		129,869
Fundraising	<u>319,401</u>		<u>319,401</u>
Total expenses	<u>2,041,019</u>		<u>2,041,019</u>
CHANGES IN NET ASSETS	205,167	209,589	414,756
Net assets, beginning of year	<u>4,680,568</u>	<u>143,267</u>	<u>4,823,835</u>
Net assets, end of year	<u>\$ 4,885,735</u>	<u>\$ 352,856</u>	<u>\$ 5,238,591</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Statement of Activities for the year ended June 30, 2010

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 486,039	\$ 339,193	\$ 825,232
Fundraising events	1,127,676		1,127,676
Direct donor benefit costs	(47,345)		(47,345)
Program revenue	206,008		206,008
Investment return <i>(Note 3)</i>	(18,207)		(18,207)
Other revenue	<u>1,799</u>		<u>1,799</u>
Total revenue	1,755,970	339,193	2,095,163
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>348,276</u>	<u>(348,276)</u>	
Total	<u>2,104,246</u>	<u>(9,083)</u>	<u>2,095,163</u>
EXPENSES:			
Program services	1,316,782		1,316,782
Management and general	145,995		145,995
Fundraising	<u>251,273</u>		<u>251,273</u>
Total expenses	<u>1,714,050</u>		<u>1,714,050</u>
CHANGES IN NET ASSETS	390,196	(9,083)	381,113
Net assets, beginning of year	<u>4,290,372</u>	<u>152,350</u>	<u>4,442,722</u>
Net assets, end of year	<u>\$ 4,680,568</u>	<u>\$ 143,267</u>	<u>\$ 4,823,835</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Statements of Cash Flows for the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 414,756	\$ 381,113
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	18,060	22,396
Net realized and unrealized (gain) loss on investments	(371,416)	36,237
Contributed securities	(11,622)	
Changes in operating assets and liabilities:		
Grants receivable	(8,560)	5,870
Prepaid expenses and other assets	8,628	2,368
Due from National Association		19,328
Accounts payable	(9,375)	(95,723)
Accrued expenses	9,632	(24,481)
Due to National Association	4,988	18,451
Funds held for others	<u>(1,873)</u>	<u>1,873</u>
Net cash provided by operating activities	<u>53,218</u>	<u>367,432</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities	(441,307)	(1,982,752)
Proceeds from sale of securities	389,697	
Change in money market mutual funds held for investment	(15,969)	(28,810)
Purchase of property	<u>(1,164)</u>	<u>(5,431)</u>
Net cash used by investing activities	<u>(68,743)</u>	<u>(2,016,993)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(15,525)	(1,649,561)
Cash and cash equivalents, beginning of year	<u>2,882,084</u>	<u>4,531,645</u>
Cash and cash equivalents, end of year	<u>\$ 2,866,559</u>	<u>\$ 2,882,084</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Statement of Functional Expenses for the year ended June 30, 2011

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related taxes and benefits	\$1,119,097	\$ 83,243	\$ 109,292	\$1,311,632
General and event supplies	66,220	1,670	107,946	175,836
Advertising	137,350	6,682	11,165	155,197
Occupancy	108,143	11,364	8,180	127,687
Printing and copying	29,525	736	25,471	55,732
Contract and temporary labor	27,681	16,768	2,777	47,226
Conferences and travel	31,701	1,983	12,274	45,958
Bank and credit card fees	1,128	132	24,437	25,697
Postage and delivery	10,794	1,300	9,724	21,818
Equipment costs	15,835	1,559	2,047	19,441
Insurance	14,386	1,416	2,680	18,482
Telephone	15,405	1,315	1,533	18,253
Depreciation	<u>14,484</u>	<u>1,701</u>	<u>1,875</u>	<u>18,060</u>
Total expenses	<u>\$1,591,749</u>	<u>\$ 129,869</u>	<u>\$ 319,401</u>	2,041,019
Direct donor benefit costs				38,843
Custodial and investment advisory fees				<u>12,243</u>
Total				<u>\$2,092,105</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Statement of Functional Expenses for the year ended June 30, 2010

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related taxes and benefits	\$ 927,096	\$ 94,674	\$ 91,478	\$1,113,248
General and event supplies	33,910	1,766	51,049	86,725
Advertising	127,031	5,538	19,889	152,458
Occupancy	107,735	13,240	7,566	128,541
Printing and copying	9,879	29	26,951	36,859
Contract and temporary labor	19,175	21,202	4,233	44,610
Conferences and travel	25,966	1,886	9,457	37,309
Bank and credit card fees	557	70	22,246	22,873
Postage and delivery	10,873	1,381	11,232	23,486
Equipment costs	11,342	1,408	1,361	14,111
Insurance	8,887	1,116	2,411	12,414
Telephone	16,370	1,430	1,220	19,020
Depreciation	<u>17,961</u>	<u>2,255</u>	<u>2,180</u>	<u>22,396</u>
Total expenses	<u>\$1,316,782</u>	<u>\$ 145,995</u>	<u>\$ 251,273</u>	1,714,050
Direct donor benefit costs				<u>47,345</u>
Total				<u>\$1,761,395</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Notes to Financial Statements for the years ended June 30, 2011 and 2010

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Alzheimer's Disease and Related Disorders Association of Houston, which conducts business under the name Alzheimer's Association – Houston and Southeast Texas Chapter (the Association), was founded in November 1980 as a Texas nonprofit corporation for the purpose of providing advice, support, and services for those afflicted with Alzheimer's and related organic brain diseases and their families. The Association also provides education and information for lay and professional people, publicizes the social needs of afflicted people, and encourages and supports research into causes, improved diagnoses, therapies, and cures for Alzheimer's and related brain diseases. The Association provides services within a 37-county area in Southeast Texas.

The Association is a chapter of The Alzheimer's Disease and Related Disorders Association, a Delaware nonprofit corporation (the National Association). The Association has a revenue sharing arrangement with the National Association in which a portion (40% in 2011 and 37% in 2010) of all unrestricted contributions raised by the Association are remitted to the National Association and a portion (60% in 2011 and 63% in 2010) of all contributions raised by the National Association in the Association's service area are remitted by the National Association to the Association. The National Association provides administrative, fundraising, and programming support to the local chapters at no additional cost.

Federal income tax status – The Association is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1).

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Cash equivalents include highly liquid investments with original maturities of three months or less.

Investments are reported at fair value. Investment return is reported in the statement of activities as an increase or decrease in unrestricted net assets unless use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by a donor is reported as an increase or decrease in temporarily restricted net assets.

Property is reported at cost, if purchased, or at fair value at the date of gift, if donated. The Association capitalizes property acquisitions which have a cost or fair value of \$1,000 or greater and an estimated useful life of more than one year. Depreciation is calculated using the straight-line method over estimated useful lives of 3 to 8 years.

Contributions are recognized as revenue when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit the use of the donated assets are recorded as restricted support.

Non-cash contributions – Donated assets, materials, and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recorded as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Program revenue is recognized when the related services are provided.

Advertising costs are expensed as incurred.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2011</u>	<u>2010</u>
Money market mutual funds	\$ 2,000,187	\$ 2,242,217
Demand deposits	<u>866,372</u>	<u>639,867</u>
Total cash and cash equivalents	<u>\$ 2,866,559</u>	<u>\$ 2,882,084</u>

Bank deposits exceed the federally insured limit per depositor per institution.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly

transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2011 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap	\$ 961,453			\$ 961,453
Mid-cap	319,306			319,306
Small-cap	143,648			143,648
Foreign emerging markets	96,268			96,268
Foreign large blend	81,110			81,110
Fixed income mutual funds	767,756			767,756
Money market mutual funds	44,779			44,779
Large growth equity securities	<u>11,622</u>			<u>11,622</u>
Total investments	2,425,942			2,425,942
Cash and cash equivalents:				
Money market mutual funds	<u>2,000,187</u>			<u>2,000,187</u>
Total assets measured at fair value	<u>\$ 4,426,129</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,426,129</u>

Assets measured at fair value at June 30, 2010 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap	\$ 564,348			\$ 564,348
Mid-cap	216,502			216,502
Small-cap	163,743			163,743
Foreign emerging markets	62,114			62,114
Foreign large blend	49,708			49,708
Fixed income mutual funds	890,100			890,100
Money market mutual funds	<u>28,810</u>			<u>28,810</u>
Total investments	1,975,325			1,975,325
Cash and cash equivalents:				
Money market mutual funds	<u>2,242,217</u>			<u>2,242,217</u>
Total assets measured at fair value	<u>\$ 4,217,542</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,217,542</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value.
- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities. The Board of Directors monitors the performance of the investment portfolio and, at the recommendation of the investment manager, may approve modifications to the targeted allocations.

Investment return includes earnings on cash and cash equivalents and consists of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 57,105	\$ 18,030
Net realized and unrealized gain (loss) on investments	371,416	(36,237)
Custodial and investment advisory fees	<u>(12,243)</u>	<u> </u>
Total investment return	<u>\$ 416,278</u>	<u>\$ (18,207)</u>

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2011</u>	<u>2010</u>
Office furniture and equipment	\$ 118,049	\$ 116,885
Leasehold improvements	<u>50,629</u>	<u>50,629</u>
Total property	168,678	167,514
Accumulated depreciation	<u>(149,812)</u>	<u>(131,752)</u>
Property, net	<u>\$ 18,866</u>	<u>\$ 35,762</u>

NOTE 5 – FUNDS HELD FOR OTHERS

The Association is a member of the Alzheimer’s Association Coalition of Texas (AACT), an unincorporated organization whose purpose is to influence public policy related to Alzheimer’s disease and related disorders. The Association acts as fiscal agent for AACT by holding funds on behalf of AACT and disbursing from those funds at the direction of AACT. The amount held by the Association on behalf of AACT is included in the Association’s cash and cash equivalents.

NOTE 6 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2011</u>	<u>2010</u>
Undesignated	\$ 4,427,390	\$ 4,074,483
Designated for AWARE projects	168,564	321,631
Designated for Hildebrand Endowment	<u>284,454</u>	<u>284,454</u>
Total unrestricted net assets	<u>\$ 4,880,408</u>	<u>\$ 4,680,568</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
AWARE – Houston programs	\$ 185,589	
Schlichting Study Project	91,015	\$ 91,015
Schlichting Educational Conference Fund	40,603	46,603
Safety Services	30,000	
Volunteer Respite Aid Services	4,116	4,116
Other	<u>1,533</u>	<u>1,533</u>
Total temporarily restricted net assets	<u>\$ 352,856</u>	<u>\$ 143,267</u>

NOTE 8 – LEASE COMMITMENTS

The Association leases office space and certain office equipment under noncancelable operating leases. Lease expense was approximately \$111,000 in 2011 and \$99,700 in 2010. Minimum lease commitments are due as follows:

2012	\$ 105,385
2013	109,722
2014	<u>83,636</u>
Total	<u>\$ 298,743</u>

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 19, 2011, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.