

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ALZHEIMER'S ASSOCIATION
JUNE 30, 2012 AND 2011**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Alzheimer's Association

We have audited the accompanying consolidated statements of financial position of Alzheimer's Association and affiliates (together, the Association) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Alzheimer's Association as of June 30, 2012 and 2011, 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Chicago, Illinois
October 12, 2012

Grant Thornton LLP
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Alzheimer's Association
STATEMENTS OF FINANCIAL POSITION
June 30,
(In thousands)

ASSETS	<u>2012</u>	<u>2011</u>
Cash	\$ 12,462	\$ 10,709
Pledges receivable, net	17,180	17,100
Receivables - Chapters, net	15,293	18,252
Other receivables	1,369	4,455
Notes receivable	493	-
Inventories of education materials, at cost	328	135
Investments	54,744	55,910
Prepaid expenses	6,121	4,138
Assets held in trust	133	115
Furniture, equipment and leasehold improvements, net	3,481	3,242
Beneficial interest in split-interest agreements	1,285	1,440
Beneficial interest in perpetual trusts	10,591	10,799
	<u>10,591</u>	<u>10,799</u>
TOTAL ASSETS	<u><u>\$ 123,480</u></u>	<u><u>\$ 126,295</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 1,149	\$ 1,091
Grants payable, net	22,526	27,150
Deferred compensation payable	1,417	1,007
Accrued expenses	5,783	5,651
Accounts payable - Chapters	12,201	11,713
Gift annuity obligations	4,478	4,735
Deferred revenue	2,480	3,996
Deferred rent	2,088	2,332
	<u>2,088</u>	<u>2,332</u>
Total liabilities	52,122	57,675
Net assets		
Unrestricted	27,311	32,643
Temporarily restricted	21,876	13,922
Permanently restricted	22,171	22,055
	<u>22,171</u>	<u>22,055</u>
Total net assets	<u>71,358</u>	<u>68,620</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 123,480</u></u>	<u><u>\$ 126,295</u></u>

The accompanying notes are an integral part of these statements.

Alzheimer's Association
STATEMENT OF ACTIVITIES
Year ended June 30, 2012, with comparative totals for 2011
(In thousands)

	2012			Total	2011 total*
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues, gains and other support					
Contributions	\$ 63,964	\$ 23,310	\$ 324	\$ 87,598	\$ 83,176
Less contributions remitted to Chapters	(32,442)	-	-	(32,442)	(33,712)
Add amounts received from Chapters under shared fundraising	38,868	-	-	38,868	37,979
Net contribution revenues	70,390	23,310	324	94,024	87,443
Book sales and other	14,071	-	-	14,071	9,112
Dividends and interest	1,470	571	-	2,041	2,153
Net assets released from restrictions	15,909	(15,909)	-	-	-
Total revenues, gains and other support	101,840	7,972	324	110,136	98,708
Expenses					
Program services					
Research	29,029	-	-	29,029	24,950
Public awareness and education	24,130	-	-	24,130	21,460
Chapter services	10,833	-	-	10,833	9,160
Public policy	5,811	-	-	5,811	4,735
Family and healthcare professional services	10,941	-	-	10,941	10,732
Total program services	80,744	-	-	80,744	71,037
Supporting services					
Management and general	6,181	-	-	6,181	5,703
Fundraising	18,836	-	-	18,836	19,743
Total supporting services	25,017	-	-	25,017	25,446
Total expenses	105,761	-	-	105,761	96,483
(Deficiency) excess from operations	(3,921)	7,972	324	4,375	2,225
Other changes in net assets					
Net realized and unrealized (losses) gains in value of investments	(809)	(103)	-	(912)	8,276
Change in value of split-interest agreements	(279)	(301)	-	(580)	(395)
Change in value of perpetual trust	-	-	(208)	(208)	1,800
Acquisition of dissolved chapters	45	436	-	481	8
Bad debt expense	(961)	(50)	-	(1,011)	(1,013)
Transfer in of net assets from AIM and AIMPAC	593	-	-	593	-
Total other changes in net assets	(1,411)	(18)	(208)	(1,637)	8,676
CHANGE IN NET ASSETS	(5,332)	7,954	116	2,738	10,901
Net assets at beginning of year	32,643	13,922	22,055	68,620	57,719
Net assets at end of year	<u>\$ 27,311</u>	<u>\$ 21,876</u>	<u>\$ 22,171</u>	<u>\$ 71,358</u>	<u>\$ 68,620</u>

*See complete 2011 statement of activities on page 6.

The accompanying notes are an integral part of this statement.

Alzheimer's Association
STATEMENT OF ACTIVITIES
Year ended June 30, 2011
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Contributions	\$ 67,386	\$ 15,693	\$ 97	\$ 83,176
Less contributions remitted to Chapters	(33,712)	-	-	(33,712)
Add amounts received from Chapters under shared fundraising	37,979	-	-	37,979
Net contribution revenues	71,653	15,693	97	87,443
Book sales and other	9,112	-	-	9,112
Dividends and interest	1,944	209	-	2,153
Net assets released from restrictions	15,819	(15,819)	-	-
Total revenues, gains and other support	98,528	83	97	98,708
Expenses				
Program services				
Research	24,950	-	-	24,950
Public awareness and education	21,460	-	-	21,460
Chapter services	9,160	-	-	9,160
Public policy	4,735	-	-	4,735
Family and healthcare professional services	10,732	-	-	10,732
Total program services	71,037	-	-	71,037
Supporting services				
Management and general	5,703	-	-	5,703
Fundraising	19,743	-	-	19,743
Total supporting services	25,446	-	-	25,446
Total expenses	96,483	-	-	96,483
Excess from operations	2,045	83	97	2,225
Other changes in net assets				
Net realized and unrealized gains in value of investments	7,369	907	-	8,276
Change in value of split-interest agreements	(201)	(194)	-	(395)
Change in value of perpetual trust	-	-	1,800	1,800
Acquisition of dissolved chapters	8	-	-	8
Bad debt expense	(855)	(158)	-	(1,013)
Total other changes in net assets	6,321	555	1,800	8,676
CHANGE IN NET ASSETS	8,366	638	1,897	10,901
Net assets at beginning of year	24,277	13,284	20,158	57,719
Net assets at end of year	<u>\$ 32,643</u>	<u>\$ 13,922</u>	<u>\$ 22,055</u>	<u>\$ 68,620</u>

The accompanying notes are an integral part of this statement.

Alzheimer's Association
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2012
(In thousands)

	Program services					Supporting services			Total all expenses	
	Research	Public awareness and education	Chapter services	Public policy	Family and healthcare professional services	Total	Management and general	Fundraising		Total
Salaries and related benefits	\$ 3,615	\$ 3,618	\$ 7,093	\$ 2,734	\$ 6,431	\$ 23,491	\$ 1,713	\$ 6,353	\$ 8,066	\$ 31,557
Grants	12,055	12	387	593	447	13,494	-	-	-	13,494
Professional fees and consultants	1,809	766	664	975	1,040	5,254	501	4,355	4,856	10,110
Telephone, postage and supplies	385	3,625	287	158	370	4,825	1,654	1,435	3,089	7,914
Occupancy	1,453	580	499	349	1,465	4,346	59	356	415	4,761
Conferences and meetings	2,823	455	1,188	635	549	5,650	39	1,206	1,245	6,895
Printing and publications	1,375	14,950	493	259	332	17,409	1,778	3,968	5,746	23,155
Miscellaneous	5,468	50	44	48	128	5,738	353	988	1,341	7,079
Total expenses before depreciation	28,983	24,056	10,655	5,751	10,762	80,207	6,097	18,661	24,758	104,965
Depreciation of furniture, equipment and leasehold improvements	46	74	178	60	179	537	84	175	259	796
Total expenses	<u>\$ 29,029</u>	<u>\$ 24,130</u>	<u>\$ 10,833</u>	<u>\$ 5,811</u>	<u>\$ 10,941</u>	<u>\$ 80,744</u>	<u>\$ 6,181</u>	<u>\$ 18,836</u>	<u>\$ 25,017</u>	<u>\$ 105,761</u>

The accompanying notes are an integral part of this statement.

Alzheimer's Association
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2011
(In thousands)

	Program services					Supporting services			Total all expenses	
	Research	Public awareness and education	Chapter services	Public policy	Family and healthcare professional services	Total	Management and general	Fundraising		Total
Salaries and related benefits	\$ 3,099	\$ 3,282	\$ 5,174	\$ 186	\$ 5,710	\$ 17,451	\$ 1,622	\$ 6,806	\$ 8,428	\$ 25,879
Grants	12,371	-	602	4,236	323	17,532	-	-	-	17,532
Professional fees and consultants	1,858	822	1,078	57	1,363	5,178	506	5,578	6,084	11,262
Telephone, postage and supplies	226	3,187	219	16	872	4,520	1,307	1,272	2,579	7,099
Occupancy	291	431	563	73	825	2,183	45	291	336	2,519
Conferences and meetings	2,055	561	1,042	62	574	4,294	32	985	1,017	5,311
Printing and publications	1,242	13,090	294	17	723	15,366	1,820	3,895	5,715	21,081
Miscellaneous	3,728	51	164	6	102	4,051	284	680	964	5,015
Total expenses before depreciation	24,870	21,424	9,136	4,653	10,492	70,575	5,616	19,507	25,123	95,698
Depreciation of furniture, equipment and leasehold improvements	80	36	24	82	240	462	87	236	323	785
Total expenses	<u>\$ 24,950</u>	<u>\$ 21,460</u>	<u>\$ 9,160</u>	<u>\$ 4,735</u>	<u>\$ 10,732</u>	<u>\$ 71,037</u>	<u>\$ 5,703</u>	<u>\$ 19,743</u>	<u>\$ 25,446</u>	<u>\$ 96,483</u>

The accompanying notes are an integral part of this statement.

Alzheimer's Association
STATEMENTS OF CASH FLOWS
Years ended June 30,
(In thousands)

	<u>2012</u>	<u>2011</u>
Reconciliation of change in net assets to net cash		
provided by (used in) operating activities		
Change in net assets	\$ 2,738	\$ 10,901
Adjustments to reconcile change in net assets to net cash (used in)		
provided by operating activities		
Depreciation	796	785
Net realized and unrealized losses (gains) in value of investments	912	(8,276)
Decrease (increase) in pledges, chapter receivables, other receivables		
and notes receivable	5,472	(6,797)
Increase in inventories and prepaid expenses	(2,176)	(2,414)
Decrease in payables, accrued expenses and chapter obligations	(3,536)	(2,533)
(Decrease) increase in deferred revenue	(1,516)	1,719
Decrease in deferred rent	(244)	(159)
Decrease (increase) in beneficial interest in split-interest agreements	155	(150)
Change in value of perpetual trusts	208	(1,800)
Decrease in gift annuity obligations	(257)	(57)
Contributions restricted for long-term investment	(324)	(97)
Net cash provided by (used in) operating activities	2,228	(8,878)
Cash flows from investing activities		
Purchase of equipment	(1,035)	(650)
Proceeds from sale of investments	53,520	33,738
Purchases of investments	(53,648)	(26,474)
Net cash (used in) provided by investing activities	(1,163)	6,614
Cash flows from financing activities		
Proceeds from contributions restricted for		
Long-term investment	324	97
Investment subject to annuity agreement	838	865
	1,162	962
Other financing activities		
Payment of annuity obligations	(474)	(792)
Net cash provided by financing activities	688	170
NET CHANGE IN CASH	1,753	(2,094)
Cash at beginning of year	10,709	12,803
Cash at end of year	<u>\$ 12,462</u>	<u>\$ 10,709</u>

The accompanying notes are an integral part of these statements.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE A - ORGANIZATION AND BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Alzheimer's Association, Alzheimer's Impact Movement (AIM) and Alzheimer's Impact Movement Political Action Committee (AIMPAC) (together, the Association). AIM and AIMPAC became controlled entities in fiscal year 2012 and their activity is included only in the fiscal year 2012 results. All significant intercompany balances and transactions have been eliminated in consolidation.

The Alzheimer's Association, incorporated as the Alzheimer's Disease and Related Disorders Association, Inc., is a not-for-profit, tax-exempt organization dedicated to achieving its mission: to eliminate Alzheimer's disease through the advancement of research, to provide and enhance care and support for all affected, and to reduce the risk of dementia through the promotion of brain health. The Association's mission is carried out through research, education, public awareness, advocacy, programs and services. The Association's primary sources of revenue and support are contributions from the public, corporations and foundations.

AIM is a not-for-profit organization dedicated to promote public policies to eliminate Alzheimer's disease and related dementias through the advancement of research, enhanced care and support for all affected, and the promotion of brain health.

AIMPAC is a voluntary, non-partisan political action committee to support and elect federal congressional candidates who are committed to ending Alzheimer's disease in our lifetimes. AIMPAC, the political arm of AIM, is integral in educating members of Congress about critical Alzheimer's issues in support of the policy priorities of the Alzheimer's Association; to fight for a better life for the millions of Americans who live with Alzheimer's; and to ensure the voice of the Alzheimer's community is heard in the halls of Congress.

In addition, the Association oversees the operations and activities for 11 chapters to facilitate strategic alignment, delivery on the overarching Association-wide strategic objectives and priority activities, and to ensure coverage for all geographic territories. Their activity is included in the financial statements and consists of incremental revenues of \$3.2 million and expenses of \$2.9 million as of June 30, 2012, and revenues of \$1.2 million and expenses of \$1.5 million as of June 30, 2011.

There were 70 local chapters supported by the Association as of June 30, 2012. The accounts and operations of the local chapters are appropriately not included in the Association's consolidated financial statements. Two chapters dissolved and/or disaffiliated from the Association during the year ended June 30, 2012. One chapter dissolved during the year ended June 30, 2011.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions and Presentation

All contributions are considered available for the general programs of the Association unless specifically restricted by the donor. The Association reports monetary gifts as temporarily restricted support if they are received with donor stipulations that limit the use of donated assets or are subject to time or legal restriction. A donor restriction expires when a stipulated time or legal restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

For discounting purposes, pledges receivable are classified as either collectible in one year or less or collectible in multiple years. Those receivables deemed collectible in one year or less are stated at their full face value. Those classified as multi-year pledges are stated at their net present value, using a risk-adjusted discount rate.

Permanently restricted net assets are those assets for which donors require the principal of the gift to be maintained in perpetuity.

Under the Shared Fundraising (SFR) policy, the Association and chapters share all unrestricted contributed revenue received by either party from the chapter's geographical area based on a predetermined sharing percentage. The amount due from the chapters under SFR is reported as Receivables - Chapters. The amount due to the chapters under SFR is reported as Accounts Payable - Chapters.

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 the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Allowances for Uncollectible Amounts

The Association evaluates the collectability of its chapter receivables and pledges receivable based on the length of time the receivable is outstanding, historical experience, and an assessment of business and economic conditions. The receivables are charged to the allowance for uncollectible amounts when they are deemed uncollectible.

Fair Value of Financial Instruments

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, establish a fair value hierarchy based on the inputs used to measure fair value and specify disclosure requirements for fair value measurements. Furthermore, the Association maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but that are traded less frequently and investments that are fairly valued using other securities, the parameters of which can be directly observed.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

Level 3 - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Association. The Association considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

Valuation of Investments and Financial Instruments

Investments with values that are based on quoted market prices in active markets and are, therefore, classified within Level 1, include active listed equities. The Association does not adjust the quoted price for such instruments, even in situations where the Association holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but that are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. Level 2 investments include U.S. Government agency securities.

Investments and financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The valuation of the beneficial interest in the split-interest agreements and perpetual trusts falls under Level 3, as there are no significant observable inputs. The trust valuations are based on assumptions about the present value of distributions to be received from the trusts.

The inputs used by the Association in estimating the Level 3 beneficial interests in split-interest agreements and perpetual trusts include mark-to-market adjustments, annuitant life expectancy and future asset growth. Assumptions used by the Association due to the lack of observable inputs may significantly impact the resulting fair value of the investments and beneficial interest in the split-interest agreements and beneficial trusts and, therefore, the Association's results of operations.

Assets Held in Trust

Investments held in trust are carried at fair value. The investments represent contributions to 457(b) plans for the president and vice presidents. See note G for additional information about the terms of these plans.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost. Depreciation on furniture and equipment is provided on a straight-line basis over the estimated useful lives (three to seven years) of the assets. Amortization of leasehold improvements is provided on a straight-line basis over the remaining life of the lease (up to 15 years).

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

Notes Receivable

Credit is extended to chapters for loans receivable based on evaluation of the chapters' financial condition and collateral is not required. Loans receivable are stated at amounts due. The Association evaluates the collectability of its loans receivable based on the length of time the receivable is outstanding and an assessment of business and economic conditions. Accounts outstanding longer than the contractual payment terms are considered past due. The Association maintained no past due loans receivable for the year ended June 30, 2012. The Association did not record an allowance for doubtful accounts based on an assessment of the nature of the loans receivable.

Grants Payable

The Association awards research grants generally covering a period of one to three years. Grant expense is recorded as an unconditional promise to give upon approval of the grant.

Deferred Revenue

Registration fees received for conferences to be held in a subsequent period are recognized as deferred revenue. These fees are recorded as unrestricted revenues in the period in which the conference is held.

Advertising Expense

Advertising expense is recorded in the period in which the advertising first takes place. Advertising expense was approximately \$10,355,000 and \$8,273,000 for the years ended June 30, 2012 and 2011, respectively.

Income Taxes

The Alzheimer's Association and AIM have received favorable determination letters from the Internal Revenue Service, stating that they are exempt from federal income taxes under the provisions of 501(c)(3) and 501(c)(4) of the Internal Revenue Code of 1986 (IRC), except for income taxes pertaining to unrelated business income. AIMPAC is a political action committee organization exempt from federal taxes under Section 57 of the IRC. The Financial Accounting Standards Board issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain positions that require recognition in the financial statements. Additionally, no provision for income taxes is reflected in these financial statements. There are no interest or penalties recognized in the statement of activities or statement of position. The tax years ending 2008, 2009, and 2010 are still open to audit for both federal and state purposes.

Reclassifications

Certain classifications from 2011 have been changed to conform to the 2012 presentation.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE C - PLEDGES RECEIVABLE

Pledges receivable, net of estimated uncollectible amounts and discounted to present value, are due to be collected as follows at June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Less than one year	\$13,112	\$11,630
One to five years	<u>4,985</u>	<u>6,339</u>
	18,097	17,969
Less		
Unamortized discount	(429)	(600)
Allowance for uncollectible amounts	<u>(488)</u>	<u>(269)</u>
	<u>\$17,180</u>	<u>\$17,100</u>

As of June 30, 2012, discount rates on pledges receivable ranged from 2.96% to 5.15%.

NOTE D - INVESTMENTS

The fair value of investments is as follows at June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Short-term reserves and cash	\$ 114	\$ 173
Fixed income funds	25,769	22,967
Equities funds	27,296	31,292
U.S. Government agency securities	<u>1,565</u>	<u>1,478</u>
	<u>\$54,744</u>	<u>\$55,910</u>

Investment fees incurred totaled approximately \$97,000 and \$95,000 at June 30, 2012 and 2011, respectively, which were netted with dividends and interest income.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE E - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarize assets by fair value hierarchy levels as of June 30 (in thousands):

	2012			Total
	Level 1	Level 2	Level 3	
Fixed income funds	\$25,769	\$ -	\$ -	\$25,769
Equities funds	27,296	-	-	27,296
U.S. Government agency securities	-	1,565	-	1,565
Beneficial interest in split-interest agreements	-	-	1,285	1,285
Beneficial interest in perpetual trust	-	-	<u>10,591</u>	<u>10,591</u>
	<u>\$53,065</u>	<u>\$1,565</u>	<u>\$11,876</u>	<u>\$66,506</u>

	2011			Total
	Level 1	Level 2	Level 3	
Fixed income funds	\$22,967	\$ -	\$ -	\$22,967
Equities funds	31,292	-	-	31,292
U.S. Government agency securities	-	1,478	-	1,478
Beneficial interest in split-interest agreements	-	-	1,440	1,440
Beneficial interest in perpetual trust	-	-	<u>10,799</u>	<u>10,799</u>
	<u>\$54,259</u>	<u>\$1,478</u>	<u>\$12,239</u>	<u>\$67,976</u>

The following table summarizes the changes in fair values associated with Level 3 assets (in thousands):

	Beneficial interest in split-interests agreements	Beneficial interest in perpetual trust	Total
Balance, June 30, 2010	\$1,290	\$ 8,999	\$10,289
Additions	73	-	73
Unrealized gain	100	1,800	1,900
Payments received	<u>(23)</u>	<u>-</u>	<u>(23)</u>
Balance, June 30, 2011	1,440	10,799	12,239
Additions	32	-	32
Unrealized loss	(5)	(208)	(213)
Payments received	<u>(182)</u>	<u>-</u>	<u>(182)</u>
Balance, June 30, 2012	<u>\$1,285</u>	<u>\$10,591</u>	<u>\$11,876</u>

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying statements of activities. Net unrealized gains (losses) relate to those investments held by the Association at year-end.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE F - NOTES RECEIVABLE

The Association issued two loans receivable for \$400,000 and \$50,000 to the San Diego Alzheimer's Chapter and Western and Central Washington State Alzheimer's Chapter, respectively, during the year. The loans are interest free. Principal payments of \$11,000 are due monthly through June 2015 from the San Diego Alzheimer's Chapter. Principal payments of \$2,400 are due monthly October 2012 through December 2013 from the Western and Central Washington State Alzheimer's Chapter with a final balloon payment of \$14,000 due December 31, 2013.

In addition, the Association received a note receivable from a donor during the year. The note has a face value of \$44,000. Using a discount rate of 3.16%, the note receivable is shown at a net value of \$43,000. Interest-only monthly payments of \$200 are due from July 2012 through June 2014, with a final balloon payment of \$38,000 due June 30, 2014.

Payments on notes receivable are due as follows (in thousands):

Years ending June 30,

2013	\$157
2014	204
2015	<u>133</u>
	494
Less unamortized discount	<u>(1)</u>
Total	<u>\$493</u>

NOTE G - DEFERRED COMPENSATION

Effective September 2006, a deferred compensation agreement was entered into with the Association's current Chief Executive Officer. The contract was revised in September 2008. Under the current agreement, the Association provides for deferred compensation of \$225,000 per year. The amount of \$225,000 due under the agreement was accrued and included in deferred compensation payable at June 30, 2012 and 2011.

The Association maintains deferred compensation plans for key employees, which provide that a certain percentage of the key employee's salary be accrued for the benefit of the participant. These plans are provided for currently. The amounts of \$133,000 and \$115,000 due under the agreement were accrued and included in deferred compensation payable at June 30, 2012 and 2011, respectively, and the related investments are included in assets held in trust on the consolidated statements of financial position.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

Deferred compensation payables are \$1,417,000 and \$1,007,000 at June 30, 2012 and 2011, respectively, as follows (in thousands):

	<u>2012</u>	<u>2011</u>
457(f) plan	\$1,284	\$ 892
457(b) plan	<u>133</u>	<u>115</u>
Deferred compensation payable	<u>\$1,417</u>	<u>\$1,007</u>

NOTE H - FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2012 and 2011, furniture, equipment and leasehold improvements, and the related accumulated depreciation, were as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 4,004	\$ 3,987
Equipment and software	9,653	8,885
Furniture and fixtures	<u>1,556</u>	<u>1,539</u>
Total	15,213	14,411
Less accumulated depreciation	(12,089)	(11,296)
Equipment not in service	<u>357</u>	<u>127</u>
Furniture, equipment and leasehold improvements, net	<u>\$ 3,481</u>	<u>\$ 3,242</u>

NOTE I - PERPETUAL TRUSTS AND SPLIT-INTEREST AGREEMENTS

The Association is a beneficiary of perpetual trusts administered by independent organizations. Under the terms of the trusts, the Association has irrevocable rights to receive portions of the income earned on the trust assets in perpetuity. The Association's beneficial interest in the trusts, at fair value, totaled approximately \$10,591,000 and \$10,799,000 at June 30, 2012 and 2011, respectively.

The Association is the beneficiary of charitable lead and remainder trust agreements held by independent trustees. Under the terms of the agreements, the Association has an unconditional right to receive all or a portion of specified cash flows from the agreements. The agreements are valued at fair value based upon expected future cash flows and discounted present value at a risk-adjusted rate. As of June 30, 2012 and 2011, the Association applied a discount rate of 3.16% and 2.96%, respectively. The Association's beneficial interest is \$1,285,000 and \$1,440,000 at June 30, 2012 and 2011, respectively.

The Association also has charitable gift annuity arrangements in which donors have contributed assets to the Association in exchange for a promise to pay a fixed amount for a specified period of time back to the donor. Gift annuity obligations represent the present value of future cash flows expected to be paid by the

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

Association to the donors under these arrangements. Funds of approximately \$4,478,000 and \$4,735,000 at June 30, 2012 and 2011, respectively, have been segregated in separate accounts, the use of which is limited to meeting the gift annuity obligations.

NOTE J - GRANTS PAYABLE

Grants payable are discounted to present value. They are due to be disbursed as follows at June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Less than one year	\$14,570	\$17,653
One to five years	<u>8,251</u>	<u>9,858</u>
	22,821	27,511
Less unamortized discount	<u>(295)</u>	<u>(361)</u>
Grants payable, net	<u>\$22,526</u>	<u>\$27,150</u>

As of June 30, 2012, discount rates on grants payable ranged from 2.96% to 3.16%.

NOTE K - GIFTS-IN-KIND AND CONTRIBUTED SERVICES

Gifts-in-kind and contributed services are reflected as expenses and contributions at their estimated fair value at date of the gift or service. During 2012, the Association received approximately \$5,570,000 in gifts-in-kind and contributed services. Of these non-monetary transactions, the Association recorded services valued at approximately \$5,259,000 as program expense for the medical science research grants review process and gifts-in-kind of approximately \$311,000 as fundraising expenses. During 2011, the Association received approximately \$3,933,000 in gifts-in-kind and contributed services. Of these non-monetary transactions, the Association recorded services valued at approximately \$3,557,000 was recorded as program expense for the Medical Science grants review process and the Alzheimer's Association International Conference and gifts-in-kind of approximately \$376,000 as fundraising expenses.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE L - ALLOCATION OF JOINT COSTS

For the years ended June 30, 2012 and 2011, the Association incurred expenses of approximately \$15,414,000 and \$15,586,000, respectively, related to the distribution of informational materials that included fundraising appeals. The Association allocated these costs as follows for the years ended June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Public awareness and education	\$ 8,181	\$ 8,686
Fundraising	4,528	4,344
Management and general	<u>2,705</u>	<u>2,556</u>
	<u>\$15,414</u>	<u>\$15,586</u>

NOTE M - RETIREMENT PLANS

The Association has a defined contribution retirement plan covering substantially all of its full-time employees. Under the terms of the defined contribution plan prior to May 1, 2001, the Association was required to contribute, at a minimum, an amount equal to 10% of the annual compensation of the plan participants. Effective May 1, 2001, the Association contributes, at a minimum, an amount equal to 6% of the annual compensation of the plan's participants to the defined contribution plan. Also effective May 1, 2001, the Association matches 100% of an employee's contribution up to 5% of the employee's annual compensation.

The Association's policy is to fund retirement plan costs as they are accrued. Contribution expense related to the defined contribution plan totaled approximately \$2,042,000 and \$1,739,000 for the years ended June 30, 2012 and 2011, respectively.

NOTE N - COMMITMENTS - OPERATING LEASE OBLIGATIONS

The Association currently has a 15-year operating lease agreement for office space in Chicago, Illinois, that expires on March 31, 2018. This lease agreement includes inducements totaling approximately \$3,010,000 for leasehold improvements. The lease inducements are reflected as deferred rent in the accompanying consolidated statements of financial position and are being amortized on a straight-line basis over the term of the lease agreement.

The Association also has a 10-year operating lease agreement for office space in Washington, D.C., that has been accounted for as an operating lease in the accompanying consolidated financial statements. The current lease is effective September 1, 2010 through November 30, 2020. The Association has also entered into seven short-term leases for the National Chapters. These offices replaced dissolved or disaffiliated chapters. The leases range in length from two to 31 months.

Rental expense under the lease agreements totaled approximately \$1,279,000 and \$1,222,000 for the years ended June 30, 2012 and 2011, respectively.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

Operating lease obligations for office equipment, including copiers and mailing systems are also included in the obligations stated below.

Subsequent to year end, the Association entered into additional property rental lease agreements (see note T).

Future rental commitments, as of June 30, 2012, for all non-cancelable operating leases are as follows (in thousands):

Years ending June 30,

2013	\$1,521
2014	1,514
2015	1,324
2016	1,340
2017	1,351
Thereafter	<u>2,107</u>
	<u>\$9,157</u>

NOTE O - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Research	\$18,420	\$11,073
Miscellaneous projects	1,427	1,322
Time restricted	<u>2,029</u>	<u>1,527</u>
	<u>\$21,876</u>	<u>\$13,922</u>

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE P - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity. Permanently restricted net assets were as follows as of June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
John P. Green, Jr. Charitable Foundation Trust	\$ 7,657	\$ 7,793
Evelyn T. Stone Memorial Fund	2,580	2,511
Samuel A. Blank Research Fund	1,255	1,255
George Graff Perpetual Trust	1,210	1,286
National Alzheimer's Research Fund Endowment	1,000	1,000
Stephanie Aschemeyer Endowment Fund	897	897
John Lyman Bogert Memorial Research Fund	750	750
Harold W. and Georgiana Spaght Memorial Fund	601	601
Mary J. Wickstrom Estate	500	500
George F. Berlinger Memorial Fund	450	450
I.J. Berkson Research Fund	437	437
Alburger Perpetual Trust	433	426
Edna Curl Endowment Fund	411	411
Hindenburg Perpetual Trust	388	352
Ruth Templeton Henney Alzheimer's Research Foundation	361	361
Norman Gotlieb and Bertha Chrystall Gotlieb Fund	330	320
Mr. and Mrs. Neil Bluhm Pilot Research Grant Fund	251	251
The Blum-Kovler Foundation Pilot Research Grant Fund	250	250
Evelyn Schwartz Endowment	244	-
William Edmonson Trust	236	255
Arthur and Josephine Lowell Charitable Foundation Trust	223	242
Donald R. McLennan Jr. Research Fund	212	212
Ruth Bates Charitable Trust	157	159
David Finkle Pilot Research Grant Fund	153	153
Sperry Charitable Trust	144	143
Sara & Soloman Hartman Family Charitable Trust	143	142
Omens/Normand Research Fund	120	120
Marian Burke Research Scholarship Fund	120	120
The Plotkin-Wollin Research Fund	119	119
Helen and Philip Brody Pilot Research Grant Fund	100	100
Plumsock Fund	100	100
Individual funds less than \$100	<u>339</u>	<u>339</u>
	<u>\$22,171</u>	<u>\$22,055</u>

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE Q - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows for the years ended June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Purpose restrictions accomplished		
Research	\$14,024	\$14,656
Miscellaneous projects	1,821	1,149
Time restricted	<u>64</u>	<u>14</u>
Total net assets released from restrictions	<u>\$15,909</u>	<u>\$15,819</u>

NOTE R - ENDOWMENT NET ASSETS

Permanently restricted net assets are restricted as investments in perpetuity. The Association's endowment only consists of donor-restricted endowment funds. Net assets associated with the Association's endowment funds are classified and reported based on the existence of donor-imposed restrictions. Donors restrict the earnings of some of the Association's endowment funds to fund the Association's research program. In accordance with donor stipulations, the income generated from these assets is restricted for research (approximately 56%) or not purpose restricted (approximately 44%).

The Association accounts for endowment net assets by preserving 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, the Association classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment fund. 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 effects 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 an investment policy that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. As of June 30, 2012, endowment assets only include those assets of donor-restricted funds that the Association must hold in perpetuity, as the Association does not have any Board-designated endowment funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide adequate liquidity, maximizing returns on all funds invested and achieving

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

full employment of all available funds as earning assets. The Association has an active Finance Committee and Investment Sub-Committee that meets regularly to ensure that the objectives of the investment policy are being met, and that the strategies used to meet the objectives are in accordance with the investment policy. The Association's policy is to appropriate spending amounts deemed prudent for donor-restricted funds.

Changes in endowment net assets for the fiscal years ended June 30, 2012 and 2011, are as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$(1,185)	\$ -	\$10,624	\$ 9,439
New gifts	-	-	97	97
Dividends and interest	362	-	-	362
Net appreciation (realized and unrealized)	<u>823</u>	<u>906</u>	<u>-</u>	<u>1,729</u>
Endowment net assets, June 30, 2011	-	906	10,721	11,627
New gifts	-	-	324	324
Dividends and interest	-	379	-	379
Net appreciation (realized and unrealized)	<u>-</u>	<u>(187)</u>	<u>-</u>	<u>(187)</u>
Endowment net assets, June 30, 2012	<u>\$-</u>	<u>\$1,098</u>	<u>\$11,045</u>	<u>\$12,143</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or state law requires the Association to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There was no deficiency as of June 30, 2012 and 2011.

NOTE S - CONCENTRATION OF CREDIT RISK

Certain financial instruments subject the Association to credit risk. Those financial instruments consist primarily of cash, accounts receivable, beneficial interest in split-interest agreements and investments. The Association maintains its cash balance in financial institutions which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Concentration of credit risk with respect to receivables is limited due to the large number of accounts and low average cash balance. Concentration of credit risk with respect to the beneficial interest in split-interest agreements is limited through the diversification of the trust assets. The Association's investment policy also stipulates appropriate diversification of investment balances. As of June 30, 2012 and 2011, the Association had no significant concentration of credit risk in investments.

Alzheimer's Association
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2012 and 2011

NOTE T - SUBSEQUENT EVENTS

The Association evaluated its June 30, 2012, financial statements for subsequent events through October 12, 2012, the date the financial statements were available to be issued. Effective July 1, 2012, the Association entered into four property rental lease agreements for four National Chapters. The future rental commitments are as follows (in thousands):

Year ending June 30,

2013	\$101
2014	92
2015	92
2016	<u>81</u>
	<u>\$366</u>

Also, at July 1, 2012, the Association paid the mortgage note payable of the Mid-Missouri Chapter of \$299,000.

Alzheimer's Association
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
Year ended June 30, 2012
(In thousands)

ASSETS	Alzheimer's Associaiton	AIM	AIMPAC	Eliminations	Consolidated
Cash	\$ 11,694	\$ 618	\$ 150	\$ -	\$ 12,462
Pledges receivable, net	17,180	-	-	-	17,180
Receivables - Chapters, net	15,293	-	-	-	15,293
Other receivables	1,416	-	-	(47)	1,369
Notes receivable	493	-	-	-	493
Inventories of education materials, at cost	328	-	-	-	328
Investments	54,744	-	-	-	54,744
Prepaid expenses	6,121	-	-	-	6,121
Assets held in trust	133	-	-	-	133
Furniture, equipment and leasehold improvements, net	3,481	-	-	-	3,481
Beneficial interest in split-interest agreements	1,285	-	-	-	1,285
Beneficial interest in perpetual trusts	10,591	-	-	-	10,591
TOTAL ASSETS	\$ 122,759	\$ 618	\$ 150	\$ (47)	\$ 123,480
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 1,146	\$ -	\$ 3	\$ -	\$ 1,149
Grants payable, net	22,526	-	-	-	22,526
Deferred compensation payable	1,417	-	-	-	1,417
Accrued expenses	5,783	47	-	(47)	5,783
Accounts payable - Chapters	12,201	-	-	-	12,201
Gift annuity obligations	4,478	-	-	-	4,478
Deferred revenue	2,480	-	-	-	2,480
Deferred rent	2,088	-	-	-	2,088
Total liabilities	52,119	47	3	(47)	52,122
Net assets					
Unrestricted	26,593	571	147	-	27,311
Temporarily restricted	21,876	-	-	-	21,876
Permanently restricted	22,171	-	-	-	22,171
Total net assets	70,640	571	147	-	71,358
TOTAL LIABILITIES AND NET ASSETS	\$ 122,759	\$ 618	\$ 150	\$ (47)	\$ 123,480

Alzheimer's Association
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended June 30, 2012
(In thousands)

	Alzheimer's Association				AIM	AIMPAC	Eliminations	Consolidated
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Unrestricted	Unrestricted	
Revenues, gains and other support								
Contributions	\$ 63,449	\$ 23,310	\$ 324	\$ 87,083	\$ 944	\$ 160	\$ (589)	\$ 87,598
Less contributions remitted to Chapters	(32,442)	-	-	(32,442)	-	-	-	(32,442)
Add amounts received from Chapters under shared fundraising	38,868	-	-	38,868	-	-	-	38,868
Net contribution revenues	69,875	23,310	324	93,509	944	160	(589)	94,024
Book sales and other	14,071	-	-	14,071	-	-	-	14,071
Dividends and interest	1,470	571	-	2,041	-	-	-	2,041
Net assets released from restrictions	15,909	(15,909)	-	-	-	-	-	-
Total revenues, gains and other support	101,325	7,972	324	109,621	944	160	(589)	110,136
Expenses								
Program services								
Research	29,029	-	-	29,029	-	-	-	29,029
Public awareness and education	24,130	-	-	24,130	-	-	-	24,130
Chapter services	10,833	-	-	10,833	-	-	-	10,833
Public policy	5,448	-	-	5,448	745	207	(589)	5,811
Family and healthcare professional services	10,941	-	-	10,941	-	-	-	10,941
Total program services	80,381	-	-	80,381	745	207	(589)	80,744
Supporting services								
Management and general	6,154	-	-	6,154	25	2	-	6,181
Fundraising	18,836	-	-	18,836	-	-	-	18,836
Total supporting services	24,990	-	-	24,990	25	2	-	25,017
Total expenses	105,371	-	-	105,371	770	209	(589)	105,761
(Deficiency) excess from operations	(4,046)	7,972	324	4,250	174	(49)	-	4,375
Other changes in net assets								
Net realized and unrealized losses in value of investments	(809)	(103)	-	(912)	-	-	-	(912)
Change in value of split-interest agreements	(279)	(301)	-	(580)	-	-	-	(580)
Change in value of perpetual trust	-	-	(208)	(208)	-	-	-	(208)
Acquisition of dissolved chapters	45	436	-	481	-	-	-	481
Bad debt expense	(961)	(50)	-	(1,011)	-	-	-	(1,011)
Transfer in of net assets from AIM and AIMPAC	-	-	-	-	397	196	-	593
Total other changes in net assets	(2,004)	(18)	(208)	(2,230)	397	196	-	(1,637)
CHANGE IN NET ASSETS	(6,050)	7,954	116	2,020	571	147	-	2,738
Net assets at beginning of year	32,643	13,922	22,055	68,620	-	-	-	68,620
Net assets at end of year	\$ 26,593	\$ 21,876	\$ 22,171	\$ 70,640	\$ 571	\$ 147	\$ -	\$ 71,358