

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

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2016 and 2015

Alzheimer’s Association – Houston and Southeast Texas Chapter

Table of Contents

	Page
Independent Auditors’ Report	1
Financial Statements:	
Statements of Financial Position as of June 30, 2016 and 2015	2
Statement of Activities for the year ended June 30, 2016	3
Statement of Activities for the year ended June 30, 2015	4
Statements of Cash Flows for the years ended June 30, 2016 and 2015	5
Statements of Functional Expenses for the years ended June 30, 2016 and 2015	6
Notes to Financial Statements for the years ended June 30, 2016 and 2015	7

Independent Auditors' Report

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

We have audited the accompanying financial statements of Alzheimer's Association – Houston and Southeast Texas Chapter, which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities, of cash flows, and of functional expenses for the years then ended, and the related notes to the financial statements.

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

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

September 13, 2016

Alzheimer's Association – Houston and Southeast Texas Chapter

Statements of Financial Position as of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$ 877,833	\$ 1,508,495
Investments (<i>Note 3</i>)	2,096,920	1,659,818
Accounts receivable	27,540	25,099
Pledge receivable	50,000	60,000
Due from National Association	105,581	
Prepaid expenses and other assets	118,805	14,379
Property, net (<i>Note 4</i>)	<u>3,863,031</u>	<u>3,963,357</u>
TOTAL ASSETS	<u>\$ 7,139,710</u>	<u>\$ 7,231,148</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 31,791	\$ 7,488
Accrued expenses	119,586	95,064
Construction payables		56,775
Due to National Association		2,762
Funds held for others (<i>Note 5</i>)	<u>12,199</u>	<u>11,799</u>
Total liabilities	<u>163,576</u>	<u>173,888</u>
Net assets:		
Unrestricted (<i>Note 6</i>)	6,851,737	6,680,495
Temporarily restricted (<i>Note 7</i>)	<u>124,397</u>	<u>376,765</u>
Total net assets	<u>6,976,134</u>	<u>7,057,260</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,139,710</u>	<u>\$ 7,231,148</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Statement of Activities for the year ended June 30, 2016

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 125,294	\$ 468,593	\$ 593,887
Fundraising events	2,271,971		2,271,971
Direct donor benefit costs	(29,801)		(29,801)
Program revenue	195,812		195,812
Investment return, net <i>(Note 3)</i>	(3,598)		(3,598)
Contract services with National Association	<u>60,000</u>		<u>60,000</u>
Total revenue	2,619,678	468,593	3,088,271
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>720,961</u>	<u>(720,961)</u>	
Total	<u>3,340,639</u>	<u>(252,368)</u>	<u>3,088,271</u>
EXPENSES:			
Program services	2,500,648		2,500,648
Management and general	164,802		164,802
Fundraising	<u>503,947</u>		<u>503,947</u>
Total expenses	<u>3,169,397</u>		<u>3,169,397</u>
CHANGES IN NET ASSETS			
	171,242	(252,368)	(81,126)
Net assets, beginning of year	<u>6,680,495</u>	<u>376,765</u>	<u>7,057,260</u>
Net assets, end of year	<u>\$ 6,851,737</u>	<u>\$ 124,397</u>	<u>\$ 6,976,134</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Statement of Activities for the year ended June 30, 2015

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 191,064	\$ 426,953	\$ 618,017
Fundraising events	2,060,008	258,379	2,318,387
Direct donor benefit costs	(21,394)	(19,974)	(41,368)
Program revenue	165,692		165,692
Investment return, net (<i>Note 3</i>)	28,103		28,103
Other revenue	<u>6,081</u>		<u>6,081</u>
Total revenue	2,429,554	665,358	3,094,912
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>578,021</u>	<u>(578,021)</u>	
Total	<u>3,007,575</u>	<u>87,337</u>	<u>3,094,912</u>
EXPENSES:			
Program services	2,106,018		2,106,018
Management and general	144,032		144,032
Fundraising	<u>468,412</u>		<u>468,412</u>
Total expenses	<u>2,718,462</u>		<u>2,718,462</u>
CHANGES IN NET ASSETS	289,113	87,337	376,450
Net assets, beginning of year	<u>6,391,382</u>	<u>289,428</u>	<u>6,680,810</u>
Net assets, end of year	<u>\$ 6,680,495</u>	<u>\$ 376,765</u>	<u>\$ 7,057,260</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (81,126)	\$ 376,450
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	35,324	(766)
Depreciation	148,579	144,492
Changes in operating assets and liabilities:		
Accounts receivable	(2,441)	3,167
Pledge receivable	10,000	2,500
Due (from) to National Association	(108,343)	25,071
Prepaid expenses and other assets	(104,426)	6,864
Accounts payable	24,303	(49,466)
Accrued expenses	24,522	(7,080)
Funds held for others	<u>400</u>	<u> </u>
Net cash provided (used) by operating activities	<u>(53,208)</u>	<u>501,232</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments		(590,256)
Proceeds from sale of investments		608,371
Change in money market mutual funds held as investments	(472,426)	(44,928)
Purchase and renovation of property	<u>(105,028)</u>	<u>(232,512)</u>
Net cash used by investing activities	<u>(577,454)</u>	<u>(259,325)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(630,662)	241,907
Cash and cash equivalents, beginning of year	<u>1,508,495</u>	<u>1,266,588</u>
Cash and cash equivalents, end of year	<u>\$ 877,833</u>	<u>\$ 1,508,495</u>

See accompanying notes to financial statements.

Alzheimer's Association – Houston and Southeast Texas Chapter

Statements of Functional Expenses for the years ended June 30, 2016 and 2015

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2016 TOTAL</u>
Salaries and related taxes and benefits	\$ 1,803,507	\$ 80,177	\$ 142,537	\$ 2,026,221
General and event supplies and support	102,947	564	148,598	252,109
Advertising	123,523		60,127	183,650
Depreciation	129,283	6,946	12,350	148,579
Occupancy	82,324	10,294	9,032	101,650
Bank and credit card fees		10,011	78,627	88,638
Contract and temporary labor	32,330	47,516	2,886	82,732
Conferences and travel	60,406	717	17,175	78,298
Equipment and repairs	64,275	5,258	6,140	75,673
Printing and copying	23,336	83	18,022	41,441
Telephone	32,209	1,266	2,729	36,204
Insurance	29,888	1,090	3,190	34,168
Postage and delivery	12,756	880	2,534	16,170
Other	<u>3,864</u>			<u>3,864</u>
Total expenses	<u>\$ 2,500,648</u>	<u>\$ 164,802</u>	<u>\$ 503,947</u>	3,169,397
Direct donor benefit costs				29,801
Custodial and investment advisory fees				<u>9,573</u>
Total				<u>\$ 3,208,771</u>

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2015 TOTAL</u>
Salaries and related taxes and benefits	\$ 1,536,693	\$ 74,893	\$ 126,136	\$ 1,737,722
General and event supplies and support	59,184	3,235	153,730	216,149
Advertising	85,477		53,379	138,856
Depreciation	124,022	7,626	12,844	144,492
Occupancy	77,133	8,346	8,408	93,887
Bank and credit card fees		15,314	61,257	76,571
Contract and temporary labor	22,672	28,255	2,091	53,018
Conferences and travel	67,433	1,434	20,256	89,123
Equipment and repairs	14,874	915	1,540	17,329
Printing and copying	35,431	26	16,763	52,220
Telephone	29,479	1,330	2,216	33,025
Insurance	43,741	1,636	3,977	49,354
Postage and delivery	<u>9,879</u>	<u>1,022</u>	<u>5,815</u>	<u>16,716</u>
Total expenses	<u>\$ 2,106,018</u>	<u>\$ 144,032</u>	<u>\$ 468,412</u>	2,718,462
Direct donor benefit costs				41,368
Custodial and investment advisory fees				<u>9,068</u>
Total				<u>\$ 2,768,898</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, 2016 and 2015

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 to provide 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 2016 and 2015) of all unrestricted contributions raised by the Association are remitted to the National Association and a portion (60% in 2016 and 2015) of all unrestricted contributions raised by the National Association in the Association's service area are remitted by the National Association to the Association. Contributions collected by the Association and remitted to the National Association under this agreement were approximately \$1,028,700 and \$974,500 in the years ended June 30, 2016 and 2015, respectively. Contributions collected by the National Association and remitted to the Association were approximately \$801,400 and \$749,000 in the years ended June 30, 2016 and 2015, respectively. The National Association provides administrative, fundraising, and programming support to the local chapters at no additional cost.

On October 17, 2015, the National Board of Directors approved reorganizing the independent chapters and the National Association to operate as a single entity. This reorganization was completed at 12:01 a.m., July 1, 2016 at which time the Association consolidated with the National Association. From that date forward, the Association will no longer be an independent entity and will be included in the scope of the National Association's financial statements.

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

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.

Pledge receivable that is expected to be collected within one year is reported at net realizable value. At June 30, 2016, the pledge receivable is from one donor and is expected to be collected within one year.

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 39 years.

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.

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 classified 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 recognized 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>2016</u>	<u>2015</u>
Demand deposits	\$ 652,550	\$ 1,458,057
Money market mutual funds	<u>225,283</u>	<u>50,438</u>
Total cash and cash equivalents	<u>\$ 877,833</u>	<u>\$ 1,508,495</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, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap	\$ 448,085			\$ 448,085
Mid-cap	139,140			139,140
Small-cap	102,174			102,174
Foreign large blend	81,891			81,891
Foreign emerging markets	57,550			57,550
Real estate investment trust (REIT)	56,250			56,250
Preferred stock	49,555			49,555
Master limited partnerships	37,112			37,112
Fixed-income mutual funds	577,628			577,628
Money market mutual funds	<u>547,535</u>			<u>547,535</u>
Total investments	2,096,920			2,096,920
Cash and cash equivalents:				
Money market mutual funds	<u>225,283</u>			<u>225,283</u>
Total assets measured at fair value	<u>\$ 2,322,203</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,322,203</u>

Assets measured at fair value at June 30, 2015 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap	\$ 444,562			\$ 444,562
Mid-cap	141,911			141,911
Small-cap	109,458			109,458
Foreign large blend	96,249			96,249
Foreign emerging markets	65,906			65,906
REIT	48,276			48,276
Preferred stock	50,469			50,469
Master limited partnerships	49,546			49,546
Fixed-income mutual funds	578,332			578,332
Money market mutual funds	<u>75,109</u>			<u>75,109</u>
Total investments	1,659,818			1,659,818
Cash and cash equivalents:				
Money market mutual funds	<u>50,438</u>			<u>50,438</u>
Total assets measured at fair value	<u>\$ 1,710,256</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,710,256</u>

Mutual funds are valued at the reported net asset value. This valuation method 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 method is 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 of the Association 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>2016</u>	<u>2015</u>
Interest and dividends	\$ 41,299	\$ 36,405
Net realized and unrealized gain (loss) on investments	(35,324)	766
Custodial and investment advisory fees	<u>(9,573)</u>	<u>(9,068)</u>
Investment return, net	<u>\$ (3,598)</u>	<u>\$ 28,103</u>

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 300,000	\$ 300,000
Building and improvements	3,679,661	3,666,393
Office furniture and equipment	<u>340,024</u>	<u>305,040</u>
Total property	4,319,685	4,271,433
Accumulated depreciation	<u>(456,654)</u>	<u>(308,076)</u>
Property, net	<u>\$ 3,863,031</u>	<u>\$ 3,963,357</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>2016</u>	<u>2015</u>
Undesignated	\$ 6,342,283	\$ 6,141,320
Designated for Hildebrand Endowment	284,454	284,454
Designated for Building Reserve Fund	225,000	125,000
Designated for AWARE projects	<u> </u>	<u>129,721</u>
Total unrestricted net assets	<u>\$ 6,851,737</u>	<u>\$ 6,680,495</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Building and ground improvements	\$ 74,397	\$ 37,500
Regional programs for senior Texans	50,000	60,000
AWARE – Houston programs		238,408
Diversity		35,161
Volunteer Respite Aid services		4,116
Other	<u> </u>	<u>1,580</u>
Total temporarily restricted net assets	<u>\$ 124,397</u>	<u>\$ 376,765</u>

NOTE 8 – RETIREMENT SAVINGS PLAN

The Association sponsors a retirement savings plan that is available to all employees who are at least age 21. The Association matches employee contributions to the plan up to 6% of eligible compensation. Additionally, the Association provides a 50% match on employee contributions to the plan at 7% to 25% of eligible compensation. The Association contributed approximately \$101,500 and \$91,000 to the plan during the years ended June 30, 2016 and 2015, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 13, 2016, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than as described in Note 1, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.