

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

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2015 and 2014

Alzheimer’s Association – Houston and Southeast Texas Chapter

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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, 2015 and 2014 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.

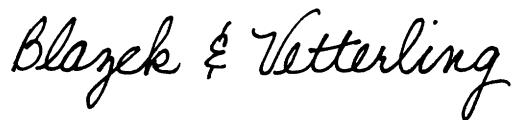
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2015 and 2014 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.



September 15, 2015

Alzheimer's Association – Houston and Southeast Texas Chapter

Statements of Financial Position as of June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$ 1,508,495	\$ 1,266,588
Investments (<i>Note 3</i>)	1,659,818	1,632,239
Accounts receivable	25,099	28,266
Pledges receivable	60,000	62,500
Due from National Association		22,309
Prepaid expenses and other assets	14,379	21,243
Property, net (<i>Note 4</i>)	<u>3,963,357</u>	<u>3,947,223</u>
TOTAL ASSETS	<u>\$ 7,231,148</u>	<u>\$ 6,980,368</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 7,488	\$ 56,954
Accrued expenses	95,064	102,144
Construction payables (<i>Note 4</i>)	56,775	128,661
Due to National Association	2,762	
Funds held for others (<i>Note 5</i>)	<u>11,799</u>	<u>11,799</u>
Total liabilities	<u>173,888</u>	<u>299,558</u>
Net assets:		
Unrestricted (<i>Note 6</i>)	6,680,495	6,391,382
Temporarily restricted (<i>Note 7</i>)	<u>376,765</u>	<u>289,428</u>
Total net assets	<u>7,057,260</u>	<u>6,680,810</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,231,148</u>	<u>\$ 6,980,368</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

Statement of Activities for the year ended June 30, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 94,873	\$ 507,636	\$ 602,509
Fundraising events	1,699,885	209,705	1,909,590
Donated services (Note 4)	140,722		140,722
Direct donor benefit costs	(39,691)	(23,537)	(63,228)
Program revenue	123,592		123,592
Investment return, net (Note 3)	224,963		224,963
Other revenue	<u>452</u>	<u></u>	<u>452</u>
Total revenue	2,244,796	693,804	2,938,600
Net assets released from restrictions:			
Satisfaction of program restrictions	681,342	(681,342)	
Capital expenditures	<u>140,500</u>	<u>(140,500)</u>	<u></u>
Total	<u>3,066,638</u>	<u>(128,038)</u>	<u>2,938,600</u>
EXPENSES:			
Program services	1,958,179		1,958,179
Management and general	161,336		161,336
Fundraising	<u>487,665</u>	<u></u>	<u>487,665</u>
Total expenses	<u>2,607,180</u>	<u></u>	<u>2,607,180</u>
CHANGES IN NET ASSETS	459,458	(128,038)	331,420
Net assets, beginning of year	<u>5,931,924</u>	<u>417,466</u>	<u>6,349,390</u>
Net assets, end of year	<u>\$ 6,391,382</u>	<u>\$ 289,428</u>	<u>\$ 6,680,810</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 376,450	\$ 331,420
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(766)	(191,624)
Depreciation	144,492	44,868
Contributed building improvements		(140,722)
Changes in operating assets and liabilities:		
Accounts receivable	3,167	(19,385)
Pledges receivable	2,500	(1,000)
Due (from) to National Association	25,071	(40,938)
Prepaid expenses and other assets	6,864	14,214
Accounts payable	(49,466)	41,176
Accrued expenses	<u>(7,080)</u>	<u>24,932</u>
Net cash provided by operating activities	<u>501,232</u>	<u>62,941</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(590,256)	(33,186)
Proceeds from sale of investments	608,371	1,265,507
Change in money market mutual funds held for investments	(44,928)	34,493
Purchase and renovation of property	<u>(232,512)</u>	<u>(2,625,775)</u>
Net cash used by investing activities	<u>(259,325)</u>	<u>(1,358,961)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	241,907	(1,296,020)
Cash and cash equivalents, beginning of year	<u>1,266,588</u>	<u>2,562,608</u>
Cash and cash equivalents, end of year	<u>\$ 1,508,495</u>	<u>\$ 1,266,588</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, 2015 and 2014

<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
Depreciation	124,022	7,626	12,844	144,492
Advertising	85,477		53,379	138,856
Occupancy	77,133	8,346	8,408	93,887
Conferences and travel	67,433	1,434	20,256	89,123
Bank and credit card fees		15,314	61,257	76,571
Contract and temporary labor	22,672	28,255	2,091	53,018
Printing and copying	35,431	26	16,763	52,220
Insurance	43,741	1,636	3,977	49,354
Telephone	29,479	1,330	2,216	33,025
Equipment costs	14,874	915	1,540	17,329
Postage and delivery	9,879	1,022	5,815	16,716
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				9,068
Total				<u>\$ 2,768,898</u>

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2014 TOTAL</u>
Salaries and related taxes and benefits	\$ 1,448,453	\$ 82,919	\$ 142,697	\$ 1,674,069
General and event supplies and support	62,472	1,382	144,159	208,013
Depreciation	38,063	2,501	4,304	44,868
Advertising	55,545		69,651	125,196
Occupancy	178,546	16,427	16,616	211,589
Conferences and travel	46,044	2,740	19,041	67,825
Bank and credit card fees	765	58	41,932	42,755
Contract and temporary labor	20,726	48,224	2,467	71,417
Printing and copying	17,261	498	32,101	49,860
Insurance	36,212	2,548	5,641	44,401
Telephone	21,780	1,464	2,305	25,549
Equipment costs	18,076	1,272	2,190	21,538
Postage and delivery	14,236	1,303	4,561	20,100
Total expenses	<u>\$ 1,958,179</u>	<u>\$ 161,336</u>	<u>\$ 487,665</u>	2,607,180
Direct donor benefit costs				63,228
Custodial and investment advisory fees				12,082
Total				<u>\$ 2,682,490</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, 2015 and 2014

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 2015 and 2014) of all unrestricted contributions raised by the Association are remitted to the National Association and a portion (60% in 2015 and 2014) 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 \$974,500 and \$786,000 in the years ended June 30, 2015 and 2014, respectively. Contributions collected by the National Association and remitted to the Association were approximately \$749,000 and \$586,000 in the years ended June 30, 2015 and 2014, respectively. 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 tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1). Prior to 2011, the Association was included as part of the group annual federal information return filed by the National Association. Beginning in 2011, the Association elected to file a separate federal information return. Such returns are subject to routine examination; however, there are no examinations for any tax periods currently in progress.

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 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 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>2015</u>	<u>2014</u>
Demand deposits	\$ 1,458,057	\$ 1,216,150
Money market mutual funds	<u>50,438</u>	<u>50,438</u>
Total cash and cash equivalents	<u>\$ 1,508,495</u>	<u>\$ 1,266,588</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, 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
Preferred stock	50,469			50,469
Master Limited Partnerships	49,546			49,546
REIT	48,276			48,276
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>

Assets measured at fair value at June 30, 2014 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap	\$ 596,004			\$ 596,004
Mid-cap	144,707			144,707
Small-cap	77,458			77,458
Foreign large blend	69,868			69,868
Foreign emerging markets	42,267			42,267
Fixed-income mutual funds	671,754			671,754
Money market mutual funds	<u>30,181</u>			<u>30,181</u>
Total investments	1,632,239			1,632,239
Cash and cash equivalents:				
Money market mutual funds	<u>50,438</u>			<u>50,438</u>
Total assets measured at fair value	<u>\$ 1,682,677</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,682,677</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>2015</u>	<u>2014</u>
Interest and dividends	\$ 36,405	\$ 45,421
Net realized and unrealized gain on investments	766	191,624
Custodial and investment advisory fees	<u>(9,068)</u>	<u>(12,082)</u>
Investment return, net	<u>\$ 28,103</u>	<u>\$ 224,963</u>

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 300,000	\$ 300,000
Building and improvements	3,666,393	3,524,529
Office furniture and equipment	<u>305,040</u>	<u>286,278</u>
Total property	4,271,433	4,110,807
Accumulated depreciation	<u>(308,076)</u>	<u>(163,584)</u>
Property, net	<u>\$ 3,963,357</u>	<u>\$ 3,947,223</u>

In 2013, the Association purchased a building that has been renovated to house its program and administrative operations. Donated architectural services of approximately \$79,000 were capitalized in 2014.

Subsequent to June 30, 2015, the Association negotiated a final settlement of additional charges related to the renovation. A payable of approximately \$55,300 was accrued and capitalized for the agreed settlement amount in the June 30, 2015 statement of financial position.

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>2015</u>	<u>2014</u>
Undesignated	\$ 6,141,320	\$ 5,977,207
Designated for Hildebrand Endowment	284,454	284,454
Designated for AWARE projects	129,721	129,721
Designated for Building Reserve Fund	<u>125,000</u>	<u> </u>
Total unrestricted net assets	<u>\$ 6,680,495</u>	<u>\$ 6,391,382</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
AWARE – Houston programs	\$ 238,408	\$ 186,168
Regional programs for senior Texans	60,000	50,000
For future periods	37,500	12,500
Diversity	35,161	35,161
Volunteer Respite Aid services	4,116	4,116
Other	<u>1,580</u>	<u>1,483</u>
Total temporarily restricted net assets	<u>\$ 376,765</u>	<u>\$ 289,428</u>

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 15, 2015, 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.
