AMERICAN HEART ASSOCIATION, INC.

Financial Statements

June 30, 2012

(With Independent Auditors' Report Thereon)

AMERICAN HEART ASSOCIATION, INC.

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KPMG

KPMG LLP
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717 North Harwood Street
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Independent Auditors' Report

The Board of Directors
American Heart Association, Inc.:

We have audited the accompanying balance sheet of the American Heart Association, Inc. (the Association) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2011 financial statements and, in our report dated November 1, 2011, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Heart Association, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 1, 2012

AMERICAN HEART ASSOCIATION, INC.

Statement of Activities

Year ended June 30, 2012
(with summarized comparative totals for the year ended June 30, 2011)

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	2012 Total	2011 Total
Revenue:						
Public support:						
Contributions	$	72,298	52,330	11	124,639	117,779
Contributed services and materials		54,281	10	—	54,291	59,286
Special events		208,727	79,753	—	288,480	269,255
Less direct donor benefits		(33,134)	—	—	(33,134)	(30,288)
Bequests		63,673	10,556	90	74,319	70,814
Split-interest agreements		731	984	—	1,715	4,732
Federated and nonfederated fund-raising organizations		3,085	4,443	—	7,528	7,613
Total public support		369,661	148,076	101	517,838	499,191
Other revenue:						
Program fees		21,416	—	—	21,416	21,411
Sales of educational materials		68,237	—	—	68,237	73,987
Membership dues		3,345	—	—	3,345	3,282
Fees and grants from government agencies		639	—	—	639	346
Interest and dividends, net of fees		8,357	572	41	8,970	8,692
Net realized and unrealized gains (losses) on investments		(7,528)	(1,307)	—	(8,835)	58,553
Perpetual trust distributions		5,172	1,319	—	6,491	5,679
Net unrealized gains (losses) on beneficial interest in perpetual trusts		—	—	(2,341)	(2,341)	12,801
Change in value of split-interest agreements		(945)	(840)	26	(1,759)	1,927
Gains on disposal of fixed assets		1,246	(238)	—	1,008	959
Royalty revenue		23,737	—	—	23,737	18,751
Miscellaneous revenue (losses), net		3,486	(2,707)	—	779	3,681
Total other revenue (loss)		127,162	(3,201)	(2,274)	121,687	210,069
Net assets released from restrictions:						
Satisfaction of purpose restrictions		93,345	(93,345)	—	—	—
Expiration of time restrictions		54,524	(54,512)	(12)	—	—
Total net assets released from restrictions		147,869	(147,857)	(12)	—	—
Total revenue		644,692	(2,982)	(2,185)	639,525	709,260

(Continued)

AMERICAN HEART ASSOCIATION, INC.

Statement of Activities

Year ended June 30, 2012
(with summarized comparative totals for the year ended June 30, 2011)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2012 Total	2011 Total
Expenses:					
Program services:					
Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	$ 128,525	—	—	128,525	120,718
Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke	241,376	—	—	241,376	266,817
Professional education and training – to improve the knowledge, skills, and techniques of health professionals	86,537	—	—	86,537	84,457
Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities	31,091	—	—	31,091	16,041
Total program services	487,529	—	—	487,529	488,033
Supporting services:					
Management and general – to provide executive direction, financial management, overall planning, and coordination of the Association's activities	48,933	—	—	48,933	46,932
Fundraising – to secure vital financial support from the public	80,927	—	—	80,927	81,374
Total supporting services	129,860	—	—	129,860	128,306
Total program and supporting services expenses	617,389	—	—	617,389	616,339
Change in net assets before postretirement changes other than net periodic benefit cost	27,303	(2,982)	(2,185)	22,136	92,921
Postretirement changes other than net periodic benefit cost	(1,070)	—	—	(1,070)	7,904
Change in net assets	26,233	(2,982)	(2,185)	21,066	100,825
Net assets, beginning of year	258,067	227,526	167,395	652,988	552,163
Net assets, end of year	$ 284,300	224,544	165,210	674,054	652,988

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Functional Expenses

Year ended June 30, 2012
(with summarized comparative totals for the year ended June 30, 2011)

(In thousands)

	Research	Public health education	Professional education/ training	Community services	Subtotal program services	Management and general	Fundraising	Subtotal supporting services	2012 Total	2011 Total
Salaries	$ 2,355	93,459	22,149	12,976	130,939	25,606	35,281	60,887	191,826	184,290
Payroll taxes	161	7,269	1,635	963	10,028	1,935	2,670	4,605	14,633	14,949
Employee benefits	370	17,918	3,069	1,925	23,282	4,769	6,318	11,087	34,369	34,312
Occupancy	69	8,883	859	1,311	11,122	1,854	2,915	4,769	15,891	16,358
Telephone	34	2,625	501	292	3,452	518	846	1,364	4,816	4,882
Supplies	21	2,267	438	324	3,050	502	1,261	1,763	4,813	4,302
Rental and maintenance of equipment	51	3,202	579	366	4,198	758	1,047	1,805	6,003	5,213
Printing and publication	9	59,673	18,446	4,606	82,734	2,266	7,966	10,232	92,966	96,482
Postage and shipping	—	6,945	171	82	7,198	364	3,833	4,197	11,395	11,442
Conferences and meetings	108	2,304	10,574	835	13,821	666	1,330	1,996	15,817	16,356
Travel	303	7,034	3,715	1,298	12,350	2,116	4,007	6,123	18,473	17,338
Professional fees	7,945	14,786	19,918	3,657	46,306	2,839	10,077	12,916	59,222	61,462
Awards and grants	116,872	7,656	2,242	1,592	128,362	—	—	—	128,362	129,289
Other expenses	49	3,118	540	191	3,898	3,460	1,820	5,280	9,178	9,393
Depreciation and amortization	178	4,237	1,701	673	6,789	1,280	1,556	2,836	9,625	10,271
Total functional expenses before direct donor benefits	128,525	241,376	86,537	31,091	487,529	48,933	80,927	129,860	617,389	616,339
Direct donor benefits	—	—	—	—	—	—	—	—	33,134	30,288
Total functional expenses and direct donor benefits	$ 128,525	241,376	86,537	31,091	487,529	48,933	80,927	129,860	650,523	646,627

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Balance Sheet

June 30, 2012
(with comparative amounts for June 30, 2011)

(In thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	66,407	43,651
Investments		503,679	516,531
Accounts receivable:			
Federated and nonfederated		3,085	3,587
Pledges, net		130,347	113,772
Bequests		16,183	14,976
Split-interest agreements, net		65,795	74,348
Exchange transactions		8,149	5,553
Other		9,389	9,001
Inventory		8,106	8,064
Prepaid expenses and other assets		14,137	17,416
Beneficial interest in perpetual trusts		125,674	128,026
Land, buildings, and equipment, net		71,766	74,917
Total assets	$	1,022,717	1,009,842
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	46,532	49,168
Deferred revenue		9,010	6,700
Research awards payable		260,794	270,499
Bonds payable		1,380	1,550
Other liabilities		30,947	28,937
Total liabilities		348,663	356,854
Net assets:			
Unrestricted:			
Available for research, program, and supporting activities		212,534	183,150
Investment in land, buildings, and equipment		71,766	74,917
Total unrestricted		284,300	258,067
Temporarily restricted		224,544	227,526
Permanently restricted		165,210	167,395
Total net assets		674,054	652,988
Total liabilities and net assets	$	1,022,717	1,009,842

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Cash Flows

Year ended June 30, 2012
(with comparative amounts for the year ended June 30, 2011)

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	21,066	100,825
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		9,625	10,271
Net realized and unrealized losses (gains) on investments		8,835	(58,553)
Net unrealized losses (gains) on beneficial interest in perpetual trusts		2,341	(12,801)
Change in value of split-interest agreements		1,759	(1,927)
Gains on sale of fixed assets		(1,008)	(959)
Losses on uncollectible accounts and settlement of receivables		3,267	1,666
Contributions to endowment		(101)	(1,771)
Changes in operating assets and liabilities:			
Accounts receivable		(23,531)	5,827
Inventory		(42)	(3,755)
Prepaid expenses and other assets		3,279	(1,772)
Beneficial interest in perpetual trusts		11	(3,232)
Split-interest agreements		6,794	846
Accounts payable and accrued expenses		(2,636)	1,351
Deferred revenue		2,310	(162)
Research awards payable		(9,705)	(31,166)
Other liabilities		2,348	(6,442)
Net cash provided by (used in) operating activities		24,612	(1,754)
Cash flows from investing activities:			
Purchases of fixed assets		(7,992)	(6,967)
Proceeds from sale of fixed assets		2,962	2,282
Purchases of investments		(136,054)	(341,625)
Proceeds from sales/maturities of investments		140,071	346,518
Net cash (used in) provided by investing activities		(1,013)	208
Cash flows from financing activities:			
Payments on mortgage notes payable and capital leases		(944)	(963)
Contributions to endowment		101	1,771
Net cash (used in) provided by financing activities		(843)	808
Net increase (decrease) in cash and cash equivalents		22,756	(738)
Cash and cash equivalents, beginning of year		43,651	44,389
Cash and cash equivalents, end of year	$	66,407	43,651
Supplemental cash flow information:			
Interest paid	$	103	75
Taxes paid		410	318
Contributed services and materials		54,291	59,286
Equipment purchased by capital lease		436	684

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The American Heart Association, Inc. (the Association or AHA) has as its mission the reduction of disability and death from cardiovascular diseases and stroke.

The Association provides funding for cardiovascular and stroke research, public health education, and community services programs that inform Americans about what they can do to prevent heart disease and stroke, and for professional education programs that help healthcare professionals prevent, detect, and treat cardiovascular diseases and stroke. The Association's principal source of revenue is money contributed by the general public.

(b) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors.

Temporarily restricted net assets – net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – net assets required to be maintained in perpetuity, due to donor-imposed restrictions. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specified purposes.

(c) Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less. The Association has classified any cash or money market accounts held by external investment managers as investments as these funds are not intended for current operations.

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(d) Investments

Investments primarily include assets invested for long term capital appreciation, but also include short term investments available for operations, totaling $97 million and $106 million as of June 30, 2012 and 2011, respectively. Interest and dividend income is presented net of investment advisory/management fees and is reflected as net interest and dividends in the statement of activities. All investment income is credited directly to unrestricted net assets unless otherwise restricted by the donor or required by accounting convention. All capital appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor, applicable law, or accounting convention. All investments are carried at fair value with the related gains and losses included in the statement of activities. The fair value of equity securities, debt securities, derivatives, and investments in partnerships with readily determinable fair values approximates quoted market prices. The fair value of real estate and buildings held as investments is estimated using private valuations of the properties held. Investments with limited marketability, including investments in certain partnerships, are stated at fair value as estimated by the general partner and reviewed by management.

(e) Contributions and Bequests

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 their use or are subject to time restrictions. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Association is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by a probate court and the proceeds are measurable.

The Association records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of gift using risk-adjusted interest rates applicable to the years in which the promises are expected to be received, ranging from 0.2% to 3.9%. Accretion of the discounts is recognized as contribution revenue using the effective interest method.

The Association recognizes conditional promises to give when the conditions stipulated by the donor are substantially met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

(f) Research Awards and Grants

The Association awards funds each year to support cardiovascular and related research projects. The projects generally extend over a period of one to five years, subject to renewal at the option of the board of directors. Continued funding is conditional on demonstration of adequate progress. The liability and related expenses are recorded when the recipients are notified of their awards, and the liability is reported as research awards payable in the balance sheet.

Awards that are expected to be paid in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of award using interest rates applicable to the years in which awards are granted, ranging from 0.3% to 2.1%. Accretion of the discounts is recognized as research – awards and grants expense, using the effective interest method, in the statement of functional expenses.

(g) Exchange Transactions

The Association records revenues from exchange transactions as increases in unrestricted net assets to the extent that the earnings process is complete. These transactions include conferences, subscriptions, royalty revenues, licensing fees, and advertising fees from journal publications. Receivables from exchange transactions are expected to be collected within one year and are recorded at net realizable value.

(h) Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out method and consists of educational, promotional, and campaign materials held for use in program services and sales to unrelated parties.

(i) Land, Buildings, and Equipment

Donated property and equipment are recorded at fair value at date of receipt, and expenditures for land, buildings, and equipment are capitalized and stated at cost. Depreciation of buildings and equipment is provided on a half-year convention basis over estimated useful lives of the assets, ranging from 2 to 40 years (land leasehold – length of the leasehold interest; building and improvements – 5 to 40 years; and furniture and equipment – 2 to 7 years).

(j) Contributed Services and Materials

The Association recognizes contributions of materials at their estimated fair value at date of donation. The Association reports gifts of land, buildings, equipment, and other nonmonetary contributions as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how and how long the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(Continued)

Contributed materials reported in the statement of activities were allocated as follows in 2012 and 2011 (in thousands):

		2012	2011
Public health education	$	44,229	50,269
Professional education		3,128	3,359
Management and general		19	3
Fundraising		29	117
Total contributed materials	$	47,405	53,748

The Association recognizes contributions of services received if such services (a) create or enhance nonfinancial assets, or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

Contributed services reported in the statement of activities were allocated as follows in 2012 and 2011 (in thousands):

		2012	2011
Research	$	6,085	5,108
Public health education		393	339
Professional education		345	—
Management and general		27	16
Fundraising		36	75
Total contributed services	$	6,886	5,538

Public service announcements of approximately $44,169,000 and $50,245,000 were included in contributed materials revenue on the statement of activities and printing and publication on the statement of functional expenses for the years ended June 30, 2012 and 2011, respectively.

In addition, the Association receives services from a large number of volunteers who give significant amounts of their time to the Association’s programs, fundraising campaigns, and management. No amounts have been reflected for these types of donated services, as they do not meet the criteria for recognition.

(k) Deferred Revenue

Resources received in exchange transactions are recognized as deferred revenue to the extent that the earnings process has not been completed. These resources are recorded as unrestricted revenues when the related obligations have been satisfied.

(l) Net Assets

Public support and other revenues received during the fiscal year are used to fund research awards, programs, and operations. A portion of unrestricted net assets is available for unfunded

(Continued)

commitments, program supplementation, and operating contingencies directed by specific action of the board of directors and is reserved for the continuity of the Association's general activities and to meet emergency demands.

(m) Functional Allocation of Expenses

The costs of providing the various programs and supporting services are summarized on a functional basis in the statement of functional expenses. Certain costs are allocated among the program and supporting services benefited.

(n) Income Taxes

The Association is exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in IRC Section 501(c)(3). Further, the Association has been classified as an organization that is not a private foundation under IRC Section 509(a) and, as such, contributions to the Association qualify for deduction as charitable contributions. However, income generated from activities unrelated to the Association's exempt purpose is subject to tax under IRC Section 511. The Association did not have any material unrelated business income tax liability for the years ended June 30, 2012 and 2011. The Association believes that it has taken no significant uncertain tax positions.

(o) Fair Value of Financial Instruments

The estimated fair value amounts for specific groups of financial instruments are presented within the footnotes applicable to such items. Accounts receivable, other than split-interest agreements, and accounts payable are stated at cost, which approximates fair value, due to their short term to maturity.

(p) Split-Interest Agreements

The Association has received as contributions various types of split-interest agreements, including charitable gift annuities, pooled income funds, charitable remainder trusts, and perpetual trusts. Under the charitable gift annuity arrangement, the Association has recorded the assets at fair value and the liabilities to the donor or his/her beneficiaries at the present value of the estimated future payments to be distributed by the Association to such individuals. The amount of the contribution is the difference between the asset and the liability and is recorded as unrestricted revenue, unless otherwise restricted by the donor.

Under the pooled income fund and charitable remainder trust arrangements, the Association has recorded the contribution as temporarily restricted contribution revenue at the present value of the estimated future benefits to be received. Subsequent changes in fair value for charitable remainder trusts are recorded as changes in value of split-interest agreements in the temporarily restricted net asset class and are reported as changes in value of split-interest agreements in the statement of activities.

The discount rates used at June 30, 2012 and 2011 were 4.0% and 5.0%, respectively.

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Under the perpetual trust arrangement, the Association has recorded the asset and has recognized permanently restricted contribution revenue at the fair market value of the Association's beneficial interest in the trust assets. Investments in mineral interests, which have a limited marketability, are stated at fair value, as estimated based on a multiple of annual revenues. Distributions received on the trust assets are recorded as unrestricted revenue in the statement of activities, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as net unrealized gains or losses on beneficial interest in perpetual trusts in the permanently restricted net asset class.

(q) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Summarized Comparative Totals

The financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

(2) Investments

Investments at June 30, 2012 and 2011, and related returns for the years then ended consisted of the following (in thousands):

	June 30, 2012		
	Interest and dividends (expenses)	**Realized and unrealized gains (losses)**	**Fair value**
Equity securities	$ 4,332	(8,598)	221,185
U.S. Treasury and government agency obligations	747	2,020	89,852
Corporate notes and bonds	2,850	45	61,281
Foreign debt	997	(841)	18,445
Mortgage-backed securities	1,472	(1,046)	16,239
Derivatives	(268)	(577)	(127)
Real estate and other	105	67	4,168
Short-term investments	123	15	92,876
Unsettled trades and other receivables, net	199	80	(240)
Investment expenses	(1,587)	—	—
Total	$ 8,970	(8,835)	503,679

		June 30, 2011		
		Interest and dividends (expenses)	**Realized and unrealized gains (losses)**	**Fair value**
Equity securities	$	4,678	54,682	235,130
U.S. Treasury and government agency obligations		1,505	1,148	29,316
Corporate notes and bonds		1,852	1,612	60,222
Foreign debt		421	1,416	23,780
Mortgage-backed securities		1,372	(408)	34,120
Derivatives		591	16	(557)
Real estate and other		45	104	3,820
Short-term investments		136	12	56,591
Unsettled trades and other receivables, net		15	(29)	74,109
Investment expenses		(1,923)	—	—
Total	$	8,692	58,553	516,531

(a) Derivative Financial Instruments

The Association's assets include publicly traded equity and fixed income investments whose purpose is to allow for appreciation and growth of the assets to offset erosion in asset values as a result of inflation. These investments are exposed to various risks, including:

1. *Volatility risk*, the risk that stock prices will decrease, reducing the fair value of AHA's equity investments

2. *Interest rate risk*, the risk that interest rates will increase, reducing the fair value of AHA's fixed income investments

3. *Credit (default) risk*, the risk that a company may default on its bonds, reducing the value of AHA's fixed income investments

4. *Exchange rate risk*, the risk that foreign exchange rates will change relative to the U.S. Dollar, reducing the value of AHA's foreign equity investments

Management believes it is prudent to mitigate the effect of these risks to the extent practicable, and to maintain exposure to various segments of the securities markets in order to meet the short-term and long-term needs of the Association. In connection with the Association's fixed income investments, AHA has granted limited use of derivatives, provided the derivatives are standardized and are used to control, manage, or hedge investment risk at the portfolio level. Any derivatives must be used with adequate diversification and as part of a total portfolio strategy that is non-speculative. Derivative use must be consistent with the Association's derivative requirements and the investment manager's stated investment approach. By nature, a liquid market for these instruments exists and can reasonably be expected to continue to exist even under adverse conditions.

Derivatives typically used by AHA's investment managers include futures, forward contracts, options, and swaps. The managers employ various control measures to prevent losses caused by derivatives. For example, net long futures, forwards, or swaps positions are backed with high-grade, liquid debt securities. The fair values of the derivatives are included in the fair value of the overall portfolio.

(3) Fair Value Measurements

The following tables present information about the Association's assets that are measured at fair value on a recurring basis (no liabilities are reported at fair value) as of June 30, 2012 and 2011, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. The three levels for measuring fair value are based on the reliability of inputs and are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities, such as publicly traded equity securities.

Level 2 – inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means. Inputs and valuation techniques used to measure investment fair value include prices quoted by various pricing organizations used by AHA's investment custodian. These prices are reconciled by AHA's investment managers. Where AHA's custodian and managers are not independent, management verifies a sample of Level 2 prices, usually by consultation with AHA's investment consultant.

Level 3 – inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect the Association's assumptions based on the best information available in the circumstances. Inputs and valuation techniques used to measure fair value of Level 3 assets include reported fair value at the time of a gift, independent appraisals, published multiples of similar securities, or face value. At June 30, 2012, less than 1% of investment values are based upon Level 3 inputs. Split-interest agreements and perpetual trusts are revalued annually based on investment statements provided by a third party trustee.

	Balance June 30, 2012	Fair value measurements at reporting date using — Level 1	Level 2	Level 3
		(In thousands)		
1. Equity securities:				
a. Domestic stocks	$ 155,775	155,775	—	—
b. International stocks	64,511	64,511	—	—
c. Nonpublic corporations	899	—	—	899
2. Debt securities:				
a. U.S. Treasuries	51,123	—	51,123	—
b. Government agencies	38,729	—	38,629	100
c. Investment grade credit	42,835	—	42,835	—
d. High yield credit	18,446	—	18,446	—
e. Non-U.S. developed	15,149	—	15,149	—
f. Emerging market debt	3,296	—	3,296	—
3. Mortgage-backed securities	16,239	—	16,239	—
4. Derivatives:				
a. U.S. Treasury futures	3,068	—	3,068	—
b. Net treasury futures due to counterparties	(3,068)	—	(3,068)	—
c. Currency forward positions	(5,241)	—	(5,241)	—
d. Currency forwards due from counterparties	5,274	—	5,274	—
e. Credit default swaps	711	—	711	—
f. Interest rate swaps	(538)	—	(538)	—
g. Option premiums and others	(333)	—	(333)	—
5. Real estate and other	4,168	—	1,478	2,690
6. Short-term investments	92,876	4,735	88,141	—
7. Unsettled trades and other receivables, net	(240)	(240)	—	—
Investment subtotals	503,679	224,781	275,209	3,689
Split-interest agreements receivable, net	65,795	—	—	65,795
Beneficial interest in perpetual trusts	125,674	—	—	125,674
	$ 695,148	224,781	275,209	195,158

	Balance June 30, 2011	Level 1	Level 2	Level 3
		Fair value measurements at reporting date using		
		(In thousands)		
1. Equity securities:				
a. Domestic stocks	$ 178,572	178,572	—	—
b. International stocks	55,659	55,659	—	—
c. Nonpublic corporations	899	—	—	899
2. Debt securities:				
a. U.S. Treasuries	20,825	—	20,825	—
b. Government agencies	8,491	—	8,191	300
c. Investment grade credit	55,135	—	55,135	—
d. High yield credit	5,087	—	5,087	—
e. Non-U.S. developed	18,231	—	18,231	—
f. Emerging market debt	5,549	—	5,549	—
3. Mortgage-backed securities	34,120	—	34,120	—
4. Derivatives:				
a. Money market futures	66,118	—	66,118	—
Less money market futures due to counterparties	(66,118)	—	(66,118)	—
b. U.S. Treasury futures	2,814	—	2,814	—
c. Net treasury futures due to counterparties	(2,814)	—	(2,814)	—
d. Currency forward positions	(9,369)	—	(9,369)	—
e. Currency forwards due from counterparties	9,256	—	9,256	—
f. Credit default swaps	3,194	—	3,194	—
g. Interest rate swaps	(3,081)	—	(3,081)	—
h. Option premiums and others	(557)	—	(557)	—
5. Real estate and other	3,820	—	824	2,996
6. Short-term investments	56,591	3,873	52,718	—
7. Unsettled trades and other receivables, net	74,109	74,109	—	—
Investment subtotals	516,531	312,213	200,123	4,195
Split-interest agreements receivable, net	74,348	—	—	74,348
Beneficial interest in perpetual trusts	128,026	—	—	128,026
	$ 718,905	312,213	200,123	206,569

The change in the fair value of the Association's assets valued using significant unobservable inputs (Level 3) is shown below (in thousands):

		Investments	Split-interest agreements	Perpetual trusts	Total
Balance June 30, 2010	$	4,035	73,267	111,993	189,295
Total net gains		103	1,927	12,801	14,831
Acquisitions		—	403	3,305	3,708
Settlements		(43)	(1,249)	(73)	(1,365)
Purchases		100	—	—	100
Sales		—	—	—	—
Balance June 30, 2011		4,195	74,348	128,026	206,569
Total net losses		(265)	(1,759)	(2,341)	(4,365)
Acquisitions		—	1,715	—	1,715
Settlements		(41)	(8,509)	(11)	(8,561)
Purchases		—	—	—	—
Sales		(200)	—	—	(200)
Balance June 30, 2012	$	3,689	65,795	125,674	195,158

The change in value of split-interest agreements valued using significant unobservable inputs is included in change in value of split-interest agreements in the accompanying statement of activities. The change in value of perpetual trusts using significant unobservable inputs is included in the net unrealized gains (losses) on beneficial interest in perpetual trusts in the accompanying statement of activities. The change in unrealized loss relating to assets still held at the reporting date is approximately $4,239,000.

(4) Endowments

The Association's endowment program consists of donor-restricted endowment funds, and does not include any funds designated by the Board of Directors to function as endowments. The endowment program is subject to the New York Prudent Management of Institutional Funds Act (NYPMIFA).

Absent explicit donor stipulations to the contrary, the Association classifies the original value of gifts donated to the permanent endowment as well as accumulations to the permanent endowment made at the direction of the donor as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, 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 endowment fund

2. The purposes of the Association and the donor-restricted endowment fund

3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Association
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Association
8. The investment policy of the Association

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2010	$ (1,332)	4,092	36,977	39,737
Investment return:				
Investment income	17	930	—	947
Net appreciation	1,350	5,494	155	6,999
Contributions	—	—	1,771	1,771
Reclassifications and others	(35)	35	—	—
Appropriation for expenditure	—	(597)	—	(597)
Endowment net assets, June 30, 2011	—	9,954	38,903	48,857
Investment return:				
Investment income	—	955	41	996
Net (depreciation)	(22)	(1,307)	—	(1,329)
Contributions	—	—	101	101
Reclassifications and others	—	—	73	73
Appropriation for expenditure	—	(1,699)	—	(1,699)
Endowment net assets, June 30, 2012	$ (22)	7,903	39,118	46,999

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. If applicable, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of June 30, 2011. Total deficiencies as of June 30, 2012 were approximately $22,000 and resulted primarily from unfavorable market fluctuations. The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Directors, the endowment assets are invested in a manner that seeks to produce results that exceed the price and yield results of a mix of relevant benchmarks, while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Association has a policy of appropriating for distribution each year an amount not to exceed 4% of each endowment's average fair market value over the prior five years through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Association considered the long-term expected return on its endowments, mentioned above.

(5) Unconditional Promises

As of June 30, 2012 and 2011, the Association has received unconditional promises to give, consisting primarily of pledges and split-interest agreements as follows (in thousands):

		2012	2011
Less than one year	$	102,375	97,295
One to five years		54,579	42,896
More than five years		105,701	139,157
Subtotal		262,655	279,348
Allowance for uncollectible accounts		(6,623)	(6,857)
Discount		(40,622)	(65,808)
Total	$	215,410	206,683

The Association maintains an allowance for doubtful accounts for estimated credit losses resulting from collection risks, including the inability of donors to make required payments under contractual agreements. The allowance for doubtful accounts is reported as a reduction of accounts receivable in the consolidated balance sheets. The adequacy of this allowance is determined by evaluating historical delinquency and write-off trends, specific known collection risks, historical payment trends, as well as current economic conditions.

(6) Land, Buildings, and Equipment

At June 30, 2012 and 2011, land, buildings, and equipment, and the related accumulated depreciation and amortization were as follows (in thousands):

		2012	2011
Land and leasehold improvements	$	16,760	17,339
Buildings and improvements		83,087	84,331
Equipment and furniture		94,576	88,728
Total		194,423	190,398
Less accumulated depreciation and amortization		(122,657)	(115,481)
Land, buildings, and equipment, net	$	71,766	74,917

(7) Leases

(a) Operating Leases

The Association has operating lease agreements for office space and equipment. Future annual minimum lease payments due under noncancelable leases as of June 30, 2012 are as follows (in thousands):

2013	$	8,938
2014		8,024
2015		7,534
2016		7,500
2017		5,068
Thereafter		6,142
Total	$	43,206

Total operating lease expense for the years ended June 30, 2012 and 2011 was approximately $9,195,000 and $9,520,000, respectively.

(Continued)

(b) Capital Leases

The Association leases office equipment under capital lease agreements expiring on various dates through 2017. As of June 30, 2012, the future minimum lease payments under capital leases were as follows (in thousands):

2013	$	772
2014		508
2015		191
2016		105
2017		15
Total		1,591
Less:		
Amount representing interest		(61)
Amount representing support and maintenance		(81)
Present value of lease obligation, included in other liabilities	$	1,449

(8) Retirement Plans

The Association has a 401(a) defined contribution plan (the Plan). Eligible participants include full-time and part-time employees who are at least 21 years of age and have at least two years of service with an accumulation of at least 1,000 hours per year. A year of service is defined as a period of 12 consecutive months beginning on an employee's date of hire. Employees are 100% vested upon satisfaction of the eligibility period.

The Association contributes to the Plan an amount equal to the following percentages of base salary, as defined by the Plan, depending upon the participant's years of service:

Participant's years of service	Contribution percentage
2 to 5	6%
Greater than 5 but less than 10	8
10 or more	10

In addition, the Association contributes to the Plan an employer matching contribution, equal to 100% of each participant's elective contribution up to 4% of base salary to a 403(b) plan also sponsored by the Association. These elective contributions may be made by an employee beginning the first of the month following two years of service. Participants are not permitted to contribute to the Plan.

Total retirement plan costs for the years ended June 30, 2012 and 2011 were approximately $16,380,000 and $15,995,000, respectively.

(Continued)

(9) Conflict of Interest Policy and Standards

Included among the Association's officers, board, and committee members are volunteers from the business, medical, and scientific community who provide valuable assistance to the Association in the development of policies and programs and in the evaluation of research awards and grants and business relationships. The Association has adopted a conflict of interest policy and standards whereby volunteers are required to abstain from participating in or otherwise attempting to influence decisions in which they have a personal, professional, or business interest.

(10) Allocation of Joint Costs

The Association conducts joint activities (activities benefiting multiple programs and/or supporting services) that include fundraising appeals. Those activities primarily include direct mail campaigns and special events. The costs of conducting those joint activities were allocated as follows in 2012 and 2011 (in thousands):

		2012	2011
Public health education	$	139,910	143,399
Professional education and training		4,896	5,127
Community services		14,893	298
Management and general		21,277	18,863
Fundraising		46,579	45,212
Total joint costs	$	227,555	212,899

(11) Research Awards Payable

The activity in research awards liabilities during the years ended June 30, 2012 and 2011 and the amounts payable by year are summarized below (in thousands):

		2012	2011
Beginning balance, June 30	$	270,499	301,665
Awards expense:			
New awards		133,351	127,055
Cancellations, declinations, and refunds		(17,497)	(17,897)
Research awards expense before discount		115,854	109,158
Change in discount		1,018	1,730
Total research awards expense		116,872	110,888
Payments		(126,577)	(142,054)
Ending balance, June 30	$	260,794	270,499

(Continued)

Payable in year ending June 30:		
2013	$	132,777
2014		80,702
2015		28,695
2016		15,577
2017		4,516
Thereafter		429
Total		262,696
Less unamortized discount		(1,902)
Net research awards payable	$	260,794

(12) Postretirement Benefits

The Association provides postretirement benefits to eligible past and present employees. Eligibility includes those who have retired or will retire at age 55 or thereafter, and who have been employed by the Association for at least 10 years of service prior to retirement. The Association provides eligible employees who retire prior to age 65 with medical, dental and life insurance. Dental and life insurance terminate at age 65.

During fiscal year 2009, eligibility requirements for the postretirement benefit plan were amended. As of the March 1, 2009 effective date, present employees (a) who had at least 10 years of continuous service with the Association, or (b) whose age and years of continuous service with the Association summed to at least 50, maintained their eligibility. As of the March 1, 2009 effective date, present employees who did not meet either of these eligibility requirements may still participate in the plan upon retirement prior to age 65, but will be responsible for 100% of the cost. New employees joining the Association after March 1, 2009 are not eligible for postretirement benefits.

(Continued)

As of June 30, 2012 and 2011, the accumulated postretirement benefit obligation (APBO) is calculated using a discount rate of 4.10% and 5.05%, respectively. The following table presents information with respect to the postretirement benefit plans as of and for the years ended June 30, 2012 and 2011 (in thousands):

		2012	2011
Changes in accumulated postretirement benefit obligation:			
APBO, beginning of year	$	10,568	17,504
Service cost		453	811
Interest cost		514	788
Actuarial loss (gain)		898	(7,435)
Participant contributions		228	328
Benefits paid		(1,009)	(1,428)
APBO, end of year		11,652	10,568
Changes in plan assets:			
Fair value of plan assets, beginning of year		—	—
Employer contributions		781	1,100
Participant contributions		228	328
Benefits paid		(1,009)	(1,428)
Fair value of plan assets, end of year		—	—
Funded status:			
Unfunded benefit obligation, June 30 – included in other liabilities	$	11,652	10,568

		2012	2011
Changes in prior service credit:			
Prior service credit, beginning of year	$	(146)	(189)
Amortization of prior service credit		43	43
Prior service credit, end of year	$	(103)	(146)
Changes in net actuarial (gain) loss:			
Net actuarial (gain) loss, beginning of year	$	(2,563)	5,385
Amortization of net actuarial gain (loss)		128	(513)
Actuarial loss (gain)		898	(7,435)
Unrecognized net actuarial gain, end of year	$	(1,537)	(2,563)
Components of net periodic benefit cost:			
Service cost	$	453	811
Interest cost		514	788
Amortization of prior service credit		(43)	(43)
Amortization of net actuarial (gain) loss		(128)	513
Net periodic benefit cost	$	796	2,069
Amounts expected to be recognized as components of net periodic benefit cost during the next fiscal year:			
Amortization of prior service credit	$	(43)	(43)
Amortization of unrecognized net actuarial gain		(32)	(128)
Total	$	(75)	(171)

The assumed healthcare cost trend rates as of June 30, 2012 and 2011 are as follows:

	2012	2011
Healthcare cost trend rate assumed for next year	9.0%	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0	5.0
Year that the rate reaches the ultimate trend rate	2,030.0	2,029.0

The healthcare cost trend rate assumption has a significant impact on the postretirement benefit costs and obligations. The effect of a 1% change in the assumed healthcare cost trend rate at June 30, 2012 would have resulted in a $1,010,000 increase or $906,000 decrease in the accumulated postretirement benefit obligation, and a $90,000 increase or $81,000 decrease in the fiscal year 2012 benefit expense.

(13) Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2012 and 2011 have been restricted by donors as follows (in thousands):

	Temporarily restricted		Permanently restricted	
	2012	**2011**	**2012**	**2011**
Research	$ 30,279	17,126	—	—
Other programs	73,079	68,208	—	—
Split-interest agreements	47,669	64,208	418	466
Beneficial interest in perpetual trusts	—	—	125,674	128,026
Time restrictions	65,614	68,030	—	—
Endowment funds	7,903	9,954	39,118	38,903
Total restricted net assets	$ 224,544	227,526	165,210	167,395

(14) Commitments and Contingencies

During the normal course of business, the Association is involved in various claims and lawsuits. In the opinion of management, the potential loss on any claims and lawsuits, net of insurance proceeds, will not be significant to the Association's financial position or changes in net assets.

(15) Subsequent Events

The Association evaluated subsequent events after the balance sheet date of June 30, 2012 through November 1, 2012, which was the date the financial statements were issued, and concluded that no additional disclosures are required.