KPMG

AMERICAN HEART ASSOCIATION, INC.

Financial Statements

June 30, 2017

(With Independent Auditors' Report Thereon)

AMERICAN HEART ASSOCIATION, INC.

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KPMG LLP
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2323 Ross Avenue
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Independent Auditors' Report

The Board of Directors
American Heart Association, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the American Heart Association, Inc. (the Association), which comprise the statements of activities, functional expenses, and cash flows for the year ended June 30, 2017, the related balance sheet as of June 30, 2017, 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 U.S. generally accepted accounting principles; 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 audit. 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 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 organization'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 organization'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 the American Heart Association, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the American Heart Association, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 27, 2017

AMERICAN HEART ASSOCIATION, INC.

Statement of Activities

Year ended June 30, 2017
(with summarized comparative totals for the year ended June 30, 2016)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2017 Total	2016 Total
Revenue:					
Public support:					
Contributions	$ 71,691	79,100	19	150,810	180,872
Contributed services and materials	60,163	—	—	60,163	70,556
Special events	281,184	96,544	—	377,728	376,701
Less direct donor benefits	(43,912)	—	—	(43,912)	(42,892)
Bequests	59,131	13,346	34	72,511	78,716
Split-interest agreements	119	1,001	123	1,243	1,583
Federated and nonfederated fund-raising organizations	1,954	1,051	—	3,005	4,269
Total public support	430,330	191,042	176	621,548	669,805
Other revenue:					
Program fees	25,569	—	—	25,569	26,008
Sales of educational materials	142,140	—	—	142,140	136,025
Membership dues	4,398	—	—	4,398	3,565
Grants from government agencies	8,142	—	—	8,142	9,212
Interest and dividends, net of fees	10,073	1,024	—	11,097	10,390
Net realized and unrealized gains (losses) on investments	45,865	5,165	—	51,030	(6,572)
Perpetual trust distributions	5,341	1,469	—	6,810	6,632
Net unrealized gains (losses) on beneficial interest in perpetual trusts	—	—	4,914	4,914	(9,884)
Change in value of split-interest agreements	(521)	7,806	13	7,298	(3,009)
Royalty revenue	18,866	—	—	18,866	17,992
Miscellaneous revenue (losses), net	12,940	(2,765)	—	10,175	3,190
Total other revenue	272,813	12,699	4,927	290,439	193,549
Net assets released from restrictions:					
Satisfaction of purpose restrictions	102,988	(102,988)	—	—	—
Expiration of time restrictions	81,319	(81,215)	(104)	—	—
Total net assets released from restrictions	184,307	(184,203)	(104)	—	—
Total revenue	887,450	19,538	4,999	911,987	863,354

AMERICAN HEART ASSOCIATION, INC.

Statement of Activities

Year ended June 30, 2017
(with summarized comparative totals for the year ended June 30, 2016)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2017 Total	2016 Total
Expenses:					
Program services:					
Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	$ 184,676	—	—	184,676	174,692
Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke	312,872	—	—	312,872	316,426
Professional education and training – to improve the knowledge, skills, and techniques of health professionals	160,734	—	—	160,734	143,869
Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities	74,366	—	—	74,366	69,983
Total program services	732,648	—	—	732,648	704,970
Supporting services:					
Management and general – to provide executive direction, financial management, overall planning, and coordination of the Association's activities	58,914	—	—	58,914	60,816
Fundraising – to secure financial support from the public	101,543	—	—	101,543	96,117
Total supporting services	160,457	—	—	160,457	156,933
Total program and supporting services expenses	893,105	—	—	893,105	861,903
Change in net assets before postretirement changes other than net periodic benefit cost	(5,655)	19,538	4,999	18,882	1,451
Postretirement changes other than net periodic benefit cost	(29)	—	—	(29)	(240)
Change in net assets	(5,684)	19,538	4,999	18,853	1,211
Net assets, beginning of year	381,637	325,573	182,200	889,410	888,199
Net assets, end of year	$ 375,953	345,111	187,199	908,263	889,410

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Functional Expenses

Year ended June 30, 2017
(with summarized comparative totals for the year ended June 30, 2016)

(In thousands)

	Research	Public health education	Professional education/ training	Community services	Subtotal program services	Management and general	Fundraising	Subtotal supporting services	2017 Total	2016 Total
Salaries, taxes, and benefits	$ 5,785	172,198	48,252	32,427	258,662	39,852	60,130	99,982	358,644	337,726
Awards and grants	158,425	5,537	3,372	5,349	172,683	—	—	—	172,683	170,177
Occupancy	41	10,242	1,339	1,758	13,380	1,866	2,675	4,541	17,921	16,718
Printing and publication	88	56,196	43,919	13,369	113,572	1,965	10,389	12,354	125,926	134,324
Conferences, meetings, and travel	1,811	17,638	21,131	5,071	45,651	5,544	9,542	15,086	60,737	53,048
Professional fees	16,027	21,415	34,033	11,441	82,916	1,667	6,161	7,828	90,744	88,585
Other operating expenses	2,361	23,086	7,126	3,851	36,424	6,787	10,744	17,531	53,955	49,952
Depreciation and amortization	138	6,560	1,562	1,100	9,360	1,233	1,902	3,135	12,495	11,373
Total functional expenses before direct donor benefits	184,676	312,872	160,734	74,366	732,648	58,914	101,543	160,457	893,105	861,903
Direct donor benefits	—	—	—	—	—	—	—	—	43,912	42,892
Total functional expenses and direct donor benefits	$ 184,676	312,872	160,734	74,366	732,648	58,914	101,543	160,457	937,017	904,795

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Balance Sheet

June 30, 2017
(with comparative amounts for June 30, 2016)

(In thousands)

Assets		**2017**	**2016**
Cash and cash equivalents	$	45,720	81,610
Investments		736,035	692,765
Receivables:			
Pledges, net		229,766	198,675
Exchange transactions		17,113	16,576
Other		18,947	21,333
Bequests		14,979	20,144
Split-interest agreements, net of discount		72,222	67,012
Prepaid expenses and other assets		19,922	21,921
Beneficial interest in perpetual trusts		141,918	136,985
Land, buildings, and equipment, net		67,487	69,426
Total assets	$	1,364,109	1,326,447
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	71,251	77,380
Deferred revenue		9,817	9,085
Research awards payable		339,983	315,573
Other liabilities		34,795	34,999
Total liabilities		455,846	437,037
Net assets:			
Unrestricted:			
Available for research, program, and supporting activities		308,466	312,211
Investment in land, buildings, and equipment		67,487	69,426
Total unrestricted		375,953	381,637
Temporarily restricted		345,111	325,573
Permanently restricted		187,199	182,200
Total net assets		908,263	889,410
Total liabilities and net assets	$	1,364,109	1,326,447

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Cash Flows

Year ended June 30, 2017
(with comparative amounts for the year ended June 30, 2016)

(In thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	18,853	1,211
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		12,495	11,373
Net realized and unrealized losses (gains) on investments		(51,030)	6,572
Net unrealized losses (gains) on beneficial interest in perpetual trusts		(4,914)	9,884
Change in value of split-interest agreements		(7,298)	3,009
Losses (gains) on sale of fixed assets		(1,023)	7
Losses on uncollectible accounts and settlement of receivables		4,252	3,478
Contributions to endowment		(53)	(241)
Changes in operating assets and liabilities:			
Receivables		(28,330)	(66,625)
Prepaid expenses and other assets		1,999	(5,009)
Beneficial interest in perpetual trusts		(19)	(1,030)
Split-interest agreements		1,500	1,329
Accounts payable and accrued expenses		(6,129)	6,119
Deferred revenue		732	2,258
Research awards payable		24,410	27,529
Other liabilities		1,043	653
Net cash (used in) provided by operating activities		(33,512)	517
Cash flows from investing activities:			
Purchases of fixed assets		(11,382)	(10,472)
Proceeds from sale of fixed assets		2,390	1
Purchases of investments		(278,666)	(315,836)
Proceeds from sales/maturities of investments		286,426	384,525
Net cash (used in) provided by investing activities		(1,232)	58,218
Cash flows from financing activities:			
Payments on mortgage notes payable and capital leases		(1,199)	(740)
Contributions to endowment		53	241
Net cash (used in) financing activities		(1,146)	(499)
Net (decrease) increase in cash and cash equivalents		(35,890)	58,236
Cash and cash equivalents, beginning of year		81,610	23,374
Cash and cash equivalents, end of year	$	45,720	81,610
Supplemental cash flow information:			
Interest paid	$	47	55
Taxes paid		392	289
Contributed services and materials		60,163	70,556
Equipment purchased by capital lease		544	287

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 to build healthier lives, free 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 provisions 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, 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.

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.

(Continued)

(d) Investments and Related Income

Investments primarily include assets invested for long-term capital appreciation, but also include short-term investments available for operations, totaling $140 million and $134 million as of June 30, 2017 and 2016, respectively. 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, and mutual funds with readily determinable fair values approximates quoted market prices. The fair value of real estate and other properties held as investments is estimated using private valuations of the properties held. For investments with limited marketability, including investments in certain partnerships, the Association has adopted the concept of "practical expedient," under which investments are stated at estimated fair value using net asset values as provided by the general partners and fund managers and as reviewed by management. These net asset values are based on underlying securities and holdings, which may be valued at quoted market prices, comparable investments, appraised values, or discounted cash flows. As a practical expedient to determine fair value, investments in fund of funds are reported using net asset values of the underlying funds as provided by the individual fund managers. The fund of funds manager reserves the right to adjust the reported net asset value if it is deemed not to be reflective of fair value. Because of the inherent uncertainty of valuations of investments in the underlying funds, their estimated values may differ significantly from the values that would have been used had a ready market for the underlying funds existed, and the difference could be material. Management relies upon the audited financial statements of the fund of funds performed by a third-party auditor. 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 reported as unrestricted unless otherwise restricted by the donor or required by accounting convention. All 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.

(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. 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, with rates ranging from 1.24% to 2.99%. Accretion of the discounts is recognized as contribution revenue using the effective-interest method.

(Continued)

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, stroke and related research projects. The projects generally extend over a period of one to five years. 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 1.4% to 2.3%. 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 and Deferred Revenue

The Association records revenues from exchange transactions as increases in unrestricted net assets to the extent that the earnings process is complete. Resources received in exchange transactions are recognized as deferred revenue to the extent that the earnings process has not been completed. These transactions primarily include sales of educational materials, 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) 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).

(i) 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 2017 and 2016 (in thousands):

		2017	2016
Research	$	2,214	—
Public health education		39,429	58,606
Professional education		1,397	1,867
Community services		1	—
Management and general		40	9
Fundraising		51	59
Total contributed materials	$	43,132	60,541

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 2017 and 2016 (in thousands):

		2017	2016
Research	$	6,564	6,099
Public health education		1,332	2,797
Professional education		9,012	770
Community services		—	37
Management and general		100	213
Fundraising		23	99
Total contributed services	$	17,031	10,015

Public service announcements of approximately $38,940,000 and $58,584,000 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, 2017 and 2016, 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.

(j) 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 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.

(k) 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.

(l) 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 a material unrelated business income tax liability for the years ended June 30, 2017 and 2016. The Association believes that it has taken no significant uncertain tax positions.

(m) Fair Value of Financial Instruments

The Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Association determines fair value based on assumptions that market participants would use in pricing an asset or a liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels (see note 3):

Level 1 – unadjusted quoted or published 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.

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, 2017, 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 third-party trustees.

(Continued)

Inputs generally refer to the assumptions that market participants use to make valuation decisions. The inputs or methods used for valuing investments are not necessarily an indication of the risk associated with those investments. The valuation methodologies used may involve a significant degree of judgment. Because the Association is under no compulsion to dispose of its investments, the estimated values may not reflect amounts that could be realized upon immediate sale nor amounts that may ultimately be realized.

For the fund of funds investment, which is valued at Net Asset Value (NAV), there were certain redemption restrictions and "side pockets" (that is, a portion of an underlying fund's portfolio segregated for purposes of allocating gains and losses) in place at June 30, 2017. The side pocket is associated with multi-strategy manager and is deemed immaterial at June 30, 2017.

In accordance with ASU 2015-17, investments for which fair value is measured using net asset value have not been categorized within the fair value hierarchy.

(n) 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 for split-interest agreements at June 30, 2017 and 2016 were 2.9% and 3.2%, respectively.

Under the perpetual trust arrangement, the Association has recorded the asset and has recognized permanently restricted contribution revenue at the fair value of the Association's beneficial interest in the trust assets. Investments in oil and gas 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.

(o) Use of Estimates

The preparation of financial statements in conformity with 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. Significant items subject to such estimates and assumptions include the discounts for long-term receivables, research awards payables, and split-interest agreements, the useful lives of fixed assets, the collectability of receivables, the valuation of split-interest agreements, investments and perpetual trusts, the postretirement benefits liability, the allocation of joint costs, and the functionalization of expenses.

(p) 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, 2016, from which the summarized information was derived.

(2) Investments

Investments at June 30, 2017 and 2016 and related returns for the years then ended consisted of the following (in thousands):

	June 30, 2017		
	Interest and dividends (expenses)	Realized and unrealized gains (losses)	Fair value
Equity securities	$ 7,248	47,388	319,650
Governmental securities	835	(573)	68,917
Corporate bonds	1,372	(398)	80,591
Mortgage-backed securities	156	(110)	5,090
Other asset-backed securities	623	(285)	48,247
Fixed income mutual/commingled funds	839	1,427	66,236
Fund of funds	—	2,852	58,273
Real estate and other	1,001	496	18,042
Short-term investments	650	226	63,678
Unsettled trades and other receivables, net	15	7	7,311
Investment expenses	(1,642)	—	—
Total	$ 11,097	51,030	736,035

	June 30, 2016		
	Interest and dividends (expenses)	**Realized and unrealized gains (losses)**	**Fair value**
Equity securities	$ 7,208	(7,143)	302,113
Governmental securities	967	(6)	67,526
Corporate bonds	2,004	(438)	71,924
Mortgage-backed securities	216	(10)	9,623
Other asset-backed securities	726	(183)	48,090
Fixed income mutual/commingled funds	781	1,867	64,151
Fund of funds	—	(1,861)	61,419
Real estate and other	571	936	17,545
Short-term investments	113	154	44,806
Unsettled trades and other receivables, net	(470)	112	5,568
Investment expenses	(1,726)	—	—
Total	$ 10,390	(6,572)	692,765

(3) Fair Value Measurements

The following tables present information about the Association's assets that are measured at fair value on a recurring basis as of June 30, 2017 and 2016, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value:

Assets		Balance June 30, 2017	Fair value measurements at reporting date using Level 1	Level 2	Level 3
1. Equity securities:					
a. Domestic stocks	$	238,675	238,675	—	—
b. International stocks		80,076	80,076	—	—
c. Nonpublic corporations		899	—	—	899
2. Debt securities:					
a. Governmental securities		68,917	—	68,917	—
b. Corporate bonds		80,591	—	80,591	—
c. Mortgage-backed securities		5,090	—	5,090	—
d. Other asset-backed securities		48,247	—	48,247	—
3. Fixed income mutual/commingled funds		23,513	—	23,513	—
4. Real estate and other		2,310	—	—	2,310
5. Short-term investments		63,678	10,544	53,134	—
6. Unsettled trades and other receivables, net		7,311	7,311	—	—
7. Investments reported at net asset value (NAV) (1):					
a. Fixed income mutual/ commingled funds		42,723	—	—	—
b. Fund of Funds		58,273	—	—	—
c. Real estate fund		15,732	—	—	—
Total Investments	$	736,035	—	—	—
8. Split-interest agreements receivable, net of discount	$	72,222	—	—	72,222
9. Beneficial interest in perpetual trusts Split-interest agreements/perpetual trusts (leveled)		141,918	—	—	141,918
	$	214,140			
Liabilities					
1. Gift annuity obligations	$	12,288	—	—	12,288

(1) Investments measured at NAV are presented in the table to allow for reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(Continued)

Assets		Balance June 30, 2016	Fair value measurements at reporting date using Level 1	Level 2	Level 3
1. Equity securities:					
a. Domestic stocks	$	230,559	230,559	—	—
b. International stocks		70,655	70,655	—	—
c. Nonpublic corporations		899	—	—	899
2. Debt securities:					
a. Governmental securities		67,526	—	67,526	—
b. Corporate bonds		71,924	—	71,924	—
c. Mortgage-backed securities		9,623	—	9,623	—
d. Other asset-backed securities		48,090	—	48,090	—
3. Fixed income mutual/commingled funds		22,375	—	22,375	—
4. Real estate and other		2,287	—	—	2,287
5. Short-term investments		44,806	4,429	40,377	—
6. Unsettled trades and other receivables, net		5,568	5,568	—	—
7. Investments reported at net asset value (NAV) (1):					
a. Fixed income mutual/commingled funds		41,776	—	—	—
b. Fund of Funds		61,419	—	—	—
c. Real estate fund		15,258	—	—	—
Total Investments	$	692,765			
8. Split-interest agreements receivable, net of discount	$	67,012	—	—	67,012
9. Beneficial interest in perpetual trusts Split-interest agreements/perpetual trusts (leveled)		136,985	—	—	136,985
	$	203,997			
Liabilities					
1. Gift annuity obligations	$	12,878	—	—	12,878

(1) Investments measured at NAV are presented in the table to allow for reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

There were no transfers between Level 1 and Level 2 during fiscal years ended June 30, 2017 or 2016.

The following summarizes the nature of investments that are reported at estimated fair value using net asset value as of June 30, 2017 (in thousands):

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fund of funds	$ 58,273	—	Various	30–90 days
Real estate fund	15,732	—	Quarterly	45 days
Fixed income mutual/ commingled fund	42,723	—	Weekly	3 days

The following summarizes the nature of investments that are reported at estimated fair value using net asset value as of June 30, 2016 (in thousands):

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fund of funds	$ 61,419	—	Various	30–90 days
Real estate fund	15,258	—	Quarterly	45 days
Fixed income mutual/ commingled fund	41,776	—	Weekly	3 days

The fund of funds is a multi-strategy hedge fund investment whose strategies include, but are not limited to, hedged equity, global macro, commodity trading advisor, event driven, credit, and equity market neutral. Redemptions are allowed monthly, quarterly, and annually.

The real estate fund is an open-end fund that has residential, retail, office, and industrial properties. Redemptions are allowed quarterly with notice required 45 days prior to calendar quarter-end provided that the interest has been held for at least 180 days.

The commingled fixed income fund invests in obligations of varying maturities, including corporate bonds, asset-backed securities, and government and agency securities. The fund may also invest in noninvestment grade securities in addition to securities denominated in foreign currencies and foreign securities denominated in U.S. dollars. Redemptions are allowed weekly.

(Continued)

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

		Investments	Split-interest agreements	Perpetual trusts	Gift annuity obligations
Balance June 30, 2015	$	3,258	73,288	145,839	(14,815)
Total net (losses) gains		(53)	(4,129)	(9,884)	2,394
Acquisitions		—	164	1,030	(1,930)
Settlements		(19)	(2,311)	—	1,473
Balance June 30, 2016		3,186	67,012	136,985	(12,878)
Total net gains		48	7,656	4,914	599
Acquisitions		—	798	124	(548)
Settlements		(24)	(3,244)	(105)	539
Balance June 30, 2017	$	3,210	72,222	141,918	(12,288)

The change in value of split-interest agreements valued using significant unobservable inputs is included in change in value of split-interest agreements financial statement caption 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 financial statement caption in the accompanying statement of activities. The change in unrealized gains/(losses) relating to assets still held at the reporting date is approximately $14,469,000.

The Association independently assesses the valuation for assets classified as Level 3. Unobservable inputs are internally developed for certain asset categories, which include oil and gas interests and split-interest agreements. Oil and gas interests are valued annually using revenue multiples of comparable companies and an appropriate marketability discount. Split-interest agreements are valued on a discounted cash flow basis utilizing asset values reported by third party trustees and appropriate growth and discount factors. Gift annuity obligations are valued on a discounted cash flow basis using an applicable interest rate and life expectancy tables.

(Continued)

Quantitative information regarding unobservable inputs developed by the Association and assumptions used to measure the fair value of the related assets and liabilities of oil and gas interests, split-interest agreements, and gift annuity obligations as of June 30, 2017 is as follows:

Type		Fair value (In thousands)	Valuation technique	Significant unobservable inputs	Range (weighted average)
Split-interest agreements	$	72,222	Discounted cash flow	Growth rate/ discount rate	2.35%–3.37%* 2.99%
Gift annuity obligations		12,288	Discounted cash flow	Discount rate	1%–9.6% 3.6%
Oil and gas interests, included in real estate and other		157	Market comparable companies	Business enterprise value to revenue multiple	9.1x–20.8x (15.5x)
				marketability discount	20%–30% (25%)

* These percentages represent the low and high growth rate ranges plus a risk premium from July 1, 2016–June 30, 2017.

The fair values of the equity in a nonpublic corporation and real estate are based upon periodic third party valuations.

Significant increases (decreases) in the revenue multiples, in isolation, applied would increase (decrease) the estimated fair value of oil and gas interests. A significant increase (decrease) in the marketability discount, in isolation, would (decrease) increase the estimated fair value.

Increases in the discount rate applied to the future anticipated cash flows from split-interest agreements would result in a lower estimated fair value. Conversely, decreases in the discount rate applied would result in a higher estimated fair value. However, the projected growth rate assumptions utilized by management are the same as the discount rate assumptions and, accordingly, the impact on the estimated fair value would be insignificant.

Increases in the discount rate applied to the future anticipated payments associated with gift annuity obligations would result in a lower estimated fair value of the liability. Conversely, decreases in the discount rate applied would result in a higher estimated fair value of the liability.

(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 exclusive of beneficial interests in perpetual and other trusts for the years ended June 30, 2017 and 2016 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$	—	14,248	44,541	58,789
Investment return:					
Investment income		—	1,019	—	1,019
Net depreciation		—	(603)	—	(603)
Contributions		—	—	320	320
Appropriation for expenditure		—	(1,919)	—	(1,919)
Endowment net assets, June 30, 2016		—	12,745	44,861	57,606
Investment return:					
Investment income		—	1,018	—	1,018
Net appreciation		—	5,165	—	5,165
Contributions		—	—	53	53
Appropriation for expenditure		—	(2,076)	—	(2,076)
Endowment net assets, June 30, 2017	$	—	16,852	44,914	61,766

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, 2017 or June 30, 2016. 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.

(Continued)

(5) Unconditional Promises

As of June 30, 2017 and 2016, the Association has received unconditional promises to give, consisting primarily of pledges, split-interest agreements, and bequests, which are scheduled to be received as follows (in thousands):

		2017	2016
Less than one year	$	132,958	133,839
One to five years		120,110	91,624
More than five years		105,073	102,366
Subtotal		358,141	327,829
Allowance for uncollectible accounts		(4,633)	(3,575)
Discount		(35,805)	(36,837)
Total	$	317,703	287,417

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 receivables in the balance sheet. 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, 2017 and 2016, land, buildings, and equipment, and the related accumulated depreciation and amortization were as follows (in thousands):

		2017	2016
Land and leasehold improvements	$	15,472	16,112
Buildings and improvements		74,510	76,221
Equipment and furniture		92,375	118,415
Total		182,357	210,748
Less accumulated depreciation and amortization		(114,870)	(141,322)
Land, buildings, and equipment, net	$	67,487	69,426

(Continued)

(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, 2017 are as follows (in thousands):

2018	$	11,595
2019		8,516
2020		6,117
2021		4,350
2022		3,073
Thereafter		6,721
Total	$	40,372

Total operating lease expense for the years ended June 30, 2017 and 2016 was approximately $11,297,000 and $10,825,000, respectively.

(b) Capital Leases

The Association leases office equipment under capital lease agreements expiring on various dates through 2019. As of June 30, 2017, the future minimum lease payments under capital leases were as follows (in thousands):

2018	$	229
2019		181
2020		82
2021		11
Total		503
Less amount representing interest, support, and maintenance		(51)
Present value of lease obligation, included in other liabilities	$	452

(8) Retirement Plans

The Association has a 401(a) defined-contribution plan (the Plan). Eligible participants include 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. Participants are not permitted to contribute to the Plan.

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.

Total retirement plan costs for the years ended June 30, 2017 and 2016 were approximately $22,750,000 and $20,990,000, respectively.

(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 2017 and 2016 (in thousands):

		2017	2016
Public health education	$	145,123	136,417
Professional education and training		2,361	2,091
Community services		1,250	950
Management and general		25,159	26,267
Fundraising		53,221	51,651
Total joint costs	$	227,114	217,376

(11) Research Awards Payable

The activity in research awards payable during the years ended June 30, 2017 and 2016 and the amounts payable by year are summarized below (in thousands):

		2017	2016
Beginning balance, July 1	$	315,573	288,044
Awards expense:			
New awards		179,651	170,885
Cancellations, declinations, and refunds		(19,415)	(18,575)
Research awards expense before discount		160,236	152,310
Change in discount		(1,811)	601
Total research awards expense		158,425	152,911
Payments		(134,015)	(125,382)
Ending balance, June 30	$	339,983	315,573

Payable in year ending June 30:		
2018	$	160,704
2019		108,763
2020		50,917
2021		18,624
2022		5,815
Thereafter		430
Total		345,253
Less unamortized discount		(5,270)
Net research awards payable	$	339,983

(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.

As of June 30, 2017 and 2016, the accumulated postretirement benefit obligation (APBO) is calculated using a discount rate of 3.6% and 3.35%, respectively. The following table presents information with respect to the postretirement benefit plans as of and for the years ended June 30, 2017 and 2016 (in thousands):

		2017	2016
Changes in accumulated postretirement benefit obligation:			
APBO, beginning of year	$	13,214	12,873
Service cost		335	377
Interest cost		428	524
Actuarial loss		29	240
Participant contributions		270	261
Benefits paid		(1,164)	(1,061)
APBO, end of year		13,112	13,214
Changes in plan assets:			
Fair value of plan assets, beginning of year		—	—
Employer contributions		894	800
Participant contributions		270	261
Benefits paid		(1,164)	(1,061)
Fair value of plan assets, end of year		—	—
Funded status:			
Unfunded benefit obligation, June 30 – included in other liabilities	$	13,112	13,214

(Continued)

		2017	2016
Changes in prior service credit:			
Prior service credit, beginning of year	$	—	(1)
Amortization of prior service credit		—	—
Prior service credit, end of year	$	—	(1)
Changes in net actuarial (gain) loss:			
Net actuarial gain, beginning of year	$	(439)	(679)
Actuarial loss		29	240
Unrecognized net actuarial gain, end of year	$	(410)	(439)

		2017	2016
Components of net periodic benefit cost:			
Service cost	$	335	377
Interest cost		428	524
Net periodic benefit cost	$	763	901

The amount expected to be recognized as components of net periodic benefit cost during the next fiscal year amortization of prior service credit is zero.

The assumed healthcare cost trend rates as of June 30, 2017 and 2016 are as follows:

	2017	2016
Healthcare cost trend rate assumed for next year	6.5 %	7.0 %
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	2031	2031

The healthcare cost trend rate assumption has a impact on the postretirement benefit costs and obligations. The effect of a 1% change in the assumed healthcare cost trend rate at June 30, 2017 would have resulted in an increase of approximately $876,000 or a decrease of approximately $803,000 in the accumulated postretirement benefit obligation and an increase of approximately $73,000 or a decrease of approximately $66,000 in the fiscal year 2017 benefit expense.

(13) Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2017 and 2016 have been restricted by donors as follows (in thousands):

		Temporarily restricted		Permanently restricted	
		2017	**2016**	**2017**	**2016**
Research	$	71,689	78,878	—	—
Other programs		77,435	82,045	—	—
Split-interest agreements		55,411	49,246	367	354
Beneficial interest in perpetual trusts		—	—	141,918	136,985
Time restrictions		123,724	102,659	—	—
Endowment funds		16,852	12,745	44,914	44,861
Total restricted net assets	$	345,111	325,573	187,199	182,200

(14) New Accounting Pronouncements

(a) ASU 2014-09, Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606), which deferred the effective date of the new revenue recognition standard for one year. The new standard is effective for the Association July 1, 2019. Early application is permitted for the Association. The Association is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures.

(b) ASU 2016-14, Not-for-Profit Entities

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*, to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in this Update is permitted. The amendments in this Update should be initially adopted only for an annual fiscal period or for the first interim period within the fiscal year of adoption. The amendments in this Update should be applied on a retrospective basis in the year that the Update is first applied. The Association is evaluating the effect that ASU 2016-14 will have on its financial statements and related disclosures.

(15) 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.

(16) Subsequent Events

The Association evaluated subsequent events after the balance sheet date of June 30, 2017 through October 27, 2017, which was the date the financial statements were issued, and concluded that no additional disclosures are required.