AMERICAN HEART ASSOCIATION, INC.

Financial Statements

June 30, 2017

(With Independent Auditors’ Report Thereon)
AMERICAN HEART ASSOCIATION, INC.

Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditors’ Report</td>
<td>1–2</td>
</tr>
<tr>
<td>Statement of Activities</td>
<td>3–4</td>
</tr>
<tr>
<td>Statement of Functional Expenses</td>
<td>5</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>6</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>7</td>
</tr>
<tr>
<td>Notes to Financial Statements</td>
<td>8–30</td>
</tr>
</tbody>
</table>
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)

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

(Continued)
## Statement of Activities

**Year ended June 30, 2017**

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

(In thousands)

### Expenses:

#### Program services:
- Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists: $184,676
- Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke: $312,872
- Professional education and training – to improve the knowledge, skills, and techniques of health professionals: $160,734
- Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities: $74,366

**Total program services:** $732,648

#### Supporting services:
- Management and general – to provide executive direction, financial management, overall planning, and coordination of the Association’s activities: $58,914
- Fundraising – to secure financial support from the public: $101,543

**Total supporting services:** $160,457

**Total program and supporting services expenses:** $893,105

### Change in net assets before postretirement changes other than net periodic benefit cost:

- (5,655) to 19,538 to 4,999 to 18,882 to 1,451
- (29) to (29) to (240)

**Change in net assets:** $5,684 to 19,538 to 4,999 to 18,853 to 1,211

### Net assets, beginning of year:

381,637 to 325,573 to 182,200 to 889,410 to 888,199

### Net assets, end of year:

$375,953 to 345,111 to 187,199 to 908,263 to 889,410

See accompanying notes to financial statements.
### Statement of Functional Expenses

**Year ended June 30, 2017**

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

(All figures in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Research</th>
<th>Public health education</th>
<th>Professional education/ training</th>
<th>Community services</th>
<th>Subtotal program services</th>
<th>Management and general</th>
<th>Fundraising</th>
<th>Subtotal supporting services</th>
<th>2017 Total</th>
<th>2016 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, taxes, and benefits</td>
<td>$5,785</td>
<td>172,198</td>
<td>48,252</td>
<td>32,427</td>
<td>258,662</td>
<td>39,852</td>
<td>60,130</td>
<td>99,982</td>
<td>358,644</td>
<td>337,726</td>
</tr>
<tr>
<td>Awards and grants</td>
<td>158,425</td>
<td>5,537</td>
<td>3,372</td>
<td>5,349</td>
<td>172,683</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>172,683</td>
<td>170,177</td>
</tr>
<tr>
<td>Occupancy</td>
<td>41</td>
<td>10,242</td>
<td>1,339</td>
<td>1,758</td>
<td>13,380</td>
<td>1,866</td>
<td>—</td>
<td>2,675</td>
<td>4,541</td>
<td>17,921</td>
</tr>
<tr>
<td>Printing and publication</td>
<td>88</td>
<td>56,196</td>
<td>43,919</td>
<td>13,369</td>
<td>113,572</td>
<td>1,965</td>
<td>10,389</td>
<td>12,354</td>
<td>125,926</td>
<td>134,324</td>
</tr>
<tr>
<td>Conferences, meetings, and travel</td>
<td>1,811</td>
<td>17,638</td>
<td>21,131</td>
<td>5,071</td>
<td>45,651</td>
<td>5,544</td>
<td>9,542</td>
<td>15,086</td>
<td>60,737</td>
<td>53,048</td>
</tr>
<tr>
<td>Professional fees</td>
<td>16,027</td>
<td>21,415</td>
<td>34,033</td>
<td>11,441</td>
<td>82,916</td>
<td>1,667</td>
<td>6,161</td>
<td>7,828</td>
<td>90,744</td>
<td>88,585</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>2,361</td>
<td>23,086</td>
<td>7,126</td>
<td>3,851</td>
<td>36,424</td>
<td>6,787</td>
<td>10,744</td>
<td>17,531</td>
<td>53,955</td>
<td>49,952</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>138</td>
<td>6,560</td>
<td>1,562</td>
<td>1,100</td>
<td>9,360</td>
<td>1,233</td>
<td>1,902</td>
<td>3,135</td>
<td>12,495</td>
<td>11,373</td>
</tr>
</tbody>
</table>

**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**

See accompanying notes to financial statements.
### AMERICAN HEART ASSOCIATION, INC.

**Balance Sheet**

**June 30, 2017**

(with comparative amounts for June 30, 2016)

(In thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>$45,720</td>
<td>81,610</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>736,035</td>
<td>692,765</td>
</tr>
<tr>
<td><strong>Receivables:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges, net</td>
<td>229,766</td>
<td>198,675</td>
</tr>
<tr>
<td>Exchange transactions</td>
<td>17,113</td>
<td>16,576</td>
</tr>
<tr>
<td>Other</td>
<td>18,947</td>
<td>21,333</td>
</tr>
<tr>
<td>Bequests</td>
<td>14,979</td>
<td>20,144</td>
</tr>
<tr>
<td>Split-interest agreements, net of discount</td>
<td>72,222</td>
<td>67,012</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>19,922</td>
<td>21,921</td>
</tr>
<tr>
<td>Beneficial interest in perpetual trusts</td>
<td>141,918</td>
<td>136,985</td>
</tr>
<tr>
<td>Land, buildings, and equipment, net</td>
<td>67,487</td>
<td>69,426</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$1,364,109</td>
<td>1,326,447</td>
</tr>
</tbody>
</table>

| 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)

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

**Supplemental cash flow information:**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>$47</td>
<td>55</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>392</td>
<td>289</td>
</tr>
<tr>
<td>Contributed services and materials</td>
<td>60,163</td>
<td>70,556</td>
</tr>
<tr>
<td>Equipment purchased by capital lease</td>
<td>544</td>
<td>287</td>
</tr>
</tbody>
</table>

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.
(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.
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.
Contributed materials reported in the statement of activities were allocated as follows in 2017 and 2016 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research</td>
<td>$ 2,214</td>
<td>—</td>
</tr>
<tr>
<td>Public health education</td>
<td>39,429</td>
<td>58,606</td>
</tr>
<tr>
<td>Professional education</td>
<td>1,397</td>
<td>1,867</td>
</tr>
<tr>
<td>Community services</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>Management and general</td>
<td>40</td>
<td>9</td>
</tr>
<tr>
<td>Fundraising</td>
<td>51</td>
<td>59</td>
</tr>
<tr>
<td><strong>Total contributed materials</strong></td>
<td><strong>$43,132</strong></td>
<td><strong>60,541</strong></td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research</td>
<td>$ 6,564</td>
<td>$ 6,099</td>
</tr>
<tr>
<td>Public health education</td>
<td>1,332</td>
<td>2,797</td>
</tr>
<tr>
<td>Professional education</td>
<td>9,012</td>
<td>770</td>
</tr>
<tr>
<td>Community services</td>
<td>—</td>
<td>37</td>
</tr>
<tr>
<td>Management and general</td>
<td>100</td>
<td>213</td>
</tr>
<tr>
<td>Fundraising</td>
<td>23</td>
<td>99</td>
</tr>
<tr>
<td><strong>Total contributed services</strong></td>
<td><strong>$17,031</strong></td>
<td><strong>10,015</strong></td>
</tr>
</tbody>
</table>

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.
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):

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest and dividends (expenses)</td>
</tr>
<tr>
<td>Equity securities</td>
<td>$7,248</td>
</tr>
<tr>
<td>Governmental securities</td>
<td>835</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>1,372</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>156</td>
</tr>
<tr>
<td>Other asset-backed securities</td>
<td>623</td>
</tr>
<tr>
<td>Fixed income mutual/commingled funds</td>
<td>839</td>
</tr>
<tr>
<td>Fund of funds</td>
<td>—</td>
</tr>
<tr>
<td>Real estate and other</td>
<td>1,001</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>650</td>
</tr>
<tr>
<td>Unsettled trades and other receivables, net</td>
<td>15</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>(1,642)</td>
</tr>
<tr>
<td>Total</td>
<td>$11,097</td>
</tr>
</tbody>
</table>
## Interest and Realized Dividends and Unrealized (Expenses) Gains (Losses) at Fair Value

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Interest and Dividends (Expenses)</th>
<th>Realized and Unrealized Gains (Losses)</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>$7,208</td>
<td>$(7,143)</td>
<td>302,113</td>
</tr>
<tr>
<td>Governmental securities</td>
<td>967</td>
<td>(6)</td>
<td>67,526</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>2,004</td>
<td>(438)</td>
<td>71,924</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>216</td>
<td>(10)</td>
<td>9,623</td>
</tr>
<tr>
<td>Other asset-backed securities</td>
<td>726</td>
<td>(183)</td>
<td>48,090</td>
</tr>
<tr>
<td>Fixed income mutual/commingled funds</td>
<td>781</td>
<td>1,867</td>
<td>64,151</td>
</tr>
<tr>
<td>Fund of funds</td>
<td>—</td>
<td>(1,861)</td>
<td>61,419</td>
</tr>
<tr>
<td>Real estate and other</td>
<td>571</td>
<td>936</td>
<td>17,545</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>113</td>
<td>154</td>
<td>44,806</td>
</tr>
<tr>
<td>Unsettled trades and other receivables, net</td>
<td>(470)</td>
<td>112</td>
<td>5,568</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>(1,726)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$10,390</strong></td>
<td><strong>(6,572)</strong></td>
<td><strong>692,765</strong></td>
</tr>
</tbody>
</table>

(Continued)
(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:

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

(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.
### AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2017

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

| 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):

<table>
<thead>
<tr>
<th>Fund of funds</th>
<th>$58,273</th>
<th>—</th>
<th>Various</th>
<th>30–90 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate fund</td>
<td>15,732</td>
<td>—</td>
<td>Quarterly</td>
<td>45 days</td>
</tr>
<tr>
<td>Fixed income mutual/commingled fund</td>
<td>42,723</td>
<td>—</td>
<td>Weekly</td>
<td>3 days</td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th>Fund of funds</th>
<th>$61,419</th>
<th>—</th>
<th>Various</th>
<th>30–90 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate fund</td>
<td>15,258</td>
<td>—</td>
<td>Quarterly</td>
<td>45 days</td>
</tr>
<tr>
<td>Fixed income mutual/commingled fund</td>
<td>41,776</td>
<td>—</td>
<td>Weekly</td>
<td>3 days</td>
</tr>
</tbody>
</table>

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.
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):

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

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.
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:

<table>
<thead>
<tr>
<th>Type</th>
<th>Fair value (In thousands)</th>
<th>Valuation technique</th>
<th>Significant unobservable inputs</th>
<th>Range (weighted average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Split-interest agreements</td>
<td>$72,222</td>
<td>Discounted cash flow</td>
<td>Growth rate/2.35%–3.37%*</td>
<td>2.99%</td>
</tr>
<tr>
<td>Gift annuity obligations</td>
<td>12,288</td>
<td>Discounted cash flow</td>
<td>Discount rate1%–9.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Oil and gas interests, included in real estate and other</td>
<td>157</td>
<td>Market comparable companies</td>
<td>Business enterprise value to revenue multiple marketability discount</td>
<td>9.1x–20.8x (15.5x)</td>
</tr>
</tbody>
</table>

* 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):

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

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.
(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):

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

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):

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>11,595</td>
</tr>
<tr>
<td>2019</td>
<td>8,516</td>
</tr>
<tr>
<td>2020</td>
<td>6,117</td>
</tr>
<tr>
<td>2021</td>
<td>4,350</td>
</tr>
<tr>
<td>2022</td>
<td>3,073</td>
</tr>
<tr>
<td>Thereafter</td>
<td>6,721</td>
</tr>
<tr>
<td>Total</td>
<td>$ 40,372</td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>229</td>
</tr>
<tr>
<td>2019</td>
<td>181</td>
</tr>
<tr>
<td>2020</td>
<td>82</td>
</tr>
<tr>
<td>2021</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>503</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Participant’s years of service</th>
<th>Contribution percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 to 5</td>
<td>6 %</td>
</tr>
<tr>
<td>Greater than 5 but less than 10</td>
<td>8</td>
</tr>
<tr>
<td>10 or more</td>
<td>10</td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public health education</td>
<td>$145,123</td>
<td>136,417</td>
</tr>
<tr>
<td>Professional education and training</td>
<td>2,361</td>
<td>2,091</td>
</tr>
<tr>
<td>Community services</td>
<td>1,250</td>
<td>950</td>
</tr>
<tr>
<td>Management and general</td>
<td>25,159</td>
<td>26,267</td>
</tr>
<tr>
<td>Fundraising</td>
<td>53,221</td>
<td>51,651</td>
</tr>
<tr>
<td><strong>Total joint costs</strong></td>
<td><strong>$227,114</strong></td>
<td><strong>217,376</strong></td>
</tr>
</tbody>
</table>
(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):

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

Payable in year ending June 30:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$160,704</td>
</tr>
<tr>
<td>2019</td>
<td>108,763</td>
</tr>
<tr>
<td>2020</td>
<td>50,917</td>
</tr>
<tr>
<td>2021</td>
<td>18,624</td>
</tr>
<tr>
<td>2022</td>
<td>5,815</td>
</tr>
<tr>
<td>Thereafter</td>
<td>430</td>
</tr>
<tr>
<td>Total</td>
<td>345,253</td>
</tr>
<tr>
<td>Less unamortized discount</td>
<td>(5,270)</td>
</tr>
<tr>
<td>Net research awards payable</td>
<td>$339,983</td>
</tr>
</tbody>
</table>

(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):

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

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior service credit, beginning of year</td>
<td>$—</td>
<td>(1)</td>
</tr>
<tr>
<td>Amortization of prior service credit</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Prior service credit, end of year</td>
<td>$—</td>
<td>(1)</td>
</tr>
</tbody>
</table>

Changes in net actuarial (gain) loss:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial gain, beginning of year</td>
<td>$(439)</td>
<td>(679)</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>29</td>
<td>240</td>
</tr>
<tr>
<td>Unrecognized net actuarial gain, end of year</td>
<td>$(410)</td>
<td>(439)</td>
</tr>
</tbody>
</table>

Components of net periodic benefit cost:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$335</td>
<td>377</td>
</tr>
<tr>
<td>Interest cost</td>
<td>428</td>
<td>524</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$763</td>
<td>901</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare cost trend rate assumed for next year</td>
<td>6.5 %</td>
<td>7.0 %</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td>2031</td>
<td>2031</td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th></th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research</td>
<td>$71,689</td>
<td>78,878</td>
</tr>
<tr>
<td>Other programs</td>
<td>77,435</td>
<td>82,045</td>
</tr>
<tr>
<td>Split-interest agreements</td>
<td>55,411</td>
<td>49,246</td>
</tr>
<tr>
<td>Beneficial interest in perpetual trusts</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Time restrictions</td>
<td>123,724</td>
<td>102,659</td>
</tr>
<tr>
<td>Endowment funds</td>
<td>16,852</td>
<td>12,745</td>
</tr>
<tr>
<td>Total restricted net assets</td>
<td>$345,111</td>
<td>325,573</td>
</tr>
</tbody>
</table>

(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.