KPMG

AMERICAN HEART ASSOCIATION, INC.

Financial Statements

June 30, 2018

(With Independent Auditors’ Report Thereon)

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

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, 2018, the related balance sheet as of June 30, 2018, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Heart Association, Inc. as of June 30, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 26, 2018

AMERICAN HEART ASSOCIATION, INC.

Statement of Activities

Year ended June 30, 2018
(with summarized comparative totals for the year ended June 30, 2017)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2018 Total	2017 Total
Revenue:					
Public support:					
Contributions	$ 71,616	127,000	295	198,911	150,810
Contributed services and materials	41,799	—	—	41,799	60,163
Special events	283,600	87,970	—	371,570	377,728
Less direct donor benefits	(46,727)	—	—	(46,727)	(43,912)
Bequests	57,690	22,599	422	80,711	72,511
Split-interest agreements	608	178	—	786	1,243
Federated and nonfederated fund-raising organizations	2,321	963	—	3,284	3,005
Total public support	410,907	238,710	717	650,334	621,548
Other revenue:					
Program fees	38,309	—	—	38,309	31,323
Sales of educational materials	146,088	—	—	146,088	142,140
Membership dues	5,228	—	—	5,228	4,398
Grants from government agencies	5,068	—	—	5,068	8,142
Interest and dividends, net of fees	9,366	878	86	10,330	11,097
Net realized and unrealized gains on investments	33,704	4,079	—	37,783	51,030
Perpetual trust distributions	5,545	1,446	—	6,991	6,810
Net unrealized gains on beneficial interest in perpetual trusts	—	—	5,668	5,668	4,914
Change in value of split-interest agreements	(427)	5,364	6	4,943	7,298
Royalty revenue	19,126	—	—	19,126	18,866
Miscellaneous revenue (losses), net	7,741	(4,452)	—	3,289	4,421
Total other revenue	269,748	7,315	5,760	282,823	290,439
Net assets released from restrictions:					
Satisfaction of purpose restrictions	116,616	(116,616)	—	—	—
Expiration of time restrictions	89,838	(89,831)	(7)	—	—
Total net assets released from restrictions	206,454	(206,447)	(7)	—	—
Total revenue	887,109	39,578	6,470	933,157	911,987

(Continued)

AMERICAN HEART ASSOCIATION, INC.

Statement of Activities

Year ended June 30, 2018
(with summarized comparative totals for the year ended June 30, 2017)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2018 Total	2017 Total
Expenses:					
Program services:					
Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	$ 183,874	—	—	183,874	184,676
Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke	303,444	—	—	303,444	312,872
Professional education and training – to improve the knowledge, skills, and techniques of health professionals	166,060	—	—	166,060	160,734
Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities	77,954	—	—	77,954	74,366
Total program services	731,332	—	—	731,332	732,648
Supporting services:					
Management and general – to provide executive direction, financial management, overall planning, and coordination of the Association's activities	51,229	—	—	51,229	58,914
Fundraising – to secure financial support from the public	107,960	—	—	107,960	101,543
Total supporting services	159,189	—	—	159,189	160,457
Total program and supporting services expenses	890,521	—	—	890,521	893,105
Change in net assets before postretirement changes other than net periodic benefit cost	(3,412)	39,578	6,470	42,636	18,882
Postretirement changes other than net periodic benefit cost	899	—	—	899	(29)
Change in net assets	(2,513)	39,578	6,470	43,535	18,853
Net assets, beginning of year	375,953	345,111	187,199	908,263	889,410
Net assets, end of year	$ 373,440	384,689	193,669	951,798	908,263

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Functional Expenses

Year ended June 30, 2018
(with summarized comparative totals for the year ended June 30, 2017)

(In thousands)

	Research	Public health education	Professional education/ training	Community services	Subtotal program services	Management and general	Fundraising	Subtotal supporting services	2018 Total	2017 Total
Salaries, taxes, and benefits	$ 7,087	180,721	51,624	33,270	272,702	35,060	64,307	99,367	372,069	358,644
Awards and grants	159,153	5,016	2,129	5,649	171,947	—	—	—	171,947	172,683
Occupancy	48	11,076	1,463	1,862	14,449	1,535	2,952	4,487	18,936	17,921
Printing and publication	26	37,883	46,194	16,456	100,559	2,156	10,582	12,738	113,297	125,926
Conferences, meetings, and travel	1,791	15,229	23,077	4,521	44,618	4,579	8,683	13,262	57,880	60,737
Professional fees	14,434	23,767	32,193	11,058	81,452	546	7,977	8,523	89,975	90,744
Other operating expenses	898	22,966	7,579	4,029	35,472	6,308	11,426	17,734	53,206	53,955
Depreciation and amortization	437	6,786	1,801	1,109	10,133	1,045	2,033	3,078	13,211	12,495
Total functional expenses before direct donor benefits	183,874	303,444	166,060	77,954	731,332	51,229	107,960	159,189	890,521	893,105
Direct donor benefits	—	—	—	—	—	—	—	—	46,727	43,912
Total functional expenses and direct donor benefits	$ 183,874	303,444	166,060	77,954	731,332	51,229	107,960	159,189	937,248	937,017

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Balance Sheet

June 30, 2018
(with comparative amounts for June 30, 2017)

(In thousands)

Assets		**2018**	**2017**
Cash and cash equivalents	$	64,917	45,720
Investments		732,887	736,035
Receivables:			
Pledges, net		272,894	229,766
Exchange transactions		16,176	17,113
Other		11,593	18,947
Bequests		14,083	14,979
Split-interest agreements, net of discount		70,837	72,222
Prepaid expenses and other assets		15,242	19,922
Beneficial interest in perpetual trusts		147,586	141,918
Land, buildings, and equipment, net		66,701	67,487
Total assets	$	1,412,916	1,364,109
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	76,075	71,251
Deferred revenue		10,606	9,817
Research awards payable		340,531	339,983
Other liabilities		33,905	34,795
Total liabilities		461,117	455,846
Net assets:			
Unrestricted:			
Available for research, program, and supporting activities		306,740	308,466
Investment in land, buildings, and equipment		66,701	67,487
Total unrestricted		373,441	375,953
Temporarily restricted		384,689	345,111
Permanently restricted		193,669	187,199
Total net assets		951,799	908,263
Total liabilities and net assets	$	1,412,916	1,364,109

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Cash Flows

Year ended June 30, 2018
(with comparative amounts for the year ended June 30, 2017)

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	43,535	18,853
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		13,211	12,495
Net realized and unrealized gains on investments		(37,783)	(51,030)
Net unrealized gains on beneficial interest in perpetual trusts		(5,668)	(4,914)
Change in value of split-interest agreements		(4,943)	(7,298)
Gains on sale of fixed assets		(2,060)	(1,023)
Losses on uncollectible accounts and settlement of receivables		5,590	4,252
Contributions to endowment		(717)	(53)
Changes in operating assets and liabilities:			
Receivables		(39,532)	(28,330)
Prepaid expenses and other assets		4,680	1,999
Beneficial interest in perpetual trusts		—	(19)
Split-interest agreements		6,506	1,500
Accounts payable and accrued expenses		4,824	(6,129)
Deferred revenue		789	732
Research awards payable		548	24,410
Other liabilities		(1,331)	1,043
Net cash used in operating activities		(12,351)	(33,512)
Cash flows from investing activities:			
Purchases of fixed assets		(13,904)	(11,382)
Proceeds from sale of fixed assets		4,437	2,390
Purchases of investments		(159,331)	(278,666)
Proceeds from sales/maturities of investments		200,262	286,426
Net cash provided by (used in) investing activities		31,464	(1,232)
Cash flows from financing activities:			
Payments on mortgage notes payable and capital leases		(636)	(1,199)
Contributions to endowment		717	53
Net cash provided by (used in) financing activities		81	(1,146)
Net increase (decrease) in cash and cash equivalents		19,194	(35,890)
Cash and cash equivalents, beginning of year		45,720	81,610
Cash and cash equivalents, end of year	$	64,914	45,720
Supplemental cash flow information:			
Interest paid	$	55	47
Taxes paid		371	392
Contributed services and materials		41,799	60,163
Equipment purchased by capital lease		898	544

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 be a relentless force for a world of longer, healthier lives.

The Association provides funding for cardiovascular and stroke research, public health education, and community services programs that inform the general public 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.

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(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 $151 million and $140 million as of June 30, 2018 and 2017, 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. Investments in real estate funds are determined by using the fund manager’s net asset value (NAV), adjusted for cash flows. NAV per share is published by the manager and serves as the basis for current investor transactions. The fair value of real estate and other properties held as investments is estimated using private valuations of the properties held by the fund manager. For certain investments with limited marketability, 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. The fair value of investments in venture capital funds is determined by using the fund manager’s provided NAV, adjusted for cash flows. Recent transactions from other investors, to the extent they are available, may also be used in determining fair value. Management relies upon the audited financial statement of the venture fund 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.

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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 0.71% to 3.20%. 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 2.3% to 2.8%. 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 2018 and 2017 (in thousands):

		2018	2017
Research	$	266	2,214
Public health education		22,414	39,429
Professional education		2,845	1,397
Community services		342	1
Management and general		151	40
Fundraising		215	51
Total contributed materials	$	26,233	43,132

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 2018 and 2017 (in thousands):

		2018	2017
Research	$	4,758	6,564
Public health education		1,505	1,332
Professional education		8,878	9,012
Management and general		182	100
Fundraising		243	23
Total contributed services	$	15,566	17,031

Public service announcements of approximately $19,490,000 and $38,940,000 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, 2018 and 2017, 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.

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(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, 2018 and 2017. 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, 2018, 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.

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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 NAV, there were no gates or “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, 2018. A credit manager did have a lock up provision in place at June 30 but the amount subject to the lock up is deemed to be immaterial.

The Association held a venture capital investment at June 30, 2018 that invests in private start-up and emerging growth companies in healthcare sectors focusing on a broad set of clinical areas related to cardiovascular and stroke health. The investment is an illiquid, long-term investment for which no resale market, public or private, may develop. The Association has committed $10 million of which $9.5 million remains uncalled. Fair value is determined by using the fund manager’s provided NAV as of March 31, 2018, adjusted for cash flows. Recent transactions from other investors, to the extent they are available, may also be used in determining fair value. Management relies upon the audited financial statement of the venture fund performed by a third-party auditor.

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 charitable gift annuity arrangements, 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, 2018 and 2017 were 3.2% and 2.9%, respectively.

Under perpetual trust arrangements, 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

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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, 2017, from which the summarized information was derived.

(q) Reclassifications

Certain reclassifications of prior year have been made to conform to the current year presentation. Specifically, certain revenue amounts on the Statement of Activities have been reclassed.

(2) Investments

Investments at June 30, 2018 and 2017 and related returns for the years then ended consisted of the following (in thousands):

	June 30, 2018		
	Interest and dividends (expenses)	Realized and unrealized gains (losses)	Fair value
Equity securities	$ 6,738	35,519	302,844
Governmental securities	1,085	(583)	101,030
Corporate bonds	1,834	(622)	81,848
Mortgage-backed securities	95	(86)	3,649
Other asset-backed securities	790	(424)	61,377
Fixed income mutual/commingled funds	768	(666)	63,672
Private funds	—	1,799	16,799
Fund of funds	—	2,610	68,371
Real estate and other	827	410	18,455
Short-term investments	507	(227)	10,390
Unsettled trades and other receivables, net	(54)	69	4,104
Venture Capital	—	(16)	348
Investment expenses	(2,260)	—	—
Total	$ 10,330	37,783	732,887

	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

(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, 2018 and 2017, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value:

Assets	Balance June 30, 2018	Fair value measurements at reporting date using Level 1	Level 2	Level 3
1. Equity securities:				
a. Domestic stocks	$ 227,430	227,430	—	—
b. International stocks	75,414	75,414	—	—
2. Debt securities:				
a. Governmental securities	101,030	—	101,030	—
b. Corporate bonds	81,848	—	81,848	—
c. Mortgage-backed securities	3,649	—	3,649	—
d. Other asset-backed securities	61,377	—	61,377	—
3. Fixed income mutual fund	22,535	—	22,535	—
4. Real estate and other	18,455	—	16,241	2,214
5. Venture Capital	348	—	—	348
6. Short-term investments	10,390	3,112	7,278	—
7. Unsettled trades and other receivables, net	4,105	4,105	—	—
8. Investments reported at net asset value (NAV) (1):				
a. Fixed income commingled fund	41,136	—	—	—
b. Fund of Funds	68,371	—	—	—
c. Private fund	16,799	—	—	—
Total Investments	$ 732,887			
9. Split-interest agreements receivable, net of discount	$ 70,837	—	—	70,837
10. Beneficial interest in perpetual trusts Split-interest agreements/perpetual trusts (leveled)	147,586	—	—	147,586
	$ 218,423			
Liabilities				
1. Gift annuity obligations	$ 12,466	—	—	12,466

(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.

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 fund	23,513	—	23,513	—
4. Real estate and other	18,042	—	15,732	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 commingled fund	42,723	—	—	—
b. Fund of Funds	58,273	—	—	—
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.

There were no transfers between Level 1 and Level 2 during fiscal years ended June 30, 2018 or 2017.

The following summarizes the nature of investments that are reported at estimated fair value using net asset value as of June 30, 2018 (in thousands):

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fund of funds	$	68,371	—	Various	30–90 days
Fixed income commingled fund		41,136	—	Weekly	3 days
Private fund		16,799	—	Monthly	30 days

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
Fixed income commingled fund		42,723	—	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. Included in the fund of funds is a credit strategy, which includes a lock up provision. As of June 30, 2018 the amount subject to the lock up is deemed to be immaterial. The investment is commitment based and the unfunded commitment is held in cash within the fund of funds and managed by the fund of funds manager. As a result, this amount has not been reflected as an unfunded commitment in the table above for the period-ended June 30, 2018. The full commitment (total of the funded and unfunded) to the credit strategy investment is also deemed to be immaterial.

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.

As of June 30, 2018, the Association was invested in a private fund, which invests primarily in equity securities of small and mid-size companies located outside of the United States. Redemptions are allowed monthly with 30 days’ notice.

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, 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)
Total net (losses) gains		(546)	5,286	5,668	491
Acquisitions		—	—	—	(1,326)
Settlements		(302)	(6,671)	—	657
Purchases		550	—	—	—
Sales		(350)	—	—	—
Balance June 30, 2018	$	2,562	70,837	147,586	(12,466)

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 $9,545,000.

The Association independently assesses the valuation for assets classified as Level 3. Unobservable inputs are internally developed for certain asset categories, including split-interest agreements. 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 split-interest agreements and gift annuity obligations as of June 30, 2018 is as follows:

Type	Fair value	Valuation technique	Significant unobservable inputs	Range (weighted average)
	(In thousands)			
Split-interest agreements	$ 70,837	Discounted cash flow	Growth rate/ discount rate	2.96%–3.48%* 3.20%
Gift annuity obligations	12,466	Discounted cash flow	Discount rate	1%–9.6% 3.4%

* These percentages represent the low and high growth rate ranges plus a risk premium from July 1, 2017–June 30, 2018.

The fair value of directly held real estate is based upon periodic third party valuations.

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, 2018 and 2017 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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
Investment return:				
Investment income	—	953	—	953
Net appreciation	—	4,078	—	4,078
Contributions	—	—	717	717
Reclassification and other	—	(78)	78	—
Appropriation for expenditure	—	(2,192)	—	(2,192)
Endowment net assets, June 30, 2018	$ —	19,613	45,709	65,322

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, 2018 or June 30, 2017. 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, 2018 and 2017, 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):

		2018	2017
Less than one year	$	143,027	132,958
One to five years		156,893	120,110
More than five years		106,033	105,073
Subtotal		405,953	358,141
Allowance for uncollectible accounts		(5,473)	(4,633)
Discount		(41,395)	(35,805)
Total	$	359,085	317,703

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, 2018 and 2017, land, buildings, and equipment, and the related accumulated depreciation and amortization were as follows (in thousands):

		2018	2017
Land and leasehold improvements	$	14,908	15,472
Buildings and improvements		72,450	74,510
Equipment and furniture		100,534	92,375
Total		187,892	182,357
Less accumulated depreciation and amortization		(121,191)	(114,870)
Land, buildings, and equipment, net	$	66,701	67,487

(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, 2018 are as follows (in thousands):

2019	$	11,380
2020		10,058
2021		8,341
2022		7,001
2023		5,869
Thereafter		15,007
Total	$	57,656

Total operating lease expense for the years ended June 30, 2018 and 2017 was approximately $12,435,000 and $11,297,000, respectively.

(Continued)

(b) Capital Leases

The Association leases office equipment under capital lease agreements expiring on various dates through 2023. As of June 30, 2018, the future minimum lease payments under capital leases were as follows (in thousands):

2019	$	482
2020		376
2021		268
2022		101
2023		7
Total		1,234
Less amount representing interest, support, and maintenance		(72)
Present value of lease obligation, included in other liabilities	$	1,162

(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, 2018 and 2017 were approximately $23,820,000 and $22,750,000, 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 2018 and 2017 (in thousands):

		2018	2017
Public health education	$	149,990	145,123
Professional education and training		2,523	2,361
Community services		1,386	1,250
Management and general		22,535	25,159
Fundraising		56,802	53,221
Total joint costs	$	233,236	227,114

(11) Research Awards Payable

The activity in research awards payable during the years ended June 30, 2018 and 2017 and the amounts payable by year are summarized below (in thousands):

		2018	2017
Beginning balance, July 1	$	339,983	315,573
Awards expense:			
New awards		175,193	179,651
Cancellations, declinations, and refunds		(12,840)	(19,415)
Research awards expense before discount		162,353	160,236
Change in discount		(3,200)	(1,811)
Total research awards expense		159,153	158,425
Payments		(158,605)	(134,015)
Ending balance, June 30	$	340,531	339,983

(Continued)

Payable in year ending June 30:		
2019	$	157,924
2020		103,144
2021		56,484
2022		24,675
2023		6,675
Thereafter		99
Total		349,001
Less unamortized discount		(8,470)
Net research awards payable	$	340,531

(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, 2018 and 2017, the accumulated postretirement benefit obligation (APBO) is calculated using a discount rate of 4.2% and 3.6%, respectively. The following table presents information with respect to the postretirement benefit plans as of and for the years ended June 30, 2018 and 2017 (in thousands):

		2018	2017
Changes in accumulated postretirement benefit obligation:			
APBO, beginning of year	$	13,112	13,214
Service cost		298	335
Interest cost		456	428
Actuarial loss		(899)	29
Participant contributions		268	270
Benefits paid		(1,159)	(1,164)
APBO, end of year		12,076	13,112
Changes in plan assets:			
Fair value of plan assets, beginning of year		—	—
Employer contributions		891	894
Participant contributions		268	270
Benefits paid		(1,159)	(1,164)
Fair value of plan assets, end of year		—	—
Funded status:			
Unfunded benefit obligation, June 30 – included in other liabilities	$	12,076	13,112
Changes in net actuarial (gain) loss:			
Net actuarial gain, beginning of year	$	(410)	(439)
Actuarial (gain) loss		(899)	29
Unrecognized net actuarial gain, end of year	$	(1,309)	(410)

		2018	2017
Components of net periodic benefit cost:			
Service cost	$	298	335
Interest cost		456	428
Net periodic benefit cost	$	754	763

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.

(Continued)

The assumed healthcare cost trend rates as of June 30, 2018 and 2017 are as follows:

	2018	2017
Healthcare cost trend rate assumed for next year	6.5 %	6.5 %
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	2032	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, 2018 would have resulted in an increase of approximately $741,000 or a decrease of approximately $684,000 in the accumulated postretirement benefit obligation and an increase of approximately $62,000 or a decrease of approximately $57,000 in the fiscal year 2018 benefit expense.

(13) Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2018 and 2017 have been restricted by donors as follows (in thousands):

	Temporarily restricted		Permanently restricted	
	2018	2017	2018	2017
Research	$ 84,884	71,689	—	—
Other programs	85,223	77,435	—	—
Split-interest agreements	54,814	55,411	374	367
Beneficial interest in perpetual trusts	—	—	147,586	141,918
Time restrictions	140,156	123,724	—	—
Endowment funds	19,613	16,852	45,709	44,914
Total restricted net assets	$ 384,690	345,111	193,669	187,199

(14) New Accounting Pronouncements

(a) 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 July 1, 2018 for the Association. The Association is evaluating the effect that ASU 2016-14 will have on its financial statements and related disclosures.

(b) ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities will determine whether to account for a transfer of assets as an exchange transaction or a contribution. The distinction is important because contributions are accounted for under Accounting Standards Codification (ASC) 958-605, *Not-For-Profit Entities – Revenue Recognition,* while exchange transactions are accounted for under other guidance such as ASC 606, *Revenue from Contracts with Customers*. The guidance also clarifies how entities will determine whether a contribution is conditional. The timing of revenue and expense recognition depends upon whether a contribution is conditional or unconditional. The new standard is effective for the Association July 1, 2019. Early adoption is permitted. The Association is evaluating the effect that ASU No. 2018-08 will have on its financial statements and related disclosures.

(c) 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.

(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, 2018 through October 26, 2018, which was the date the financial statements were issued, and concluded that no additional disclosures are required.