



AMERICAN HEART ASSOCIATION, INC.

Financial Statements and Supplementary Information
(Greater Southeast)

June 30, 2008

With summarized comparative totals for June 30, 2007

(With Independent Auditors' Report Thereon)

AMERICAN HEART ASSOCIATION, INC.

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
American Heart Association, Inc.:

We have audited the accompanying balance sheet of the American Heart Association, Inc. (the Association) as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2007 financial statements and, in our report dated October 5, 2007, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Heart Association, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Exhibit 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 6, 2008

AMERICAN HEART ASSOCIATION, INC.

Statement of Activities

Year ended June 30, 2008

with summarized comparative totals for the year ended June 30, 2007

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2008 Total	2007 Total
Revenue:					
Public support:					
Contributions	\$ 89,536	63,927	180	153,643	159,271
Contributed services and materials	44,147	—	—	44,147	68,904
Special events	236,882	73,365	—	310,247	305,434
Less direct donor benefits	(35,748)	—	—	(35,748)	(36,044)
Bequests	70,564	9,179	774	80,517	87,615
Split-interest agreements	1,406	189	6,112	7,707	2,595
Federated and nonfederated fund-raising organizations	4,830	7,896	—	12,726	14,042
Total public support	<u>411,617</u>	<u>154,556</u>	<u>7,066</u>	<u>573,239</u>	<u>601,817</u>
Other revenue:					
Program fees	20,970	—	—	20,970	20,448
Sales of educational materials	52,188	—	—	52,188	66,697
Membership dues	2,030	—	—	2,030	2,072
Interest and dividends, net of fees	17,554	865	—	18,419	18,951
Net realized and unrealized gains (losses) on investments	(36,529)	(3,248)	(489)	(40,266)	52,488
Perpetual trust distributions	4,821	1,397	—	6,218	5,557
Net unrealized gains (losses) on beneficial interest in perpetual trusts	—	—	(15,212)	(15,212)	14,459
Change in value of split-interest agreements	(1,346)	3,631	157	2,442	(2,903)
Gains on disposal of fixed assets	4,568	—	—	4,568	2,213
Royalty revenue	15,370	—	—	15,370	15,288
Miscellaneous revenue (losses)	4,771	(3,112)	21	1,680	2,273
Total other revenue	<u>84,397</u>	<u>(467)</u>	<u>(15,523)</u>	<u>68,407</u>	<u>197,543</u>

AMERICAN HEART ASSOCIATION, INC.
Statement of Activities
Year ended June 30, 2008
with summarized comparative totals for the year ended June 30, 2007
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2008 Total	2007 Total
Net assets released from restrictions:					
Satisfaction of purpose restrictions	\$ 91,040	(91,040)	—	—	—
Expiration of time restrictions	51,310	(51,310)	—	—	—
Total net assets released from restrictions	142,350	(142,350)	—	—	—
Total revenue	638,364	11,739	(8,457)	641,646	799,360
Expenses:					
Program services:					
Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	168,028	—	—	168,028	150,666
Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke	275,427	—	—	275,427	271,531
Professional education and training – to improve the knowledge skills, and techniques of health professionals	92,485	—	—	92,485	87,917
Community services – to provide organized training in emergency aid blood pressure screening, and other community-wide activities	23,626	—	—	23,626	43,888
Total program services	559,566	—	—	559,566	554,002
Supporting services:					
Management and general providing executive direction, financial management overall planning, and coordination of the Association's activities	51,657	—	—	51,657	49,168
Fundraising – activities to secure vital financial support from the public	112,854	—	—	112,854	88,218
Total supporting services	164,511	—	—	164,511	137,386
Total program and supporting services expenses	724,077	—	—	724,077	691,388
Change in net assets before postretirement changes other than net periodic benefit cost	(85,713)	11,739	(8,457)	(82,431)	107,972
Effect of adoption of FASB Stmt No. 158	—	—	—	—	(4,691)
Postretirement changes other than net periodic benefit cost	567	—	—	567	—
Change in net assets	(85,146)	11,739	(8,457)	(81,864)	103,281
Net assets, beginning of year	384,618	262,743	167,620	814,981	711,700
Net assets, end of year	\$ 299,472	274,482	159,163	733,117	814,981

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Functional Expenses

Year ended June 30, 2008
with summarized comparative totals for the year ended June 30, 2007

(In thousands)

	Research	Public health education	Professional education/ training	Community services	Subtotal program services	Management and general	Fundraising	Subtotal supporting services	2008 Total	2007 Total
Salaries	\$ 2,300	102,551	23,085	9,063	136,999	27,031	49,934	76,965	213,964	186,650
Payroll taxes	165	7,901	1,718	712	10,496	2,088	3,795	5,883	16,379	14,600
Employee benefits	331	16,303	3,006	1,317	20,957	4,673	7,995	12,668	33,625	31,741
Occupancy	101	8,798	986	659	10,544	1,949	3,866	5,815	16,359	15,675
Telephone	29	3,292	625	289	4,235	847	1,555	2,402	6,637	6,275
Supplies	38	4,132	506	248	4,924	769	1,901	2,670	7,594	6,187
Rental and maintenance of equipment	67	3,548	515	187	4,317	911	1,735	2,646	6,963	6,970
Printing and publication	11	23,826	14,012	4,375	42,224	1,288	9,475	10,763	52,987	57,398
Postage and shipping	45	11,679	422	181	12,327	563	4,988	5,551	17,878	17,612
Conferences and meetings	459	5,025	13,087	835	19,406	1,001	2,064	3,065	22,471	20,389
Travel	1,213	11,839	5,112	1,416	19,580	2,326	6,340	8,666	28,246	22,951
Professional fees	5,211	68,434	20,285	1,713	95,643	4,086	16,959	21,045	116,688	135,851
Awards and grants	157,549	2,194	1,759	284	161,786	2	13	15	161,801	145,986
Other expenses	284	816	5,647	1,784	8,531	2,684	—	2,684	11,215	12,192
Depreciation and amortization	225	5,089	1,720	563	7,597	1,439	2,234	3,673	11,270	10,911
Total functional expenses before direct donor benefits	168,028	275,427	92,485	23,626	559,566	51,657	112,854	164,511	724,077	691,388
Direct donor benefits	—	—	—	—	—	—	—	—	35,748	36,044
Total functional expenses and direct donor benefits	\$ 168,028	275,427	92,485	23,626	559,566	51,657	112,854	164,511	759,825	727,432

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Balance Sheet

June 30, 2008

with comparative totals for June 30, 2007

(In thousands)

Assets	2008	2007
Cash and cash equivalents	\$ 106,452	156,128
Investments	536,820	557,513
Accounts receivable:		
Federated and nonfederated	6,637	7,398
Pledges, net	138,040	108,369
Bequests	20,802	25,341
Split-interest agreements, net	112,283	115,203
Exchange transactions	7,985	3,878
Other	6,607	6,909
Inventory	7,849	8,345
Prepaid expenses and other assets	13,864	14,458
Beneficial interest in perpetual trusts	120,258	129,391
Land, buildings, and equipment, net	81,983	78,991
Total assets	\$ <u>1,159,580</u>	<u>1,211,924</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 55,570	50,596
Deferred revenue	7,541	7,938
Research awards payable	330,089	306,212
Debt payable	2,015	2,664
Other liabilities	31,248	29,533
Total liabilities	<u>426,463</u>	<u>396,943</u>
Net assets:		
Unrestricted:		
Available for research, program and supporting activities	217,489	305,627
Investment in land, buildings, and equipment	81,983	78,991
Total unrestricted	299,472	384,618
Temporarily restricted	274,482	262,743
Permanently restricted	159,163	167,620
Total net assets	<u>733,117</u>	<u>814,981</u>
Total liabilities and net assets	\$ <u>1,159,580</u>	<u>1,211,924</u>

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Cash Flows

Year ended June 30, 2008
with comparative totals for the year ended June 30, 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (81,864)	103,281
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,270	10,911
Net realized and unrealized losses (gains) on investments	40,266	(52,488)
Net unrealized losses (gains) on beneficial interest in perpetual trusts	15,212	(14,459)
Change in value of split-interest agreements	(2,442)	2,903
Gains on sale of fixed assets	(4,568)	(2,213)
Losses on uncollectible accounts and settlement of receivables	1,860	4,476
Contributions to endowment	(954)	(4,663)
Changes in operating assets and liabilities:		
Accounts receivable	(30,036)	(22,654)
Inventory	496	(1,364)
Prepaid expenses and other assets	594	2,538
Beneficial interest in perpetual trusts	(6,079)	(1,471)
Split-interest agreements	5,362	1,605
Accounts payable and accrued expenses	4,974	8,714
Research awards payable	23,877	11,351
Deferred revenue	(397)	(1,998)
Other liabilities	2,161	—
Net cash (used in) provided by operating activities	<u>(20,268)</u>	<u>44,469</u>
Cash flows from investing activities:		
Purchases of fixed assets	(16,949)	(10,566)
Proceeds from sale of fixed assets	7,968	3,937
Purchases of investments	(288,213)	(259,485)
Proceeds from sales/maturities of investments	268,640	241,555
Net cash used in investing activities	<u>(28,554)</u>	<u>(24,559)</u>
Cash flows from financing activities:		
Payments on mortgage notes payable and capital leases	(1,808)	(5,075)
Contributions to endowment	954	4,663
Net cash used in financing activities	<u>(854)</u>	<u>(412)</u>
Net (decrease) increase in cash and cash equivalents	(49,676)	19,498
Cash and cash equivalents, beginning of year	156,128	136,630
Cash and cash equivalents, end of year	<u>\$ 106,452</u>	<u>156,128</u>
Supplemental cash flow information:		
Interest paid	\$ 261	149
Contributed materials	168	182
Equipment purchased by capital lease	713	626

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(1) Summary of Significant Accounting Policies

(a) *Organization*

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

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

The Association follows the standards of accounting and financial reporting for not-for-profit organizations as prescribed by the Financial Accounting Standards Board (FASB). The following significant accounting policies are in accordance with accounting principles generally accepted in the United States of America.

(b) *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 readily available for operations.

(c) *Investments*

Interest and dividend income is presented net of investment advisory/management fees and is reflected as net interest and dividends in the statement of activities. All investment income is credited directly to unrestricted net assets unless otherwise restricted by the donor. All capital appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor or applicable law. All investments are carried at fair value with the related gains and losses included in the statement of activities.

The Association's investments do not have a significant concentration of credit or market risk within any industry, specific institution, or group of investments.

(d) *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.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

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

The Association records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of gift using risk-free interest rates applicable to the years in which the promises are expected to be received, ranging from 2.4% to 5.1%. 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.

(e) *Research Awards and Grants*

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

Awards that are expected to be paid in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of award using risk-free interest rates applicable to the years in which awards are granted, ranging from 2.6% to 5.1%. Accretion of the discounts is recognized as research – awards and grants expense, using the effective interest method, in the statement of functional expenses.

(f) *Exchange Transactions*

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

(g) *Inventory*

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

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(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 the buildings and equipment is provided on a half-year convention basis over estimated useful lives of the assets, ranging from 3 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

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 2008 and 2007 (in thousands):

	2008	2007
Research	\$ 4,325	4,346
Public health education	35,497	60,723
Professional education	3,822	3,593
Management and general	91	—
Fundraising	244	60
Total contributed services	\$ 43,979	68,722

Public service announcements of \$32,202,000 and \$52,425,000 were included in total contributed services for the years ended June 30, 2008 and 2007, 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) Deferred Revenue

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

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(k) 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.

(l) 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.

(m) Income Taxes

The Association is exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in IRC Section 501(c)(3). Further, the Association has been classified as an organization that is not a private foundation under IRC Section 509(a) and, as such, contributions to the Association qualify for deduction as charitable contributions. However, income generated from activities unrelated to the Association's exempt purpose is subject to tax under IRC Section 511. The Association did not have any material unrelated business income tax liability for the years ended June 30, 2008 and 2007.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, which was effective for fiscal years beginning after December 15, 2006. This interpretation clarifies the accounting for uncertainty in income taxes recognized in the Association's financial statements in accordance with FASB Statement No. 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The impact on the Association's financial statements for the year ended June 30, 2008 as a result of the adoption of this interpretation was not significant.

(n) Fair Value of Financial Instruments

The Association has estimated the fair values of its financial instruments based on quoted market prices in accordance with Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair value amounts for specific groups of financial instruments are presented within the footnotes applicable to such items. Accounts receivable and accounts payable are stated at cost, which approximates fair value, due to their short term to maturity.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(o) *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.

Under the perpetual trust arrangement, the Association has recorded the asset and has recognized permanently restricted contribution revenue at the fair market value of the Association's beneficial interest in the trust assets. Income earned on the trust assets is recorded as unrestricted perpetual trust revenue in the statement of activities, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trusts assets are recorded as net unrealized gains or losses on beneficial interest in perpetual trusts in the permanently restricted net asset class.

The discount rates used at June 30, 2008 and 2007 were 4.7% and 5.8%, respectively.

(p) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(q) *Summarized Comparative Totals*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2007, from which the summarized information was derived. Certain reclassifications have been made to the June 30, 2007 financial statements to conform to the June 30, 2008 presentation.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(2) Investments

Investments at June 30, 2008 and 2007, and related returns for the years ended June 30, 2008 and 2007 consisted of the following (in thousands):

June 30, 2008				
	Interest and dividends (expenses)	Net realized and unrealized gains (losses)	Fair value	Cost
Cash and cash equivalents	\$ 4,100	—	—	—
Money market funds, certificates of deposit, and other short-term investments	238	1,178	52,837	52,798
U.S. Treasury and Government agency obligations	6,883	851	127,326	127,865
Corporate notes and bonds	2,860	(1,451)	72,878	74,924
Equity securities	6,239	(42,803)	281,040	278,929
Other investments	279	1,959	2,739	2,936
Investment fee expenses	(2,180)	—	—	—
Total	\$ 18,419	(40,266)	536,820	537,452

June 30, 2007				
	Interest and dividends (expenses)	Net realized and unrealized gains (losses)	Fair value	Cost
Cash and cash equivalents	\$ 5,616	—	—	—
Money market funds, certificates of deposit, and other short-term investments	1,643	1,464	22,393	22,413
U.S. Treasury and Government agency obligations	4,961	927	108,473	110,010
Corporate notes and bonds	3,177	(1,128)	99,082	99,743
Equity securities	5,369	51,265	317,700	269,805
Other investments	70	(40)	9,865	9,358
Investment fee expenses	(1,885)	—	—	—
Total	\$ 18,951	52,488	557,513	511,329

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(3) Endowments

The Association accepts endowment gifts under the stipulation by the donor that the funds are invested in perpetuity. Unless otherwise restricted by the donor, the investment income is to be used in accordance with the Association's endowment spending policy. The goals of the endowment funds are to enhance existing programs, create new programs, make available additional funding opportunities for donors, and support capital improvements. The Association's board of directors oversees the establishment and revision of goals, spending plans, and asset allocations for endowments. Endowment contributions are recorded as permanently restricted net assets.

Through August 31, 2007, the Association's management and investment of donor-restricted endowment funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending.

Effective September 1, 2007, the State of Texas enacted UPMIFA, the provisions of which apply to funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, the Association has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate as of June 30, 2008, based on accounting standards in effect.

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The Association will adopt the FSP for the year ending June 30, 2009, which will require the June 30, 2008 financial statements to be retrospectively adjusted to reflect a reclassification of net assets from unrestricted to temporarily restricted of approximately \$6.6 million. The Association does not believe this net asset reclassification will be operationally significant. Another key component of that FSP is a requirement for expanded disclosures for all endowment funds.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(4) Unconditional Promises

As of June 30, 2008 and 2007, the Association has received unconditional promises to give, consisting primarily of federated and nonfederated funds, pledges, bequests, and split-interest agreements as follows (in thousands):

	2008	2007
Less than one year	\$ 123,880	99,381
One to five years	61,464	47,789
More than five years	232,309	365,234
Subtotal	417,653	512,404
Allowance for uncollectible accounts	(4,178)	(2,884)
Discount	(135,713)	(253,209)
Total	\$ <u>277,762</u>	<u>256,311</u>

During 2008, long-term unconditional promises to give were reduced due to the structured settlement of a large split-interest with a forty-year time horizon. Under the terms of the settlement, most of the trust assets will be distributed within the next fiscal year.

(5) Land, Buildings, and Equipment

At June 30, 2008 and 2007, land, buildings, and equipment, and the related accumulated depreciation and amortization were (in thousands):

	2008	2007
Land and leasehold improvements	\$ 15,671	14,352
Buildings and improvements	81,794	83,143
Equipment and furniture	91,307	87,508
Total	188,772	185,003
Less accumulated depreciation and amortization	(106,789)	(106,012)
Land, buildings, and equipment, net	\$ <u>81,983</u>	<u>78,991</u>

(6) Bonds Payable

On February 1, 2000, the Association completed a bond offering and issued \$2,900,000 of the Development Authority of Cobb County Georgia Tax-Exempt Adjustable Mode Revenue Bonds, Series 2000 (the Bonds). The Association used the proceeds from the Bonds to fund construction of a building. A portion of the proceeds was used to pay for costs of issuance of the Bonds. The Bonds mature on March 1, 2018. The weekly variable interest rate is 1.52% and 3.79% at June 30, 2008 and 2007, respectively. The Bonds are secured by land and improvements. The fair value of bonds payable at June 30, 2008 and 2007 approximates carrying value.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

Principal payments are as follows (in thousands):

2009	\$	150
2010		155
2011		160
2012		170
2013		175
Thereafter		<u>1,205</u>
Total	\$	<u><u>2,015</u></u>

(7) Leases

(a) Operating Leases

The Association has operating lease agreements for office space, equipment, and automobiles. Future annual minimum lease payments due under noncancelable leases as of June 30, 2008 are as follows (in thousands):

2009	\$	8,969
2010		7,280
2011		6,078
2012		4,495
2013		3,386
Thereafter		<u>10,539</u>
Total	\$	<u><u>40,747</u></u>

Total operating lease expense for the years ended June 30, 2008 and 2007 was approximately \$9,306,000 and \$11,687,000, respectively.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(b) Capital Leases

The Association leases computers and office equipment under capital lease agreements expiring on various dates through 2013. As of June 30, 2008, the future minimum lease payments under capital leases were as follows (in thousands):

2009	\$	1,043
2010		794
2011		324
2012		150
2013		25
Total		2,336
Less amount representing interest		(188)
Less amount representing support and maintenance		(92)
Present value of lease obligation, included in other liabilities		\$ 2,056

(8) Retirement Plans

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

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

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

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

Total retirement plan costs for the years ended June 30, 2008 and 2007 were approximately \$15,529,000 and \$13,583,000, respectively.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(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 included direct mail campaigns and special events. The costs of conducting those joint activities were allocated as follows in 2008 and 2007 (in thousands):

	2008	2007
Research	\$ —	74
Public health education	105,134	85,909
Professional education and training	2,376	609
Community services	6,619	863
Management and general	17,983	5,504
Fundraising	63,231	41,421
Total joint costs	\$ 195,343	134,380

The Association allocates joint costs using the physical units methodology.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(11) Research Awards Payable

The activity in research awards liabilities during the years ended June 30, 2008 and 2007 and the amounts payable by year are summarized below (in thousands):

	<u>2008</u>	<u>2007</u>
Beginning balance, June 30	\$ 306,212	294,862
Awards expense:		
New awards	177,897	163,328
Cancellations, declinations, and refunds	(23,567)	(22,420)
Award increases	519	904
Research awards expense before discount	154,849	141,812
Change in discount	2,700	(1,184)
Total research awards expense	157,549	140,628
Payments	(133,672)	(129,278)
Ending balance, June 30	\$ <u>330,089</u>	<u>306,212</u>
Payable in year ending June 30:		
2009	\$ 155,185	
2010	108,498	
2011	51,606	
2012	21,926	
2013	6,065	
2014	264	
Total	343,544	
Less unamortized discount	(13,455)	
Net research awards payable	\$ <u>330,089</u>	

(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 ten 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. At age 65, employees will pay 100% of the premiums for Medicare supplemental insurance.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

As of June 30, 2008 and 2007, the accumulated postretirement benefit obligation is calculated using a discount rate of 6.75% and 6.25%, respectively. The following table presents information with respect to the postretirement benefit plans as of and for the years ended June 30, 2008 and 2007 (in thousands):

	2008	2007
Changes in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation, July 1	\$ 14,424	11,986
Service cost	922	714
Interest cost	877	729
Actuarial (gain) loss	(169)	1,640
Participant contributions	197	225
Benefits paid	(979)	(870)
Accumulated postretirement benefit obligation, June 30	\$ 15,272	14,424
Changes in plan assets:		
Fair value of plan assets, July 1	\$ —	—
Employer contributions	782	645
Participant contributions	197	225
Benefits paid	(979)	(870)
Fair value of plan assets, June 30	\$ —	—
Funded status:		
Unfunded benefit obligation, June 30 – included in other liabilities	\$ 15,272	14,424

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements June 30, 2008 with comparative information for 2007

	2008	2007
Changes in prior service cost:		
Prior service cost, July 1	\$ 168	248
Amortization of prior service cost	(80)	(80)
Prior service cost, June 30	\$ 88	168
Changes in net actuarial loss:		
Net actuarial loss, July 1	\$ 4,524	3,083
Amortization of net actuarial loss	(318)	(199)
Actuarial (gain) loss	(169)	1,640
Unrecognized net actuarial loss, June 30	\$ 4,037	4,524
Components of net periodic benefit cost:		
Service cost	\$ 922	714
Interest cost	877	729
Amortization of prior service cost	80	80
Amortization of net actuarial loss	318	199
Net periodic benefit cost	\$ 2,197	1,722
Amounts expected to be recognized as components of net periodic benefit cost during the next fiscal year:		
Amortization of prior service cost	\$ 80	80
Amortization of unrecognized net actuarial loss	329	318
Totals	\$ 409	398

The assumed healthcare cost trend rates as of June 30, 2008 and 2007 are as follows:

	2008	2007
Healthcare cost trend rate assumed for next year	9.0%	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0	5.0
Year that the rate reaches the ultimate trend rate	2013	2012

The healthcare cost trend rate assumption has a significant impact on the postretirement benefit costs and obligations. The effect of a 1% change in the assumed healthcare cost trend rate at June 30, 2008 would have resulted in a \$1,373,000 increase or \$1,220,000 decrease in the accumulated postretirement benefit obligation, and a \$192,000 increase or \$169,000 decrease in the fiscal year 2008 benefit expense.

The effect of a 1% change in the assumed healthcare cost trend rate at June 30, 2007 would have resulted in a \$1,229,000 increase or \$1,091,000 decrease in the accumulated postretirement benefit obligation, and a \$152,000 increase or \$134,000 decrease in the fiscal year 2007 benefit expense.

The Association expects to contribute \$907,000 to its postretirement benefit plan in fiscal year 2009.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008
with comparative information for 2007

Benefit payments, which reflect expected future service, are expected to be paid as follows (in thousands):

2009	\$	907
2010		1,075
2011		1,273
2012		1,363
2013		1,413
2014-2018		7,623

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* – an amendment of FASB statements No. 87, 88, 106, and 132(R). The statement requires an employer to recognize in its balance sheet the overfunded or underfunded status of a defined benefit post retirement plan, measured as the difference between the fair value of plan assets and the accumulated benefit obligation. The Association adopted SFAS No. 158 effective June 30, 2007 and recognized a decrease in unrestricted net assets of approximately \$4.7 million.

(13) Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2008 and 2007 have been restricted by donors as follows (in thousands):

	Temporarily restricted		Permanently restricted	
	2008	2007	2008	2007
Capital expenditures	\$ —	174	—	—
Research	17,388	27,638	—	—
Specific programs and support activities	103,217	91,339	120,923	129,391
Split-interest agreements	81,898	78,213	—	—
Time restrictions	71,979	65,379	—	—
Endowment funds	—	—	38,240	38,229
Total restricted net assets	\$ 274,482	262,743	159,163	167,620

Permanently restricted net assets relate principally to perpetual trusts. Distributions from these trusts as well as the earnings on the Association's donor-restricted endowment funds are, for the most, unrestricted.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2008

with comparative information for 2007

(14) Commitments and Contingencies

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

AMERICAN HEART ASSOCIATION

Greater Southeast Affiliate

Statement of Activities

Year ended June 30, 2008

with summarized comparative totals for the year ended June 30, 2007

	Unrestricted	Temporarily restricted	Permanently restricted	2008 Total	2007 Total
Revenue:					
Public support:					
Contributions	\$ 10,250,063	9,499,994	5,500	19,755,557	13,453,399
Contributed services and materials	5,726,618	—	—	5,726,618	8,881,074
Special events	40,198,073	12,719,935	—	52,918,008	52,762,452
Less direct donor benefits	(6,252,987)	—	—	(6,252,987)	(6,138,977)
Bequests	10,410,377	1,657,061	—	12,067,438	11,661,762
Split-interest agreements	343,617	117,497	255,387	716,501	277,177
Federated and nonfederated fund-raising organizations	560,226	1,771,023	—	2,331,249	2,429,622
Total public support	61,235,987	25,765,510	260,887	87,262,384	83,326,509
Other revenue:					
Grants from National Center	—	—	—	—	37,227
Program fees	27,014	—	—	27,014	26,816
Sales of educational materials	4,608,810	—	—	4,608,810	6,198,996
Interest and dividends, net of fees	1,712,444	52,569	—	1,765,013	2,201,643
Net realized and unrealized gains (losses) on investments	(2,720,168)	(274,710)	—	(2,994,878)	5,186,834
Perpetual trust distributions	520,796	264,670	—	785,466	724,387
Net unrealized gains (losses) on beneficial interest in perpetual trusts	—	—	(1,810,670)	(1,810,670)	1,892,209
Change in value of split-interest agreements	(325,912)	348,968	—	23,056	(133,775)
Gains/losses on disposal of fixed assets	3,097,267	—	—	3,097,267	(18,305)
Royalty revenue	267,061	—	—	267,061	293,828
Miscellaneous revenue	474,975	—	—	474,975	409,364
Transfers between components	—	1,734	—	1,734	(319,624)
Loss on uncollectible accounts	—	(938,551)	—	(938,551)	(1,107,198)
Total other revenue	7,662,287	(545,320)	(1,810,670)	5,306,297	15,392,402
Net assets released from restrictions:					
Transfer of restrictions to National Center	3,097,210	(3,097,210)	—	—	—
Satisfaction of purpose restrictions	8,706,883	(8,706,883)	—	—	—
Expiration of time restrictions	4,611,526	(4,611,526)	—	—	—
Total net assets released from restrictions	16,415,619	(16,415,619)	—	—	—
Total revenue	85,313,893	8,804,571	(1,549,783)	92,568,681	98,718,911

AMERICAN HEART ASSOCIATION

Greater Southeast Affiliate

Statement of Activities

Year ended June 30, 2008

with summarized comparative totals for the year ended June 30, 2007

	Unrestricted	Temporarily restricted	Permanently restricted	2008 Total	2007 Total
Expenses:					
Program services:					
Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	10,799,915	—	—	10,799,915	11,337,356
Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke	35,140,806	—	—	35,140,806	36,196,427
Professional education and training – to improve the knowledge, skills, and techniques of health professionals	5,204,608	—	—	5,204,608	5,337,878
Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities	4,094,325	—	—	4,094,325	5,108,900
Total program services	55,239,654	—	—	55,239,654	57,980,561
Supporting services:					
Management and general – providing executive direction, financial management, overall planning, and coordination of the Association's activities	7,440,740	—	—	7,440,740	5,816,647
Fundraising – activities to secure vital financial support from the public	17,364,623	—	—	17,364,623	13,392,157
Total supporting services	24,805,363	—	—	24,805,363	19,208,804
Total program and supporting services expenses	80,045,017	—	—	80,045,017	77,189,365
Allocation to National Center	15,545,552	—	—	15,545,552	16,031,429
Total expenses and allocation to National Center	95,590,569	—	—	95,590,569	93,220,794
Change in net assets before postretirement changes other than net periodic benefit cost	(10,276,676)	8,804,571	(1,549,783)	(3,021,888)	5,498,117
Effect of adoption of FASB Stmt No. 158	—	—	—	—	(312,413)
Postretirement changes other than net periodic benefit cost	32,179	—	—	32,179	—
Change in net assets	(10,244,497)	8,804,571	(1,549,783)	(2,989,709)	5,185,704
Net assets, beginning of year	37,180,693	18,963,815	20,956,627	77,101,135	71,915,431
Net assets, end of year	\$ 26,936,196	27,768,386	19,406,844	74,111,426	77,101,135

AMERICAN HEART ASSOCIATION

Greater Southeast Affiliate

Statement of Functional Expenses

Year ended June 30, 2008

with summarized comparative totals for the year ended June 30, 2007

	Research	Public health education	Professional education/training	Community services	Subtotal program services	Management and general	Fundraising	Subtotal supporting services	2008 Total	2007 Total
Salaries	\$ 174,166	12,103,610	1,089,752	1,322,431	14,689,959	3,590,383	7,409,977	11,000,360	25,690,319	22,590,251
Payroll taxes	12,316	915,632	77,493	97,171	1,102,612	318,350	538,763	857,113	1,959,725	1,713,030
Employee benefits	34,784	2,104,479	232,818	184,883	2,556,964	654,057	1,123,261	1,777,318	4,334,282	4,088,600
Occupancy	—	804,722	56,501	88,221	949,444	237,861	475,609	713,470	1,662,914	1,473,324
Telephone	422	453,002	37,726	50,887	542,037	134,849	268,482	403,331	945,368	767,393
Supplies	11	745,401	30,078	67,930	843,420	132,471	293,968	426,439	1,269,859	728,906
Rental and maintenance of equipment	—	276,684	19,381	30,586	326,651	82,008	164,667	246,675	573,326	478,251
Printing and publication	171	2,751,756	29,640	88,216	2,869,783	137,234	1,187,918	1,325,152	4,194,935	4,326,068
Postage and shipping	—	1,565,327	12,562	35,587	1,613,476	76,580	604,386	680,966	2,294,442	2,199,228
Conferences and meetings	2,244	620,552	153,121	323,941	1,099,858	92,670	373,964	466,634	1,566,492	1,374,279
Travel	7,512	1,752,364	188,123	226,053	2,174,052	407,767	985,712	1,393,479	3,567,531	2,901,252
Professional fees	528,598	9,100,101	3,117,494	1,461,048	14,207,241	689,907	3,166,634	3,856,541	18,063,782	19,877,550
Awards and grants	10,039,592	657,086	83,456	—	10,780,134	—	—	—	10,780,134	10,933,181
Other expenses	99	621,109	27,203	46,340	694,751	519,284	375,143	894,427	1,589,178	1,938,972
Depreciation and amortization	—	668,981	49,260	71,031	789,272	367,319	396,139	763,458	1,552,730	1,799,080
Total expenses before allocation to National Center	10,799,915	35,140,806	5,204,608	4,094,325	55,239,654	7,440,740	17,364,623	24,805,363	80,045,017	77,189,365
Allocation to National Center	7,836,415	3,392,021	1,079,279	616,731	12,924,446	1,696,010	925,096	2,621,106	15,545,552	16,031,429
Total functional expenses and allocation before direct donor benefits	18,636,330	38,532,827	6,283,887	4,711,056	68,164,100	9,136,750	18,289,719	27,426,469	95,590,569	93,220,794
Direct donor benefits	—	—	—	—	—	—	—	—	6,252,987	6,138,977
Total functional expenses, allocation and direct donor benefits	\$ 18,636,330	38,532,827	6,283,887	4,711,056	68,164,100	9,136,750	18,289,719	27,426,469	101,843,556	99,359,771

Exhibit I**AMERICAN HEART ASSOCIATION**

Greater Southeast Affiliate

Balance Sheet

June 30, 2008

with comparative totals for June 30, 2007

Assets	2008 Total	2007 Total
Cash and cash equivalents	\$ 16,346,788	19,945,043
Investments	48,177,389	49,323,359
Accounts receivable:		
Federated and nonfederated	1,132,058	1,248,824
Pledges, net	15,801,497	7,744,611
Bequest	2,705,941	5,031,705
Split-interest agreements, net	14,163,017	14,576,017
Other	—	131,330
Intercompany accounts receivable	1,506,947	740,320
Prepaid expense and other assets	458,709	305,304
Beneficial interest in perpetual trusts	17,805,100	19,360,383
Land, buildings, and equipment, net	13,667,323	12,095,373
Total assets	<u>\$ 131,764,769</u>	<u>130,502,269</u>
Liabilities and Net Assets		
Liabilities:		
Intercompany payables	\$ 20,438,087	21,490,030
Intercompany settlement	5,684,814	536,711
Accounts payable and accrued expenses	4,536,961	4,486,402
Research awards payable	20,491,874	20,129,621
Debt payable	2,015,000	2,160,000
Other liabilities	4,486,607	4,598,370
Total liabilities	<u>57,653,343</u>	<u>53,401,134</u>
Net assets:		
Unrestricted:		
Available for research, program and supporting activities	13,268,873	25,085,320
Investment in land, buildings, and equipment	13,667,323	12,095,373
Total unrestricted	<u>26,936,196</u>	<u>37,180,693</u>
Temporarily restricted	27,768,386	18,963,815
Permanently restricted	19,406,844	20,956,627
Total net assets	<u>74,111,426</u>	<u>77,101,135</u>
Total liabilities and net assets	<u>\$ 131,764,769</u>	<u>130,502,269</u>