



AMERICAN HEART ASSOCIATION, INC.

Financial Statements

June 30, 2006

With Summarized Comparative Totals for June 30, 2005

(With Independent Auditors' Report Thereon)

AMERICAN HEART ASSOCIATION, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Statement of Activities	2
Statement of Functional Expenses	4
Statement of Financial Position	5
Statement of Cash Flows	7
Notes to Financial Statements	8



KPMG LLP
Suite 3100
717 North Harwood Street
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Independent Auditors' Report

The Board of Directors
American Heart Association, Inc.:

We have audited the accompanying statement of financial position of the American Heart Association, Inc. (the Association) as of June 30, 2006, 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 audits. The prior year summarized comparative information has been derived from the Association's 2005 financial statements and, in our report dated October 7, 2005, 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 Association as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 6, 2006

AMERICAN HEART ASSOCIATION, INC.
Statement of Activities
Year ended June 30, 2006
with summarized comparative totals for the year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2006 Total</u>	<u>2005 Total</u>
Revenue:					
Public support:					
Received directly:					
Contributions	\$ 89,742,943	48,161,139	231,617	138,135,699	142,224,032
Contributed materials	1,782,558	3,446,550	—	5,229,108	493,992
Contributed services	87,490,666	—	—	87,490,666	68,722,828
Special events	231,326,477	49,724,075	—	281,050,552	273,050,989
Direct donor benefits	(38,381,673)	—	—	(38,381,673)	(37,277,144)
Bequests	59,054,449	15,056,100	601,133	74,711,682	86,850,986
Charitable gift annuities	963,957	10,284	—	974,241	1,834,711
Other split-interest agreements	—	3,035,675	—	3,035,675	2,690,977
Perpetual trusts	—	—	393,130	393,130	2,186,213
Total received directly	<u>431,979,377</u>	<u>119,433,823</u>	<u>1,225,880</u>	<u>552,639,080</u>	<u>540,777,584</u>
Received indirectly:					
Federated and nonfederated fund-raising organizations	<u>7,969,238</u>	<u>7,734,295</u>	<u>—</u>	<u>15,703,533</u>	<u>15,873,620</u>
Total public support	<u>439,948,615</u>	<u>127,168,118</u>	<u>1,225,880</u>	<u>568,342,613</u>	<u>556,651,204</u>
Other revenue:					
Program fees	18,622,632	—	—	18,622,632	18,426,323
Sales of educational materials	49,740,997	—	—	49,740,997	34,344,919
Membership dues	1,846,924	—	—	1,846,924	1,709,702
Fees and grants from other agencies	15,000	327,682	—	342,682	271,670
Interest and dividends, net of fees	16,238,199	797,605	42,003	17,077,807	12,209,659
Net unrealized gains/losses on investment transactions	(3,926,808)	186,682	189,830	(3,550,296)	331,234
Net realized gains on investment transactions	18,174,443	455,391	42,572	18,672,406	13,002,515
Perpetual trust revenue	4,108,436	905,119	—	5,013,555	4,610,747
Net unrealized gains on beneficial interest in perpetual trusts	—	—	4,152,728	4,152,728	2,376,814
Change in value of split-interest agreements	(52,342)	(8,471,438)	(155,407)	(8,679,187)	8,238,230
Gains/losses on disposal of fixed assets	2,417,279	—	—	2,417,279	5,150,578
Royalty revenue	14,614,810	—	—	14,614,810	12,013,973
Miscellaneous revenue (losses)	<u>10,941,677</u>	<u>(2,311,812)</u>	<u>—</u>	<u>8,629,865</u>	<u>1,847,842</u>
Total other revenue	<u>132,741,247</u>	<u>(8,110,771)</u>	<u>4,271,726</u>	<u>128,902,202</u>	<u>114,534,206</u>

AMERICAN HEART ASSOCIATION, INC.

Statement of Activities

Year ended June 30, 2006

with summarized comparative totals for the year ended June 30, 2005

	Unrestricted	Temporarily restricted	Permanently restricted	2006 Total	2005 Total
Net assets released from restrictions:					
Satisfaction of research restrictions	\$ 19,613,957	(19,613,957)	—	—	—
Satisfaction of other program restrictions	54,526,653	(54,526,653)	—	—	—
Expiration of time restrictions	32,795,238	(32,795,238)	—	—	—
Satisfaction of equipment acquisition restrictions	179,761	(179,761)	—	—	—
Satisfaction of geographic restrictions	4,363,117	(4,363,117)	—	—	—
Total net assets released from restrictions	<u>111,478,726</u>	<u>(111,478,726)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total of public support and other revenue	<u>684,168,588</u>	<u>7,578,621</u>	<u>5,497,606</u>	<u>697,244,815</u>	<u>671,185,410</u>
Expenses:					
Program services:					
Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	145,679,263	—	—	145,679,263	141,620,216
Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke	276,586,862	—	—	276,586,862	232,364,071
Professional education and training – to improve the knowledge, skills, and techniques of health professionals	79,828,219	—	—	79,828,219	72,362,909
Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities	41,558,816	—	—	41,558,816	44,288,400
Total program services	<u>543,653,160</u>	<u>—</u>	<u>—</u>	<u>543,653,160</u>	<u>490,635,596</u>
Supporting services:					
Management and general providing executive direction, financial management, overall planning, and coordination of the Association's activities	48,933,347	—	—	48,933,347	43,750,787
Fundraising – activities to secure vital financial support from the public	88,515,327	—	—	88,515,327	88,465,981
Total supporting services	<u>137,448,674</u>	<u>—</u>	<u>—</u>	<u>137,448,674</u>	<u>132,216,768</u>
Total program and supporting services expenses	<u>681,101,834</u>	<u>—</u>	<u>—</u>	<u>681,101,834</u>	<u>622,852,364</u>
Change in net assets	3,066,754	7,578,621	5,497,606	16,142,981	48,333,046
Net assets, beginning of year	<u>316,618,740</u>	<u>236,851,584</u>	<u>142,086,761</u>	<u>695,557,085</u>	<u>647,224,039</u>
Net assets, end of year	<u>\$ 319,685,494</u>	<u>244,430,205</u>	<u>147,584,367</u>	<u>711,700,066</u>	<u>695,557,085</u>

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Functional Expenses

Year ended June 30, 2006

with summarized comparative totals for the year ended June 30, 2005

	Direct donor benefits	Research	Public health education	Professional education/ training	Community service	Subtotal program services	Management and general	Fundraising	Subtotal supporting services	2006 Total	2005 Total
Salaries	\$ —	2,192,263	75,020,232	20,526,144	15,087,706	112,826,345	25,417,041	37,680,803	63,097,844	175,924,189	168,581,027
Payroll taxes	—	170,641	5,919,371	1,576,191	1,215,328	8,881,531	2,357,575	2,922,752	5,280,327	14,161,858	13,356,654
Employee benefits	—	439,136	12,304,939	3,471,198	2,585,449	18,800,722	6,507,634	6,169,105	12,676,739	31,477,461	28,368,537
Occupancy	—	88,697	6,717,699	1,323,073	1,468,104	9,597,573	1,902,961	3,785,563	5,688,524	15,286,097	13,237,554
Telephone	—	51,804	2,784,966	742,510	612,015	4,191,295	658,986	1,619,105	2,278,091	6,469,386	6,555,339
Supplies	—	58,616	3,103,970	639,790	480,068	4,282,444	536,361	1,369,057	1,905,418	6,187,862	6,425,988
Rental and maintenance of equipment	—	61,938	2,880,749	658,980	401,402	4,003,069	958,592	1,576,418	2,535,010	6,538,079	6,504,358
Printing and publication	—	21,274	24,557,121	10,988,931	6,698,523	42,265,849	290,989	9,592,152	9,883,141	52,148,990	42,560,765
Postage and shipping	—	31,490	9,415,513	671,788	390,849	10,509,640	414,734	5,577,096	5,991,830	16,501,470	12,845,167
Conferences and meetings	—	329,633	3,558,116	10,382,232	1,601,798	15,871,779	1,100,486	1,632,989	2,733,475	18,605,254	16,814,684
Travel	—	634,555	8,924,509	4,460,666	2,317,493	16,337,223	2,003,840	4,337,422	6,341,262	22,678,485	19,109,241
Professional fees	—	4,865,593	112,464,130	18,905,741	3,709,436	139,944,900	3,819,962	8,010,325	11,830,287	151,775,187	128,305,551
Awards and grants	—	136,048,356	1,824,301	1,407,612	1,465,070	140,745,339	7,943	22,873	30,816	140,776,155	136,710,381
Other expenses	—	601,893	2,872,459	3,128,852	2,835,103	9,438,307	909,574	1,959,807	2,869,381	12,307,688	12,935,124
Depreciation and amortization	—	83,374	4,238,787	944,511	690,472	5,957,144	2,046,669	2,259,860	4,306,529	10,263,673	10,541,994
Total functional expenses before direct donor benefits	—	145,679,263	276,586,862	79,828,219	41,558,816	543,653,160	48,933,347	88,515,327	137,448,674	681,101,834	622,852,364
Direct donor benefit	<u>38,381,673</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,381,673</u>	<u>37,277,144</u>
Total functional expenses and direct donor benefits	<u>\$ 38,381,673</u>	<u>145,679,263</u>	<u>276,586,862</u>	<u>79,828,219</u>	<u>41,558,816</u>	<u>543,653,160</u>	<u>48,933,347</u>	<u>88,515,327</u>	<u>137,448,674</u>	<u>719,483,507</u>	<u>660,129,508</u>

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Financial Position

Year ended June 30, 2006

with summarized comparative totals for the year ended June 30, 2005

Assets	Unrestricted	Temporarily restricted	Permanently restricted	2006 Total	2005 Total
Current assets:					
Cash and cash equivalents	\$ 133,744,885	2,587,302	298,189	136,630,376	145,679,732
Short-term investments	51,905,162	73,458	1,763,745	53,742,365	47,358,722
Accrued investment income	1,055,553	31,667	7,193	1,094,413	1,335,938
Accounts receivable:					
Federated and nonfederated	—	7,204,846	—	7,204,846	7,854,784
Pledges	3,685,571	46,406,966	606,000	50,698,537	50,706,025
Bequest/split-interest agreements	19,175,641	9,963,453	181,620	29,320,714	30,701,411
Exchange transactions	13,865,900	—	—	13,865,900	4,441,961
Other	5,145,447	—	—	5,145,447	4,567,103
Inventory	6,980,974	—	—	6,980,974	5,693,856
Interfund receivable (payable)	(37,351,517)	37,063,445	288,072	—	—
Prepaid expense and other assets	8,073,578	—	—	8,073,578	5,216,172
Total current assets	<u>206,281,194</u>	<u>103,331,137</u>	<u>3,144,819</u>	<u>312,757,150</u>	<u>303,555,704</u>
Noncurrent assets:					
Long-term investments	395,433,913	6,321,826	30,518,525	432,274,264	408,095,519
Beneficial Interest in Perpetual Trusts	—	—	113,461,222	113,461,222	108,916,275
Land, buildings, and equipment, net	80,418,535	—	—	80,418,535	75,156,193
Accounts receivable:					
Federated and nonfederated, net	—	280,000	—	280,000	—
Bequests, net	1,611,621	12,681	—	1,624,302	2,654,599
Pledges, net	—	25,422,999	5,601	25,428,600	19,781,012
Split-interest agreements, net	—	119,350,295	509,383	119,859,678	128,647,180
Prepaid expenses and other assets	5,517,607	3,405,150	—	8,922,757	2,966,373
Total noncurrent assets	<u>482,981,676</u>	<u>154,792,951</u>	<u>144,494,731</u>	<u>782,269,358</u>	<u>746,217,151</u>
Total assets	<u>\$ 689,262,870</u>	<u>258,124,088</u>	<u>147,639,550</u>	<u>1,095,026,508</u>	<u>1,049,772,855</u>

AMERICAN HEART ASSOCIATION, INC.

Statement of Financial Position

Year ended June 30, 2006

with summarized comparative totals for the year ended June 30, 2005

Liabilities and Net Assets	Unrestricted	Temporarily restricted	Permanently restricted	2006 Total	2005 Total
Current liabilities:					
Accounts payable and accrued expense	\$ 47,999,384	—	—	47,999,384	38,144,942
Current portion of long-term debt	230,829	—	—	230,829	305,763
Research awards payable	135,229,172	6,345,315	—	141,574,487	138,021,238
Deferred revenue and support	9,935,956	—	—	9,935,956	8,303,003
Other liabilities	976,359	—	—	976,359	696,896
Total current liabilities	194,371,700	6,345,315	—	200,717,015	185,471,842
Noncurrent liabilities:					
Long-term debt	6,380,051	—	—	6,380,051	2,911,199
Research awards	147,595,651	5,691,748	—	153,287,399	145,596,518
Other noncurrent liabilities	21,229,974	1,656,820	55,183	22,941,977	20,236,211
Total noncurrent liabilities	175,205,676	7,348,568	55,183	182,609,427	168,743,928
Total liabilities	369,577,376	13,693,883	55,183	383,326,442	354,215,770
Net assets:					
Net investment in land, buildings, and equipment	74,738,236	—	—	74,738,236	70,115,476
Programs and operations for the ensuing fiscal year	220,563,860	—	—	220,563,860	218,601,053
Capital expenditures	1,631,136	139,347	—	1,770,483	2,632,381
Research designated for future years	19,007,190	22,470,401	—	41,477,591	45,403,524
Specific programs and support activities	—	80,417,518	—	80,417,518	59,208,127
Split-interest agreements	3,745,072	83,499,348	114,005,640	201,250,060	205,494,168
Time restrictions	—	57,903,591	—	57,903,591	61,632,574
Endowment funds	—	—	33,578,727	33,578,727	32,469,782
Total net assets	319,685,494	244,430,205	147,584,367	711,700,066	695,557,085
Total liabilities and net assets	\$ 689,262,870	258,124,088	147,639,550	1,095,026,508	1,049,772,855

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Statement of Cash Flows

Year ended June 30, 2006

with summarized comparative totals for the year ended June 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 16,142,981	48,333,046
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,263,673	10,541,994
Net unrealized (gains) losses on investments	3,550,296	(331,234)
Net realized gains on investments	(18,672,406)	(13,002,515)
Net unrealized gains on beneficial interest in perpetual trusts	(4,152,728)	(2,376,814)
Change in value of split-interest agreement	8,679,187	(8,238,230)
Gains on disposal of equipment	(2,417,279)	(5,150,578)
Losses on uncollectible accounts and settlement of receivables	3,474,361	1,311,676
Contributions to endowment	(1,225,880)	(5,945,404)
Decrease in accrued investment income	241,525	696,930
Increase in accounts receivable	(15,839,125)	(18,229,868)
Increase in educational and campaign materials inventory	(1,287,118)	(621,415)
Increase in prepaid expenses and other assets	(8,813,790)	(1,048,998)
Increase in beneficial interest in perpetual trusts	(393,130)	(2,186,212)
(Increase) Decrease in split-interest agreements	(1,313,689)	428,357
Increase in accounts payable, accrued expenses and other liabilities	12,205,822	388,185
Decrease in research awards payable	11,244,130	13,246,763
(Decrease) increase in deferred revenue and support	1,632,953	(787,060)
Net cash provided by operating activities	<u>13,319,783</u>	<u>17,028,623</u>
Cash flows from investing activities:		
Purchases of equipment	(14,354,052)	(14,892,575)
Proceeds from sale of equipment	2,744,076	7,868,718
Purchases of investments	(233,476,167)	(213,988,204)
Proceeds from sales/maturities of investments	218,945,863	208,791,965
Net cash used in investing activities	<u>(26,140,280)</u>	<u>(12,220,096)</u>
Cash flows from financing activities:		
Payments on mortgage notes payable and capital leases	(1,169,410)	(590,527)
Borrowings on mortgage notes payable and capital leases	3,714,671	2,248,326
Contributions to endowment	1,225,880	5,945,401
Net cash provided by financing activities	<u>3,771,141</u>	<u>7,603,200</u>
Net (decrease) increase in cash and cash equivalents	(9,049,356)	12,411,727
Cash and cash equivalents, beginning of year	145,679,732	133,268,005
Cash and cash equivalents, end of year	<u>\$ 136,630,376</u>	<u>145,679,732</u>
Supplemental cash flow information:		
Interest paid	\$ 32,988	110,572
Contributed materials	5,229,108	493,992
Equipment purchased by capital lease	1,482,506	2,248,326

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

(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. All significant intra-Association accounts and transactions have been eliminated in the accompanying financial statements.

The Association provides funding for cardiovascular and stroke research, public education, and community 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 and Cash Equivalents*

For purposes of the statement of cash flows, cash and cash equivalents include highly liquid investments with original maturities of three months or less that are used to fund current obligations.

(c) *Investments*

Interest and dividend income is presented net of investment advisory/management fees and is reflected as net interest and dividends in the accompanying 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. The investment portfolios of all funds are carried at fair value with the related gains and losses included in the accompanying 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 the use of the donated assets 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to temporarily restricted support at the time of receipt and as net assets released from restrictions.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

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 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.

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 future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received, ranging from 1.9% to 7.5%. Accretion of the discounts is recognized as contribution revenue using the effective interest method.

(e) *Research Awards and Grants*

The Association awards funds each year to support cardiovascular and related research investigation 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 recorded as research awards payable in the accompanying statement of financial position.

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 using risk-free interest rates applicable to the years in which awards are granted, ranging from 2.6% to 5.8%. Accretion of the discounts is recognized as research – awards and grants expense, using the effective interest method, in the accompanying 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. Receivables that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

(g) *Inventory*

Inventories are stated at the lower of cost or market using the first-in, first-out method. Such inventories consist 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, 2006 and 2005

(h) Land, Buildings, and Equipment

Donated property and equipment is 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 – 3 to 4 years; and furniture and equipment – 3 to 7 years).

(i) In-Kind Contributions – Contributed Materials

In-kind contributed materials are reflected as contributions 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.

During 2006, the Association received \$5,229,108 as in-kind contributed materials. Of these nonmonetary contributions in the accompanying statement of activities, \$1,668,154 is recorded as program services expenses, \$11,847 as management and general expenses, \$102,557 as fund-raising expenses and \$3,446,550 as donated use of land. The Association received an additional \$316,403 in direct donor benefits, included in special events support.

During 2005, the Association received \$493,992 as in-kind contributed materials. Of these nonmonetary contributions in the accompanying statement of activities, \$348,885 is recorded as program services expenses, \$14,010 as management and general expenses, and \$131,097 as fund-raising expenses. The Association received an additional \$423,296 in direct donor benefits, included in special events support.

(j) Contributed Services

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

Of the \$87,490,666 received as contributed services in 2006, the Association recorded \$4,238,921 as program services expenses, \$77,814,627 as public health education expenses, \$3,630,255 as professional education expenses, \$904,391 as community service expenses, \$37,934 as management and general expenses and \$864,538 as fund-raising expenses in the accompanying statement of activities.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

Of the \$68,722,828 received as contributed services in 2005, the Association recorded \$20,617,865 as research and program services expenses, \$38,490,893 as public health education expenses, \$5,013,521 as professional education expenses, \$1,790,043 as community service expenses, \$182,136 as management and general expenses and \$2,628,370 as fund-raising expenses in the accompanying statement of activities. The Association received an additional \$1,490,496 in direct donor benefits, included in special events support.

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

(k) *Deferred Revenue*

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

(l) *Net Assets*

Public support and other revenues received during the fiscal year are used to fund research awards, programs and operations. A portion of unrestricted net assets is available for unfunded commitments, program supplementation, and operating contingencies directed by specific action of the board of directors and is reserved for the continuity of the Association's general activities and to meet emergency demands.

(m) *Functional Allocation of Expenses*

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

Public service announcements/advertising related expenses are included in professional fees. Of the public service announcements/advertising fees of \$90,868,632 recorded in 2006, the Association recorded \$87,234,929 as public health education, \$2,906,352 as professional education and training, \$57,154 as community service, \$6,267 as management and general, and \$663,930 as fund raising.

Of the public service announcements/advertising fees of \$75,454,709 recorded in 2005, the Association recorded \$61,752,286 as public health education, \$5,753,610 as professional education and training, \$2,688,273 as community service, \$414,997 as management and general, and \$4,845,543 as fund raising.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

(n) *Income Taxes*

The Association is exempt from federal income taxes 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, 2006 and 2005. Therefore, no tax liability has been provided in the accompanying financial statements.

(o) *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 due to their short term to maturity which approximates fair value.

(p) *Split-Interest Agreements*

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

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

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

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 accompanying 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, 2006 and 2005 were 5.1% and 4.4%, respectively.

(q) *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.

(r) *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, 2005, from which the summarized information was derived. Certain reclassifications have been made to the June 30, 2005 financial statements to conform to the June 30, 2006 presentation.

(2) *Investments*

Investments, unless stipulated by the donor, are typically held in savings accounts, U.S. government securities, commercial paper, certificates of deposit, bank repurchase agreements, money market funds, corporate notes or bonds, or equity securities.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

Investments at June 30, 2006 and 2005, and related returns for the years ended June 30, 2006 and 2005 for the Association consisted of the following:

	June 30, 2006				
	Interest and dividends (expenses)	Net unrealized gains (losses)	Net realized gains (losses)	Fair value	Cost
Short-Term Investments					
Cash and cash equivalents	\$ 3,430,427	—	—	—	—
Money market funds, certificates of deposit, and other short-term investments	1,091,530	(875,799)	(1,023)	14,812,357	14,857,590
U.S. Treasury and Government agency obligations	570,586	93,927	(149,181)	6,722,615	6,808,890
Corporate notes and bonds	1,098,402	(55,319)	11,498	32,130,393	32,268,304
Other investments	311,206	—	(4,436)	77,000	77,000
Investment fee expenses	(446,826)	—	—	—	—
Total	<u>\$ 6,055,325</u>	<u>(837,191)</u>	<u>(143,142)</u>	<u>53,742,365</u>	<u>54,011,784</u>
	June 30, 2006				
	Interest and dividends (expenses)	Net unrealized gains (losses)	Net realized gains (losses)	Fair value	Cost
Long-Term Investments					
Money market funds, certificates of deposit, and other short-term investments	\$ 753,239	(990,386)	—	25,648,246	26,698,629
U.S. Treasury and Government agency obligations	4,119,163	(3,620,398)	(940,026)	103,743,584	107,596,570
Corporate notes and bonds	2,202,885	(1,877,843)	(378,335)	51,463,452	52,884,470
Equity securities	5,153,752	3,332,139	20,166,811	245,226,657	224,702,634
Other investments	158,896	443,383	(32,902)	6,192,325	5,937,057
Investment fee expenses	(1,365,453)	—	—	—	—
Total	<u>\$ 11,022,482</u>	<u>(2,713,105)</u>	<u>18,815,548</u>	<u>432,274,264</u>	<u>417,819,360</u>
Grand total	<u>\$ 17,077,807</u>	<u>(3,550,296)</u>	<u>18,672,406</u>	<u>486,016,629</u>	<u>471,831,144</u>

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

June 30, 2005					
Short-Term Investments	Interest and dividends (expenses)	Net unrealized gains (losses)	Net realized gains (losses)	Fair value	Cost
Cash and cash equivalents	\$ 1,943,054	—	—	—	—
Money market funds, certificates of deposit, and other short-term investments	432,134	(1,074)	—	9,730,917	9,730,914
U.S. Treasury and Government agency obligations	462,478	(257,643)	16,004	18,392,926	18,568,515
Corporate notes and bonds	551,265	(95,893)	170,344	19,197,219	19,092,103
Other investments	29,474	1,165	(82,690)	37,660	36,495
Investment fee expenses	(432,676)	—	—	—	—
Total	\$ 2,985,729	(353,445)	103,658	47,358,722	47,428,027
June 30, 2005					
Long-Term Investments	Interest and dividends (expenses)	Net unrealized gains (losses)	Net realized gains (losses)	Fair value	Cost
Money market funds, certificates of deposit, and other short-term investments	\$ 403,681	—	(3,000)	16,231,161	16,291,160
U.S. Treasury and Government agency obligations	3,634,861	(208,971)	1,394,119	118,567,603	118,555,009
Corporate notes and bonds	2,501,870	(520,229)	1,030,505	47,027,580	46,622,790
Equity securities	3,434,049	1,347,009	10,279,010	215,874,729	202,623,177
Other investments	365,251	66,870	198,223	10,394,446	10,425,170
Investment fee expenses	(1,115,782)	—	—	—	—
Total	\$ 9,223,930	684,679	12,898,857	408,095,519	394,517,306
Grand total	\$ 12,209,659	331,234	13,002,515	455,454,241	441,945,333

There were no deposits to collateralize bank loans at June 30, 2006 and 2005.

(3) Endowments

The Association accepts endowment funds 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 contributions in the accompanying statement of activities and permanently restricted long-term investments in the accompanying statement of financial position.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

(4) Unconditional Promises

As of June 30, 2006, the Association has received unconditional promises to give, consisting primarily of federated and nonfederated funds, pledges, pooled income funds, bequests, and charitable remainder trusts as follows:

	June 30, 2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Less than one year	\$ 23,223,127	64,680,191	787,620	88,690,938
One to five years	1,762,103	25,504,985	5,601	27,272,689
More than five years	—	383,121,495	1,824,386	384,945,881
Subtotal	24,985,230	473,306,671	2,617,607	500,909,508
Allowance for uncollectible accounts	(361,915)	(1,180,328)	—	(1,542,243)
Discount	(150,482)	(263,485,103)	(1,315,003)	(264,950,588)
Total	<u>\$ 24,472,833</u>	<u>208,641,240</u>	<u>1,302,604</u>	<u>234,416,677</u>

(5) Land, Buildings, and Equipment

At June 30, 2006 and 2005, land, buildings, and equipment, and the related accumulated depreciation and amortization were:

	2006	2005
Land and leasehold improvements	\$ 14,144,575	14,159,117
Buildings and improvements	82,676,902	77,296,118
Equipment and furniture	83,352,318	72,708,809
Total	180,173,795	164,164,044
Less accumulated depreciation and amortization	(99,755,260)	(89,007,851)
Land, buildings, and equipment, net	<u>\$ 80,418,535</u>	<u>75,156,193</u>

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued. The Association has determined that FIN 47 had no impact on the financial statements.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

(6) Long-Term Debt

(a) *Mortgage Notes Payable*

At June 30, 2006 and 2005, mortgage notes payable consisted of various amounts payable to banks. The loan agreements provide for scheduled payments of principal and interest at interest rates ranging from 3.9% to 8.0%. These notes mature through 2015. These notes are collateralized by real estate having a total net book value in excess of the remaining liability.

Principal payments are as follows:

2007	\$	95,829
2008		91,435
2009		97,406
2010		54,311
2011		26,808
Thereafter		<u>235,420</u>
Total	\$	<u><u>601,209</u></u>

The fair value of mortgage notes payable at June 30, 2006 and 2005 does not differ materially from the carrying value.

(b) *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 4.03% and 2.34% at June 30, 2006 and 2005, respectively. The Bonds are secured by land and improvements.

Principal payments are as follows:

2007	\$	135,000
2008		145,000
2009		150,000
2010		155,000
2011		160,000
Thereafter		<u>1,550,000</u>
Total	\$	<u><u>2,295,000</u></u>

The fair value of bonds payable at June 30, 2006 and 2005 was approximately \$2,295,000 and \$2,425,000, respectively.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

(c) *Line of Credit*

On August 22, 2005, the Association entered into a line of credit agreement (the Loan Agreement) with Wachovia Bank, N.A. The Loan Agreement provides an unsecured revolving line of credit of up to \$4.5 million for a three-year period. Interest on borrowings is based on the One Month LIBOR Market Index Rate plus 0.50%. The net amount of this borrowing is classified in the Statement of Financial Position as a long-term debt. The Association used the proceeds from the line of credit to fund the acquisition and construction costs of office space for \$3,714,671. The line of credit matures on September 1, 2008, and the Association is not obligated to remit any payment until maturity. The fair value of the line of credit at June 30, 2006 was \$3,714,671.

(7) **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, 2006 are as follows:

2007	\$ 9,848,359
2008	9,020,422
2009	8,078,785
2010	6,705,095
2011	5,734,816
Thereafter	11,667,453
Total	<u>\$ 51,054,930</u>

Total operating lease expense for the years ended June 30, 2006 and 2005 was approximately \$11,844,000 and \$10,292,000, respectively.

(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.

Each month the Association contributes to the Plan an amount equal to the following percentage of base compensation, as defined by the Plan, depending upon the participant's years of service:

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

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

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 compensation 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 401(a) plan.

Total retirement plan costs for the years ended June 30, 2006 and 2005 were approximately \$12,032,000 and \$11,200,000, 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 fund-raising appeals. Those activities primarily included direct mail campaigns and special events. The costs of conducting those joint activities were allocated as follows in 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Research	\$ 72,241	132,325
Public health education	83,069,145	72,471,456
Professional education and training	1,946,932	1,034,057
Community services	622,121	541,763
Management and general	5,367,681	4,541,432
Fund-raising	37,528,376	32,968,810
Total joint costs	<u>\$ 128,606,496</u>	<u>111,689,843</u>

The Association allocates joint costs using the physical units methodology.

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

(11) Research Awards Payable

The activity in unrestricted and temporarily restricted research awards and grants liabilities during the year ended June 30, 2006 and the amounts payable by year are summarized below:

	Payable within one year	Payable after one year	Total
Balance, June 30, 2005	\$ 138,021,238	145,596,518	283,617,756
Awards and grants expense, FY 2006:			
New awards	53,389,135	109,098,464	162,487,599
Cancellations, declinations, and refunds	(13,451,552)	(9,270,545)	(22,722,097)
Award increases	564,914	—	564,914
Awards and grants expense before discount	40,502,497	99,827,919	140,330,416
Discount of payable after one year	—	(11,076,683)	(11,076,683)
Accretion of discount	4,519,754	2,274,869	6,794,623
Total awards and grants expense	45,022,251	91,026,105	136,048,356
Payments	(124,804,226)	—	(124,804,226)
Transfers to current maturities	83,335,224	(83,335,224)	—
Balance, June 30, 2006	\$ 141,574,487	153,287,399	294,861,886
Payable in years ending June 30:			
2007		\$ 141,574,487	
2008		94,462,157	
2009		46,679,943	
2010		21,398,593	
2011		5,718,032	
Total		309,833,212	
Less unamortized discount		(14,971,326)	
Net research awards payable		\$ 294,861,886	

(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, 2006 and 2005

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act expanded Medicare to include, for the first time, coverage for prescription drugs. Management has determined that this legislation will not impact the costs of their postretirement benefits plan.

As of June 30, 2006 and 2005, the accumulated postretirement benefit obligation is calculated using discount rates of 6.25% and 5.25%, respectively. The following table presents changes in accumulated postretirement benefit obligation, changes in plan assets, funded status, and components of net periodic benefit cost for the years ended June 30, 2006 and 2005:

	2006	2005
Changes in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation, July 1	\$ 13,609,742	9,655,510
Service cost	901,296	861,959
Interest cost	699,455	571,222
Actuarial (gain) loss	(2,650,577)	3,045,644
Benefits paid	(573,596)	(524,593)
Accumulated postretirement benefit obligation, June 30	<u>11,986,320</u>	<u>13,609,742</u>
Changes in plan assets:		
Fair value of plan assets, July 1	—	—
Employer contributions	573,596	524,593
Benefits paid	(573,596)	(524,593)
Fair value of plan assets, June 30	<u>—</u>	<u>—</u>
Funded status:		
Unfunded benefit obligation	(11,986,320)	(13,609,742)
Unrecognized transition obligation	—	—
Unrecognized prior service cost	247,746	327,925
Unrecognized net actuarial loss	3,082,531	6,218,361
Accrued postretirement benefit cost, June 30	<u>\$ (8,656,043)</u>	<u>(7,063,456)</u>
Components of net periodic benefit cost:		
Service cost	\$ 901,296	861,959
Interest cost	699,455	571,222
Amortization of prior service cost	80,179	80,179
Amortization of unrecognized losses (gains)	485,253	125,007
Net periodic benefit cost	<u>\$ 2,166,183</u>	<u>1,638,367</u>

AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2006 and 2005

The assumed healthcare cost trend rates as of June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Healthcare cost trend rate assumed for next year	9.0%	10.0%
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	2010	2010

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, 2006, would have resulted in a \$1,022,337 increase or \$907,553 decrease in the accumulated postretirement benefit obligation, and a \$187,180 increase or \$162,999 decrease in the fiscal year 2006 benefit expense.

The effect of a 1% change in the assumed healthcare cost trend rate at June 30, 2005, would have resulted in a \$1,273,819 increase or \$1,121,742 decrease in the accumulated postretirement benefit obligation, and a \$221,852 increase or \$185,600 decrease in the fiscal year 2005 benefit expense.

The Association expects to contribute \$645,110 to its postretirement benefit plan in fiscal year 2007.

Benefit payments, which reflect expected future service, are expected to be paid as follows:

2007	\$ 645,110
2008	752,334
2009	864,739
2010	1,057,089
2011	1,236,762
2012-2016	7,122,619

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 statement of financial position 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 accrued postretirement benefit obligation would have increased to \$11,986,320 as of June 30, 2006, if this statement had been required in fiscal year 2006.

(13) 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.