



*cutting through complexity*

## **AMERICAN HEART ASSOCIATION, INC.**

Financial Statements and Supplementary  
Information (Greater Southeast Affiliate)

June 30, 2014

(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.:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the American Heart Association, Inc. (the Association), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Heart Association, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



### **Report on Summarized Comparative Information**

We have previously audited the American Heart Association, Inc.'s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in exhibit I is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**KPMG LLP**

October 31, 2014



# Financial Statements

**AMERICAN HEART ASSOCIATION, INC.**  
Statement of Activities  
Year ended June 30, 2014  
(with summarized comparative totals for the year ended June 30, 2013)  
(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Revenue:					
Public support:					
Contributions	\$ 69,629	61,444	8	131,081	125,253
Contributed services and materials	42,800	—	—	42,800	41,083
Special events	273,787	62,538	—	336,325	302,499
Less direct donor benefits	(38,222)	—	—	(38,222)	(33,857)
Bequests	62,038	10,218	1,358	73,614	68,028
Split-interest agreements	946	1,330	1,130	3,406	1,369
Federated and nonfederated fund-raising organizations	2,288	3,454	—	5,742	5,819
Total public support	413,266	138,984	2,496	554,746	510,194
Other revenue:					
Program fees	21,750	—	—	21,750	21,419
Sales of educational materials	77,592	—	—	77,592	70,202
Membership dues	3,305	—	—	3,305	3,338
Fees and grants from government and other agencies	1,794	755	—	2,549	249
Interest and dividends, net of fees	9,163	1,298	52	10,513	10,752
Net realized and unrealized gains on investments	49,033	5,863	—	54,896	31,373
Perpetual trust distributions	5,525	1,368	—	6,893	6,212
Net unrealized gains on beneficial interest in perpetual trusts	—	—	18,492	18,492	5,465
Change in value of split-interest agreements	(3,195)	8,023	29	4,857	6,236
Gains (losses) on disposal of fixed assets	(83)	—	—	(83)	840
Royalty revenue	25,356	—	—	25,356	23,573
Miscellaneous revenue (losses), net	5,105	(1,264)	—	3,841	(3,315)
Total other revenue	195,345	16,043	18,573	229,961	176,344
Net assets released from restrictions:					
Satisfaction of purpose restrictions	54,195	(54,195)	—	—	—
Expiration of time restrictions	64,867	(64,803)	(64)	—	—
Total net assets released from restrictions	119,062	(118,998)	(64)	—	—
Total revenue	727,673	36,029	21,005	784,707	686,538

(Continued)

**AMERICAN HEART ASSOCIATION, INC.**  
Statement of Activities  
Year ended June 30, 2014  
(with summarized comparative totals for the year ended June 30, 2013)  
(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Expenses:					
Program services:					
Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	\$ 145,276	—	—	145,276	133,628
Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke	242,784	—	—	242,784	226,251
Professional education and training – to improve the knowledge, skills, and techniques of health professionals	94,433	—	—	94,433	90,446
Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities	44,804	—	—	44,804	36,595
Total program services	527,297	—	—	527,297	486,920
Supporting services:					
Management and general – to provide executive direction, financial management, overall planning, and coordination of the Association’s activities	57,082	—	—	57,082	52,452
Fundraising – to secure financial support from the public	81,953	—	—	81,953	75,233
Total supporting services	139,035	—	—	139,035	127,685
Total program and supporting services expenses	666,332	—	—	666,332	614,605
Change in net assets before postretirement changes other than net periodic benefit cost	61,341	36,029	21,005	118,375	71,933
Postretirement changes other than net periodic benefit cost	(1,108)	—	—	(1,108)	351
Change in net assets	60,233	36,029	21,005	117,267	72,284
Net assets, beginning of year	334,137	238,442	173,759	746,338	674,054
Net assets, end of year	\$ 394,370	274,471	194,764	863,605	746,338

See accompanying notes to financial statements.

**AMERICAN HEART ASSOCIATION, INC.**  
Statement of Functional Expenses  
Year ended June 30, 2014  
(with summarized comparative totals for the year ended June 30, 2013)  
(In thousands)

	Research	Public health education	Professional education/training	Community services	Subtotal program services	Management and general	Fundraising	Subtotal supporting services	2014 Total	2013 Total
Salaries	\$ 2,356	106,275	25,358	17,907	151,896	31,150	38,665	69,815	221,711	198,482
Payroll taxes	172	8,033	1,796	1,303	11,304	2,415	2,846	5,261	16,565	14,987
Employee benefits	354	20,089	2,555	2,290	25,288	5,178	6,960	12,138	37,426	35,016
Occupancy	53	8,828	820	1,413	11,114	1,654	2,714	4,368	15,482	15,672
Telephone	37	2,328	493	308	3,166	452	754	1,206	4,372	4,251
Supplies	12	2,615	496	424	3,547	698	1,094	1,792	5,339	5,276
Rental and maintenance of equipment	46	3,540	581	477	4,644	787	1,089	1,876	6,520	6,463
Printing and publication	7	46,883	18,714	6,186	71,790	2,296	7,738	10,034	81,824	80,085
Postage and shipping	2	6,486	197	108	6,793	409	3,664	4,073	10,866	11,695
Conferences and meetings	97	2,882	12,577	1,237	16,793	997	1,664	2,661	19,454	18,102
Travel	272	7,642	3,405	1,934	13,253	3,042	4,797	7,839	21,092	19,243
Professional fees	12,215	14,173	21,020	6,843	54,251	3,082	6,073	9,155	63,406	55,644
Awards and grants	129,457	4,949	3,194	2,800	140,400	—	—	—	140,400	129,694
Other expenses	63	4,251	1,304	592	6,210	3,858	2,600	6,458	12,668	10,711
Depreciation and amortization	133	3,810	1,923	982	6,848	1,064	1,295	2,359	9,207	9,284
Total functional expenses before direct donor benefits	145,276	242,784	94,433	44,804	527,297	57,082	81,953	139,035	666,332	614,605
Direct donor benefits	—	—	—	—	—	—	—	—	38,222	33,857
Total functional expenses and direct donor benefits	\$ 145,276	242,784	94,433	44,804	527,297	57,082	81,953	139,035	704,554	648,462

See accompanying notes to financial statements.



**AMERICAN HEART ASSOCIATION, INC.**

Balance Sheet

June 30, 2014

(with comparative amounts for June 30, 2013)

(In thousands)

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 36,106	50,875
Investments	727,684	595,254
Receivables:		
Pledges, net	134,201	123,024
Exchange transactions	7,076	6,988
Federated and nonfederated	2,332	2,371
Other	12,974	14,701
Bequests	16,803	14,812
Split-interest agreements, net	73,867	69,272
Inventory	4,784	7,481
Prepaid expenses and other assets	10,660	14,807
Beneficial interest in perpetual trusts	151,231	131,674
Land, buildings, and equipment, net	70,453	70,471
Total assets	\$ 1,248,171	1,101,730
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 64,245	48,371
Deferred revenue	7,304	8,766
Research awards payable	275,464	264,501
Bonds payable	1,025	1,205
Other liabilities	36,528	32,549
Total liabilities	384,566	355,392
Net assets:		
Unrestricted:		
Available for research, program, and supporting activities	323,944	263,693
Investment in land, buildings, and equipment	70,426	70,444
Total unrestricted	394,370	334,137
Temporarily restricted	274,471	238,442
Permanently restricted	194,764	173,759
Total net assets	863,605	746,338
Total liabilities and net assets	\$ 1,248,171	1,101,730

See accompanying notes to financial statements.

**AMERICAN HEART ASSOCIATION, INC.**

Statement of Cash Flows

Year ended June 30, 2014

(with comparative amounts for the year ended June 30, 2013)

(In thousands)

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Change in net assets	\$ 117,267	72,284
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,207	9,284
Net realized and unrealized gains on investments	(54,896)	(31,373)
Net unrealized gains on beneficial interest in perpetual trusts	(18,492)	(5,465)
Change in value of split-interest agreements	(4,857)	(6,236)
Losses (gains) on sale of fixed assets	83	(840)
Losses on uncollectible accounts and settlement of receivables	1,916	7,973
Contributions to endowment	(1,367)	(1,794)
Changes in operating assets and liabilities:		
Accounts receivable	(13,405)	(2,716)
Inventory	2,697	625
Prepaid expenses and other assets	4,147	(670)
Beneficial interest in perpetual trusts	(1,065)	(535)
Split-interest agreements	3,117	2,759
Accounts payable and accrued expenses	15,874	1,839
Deferred revenue	(1,462)	(244)
Research awards payable	10,963	3,707
Other liabilities	902	1,940
Net cash provided by operating activities	70,629	50,538
Cash flows from investing activities:		
Purchases of fixed assets	(8,836)	(8,833)
Proceeds from sale of fixed assets	455	2,082
Purchases of investments	(468,135)	(255,300)
Proceeds from sales/maturities of investments	390,600	195,098
Net cash used in investing activities	(85,916)	(66,953)
Cash flows from financing activities:		
Payments on mortgage notes payable and capital leases	(848)	(911)
Contributions to endowment	1,366	1,794
Net cash provided by financing activities	518	883
Net decrease in cash and cash equivalents	(14,769)	(15,532)
Cash and cash equivalents, beginning of year	50,875	66,407
Cash and cash equivalents, end of year	\$ 36,106	50,875
Supplemental cash flow information:		
Interest paid	\$ 191	80
Taxes paid	63	315
Contributed services and materials	42,800	41,083
Equipment purchased by capital lease	890	398

See accompanying notes to financial statements.



# Notes to Financial Statements

## AMERICAN HEART ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2014

### (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### (a) Organization

The American Heart Association, Inc. (the Association or AHA) 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.

#### (b) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

The financial statement presentation follows the provisions of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, Not-for-Profit Entities. Under FASB ASC 958, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* – net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors.

*Temporarily restricted net assets* – net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time.

*Permanently restricted net assets* – net assets required to be maintained in perpetuity, due to donor-imposed restrictions. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specified purposes.

#### (c) Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less. The Association has classified any cash or money market accounts held by external investment managers as investments as these funds are not intended for current operations.

## AMERICAN HEART ASSOCIATION, INC.

### Notes to Financial Statements

June 30, 2014

#### (d) Investments and Related Income

Investments primarily include assets invested for long-term capital appreciation, but also include short-term investments available for operations, totaling \$193 million and \$137 million as of June 30, 2014 and 2013, respectively. All investments are carried at fair value with the related gains and losses included in the statement of activities. The fair value of equity securities, debt securities, and derivatives with readily determinable fair values approximates quoted market prices. The fair value of real estate and buildings held as investments is estimated using private valuations of the properties held. Investments with limited marketability, including investments in certain partnerships, are stated at fair value as estimated by the general partner and reviewed by management. As a practical expedient to determine fair value, investments in fund of funds are reported using net asset values of the underlying funds as provided by the individual fund managers. The fund of funds manager reserves the right to adjust the reported net asset value if it is deemed not to be reflective of fair value. Because of the inherent uncertainty of valuations of investments in the underlying funds, their estimated values may differ significantly from the values that would have been used had a ready market for the underlying funds existed, and the difference could be material. Management relies upon the audited financial statements of the fund of funds performed by a third party auditor. Interest and dividend income is presented net of investment advisory/management fees and is reflected as net interest and dividends in the statement of activities. All investment income is reported as unrestricted unless otherwise restricted by the donor or required by accounting convention. All appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor, applicable law, or accounting convention.

#### (e) Contributions and Bequests

All contributions are considered available for the general programs of the Association, unless specifically restricted by the donor. The Association reports monetary gifts as temporarily restricted support if they are received with donor stipulations that limit their use or are subject to time restrictions. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Association is the beneficiary under various wills and trust agreements 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-adjusted interest rates applicable to the years in which the promises are expected to be received, with rates ranging from 0.11% to 3.3%. 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.

## **AMERICAN HEART ASSOCIATION, INC.**

### Notes to Financial Statements

June 30, 2014

(f) **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. 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 interest rates applicable to the years in which awards are granted, ranging from 0.5% to 1.9%. Accretion of the discounts is recognized as research – awards and grants expense, using the effective interest method, in the statement of functional expenses.

(g) **Exchange Transactions and Deferred Revenue**

The Association records revenues from exchange transactions as increases in unrestricted net assets to the extent that the earnings process is complete. 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.

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.

(h) **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.

(i) **Land, Buildings, and Equipment**

Donated property and equipment are recorded at fair value at date of receipt, and expenditures for land, buildings, and equipment are capitalized and stated at cost. Depreciation of buildings and equipment is provided on a half-year convention basis over estimated useful lives of the assets, ranging from 2 to 40 years (land leasehold – length of the leasehold interest; building and improvements – 5 to 40 years; and furniture and equipment – 2 to 7 years).

**AMERICAN HEART ASSOCIATION, INC.**

## Notes to Financial Statements

June 30, 2014

**(j) Contributed Services and Materials**

The Association recognizes contributions of materials at their estimated fair value at date of donation. The Association reports gifts of land, buildings, equipment, and other nonmonetary contributions as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how and how long the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed materials reported in the statement of activities were allocated as follows in 2014 and 2013 (in thousands):

	<b>2014</b>	<b>2013</b>
Public health education	\$ 31,404	29,693
Professional education	2,873	3,149
Community services	5	—
Management and general	5	4
Fundraising	53	49
Total contributed materials	\$ 34,340	32,895

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 2014 and 2013 (in thousands):

	<b>2014</b>	<b>2013</b>
Research	\$ 6,879	6,770
Public health education	569	774
Professional education	695	502
Community services	1	7
Management and general	41	51
Fundraising	275	84
Total contributed services	\$ 8,460	8,188

Public service announcements of approximately \$31,362,000 and \$29,599,000 were included in contributed materials revenue on the statement of activities and printing and publication on the statement of functional expenses for the years ended June 30, 2014 and 2013, respectively.

## AMERICAN HEART ASSOCIATION, INC.

### Notes to Financial Statements

June 30, 2014

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.

#### (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, 2014 and 2013. The Association believes that it has taken no significant uncertain tax positions.

#### (n) Fair Value of Financial Instruments

The estimated fair value amounts for specific groups of financial instruments are presented within the notes applicable to such items. Estimated fair value amounts for investments with unobservable inputs were considered Level 3 in the fair value hierarchy. Accounts receivable, other than split-interest agreements, and accounts payable are stated at cost, which approximates fair value, due to their short term to maturity.

#### (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.



## **AMERICAN HEART ASSOCIATION, INC.**

### Notes to Financial Statements

June 30, 2014

Under the pooled income fund and charitable remainder trust arrangements, the Association has recorded the contribution as temporarily restricted contribution revenue at the present value of the estimated future benefits to be received. Subsequent changes in fair value for charitable remainder trusts are recorded as changes in value of split-interest agreements in the temporarily restricted net asset class and are reported as changes in value of split-interest agreements in the statement of activities. The discount rates used for split-interest agreements at June 30, 2014 and 2013 were 4.3% and 3.6%, respectively.

Under the perpetual trust arrangement, the Association has recorded the asset and has recognized permanently restricted contribution revenue at the fair value of the Association's beneficial interest in the trust assets. Investments in mineral interests, which have a limited marketability, are stated at fair value, as estimated based on a multiple of annual revenues. Distributions received on the trust assets are recorded as unrestricted revenue in the statement of activities, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as net unrealized gains or losses on beneficial interest in perpetual trusts in the permanently restricted net asset class.

#### **(p) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; collectability of receivables; the valuation of split-interest agreements, investments and perpetual trusts; allocation of joint costs; and the functionalization of expenses.

#### **(q) Summarized Comparative Totals**

The financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

#### **(r) Reclassifications**

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. Certain prior year investment categories in footnotes 2 and 3 were summarized and revenue amounts were reclassified between contributions and special events revenues.

**AMERICAN HEART ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2014

**(2) INVESTMENTS**

Investments at June 30, 2014 and 2013, and related returns for the years then ended consisted of the following (in thousands):

<b>June 30, 2014</b>			
	<b>Interest and dividends (expenses)</b>	<b>Realized and unrealized gains (losses)</b>	<b>Fair value</b>
Equity securities	\$ 6,057	54,738	286,142
Governmental securities	676	(139)	58,179
Corporate bonds	4,967	1,411	164,288
Mortgage-backed securities	49	190	255
Other asset-backed securities	248	114	54,173
Derivatives	(427)	(425)	(9)
Fund of funds	—	587	53,205
Real estate and other	167	19	5,094
Short-term investments	457	23	93,789
Unsettled trades and other receivables, net	100	(1,622)	12,568
Investment expenses	(1,781)	—	—
<b>Total</b>	<b>\$ 10,513</b>	<b>54,896</b>	<b>727,684</b>

  

<b>June 30, 2013</b>			
	<b>Interest and dividends (expenses)</b>	<b>Realized and unrealized gains (losses)</b>	<b>Fair value</b>
Equity securities	\$ 5,170	36,815	241,363
Governmental securities	791	(1,598)	91,065
Corporate bonds	6,425	(3,893)	146,582
Mortgage-backed securities	114	(75)	9,013
Other asset-backed securities	211	65	40,363
Derivatives	(535)	14	1,195
Fund of funds	—	—	—
Real estate and other	124	15	4,870
Short-term investments	210	(14)	62,345
Unsettled trades and other receivables, net	(183)	44	(1,542)
Investment expenses	(1,575)	—	—
<b>Total</b>	<b>\$ 10,752</b>	<b>31,373</b>	<b>595,254</b>

## AMERICAN HEART ASSOCIATION, INC.

### Notes to Financial Statements

June 30, 2014

#### (a) Derivative Financial Instruments

The Association's assets include publicly traded equity and fixed income investments whose purpose is to attempt to allow for appreciation and growth of the assets to offset erosion in asset values as a result of inflation. These investments are exposed to various risks, including:

1. *Volatility risk*, the risk that stock prices will decrease, reducing the fair value of AHA's equity investments
2. *Interest rate risk*, the risk that interest rates will increase, reducing the fair value of AHA's fixed income investments
3. *Credit (default) risk*, the risk that a company may default on its bonds, reducing the value of AHA's fixed income investments
4. *Exchange rate risk*, the risk that foreign exchange rates will change relative to the U.S. Dollar, reducing the value of AHA's foreign equity investments

Management believes it is prudent to mitigate the effect of these risks to the extent practicable, and to maintain exposure to various segments of the securities markets in order to meet the short-term and long-term needs of the Association. In connection with the Association's investments, AHA investment policies allow for limited use of derivatives, provided the derivatives are used to control, manage, or hedge investment risk at the portfolio level. The policy indicates that any derivatives must be used with adequate diversification and as part of a total portfolio strategy that is non-speculative. Derivative use must be consistent with the Association's derivative requirements and the investment manager's stated investment approach. By nature, a liquid market for these instruments exists and can reasonably be expected to continue to exist even under adverse conditions.

Derivatives typically used by AHA's investment managers include futures, forward contracts, options, and swaps. The managers employ various control measures to attempt to prevent losses caused by derivatives. For example, net long futures, forwards, or swaps positions are backed with high-grade, liquid debt securities. The fair values of the derivatives are included in the fair value of the overall portfolio.

**AMERICAN HEART ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2014

**(3) FAIR VALUE MEASUREMENTS**

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The following tables present information about the Association's assets that are measured at fair value on a recurring basis as of June 30, 2014 and 2013, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. The three levels for measuring fair value are based on the reliability of inputs and are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities, such as publicly traded equity securities.

Level 2 – inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect the Association's assumptions based on the best information available in the circumstances. Inputs and valuation techniques used to measure fair value of Level 3 assets include reported fair value at the time of a gift, independent appraisals, published multiples of similar securities, or face value. At June 30, 2014, less than 1% of investment values are based upon Level 3 inputs. Split-interest agreements and perpetual trusts are revalued annually based on investment statements provided by a third party trustee.

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

# AMERICAN HEART ASSOCIATION, INC.

## Notes to Financial Statements

June 30, 2014

The categorization of the fund of funds investment within the fair value hierarchy is based upon the availability of reported net asset values and liquidity and do not necessarily correspond to the fund of funds manager's perceived risk of the investments. Those funds redeemable at or near the balance sheet are classified as Level 2. Generally, the underlying funds are open-end and offer subscription and redemption options to shareholders. Redemption provisions vary by fund but are typically monthly or quarterly. There were no redemption restrictions in place at June 30, 2014. Potential interests in "side pockets" (that is, a portion of an underlying fund's portfolio segregated for purposes of allocating gains and losses) could result in assets classified as Level 3. There were no side pockets in place in the fund of funds investment as of June 30, 2014.

Assets	Balance June 30, 2014	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands)		
1. Equity securities:				
a. Domestic stocks	\$ 222,251	222,251	—	—
b. International stocks	62,992	62,992	—	—
c. Nonpublic corporations	899	—	—	899
2. Debt securities:				
a. Governmental securities	58,179	—	58,079	100
b. Corporate bonds	164,288	—	164,288	—
c. Mortgage-backed securities	255	—	255	—
d. Other asset-backed securities	54,173	—	54,173	—
3. Derivatives	(9)	—	(9)	—
4. Fund of funds	53,205	—	53,205	—
5. Real estate and other	5,094	—	2,582	2,512
6. Short-term investments	93,789	31,264	62,525	—
7. Unsettled trades and other receivables, net	12,568	12,568	—	—
Investment subtotals	727,684	329,075	395,098	3,511
Split-interest agreements receivable, net	73,867	—	—	73,867
Beneficial interest in perpetual trusts	151,231	—	—	151,231
	\$ 952,782	329,075	395,098	228,609
Liabilities				
1. Gift annuity obligations	\$ 14,827	—	—	14,827

**AMERICAN HEART ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2014

Assets	Balance June 30, 2013	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands)		
1. Equity securities:				
a. Domestic stocks	\$ 188,686	188,686	—	—
b. International stocks	51,778	51,778	—	—
c. Nonpublic corporations	899	—	—	899
2. Debt securities:				
a. Governmental securities	91,065	—	90,965	100
b. Corporate bonds	146,582	—	146,582	—
c. Mortgage-backed securities	9,013	—	9,013	—
d. Other asset-backed securities	40,363	—	40,363	—
3. Derivatives	1,195	—	1,195	—
4. Real estate and other	4,870	—	2,249	2,621
5. Short-term investments	62,345	35,196	27,149	—
6. Unsettled trades and other receivables, net	(1,542)	(1,542)	—	—
Investment subtotals	595,254	274,118	317,516	3,620
Split-interest agreements receivable, net	69,272	—	—	69,272
Beneficial interest in perpetual trusts	131,674	—	—	131,674
	\$ 796,200	274,118	317,516	204,566
Liabilities				
1. Gift annuity obligations	\$ 11,972	—	—	11,972

There were no transfers between Level 1 and Level 2 during fiscal years ended June 30, 2014 or 2013.

The following summarizes the nature of investments that are reported at estimated fair value using net asset value as of June 30, 2014 (in thousands):

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fund of funds	\$ 53,205	—	Various	30–90 days
Real estate fund	2,572	11,408	Quarterly	45 days

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

# AMERICAN HEART ASSOCIATION, INC.

## Notes to Financial Statements

June 30, 2014

The real estate fund is an open-end fund that has residential, retail, office, and industrial properties. Unfunded commitments represent invested assets to be reallocated to the real estate fund at the time such commitments are called by the fund manager. Redemptions are allowed quarterly with notice required 45 days prior to calendar quarter-end provided that the interest has been held for at least 180 days.

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

		<b>Investments</b>	<b>Split-interest agreements</b>	<b>Perpetual trusts</b>	<b>Gift annuity obligations</b>
Balance June 30, 2012	\$	3,689	65,795	125,674	(12,251)
Total net (losses) gains		(64)	6,236	5,465	492
Acquisitions		—	833	535	(870)
Settlements		(5)	(3,592)	—	657
Balance June 30, 2013		3,620	69,272	131,674	(11,972)
Total net (losses) gains		(90)	8,337	18,492	(2,218)
Acquisitions		—	1,248	1,129	(1,181)
Settlements		(19)	(4,990)	(64)	544
Balance June 30, 2014	\$	<u>3,511</u>	<u>73,867</u>	<u>151,231</u>	<u>(14,827)</u>

The change in value of split-interest agreements valued using significant unobservable inputs is included in change in value of split-interest agreements in the accompanying statement of activities. The change in value of perpetual trusts using significant unobservable inputs is included in the net unrealized gains (losses) on beneficial interest in perpetual trusts in the accompanying statement of activities. The change in unrealized gains relating to assets still held at the reporting date is approximately \$26,251,000.

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

Level 3 assets for which the Association does not develop unobservable inputs include perpetual trusts, certain real estate parcels previously gifted to the AHA, and an equity interest in a privately held company. Fair value is determined by asset values reported by third party trustees, tax assessments, and periodic third party valuations.

## AMERICAN HEART ASSOCIATION, INC.

### Notes to Financial Statements

June 30, 2014

Quantitative information regarding unobservable inputs developed by the Association and assumptions used to measure the fair value of the related assets and liabilities as of June 30, 2014 follows:

Type	Fair value (In thousands)	Valuation technique	Significant unobservable inputs	Range (weighted average)
Oil and Gas Interests	\$ 343	Market Comparable Companies	Business Enterprise Value to Revenue Multiple Marketability Discount	12.8x–21.1x (15.75)       20%–30% (25%)
Split-Interest Agreements	\$ 73,867	Discounted cash flow	Growth Rate/ Discount Rate	3.28%–4.63% (4.29%)
Gift Annuity Obligations	\$ 14,827	Discounted cash flow	Discount Rate	1.0%–9.6% (3.93%)

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

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

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

#### (4) ENDOWMENTS

The Association's endowment program consists of donor-restricted endowment funds, and does not include any funds designated by the Board of Directors to function as endowments. The endowment program is subject to the New York Prudent Management of Institutional Funds Act (NYPMIFA).

Absent explicit donor stipulations to the contrary, the Association classifies the original value of gifts donated to the permanent endowment as well as accumulations to the permanent endowment made at the direction of the donor as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by NYPMIFA.



**AMERICAN HEART ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2014

In accordance with NYPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund
2. The purposes of the Association and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Association
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Association
8. The investment policy of the Association

Changes in endowment net assets for the years ended June 30, 2014 and 2013 are as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2012	\$ (22)	7,903	39,118	46,999
Investment return:				
Investment income	—	1,223	—	1,223
Net appreciation	287	3,205	—	3,492
Contributions	—	—	1,794	1,794
Reclassifications and others	(470)	(174)	805	161
Appropriation for expenditure	—	(1,743)	—	(1,743)
Endowment net assets, June 30, 2013	(205)	10,414	41,717	51,926
Investment return:				
Investment income	—	1,297	52	1,349
Net appreciation	205	5,862	—	6,067
Contributions	—	161	1,367	1,528
Reclassifications and others	—	120	—	120
Appropriation for expenditure	—	(1,742)	—	(1,742)
Endowment net assets, June 30, 2014	\$ —	16,112	43,136	59,248

**AMERICAN HEART ASSOCIATION, INC.**

## Notes to Financial Statements

June 30, 2014

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. If applicable, deficiencies of this nature are reported in unrestricted net assets. Total deficiencies as of June 30, 2013 were approximately \$205,000 and resulted primarily from an adjustment to an individual endowment. There were no deficiencies as of June 30, 2014. The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Directors, the endowment assets are invested in a manner that seeks to produce results that exceed the price and yield results of a mix of relevant benchmarks, while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Association has a policy of appropriating for distribution each year an amount not to exceed 4% of each endowment's average fair market value over the prior five years through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Association considered the long-term expected return on its endowments, mentioned above.

**(5) UNCONDITIONAL PROMISES**

As of June 30, 2014 and 2013, the Association has received unconditional promises to give, consisting primarily of pledges, split-interest agreements, and bequests, which are scheduled to be received as follows (in thousands):

	<b>2014</b>	<b>2013</b>
Less than one year	\$ 112,020	110,252
One to five years	45,358	36,438
More than five years	123,846	105,718
Subtotal	281,224	252,408
Allowance for uncollectible accounts	(3,614)	(5,983)
Discount	(50,407)	(36,946)
Total	\$ 227,203	209,479

The Association maintains an allowance for doubtful accounts for estimated credit losses resulting from collection risks, including the inability of donors to make required payments under contractual agreements. The allowance for doubtful accounts is reported as a reduction of receivables in the balance sheet. The adequacy of this allowance is determined by evaluating historical delinquency and write-off trends, specific known collection risks, historical payment trends, as well as current economic conditions.

**AMERICAN HEART ASSOCIATION, INC.**

## Notes to Financial Statements

June 30, 2014

**(6) LAND, BUILDINGS, AND EQUIPMENT**

At June 30, 2014 and 2013, land, buildings, and equipment, and the related accumulated depreciation and amortization were as follows (in thousands):

		<b>2014</b>	<b>2013</b>
Land and leasehold improvements	\$	17,368	16,700
Buildings and improvements		82,467	82,475
Equipment and furniture		104,167	104,011
<b>Total</b>		<b>204,002</b>	<b>203,186</b>
Less accumulated depreciation and amortization		(133,549)	(132,715)
<b>Land, buildings, and equipment, net</b>	<b>\$</b>	<b>70,453</b>	<b>70,471</b>

**(7) LEASES****(a) Operating Leases**

The Association has operating lease agreements for office space and equipment. Future annual minimum lease payments due under noncancelable leases as of June 30, 2014 are as follows (in thousands):

2015	\$	10,337
2016		9,100
2017		7,770
2018		6,940
2019		3,346
Thereafter		1,235
<b>Total</b>	<b>\$</b>	<b>38,728</b>

Total operating lease expense for the years ended June 30, 2014 and 2013 was approximately \$9,578,000 and \$9,064,000, respectively.

**AMERICAN HEART ASSOCIATION, INC.**

## Notes to Financial Statements

June 30, 2014

**(b) Capital Leases**

The Association leases office equipment under capital lease agreements expiring on various dates through 2018. As of June 30, 2014, the future minimum lease payments under capital leases were as follows (in thousands):

2015	\$	529
2016		438
2017		304
2018		119
2019		9
<b>Total</b>		<b>1,399</b>
Less:		
Amount representing interest, support and maintenance		(74)
<b>Present value of lease obligation, included in other liabilities</b>	<b>\$</b>	<b>1,325</b>

**(8) RETIREMENT PLANS**

The Association has a 401(a) defined-contribution plan (the Plan). Eligible participants include employees who are at least 21 years of age and have at least two years of service with an accumulation of at least 1,000 hours per year. A year of service is defined as a period of 12 consecutive months beginning on an employee's date of hire. Employees are 100% vested upon satisfaction of the eligibility period. Participants are not permitted to contribute to the Plan.

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

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

In addition, the Association contributes to the Plan an employer matching contribution, equal to 100% of each participant's elective contribution up to 4% of base salary to a 403(b) plan also sponsored by the Association. These elective contributions may be made by an employee beginning the first of the month following two years of service.

Total retirement plan costs for the years ended June 30, 2014 and 2013 were approximately \$17,738,000 and \$16,779,000, respectively.

**AMERICAN HEART ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2014

**(9) CONFLICT OF INTEREST POLICY AND STANDARDS**

Included among the Association's officers, board, and committee members are volunteers from the business, medical, and scientific community who provide valuable assistance to the Association in the development of policies and programs and in the evaluation of research awards and grants and business relationships. The Association has adopted a conflict of interest policy and standards whereby volunteers are required to abstain from participating in or otherwise attempting to influence decisions in which they have a personal, professional, or business interest.

**(10) ALLOCATION OF JOINT COSTS**

The Association conducts joint activities (activities benefiting multiple programs and/or supporting services) that include fundraising appeals. Those activities primarily include direct mail campaigns and special events. The costs of conducting those joint activities were allocated as follows in 2014 and 2013 (in thousands):

		<b>2014</b>	<b>2013</b>
Public health education	\$	118,074	109,427
Professional education and training		1,476	1,573
Community services		763	610
Management and general		22,353	20,338
Fundraising		43,466	41,044
Total joint costs	\$	186,132	172,992

**(11) RESEARCH AWARDS PAYABLE**

The activity in research awards payable during the years ended June 30, 2014 and 2013 and the amounts payable by year are summarized below (in thousands):

		<b>2014</b>	<b>2013</b>
Beginning balance, July 1	\$	264,501	260,794
Awards expense:			
New awards		150,818	137,955
Cancellations, declinations, and refunds		(20,303)	(16,190)
Research awards expense before discount		130,515	121,765
Change in discount		(1,058)	(118)
Total research awards expense		129,457	121,647
Payments		(118,494)	(117,940)
Ending balance, June 30	\$	275,464	264,501

**AMERICAN HEART ASSOCIATION, INC.**

## Notes to Financial Statements

June 30, 2014

Payable in year ending June 30:		
2015	\$	125,358
2016		83,879
2017		40,377
2018		21,115
2019		6,787
Thereafter		1,025
Total		278,541
Less unamortized discount		(3,077)
Net research awards payable	\$	<u>275,464</u>

**(12) POSTRETIREMENT BENEFITS**

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The Association provides postretirement benefits to eligible past and present employees. Eligibility includes those who have retired or will retire at age 55 or thereafter, and who have been employed by the Association for at least 10 years of service prior to retirement. The Association provides eligible employees who retire prior to age 65 with medical, dental, and life insurance. Dental and life insurance terminate at age 65.

During fiscal year 2009, eligibility requirements for the postretirement benefit plan were amended. As of the March 1, 2009 effective date, present employees (a) who had at least 10 years of continuous service with the Association, or (b) whose age and years of continuous service with the Association summed to at least 50, maintained their eligibility. As of the March 1, 2009 effective date, present employees who did not meet either of these eligibility requirements may still participate in the plan upon retirement prior to age 65, but will be responsible for 100% of the cost. New employees joining the Association after March 1, 2009 are not eligible for postretirement benefits.

**AMERICAN HEART ASSOCIATION, INC.**

## Notes to Financial Statements

June 30, 2014

As of June 30, 2014 and 2013, the accumulated postretirement benefit obligation (APBO) is calculated using a discount rate of 4.05% and 4.70%, respectively. The following table presents information with respect to the postretirement benefit plans as of and for the years ended June 30, 2014 and 2013 (in thousands):

	<b>2014</b>	<b>2013</b>
Changes in accumulated postretirement benefit obligation:		
APBO, beginning of year	\$ 12,054	11,652
Service cost	424	452
Interest cost	548	461
Actuarial loss	361	275
Participant contributions	250	247
Benefits paid	(1,025)	(1,033)
APBO, end of year	12,612	12,054
Changes in plan assets:		
Fair value of plan assets, beginning of year	—	—
Employer contributions	775	786
Participant contributions	250	247
Benefits paid	(1,025)	(1,033)
Fair value of plan assets, end of year	—	—
Funded status:		
Unfunded benefit obligation, June 30 – included in other liabilities	\$ <u>12,612</u>	<u>12,054</u>

**AMERICAN HEART ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2014

	<u>2014</u>	<u>2013</u>
Changes in prior service credit:		
Prior service credit, beginning of year	\$ (60)	(103)
Amortization of prior service credit	43	43
Prior service credit, end of year	\$ (17)	(60)
Changes in net actuarial (gain) loss:		
Net actuarial gain, beginning of year	\$ (1,230)	(1,537)
Amortization of net actuarial gain	2	32
Actuarial loss	362	275
Unrecognized net actuarial gain, end of year	\$ (866)	(1,230)
Components of net periodic benefit cost:		
Service cost	\$ 424	452
Interest cost	548	461
Amortization of prior service credit	(43)	(43)
Amortization of net actuarial gain	(2)	(32)
Net periodic benefit cost	\$ 927	838
Amounts expected to be recognized as components of net periodic benefit cost during the next fiscal year:		
Amortization of prior service credit	\$ (43)	(43)
Amortization of unrecognized net actuarial gain	(2)	(2)
Total	\$ (45)	(45)

The assumed healthcare cost trend rates as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Healthcare cost trend rate assumed for next year	8.0%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0	5.0
Year that the rate reaches the ultimate trend rate	2031	2030

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, 2014 would have resulted in an increase of approximately \$1,067,000 or a decrease of approximately \$960,000 in the accumulated postretirement benefit obligation and an increase of approximately \$89,000 or a decrease of approximately \$80,000 in the fiscal year 2014 benefit expense.



**AMERICAN HEART ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2014

**(13) RESTRICTED NET ASSETS**

Temporarily and permanently restricted net assets as of June 30, 2014 and 2013 have been restricted by donors as follows (in thousands):

		Temporarily restricted		Permanently restricted	
		2014	2013	2014	2013
Research	\$	17,972	29,279	—	—
Other programs		98,921	78,290	—	—
Split-interest agreements		54,911	50,974	397	368
Beneficial interest in perpetual trusts		—	—	151,231	131,674
Time restrictions		86,555	69,485	—	—
Endowment funds		16,112	10,414	43,136	41,717
Total restricted net assets	\$	274,471	238,442	194,764	173,759

**(14) NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Association on July 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Association is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures.

**(15) COMMITMENTS AND CONTINGENCIES**

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

**(16) SUBSEQUENT EVENTS**

The Association evaluated subsequent events after the balance sheet date of June 30, 2014 through October 31, 2014, which was the date the financial statements were issued, and concluded that no additional disclosures are required.

## AMERICAN HEART ASSOCIATION

Greater Southeast Affiliate

Statement of Activities

Year ended June 30, 2014

(with summarized comparative totals for the year ended June 30, 2013)

	Unrestricted	Temporarily restricted	Permanently restricted	2014 Total	2013 Total
Revenue:					
Public support:					
Contributions	\$ 7,602,505	2,646,786	—	10,249,291	9,915,929
Special events	40,285,470	11,821,452	—	52,106,922	50,348,409
Less direct donor benefits	(5,086,652)	—	—	(5,086,652)	(4,775,434)
Bequests	7,712,745	1,954,316	623,780	10,290,841	7,467,541
Split-interest agreements	—	934,890	—	934,890	246,669
Federated and nonfederated fund-raising organizations	286,884	713,134	—	1,000,018	948,215
Total public support	50,800,952	18,070,578	623,780	69,495,310	64,151,329
Other revenue:					
Grants from National Center	3,933,661	189,163	—	4,122,824	3,290,069
Program fees	—	—	—	—	15,110
Interest and dividends, net of fees	775,703	45,017	—	820,720	831,705
Net realized and unrealized gains on investments	3,267,519	247,254	—	3,514,773	2,052,361
Perpetual trust distributions	460,311	253,416	—	713,727	863,618
Net unrealized gains on beneficial interest in perpetual trusts	—	—	1,499,426	1,499,426	874,434
Change in value of split-interest agreements	(341,987)	1,571,547	—	1,229,560	2,173,779
Gains on disposal of fixed assets	—	—	—	—	296,519
Miscellaneous revenue, net	242,667	—	—	242,667	199,088
Transfers between components	—	(561,741)	—	(561,741)	(126,844)
Loss on uncollectible accounts	—	(623,191)	—	(623,191)	(681,123)
Total other revenue	8,337,874	1,121,465	1,499,426	10,958,765	9,788,716
Net assets released from restrictions:					
Transfer of restrictions to National Center	3,691,755	(3,691,755)	—	—	—
Satisfaction of purpose restrictions	3,921,124	(3,921,124)	—	—	—
Expiration of time restrictions	9,992,081	(9,992,081)	—	—	—
Total net assets released from restrictions	17,604,960	(17,604,960)	—	—	—
Total revenue	76,743,786	1,587,083	2,123,206	80,454,075	73,940,045

## AMERICAN HEART ASSOCIATION

Greater Southeast Affiliate

Statement of Activities

Year ended June 30, 2014

(with summarized comparative totals for the year ended June 30, 2013)

	Unrestricted	Temporarily restricted	Permanently restricted	2014 Total	2013 Total
Expenses:					
Program services:					
Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists	\$ 10,671,099	—	—	10,671,099	9,292,192
Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke	24,372,461	—	—	24,372,461	23,454,849
Professional education and training – to improve the knowledge, skills, and techniques of health professionals	1,530,476	—	—	1,530,476	1,580,643
Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities	2,177,283	—	—	2,177,283	2,041,328
Total program services	38,751,319	—	—	38,751,319	36,369,012
Supporting services:					
Management and general – to provide executive direction, financial management, overall planning, and coordination of the Association's activities	5,275,664	—	—	5,275,664	5,092,538
Fundraising – to secure financial support from the public	10,321,056	—	—	10,321,056	10,067,453
Total supporting services	15,596,720	—	—	15,596,720	15,159,991
Total program and supporting services expenses	54,348,039	—	—	54,348,039	51,529,003
Allocation to National Center	15,264,729	—	—	15,264,729	14,753,261
Total expenses and allocation to National Center	69,612,768	—	—	69,612,768	66,282,264
Change in net assets before postretirement changes other than net periodic benefit cost	7,131,018	1,587,083	2,123,206	10,841,307	7,657,781
Postretirement changes other than net periodic benefit cost	(326,818)	—	—	(326,818)	145,657
Change in net assets	6,804,200	1,587,083	2,123,206	10,514,489	7,803,438
Net assets, beginning of year	17,702,893	26,699,057	19,888,567	64,290,517	56,487,079
Net assets, end of year	\$ 24,507,093	28,286,140	22,011,773	74,805,006	64,290,517

See accompanying independent auditors' report.

## AMERICAN HEART ASSOCIATION

Greater Southeast Affiliate

## Statement of Functional Expenses

Year ended June 30, 2014

(with summarized comparative totals for the year ended June 30, 2013)

	Research	Public health education	Professional education/training	Community services	Subtotal program services	Management and general	Fundraising	Subtotal supporting services	2014 Total	2013 Total
Salaries	\$ —	12,199,649	412,687	796,023	13,408,359	2,371,166	3,938,520	6,309,686	19,718,045	19,304,571
Payroll taxes	—	895,098	29,879	57,247	982,224	209,793	286,976	496,769	1,478,993	1,459,367
Employee benefits	—	2,508,300	85,190	166,593	2,760,083	488,180	808,224	1,296,404	4,056,487	4,015,878
Occupancy	—	598,927	14,283	36,183	649,393	107,597	195,199	302,796	952,189	906,909
Telephone	83	293,988	7,011	17,761	318,843	53,715	95,833	149,548	468,391	454,994
Supplies	22	221,924	4,474	8,621	235,041	62,079	106,535	168,614	403,655	397,879
Rental and maintenance of equipment	—	219,886	5,242	13,279	238,407	39,505	71,660	111,165	349,572	337,394
Printing and publication	—	1,622,159	328,996	165,768	2,116,923	162,106	978,403	1,140,509	3,257,432	3,045,035
Postage and shipping	—	859,255	3,857	10,039	873,151	38,097	351,842	389,939	1,263,090	1,225,541
Conferences and meetings	—	369,189	23,510	300,417	693,116	90,149	212,893	303,042	996,158	770,109
Travel	366	1,121,470	72,228	99,780	1,293,844	304,385	478,005	782,390	2,076,234	1,899,734
Professional fees	216,188	2,527,482	452,818	440,892	3,637,380	772,750	2,325,717	3,098,467	6,735,847	6,772,990
Awards and grants	10,454,440	103,883	77,183	29,356	10,664,862	10,241	—	10,241	10,675,103	9,291,026
Other expenses	—	444,983	3,446	11,910	460,339	496,569	345,483	842,052	1,302,391	1,020,980
Depreciation and amortization	—	386,268	9,672	23,414	419,354	69,332	125,766	195,098	614,452	626,596
Total functional expenses before allocation to National Center	10,671,099	24,372,461	1,530,476	2,177,283	38,751,319	5,275,664	10,321,056	15,596,720	54,348,039	51,529,003
Allocation to National Center	7,785,012	2,900,299	1,221,178	152,647	12,059,136	2,137,062	1,068,531	3,205,593	15,264,729	14,753,261
Total functional expenses and allocation before direct donor benefits	18,456,111	27,272,760	2,751,654	2,329,930	50,810,455	7,412,726	11,389,587	18,802,313	69,612,768	66,282,264
Direct donor benefits	—	—	—	—	—	—	—	—	5,086,652	4,775,434
Total functional expenses, allocation and direct donor benefits	\$ 18,456,111	27,272,760	2,751,654	2,329,930	50,810,455	7,412,726	11,389,587	18,802,313	74,699,420	71,057,698

See accompanying independent auditors' report.

## AMERICAN HEART ASSOCIATION

Greater Southeast Affiliate

Balance Sheet

June 30, 2014

(with comparative amounts for June 30, 2013)

Assets	2014	2013
Cash and cash equivalents	\$ 3,623,956	4,303,977
Investments	52,086,131	41,341,455
Receivables:		
Federated and nonfederated	280,008	304,687
Pledges, net	14,432,737	14,303,264
Bequests	1,901,373	1,748,361
Split-interest agreements, net	17,432,425	15,567,726
Other	558,661	453,453
Intercompany accounts receivable	1,266,678	2,083,333
Prepaid expense and other assets	93,972	98,169
Beneficial interest in perpetual trusts	20,286,629	18,163,424
Land, buildings, and equipment, net	10,475,706	10,470,306
Total assets	\$ 122,438,276	108,838,155
<b>Liabilities and Net Assets</b>		
Liabilities:		
Intercompany payables	\$ 22,726,004	20,828,787
Accounts payable and accrued expense	3,772,694	3,234,265
Research awards payable	15,605,450	15,864,711
Bonds payable	1,025,000	1,205,000
Other liabilities	4,504,122	3,414,875
Total liabilities	47,633,270	44,547,638
Net assets:		
Unrestricted:		
Available for research, program and supporting activities	14,031,387	7,232,587
Investment in land, buildings, and equipment	10,475,706	10,470,306
Total unrestricted	24,507,093	17,702,893
Temporarily restricted	28,286,140	26,699,057
Permanently restricted	22,011,773	19,888,567
Total net assets	74,805,006	64,290,517
Total liabilities and net assets	\$ 122,438,276	108,838,155

See accompanying independent auditors' report.