

AMERICAN HEART ASSOCIATION, INC.
Consolidated Financial Statements
June 30, 2023
(With Independent Auditor's Report Thereon)

AMERICAN HEART ASSOCIATION, INC.

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INDEPENDENT AUDITOR'S REPORT

The Audit Committee
The American Heart Association

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the American Heart Association Inc. (the "Association"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flow for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute

assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

October 25, 2023

AMERICAN HEART ASSOCIATION, INC.
Consolidated Statement of Financial Position
(In thousands)

	June 30,	
	2023	2022
Assets		
Cash and cash equivalents	\$ 303,301	\$ 104,548
Investments	851,167	902,637
Receivables:		
Pledges, net	259,139	237,695
Split-interest agreements, net of discount	66,787	67,922
Exchange transactions	48,526	38,267
Bequests	9,609	8,039
Other	27,319	16,476
Beneficial interest in perpetual trusts	158,277	148,377
Operating lease right-of-use assets	25,081	-
Prepaid expenses and other assets	24,013	22,197
Property and equipment, net	80,727	83,385
Total assets	\$ 1,853,946	\$ 1,629,543
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 109,236	\$ 93,977
Research awards payable	347,922	314,951
Deferred revenue	68,270	57,924
Operating lease liabilities	27,379	-
Other liabilities	53,294	50,484
Total liabilities	606,101	517,336
Net assets:		
Without donor restrictions	551,905	491,741
With donor restrictions	695,940	620,466
Total net assets	1,247,845	1,112,207
Total liabilities and net assets	\$ 1,853,946	\$ 1,629,543

See accompanying notes to financial statements.

AMERICAN HEART ASSOCIATION, INC.
Consolidated Statement of Activities
Year Ended June 30, 2023
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	2023 Total
Revenue:			
Public support:			
Contributions of cash and other financial assets	\$ 90,826	\$ 150,285	\$ 241,111
Contributions of nonfinancial assets	68,181	-	68,181
Special events	235,338	60,919	296,257
Less: direct donor benefits	(36,099)	-	(36,099)
Bequests and split-interest agreements	86,302	21,072	107,374
Grants from government agencies	20,726	-	20,726
Total public support	<u>465,274</u>	<u>232,276</u>	<u>697,550</u>
Other revenue:			
Program fees	138,484	-	138,484
Sales of educational materials	227,621	-	227,621
Membership dues	6,312	-	6,312
Investment return, net	76,119	7,186	83,305
Perpetual trust distributions	6,277	1,683	7,960
Net unrealized gains on beneficial interest in perpetual trusts	-	9,853	9,853
Change in value of split-interest agreements	(1,248)	6,361	5,113
Royalty revenue	23,712	-	23,712
Miscellaneous revenue (losses), net	13,661	(2,083)	11,578
Total other revenue	<u>490,938</u>	<u>23,000</u>	<u>513,938</u>
Net assets released from restrictions:			
Satisfaction of purpose restrictions	106,085	(106,085)	-
Expiration of time restrictions	73,717	(73,717)	-
Total net assets released from restrictions	<u>179,802</u>	<u>(179,802)</u>	<u>-</u>
Total revenue	<u>1,136,014</u>	<u>75,474</u>	<u>1,211,488</u>
Expenses:			
Program services:			
Research	189,532	-	189,532
Public health education	335,709	-	335,709
Professional education and training	300,827	-	300,827
Community services	57,747	-	57,747
Total program services	<u>883,815</u>	<u>-</u>	<u>883,815</u>
Supporting services:			
Management and general	88,864	-	88,864
Fundraising	98,483	-	98,483
Total supporting services	<u>187,347</u>	<u>-</u>	<u>187,347</u>
Total program and supporting services expenses	<u>1,071,162</u>	<u>-</u>	<u>1,071,162</u>
Change in net assets before non-controlling interest	64,852	75,474	140,326
Non-controlling interest	(4,688)	-	(4,688)
Change in net assets	60,164	75,474	135,638
Net assets, beginning of year	491,741	620,466	1,112,207
Net assets, end of year	<u>\$ 551,905</u>	<u>\$ 695,940</u>	<u>\$ 1,247,845</u>

See accompanying notes to consolidated financial statements.

AMERICAN HEART ASSOCIATION, INC.
Consolidated Statement of Activities
Year Ended June 30, 2022
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	2022 Total
Revenue:			
Public support:			
Contributions of cash and other financial assets	\$ 94,222	\$ 126,833	\$ 221,055
Contributions of nonfinancial assets	40,643	-	40,643
Special events	230,498	63,137	293,635
Less: direct donor benefits	(30,361)	-	(30,361)
Bequests and split-interest agreements	77,540	18,461	96,001
Grants from government agencies	16,267	-	16,267
Total public support	<u>428,809</u>	<u>208,431</u>	<u>637,240</u>
Other revenue:			
Program fees	106,753	-	106,753
Sales of educational materials	201,929	-	201,929
Membership dues	5,818	-	5,818
Investment return, net	(69,310)	(7,923)	(77,233)
Perpetual trust distributions	6,191	1,764	7,955
Net unrealized losses on beneficial interest in perpetual trusts	-	(25,474)	(25,474)
Change in value of split-interest agreements	438	(11,101)	(10,663)
Royalty revenue	23,024	-	23,024
Miscellaneous revenue (losses), net	14,062	(2,762)	11,300
Total other revenue (loss)	<u>288,905</u>	<u>(45,496)</u>	<u>243,409</u>
Net assets released from restrictions:			
Satisfaction of purpose restrictions	101,449	(101,449)	-
Expiration of time restrictions	72,765	(72,765)	-
Total net assets released from restrictions	<u>174,214</u>	<u>(174,214)</u>	<u>-</u>
Total revenue (loss)	<u>891,928</u>	<u>(11,279)</u>	<u>880,649</u>
Expenses:			
Program services:			
Research	172,164	-	172,164
Public health education	262,646	-	262,646
Professional education and training	253,499	-	253,499
Community services	63,909	-	63,909
Total program services	<u>752,218</u>	<u>-</u>	<u>752,218</u>
Supporting services:			
Management and general	69,666	-	69,666
Fundraising	89,671	-	89,671
Total supporting services	<u>159,337</u>	<u>-</u>	<u>159,337</u>
Total program and supporting services expenses	<u>911,555</u>	<u>-</u>	<u>911,555</u>
Change in net assets before non-controlling interest	(19,627)	(11,279)	(30,906)
Non-controlling interest	(2,351)	-	(2,351)
Change in net assets	(21,978)	(11,279)	(33,257)
Net assets, beginning of year	<u>513,719</u>	<u>631,745</u>	<u>1,145,464</u>
Net assets, end of year	<u>\$ 491,741</u>	<u>\$ 620,466</u>	<u>\$ 1,112,207</u>

See accompanying notes to consolidated financial statements.

AMERICAN HEART ASSOCIATION, INC.
Consolidated Statement of Functional Expenses
Years Ended June 30, (In thousands)

	Research	Public Health Education	Professional Education/ Training	Community Services	Subtotal Program Services	Management and General	Fundraising	Subtotal Supporting Services	2023 Total
Salaries, taxes, and benefits	\$ 10,259	\$ 175,479	\$ 91,347	\$ 27,309	\$ 304,394	\$ 65,118	\$ 60,370	\$ 125,488	\$ 429,882
Awards and grants	157,055	14,068	5,871	4,975	181,969	-	-	-	181,969
Professional fees	16,325	44,349	40,774	9,610	111,058	9,758	10,134	19,892	130,950
Printing, publication, and digital media	-	53,112	92,489	6,476	152,077	2,327	9,156	11,483	163,560
Occupancy	66	9,374	1,100	798	11,338	1,562	2,456	4,018	15,356
Conferences, meetings, and travel	1,575	8,939	30,091	1,788	42,393	4,459	4,509	8,968	51,361
Other operating expenses	3,736	24,497	20,079	4,431	52,743	4,263	10,242	14,505	67,248
Depreciation and amortization	516	5,891	19,076	2,360	27,843	1,377	1,616	2,993	30,836
Total functional expenses before direct donor benefits	189,532	335,709	300,827	57,747	883,815	88,864	98,483	187,347	1,071,162
Direct donor benefits	-	-	-	-	-	-	-	-	36,099
Total functional expenses and direct donor benefits	<u>\$ 189,532</u>	<u>\$ 335,709</u>	<u>\$ 300,827</u>	<u>\$ 57,747</u>	<u>\$ 883,815</u>	<u>\$ 88,864</u>	<u>\$ 98,483</u>	<u>\$ 187,347</u>	<u>\$ 1,107,261</u>
	Research	Public Health Education	Professional Education/ Training	Community Services	Subtotal Program Services	Management and General	Fundraising	Subtotal Supporting Services	2022 Total
Salaries, taxes, and benefits	\$ 8,571	\$ 155,632	\$ 82,666	\$ 32,923	\$ 279,792	\$ 52,601	\$ 56,353	\$ 108,954	\$ 388,746
Awards and grants	145,473	10,976	7,882	5,701	170,032	-	-	-	170,032
Professional fees	14,128	31,894	39,325	11,761	97,108	7,321	9,393	16,714	113,822
Printing, publication, and digital media	-	27,327	71,257	4,929	103,513	1,523	8,366	9,889	113,402
Occupancy	34	8,867	874	818	10,593	1,421	2,153	3,574	14,167
Conferences, meetings, and travel	182	2,224	12,610	1,172	16,188	1,311	1,607	2,918	19,106
Other operating expenses	3,284	20,534	21,936	4,701	50,455	4,229	10,298	14,527	64,982
Depreciation and amortization	492	5,192	16,949	1,904	24,537	1,260	1,501	2,761	27,298
Total functional expenses before direct donor benefits	172,164	262,646	253,499	63,909	752,218	69,666	89,671	159,337	911,555
Direct donor benefits	-	-	-	-	-	-	-	-	30,361
Total functional expenses and direct donor benefits	<u>\$ 172,164</u>	<u>\$ 262,646</u>	<u>\$ 253,499</u>	<u>\$ 63,909</u>	<u>\$ 752,218</u>	<u>\$ 69,666</u>	<u>\$ 89,671</u>	<u>\$ 159,337</u>	<u>\$ 941,916</u>

See accompanying notes to consolidated financial statements.

AMERICAN HEART ASSOCIATION, INC.
Consolidated Statement of Cash Flows
(In thousands)

	Year Ended June 30,	
	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 135,638	\$ (33,257)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	30,836	27,298
Net realized and unrealized (gains) losses on investments	(64,692)	85,819
Net unrealized (gains) losses on beneficial interest in perpetual trusts	(9,853)	25,475
Change in value of split-interest agreements	(5,113)	10,663
Gains on sale of fixed assets	(9,706)	(11,862)
Losses on uncollectible accounts and settlement of receivables	3,225	2,532
Contributions to endowment	(206)	(578)
Changes in operating assets and liabilities:		
Receivables	(47,341)	(21,764)
Prepaid expenses and other assets	(1,816)	(66)
Beneficial interest in perpetual trusts	(47)	17
Split-interest agreements	6,248	3,876
Accounts payable and accrued expenses	15,259	(607)
Operating lease right-of-use assets and lease liabilities	(604)	-
Deferred revenue	10,346	14,380
Research awards payable	32,971	6,052
Other liabilities	5,158	(8,352)
Net cash provided by operating activities	100,303	99,626
Cash flows from investing activities:		
Purchases of fixed assets	(33,023)	(32,095)
Proceeds from sale of fixed assets	15,347	17,942
Purchases of investments	(106,971)	(250,104)
Proceeds from sales/maturities of investments	223,133	75,250
Net cash provided by (used in) investing activities	98,486	(189,007)
Cash flows from financing activities:		
Payments of finance lease obligations	(242)	(521)
Contributions to endowment	206	578
Net cash (used in) provided by financing activities	(36)	57
Net increase (decrease) in cash and cash equivalents	198,753	(89,324)
Cash and cash equivalents, beginning of year	104,548	193,872
Cash and cash equivalents, end of year	\$ 303,301	\$ 104,548
Supplemental cash flow information:		
Taxes paid	\$ 43	\$ 93

See accompanying notes to consolidated financial statements.

AMERICAN HEART ASSOCIATION, INC.
Notes to Consolidated Financial Statements

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The American Heart Association, Inc. (“the Association” or “AHA”) has as its mission to be a relentless force for a world of longer, healthier lives and is dedicated to ensuring equitable health for all.

The Association provides funding for innovative research, public health education, and community services programs that empower people to improve their heart health, brain health and well-being, advocates for stronger public health policies, and shares lifesaving resources and information. Professional education programs support healthcare professionals in the prevention, detection and treatment of cardiovascular diseases and stroke. The Association’s principal source of revenue is money contributed by the general public.

AMHAS, LLC (“AMHAS”) commenced operations in August 2013 and was formed for the purpose of implementing a multi-manager, marketable alternatives, and private equity investment program. The program is overseen by an investment manager and operates in accordance with the Association’s investment policy. AHA is the sole member of AMHAS, and accordingly, AMHAS is a consolidated related entity.

Aphelion Cardeation, LLC (“Cardeation”) is an investment partnership which was established in June 2017. Cardeation was formed to invest in start-up and emerging growth companies in the healthcare sector with activities that align with the mission of the Association. AHA owns 33% of the partnership for which the activities are included within the accompanying consolidated financial statements.

Aphelion Cardeation II, LLC (“Cardeation II”) is an investment partnership which was established in June 2022. Cardeation II was formed to further invest in start-up and emerging growth companies in the healthcare sector with activities that align with the mission of the Association. AHA owns 29% of the partnership for which the activities are included within the accompanying consolidated financial statements.

Heart & Stroke Foundation of India (“HSFI”) is a wholly owned consolidated subsidiary registered as a charitable organization in India. HSFI was formed in April 2018 for the purpose of implementing preventative health awareness and health promotion programs aimed at improving the health and life expectancy of children and adults in India.

RQI Partners, LLC (“RQIP”), a partnership between the Association and Laerdal Medical (“Laerdal”), was formed in June 2018. The partnership blends the Association’s leadership in science with Laerdal’s expertise in technology and implementation to deliver resuscitation quality improvement programs to healthcare systems and professionals. RQIP is a controlled subsidiary and consolidated within the accompanying financial statements.

BrightTorch Ventures, LLC (“BTV”) is a wholly owned consolidated subsidiary formed in January 2021. BTV was organized to support community-based organizations focused on reducing the social and economic barriers to health equity.

Healthcare Quality and Research Systems, Inc (“HQRS”) is a wholly owned consolidated subsidiary formed in March 2022. HQRS was organized to support expansion of hospital services in the Middle East and North Africa regions. The Association, through its subsidiary HQRS, established Healthcare Quality Systems, LLC (“HQS”) in the Kingdom of Saudi Arabia and Dubai. The two HQS entities were organized to support hospitals, health care systems, and health care professionals in the region by providing services and professional education that strengthen the health care system and help to improve patient outcomes, especially in the areas of cardiovascular diseases, including resuscitation training and patient care quality improvement.

(b) Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of the Association and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Prior year amounts related to Federated and nonfederated fundraising organization revenues were aggregated within Contributions of cash and other financial assets, Split-interest agreements were aggregated within Bequests and split-interest agreements, and Postretirement changes other than net periodic benefit cost were aggregated within Management and general expenses to conform with current year presentation. Additionally, certain Other receivables were included within Exchange transaction receivables to conform with current year presentation.

The financial statement presentation follows the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958, *Not-for-Profit Entities*. The Association is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. 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:

Net assets without donor restrictions – net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions – 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. When a donor restriction expires, the net assets are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Some net assets with donor restrictions include a stipulation that assets provided 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.

Net assets as of June 30, 2023 and 2022 consisted of the following (in thousands):

	June 30, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 551,905	\$ -	\$ 551,905
Beneficial interest in perpetual trusts	-	158,277	158,277
Donor pledges and gifts restricted to:			
Time or geography	-	141,991	141,991
Public/professional education and community services	-	219,668	219,668
Research	-	43,473	43,473
Endowment funds	-	80,849	80,849
Split interest agreements	-	51,682	51,682
Total net assets	<u>\$ 551,905</u>	<u>\$ 695,940</u>	<u>\$ 1,247,845</u>

	June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 491,741	\$ -	\$ 491,741
Beneficial interest in perpetual trusts	-	148,377	148,377
Donor pledges and gifts restricted to:			
Time or geography	-	136,605	136,605
Public/professional education and community services	-	177,178	177,178
Research	-	34,291	34,291
Endowment funds	-	76,169	76,169
Split interest agreements	-	47,846	47,846
Total net assets	<u>\$ 491,741</u>	<u>\$ 620,466</u>	<u>\$ 1,112,207</u>

(c) Cash Equivalents

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

(d) Investments and Related Income

Investments primarily include assets invested for long-term capital appreciation. All investments are carried at fair value with the related gains and losses included in the statement of activities.

Interest and dividend income are presented net of investment advisory/management fees and is reflected within investment return, net, in the statement of activities. All investment income and/or appreciation/depreciation on earned investments is reported as a change in net assets without donor restrictions unless otherwise restricted by the donor or required by 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 support with donor restrictions if they are received with donor stipulations that limit their use or are subject to time restrictions. A donor restriction expires when a purpose restriction is accomplished or when a stipulated time restriction ends. Upon expiration of the restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Association is the beneficiary under various wills and trust agreements. Such amounts are recorded when a will is declared valid by a probate court and the proceeds are measurable.

The Association records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of gift using risk-adjusted interest rates applicable to the years in which the promises are expected to be received, with rates ranging from 4.13% to 5.41%. 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.

The work performed under each of the Association's government grant contracts are intended to benefit the general public and does not provide a benefit to the government agency that provides the resources. As such, the Association classifies revenue received from government agencies as contribution revenue and deems the revenue conditional based on being administered on a cost-reimbursement basis and subject to federal cost principles.

(f) Research Awards and Grants

The Association awards funds each year to support cardiovascular, stroke and related research projects. The projects generally extend over a period of one to five years. Upon issuance, the award is evaluated for conditions that could impact the timing of the recognition of the liability and related expenses. If the award is determined to be unconditional, then the liability and related expenses are recorded when the recipients are notified of their awards. The liability is reported as research awards payable in the 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 at the date of award using interest rates applicable to the years in which awards are granted, ranging from 4.13% to 5.41%. 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 net assets without donor restrictions to the extent that the earnings process is complete. These transactions primarily include sales of educational materials, subscriptions, conferences, accreditations and certifications, memberships, and royalty revenues from journal publications. Resources received in exchange transactions are recognized as deferred revenue to the extent that the earnings process has not been completed. Receivables from exchange transactions are expected to be collected within one year and are recorded at net realizable value.

The Association follows ASU No. 2014-09, Revenue from Contracts with Customers (“ASU No. 2014-09” or “Topic 606”). The Association’s revenue streams from public support, perpetual trust distributions, investment returns, and valuations of split-interest agreements and perpetual trusts are not within the scope of Topic 606.

The Association considers the five-step model whereby revenue is recognized as performance obligations within a contract are satisfied in an amount that reflects the consideration the Association expects to receive in exchange for satisfaction of the performance obligations. The Association’s revenue from contracts with customers contain performance obligations that are satisfied immediately at a point-in-time or over time, in which case, revenue is recognized evenly over the service period.

Performance Obligations

A performance obligation is a contractual promise that is fulfilled when a distinct good or service is rendered to the customer and is a key element to measure under Topic 606. For many of the Association’s exchange transactions, the performance obligations are satisfied at a point-in-time and one-time revenue recognition is appropriate. Other transactions include subscription-based revenues for educational and quality improvement programs, membership dues, and accreditation and certification activities for which revenue is recognized ratably over the applicable service period.

The Association considers customers’ intent and ability to pay and expects to receive substantially all the consideration to which it is entitled from contracts with customers. In the normal course of business, the Association does not experience a material amount of bad debt expense or write-off of receivables from its exchange transactions.

Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Association's revenue based on the timing of satisfaction of performance obligations for the fiscal year ended June 30, 2023 (in thousands).

	<u>Point-In-Time</u>	<u>Over-Time</u>	<u>Total</u>
Sales of Educational Materials	\$ 183,025	\$ 44,596	\$ 227,621
Subscription-based Revenues	3,454	106,374	109,828
Royalties	23,712	-	23,712
Scientific Conferences	15,341	-	15,341
Membership Dues	-	6,312	6,312
Accreditations and Certifications	-	5,915	5,915
Miscellaneous Revenues	3,810	5,680	9,490
Total Revenue for Contracts from Customers	<u>\$ 229,342</u>	<u>\$ 168,877</u>	<u>\$ 398,219</u>

The following table disaggregates the Association's revenue based on the timing of satisfaction of performance obligations for the fiscal year ended June 30, 2022 (in thousands).

	<u>Point-In-Time</u>	<u>Over-Time</u>	<u>Total</u>
Sales of Educational Materials	\$ 163,307	\$ 38,622	\$ 201,929
Subscription-based Revenues	3,560	83,625	87,185
Royalties	23,024	-	23,024
Scientific Conferences	8,249	-	8,249
Membership Dues	-	5,818	5,818
Accreditations and Certifications	-	5,341	5,341
Miscellaneous Revenues	3,028	3,229	6,257
Total Revenue for Contracts from Customers	<u>\$ 201,168</u>	<u>\$ 136,635</u>	<u>\$ 337,803</u>

Subscription-based revenues, scientific conferences, accreditations and certifications and miscellaneous revenues are reported on the Statement of Activities within program fees and miscellaneous revenue (losses), net. Miscellaneous revenues of \$9 million and \$11 million are excluded from the revenue disaggregation tables for the fiscal year ended June 30, 2023 and 2022, respectively, as these do not represent revenues from contracts with customers.

(h) Property and Equipment

Donated property and equipment are recorded at fair value at date of receipt, and expenditures for property 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 equipment and furniture – 2 to 10 years).

(i) Contributed Nonfinancial Assets

The Association received contributions of nonfinancial assets recognized within the statement of activities for the years ended June 30, 2023 and 2022 (in thousands):

(in thousands)	2023	2022	Utilization in Programs / Activities	Valuation Techniques and Inputs
Public service announcements and other advertising	\$ 47,377	\$ 21,450	Utilized primarily within public health education and professional education	Announcements are valued based on current rates related to the market and timing of the related public service announcement. For other advertising, the evaluation is based on similar provided services.
Services	\$ 20,436	\$ 17,983	Utilized primarily within professional education and research	Contributed services from medical and scientific professionals are valued at the estimated fair values based on weighted average salary data across all disciplines and regions of the country. Contributed services from other professionals are valued at the estimated fair value based on current rates for similar provided services.
Facilities and supplies	\$ 240	\$ 294	Utilized primarily within fundraising	Valued on the basis of selling similar products or for rental rates of utilized facilities.
Vehicles	\$ 120	\$ 202	Monetized for use throughout all programs and activities	All vehicles were sold and valued according to the actual cash proceeds on their disposition.
Database and software	\$ 8	\$ 714	Utilized primarily within professional education	Valued on the basis of similar software products.
Total contributions of nonfinancial assets	<u>\$ 68,181</u>	<u>\$ 40,643</u>		

The Association recognizes contributions of nonfinancial assets at their estimated fair value at date of donation. 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 otherwise need to be purchased by the Association, if not contributed.

Public service announcements of \$38 million and \$16 million was included in contributed nonfinancial assets revenue on the statement of activities and printing, publication, and digital media on the statement of functional expenses for the years ended June 30, 2023 and 2022, respectively.

The Association reports gifts of property and equipment, and other nonmonetary contributions as support without donor restrictions 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 support with donor restrictions. 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. There were no donor restrictions on any category of contributed nonfinancial assets for the years ended June 30, 2023 and 2022.

It is the Association's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

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 contributed services, as they do not meet the criteria for recognition.

Contributed nonfinancial assets reported in the statement of activities were allocated as follows in 2023 and 2022 (in thousands):

	2023	2022
Public health education	\$ 41,324	\$ 18,198
Professional education	17,846	13,425
Research	6,732	6,240
Management and general	1,376	1,624
Fundraising	862	1,063
Community services	41	93
Total contributed nonfinancial assets	<u>\$ 68,181</u>	<u>\$ 40,643</u>

(j) Functional Allocation of Expenses

The consolidated statements of functional expenses present expenses by program and supporting service function and by natural classification. The expense categories are defined as the following:

Program services includes:

Research – to acquire new knowledge through biomedical investigation by providing financial support to academic institutions and scientists.

Public health education – to inform the public about the prevention and treatment of cardiovascular diseases and stroke and promote overall health and well-being.

Professional education and training – to improve the knowledge, skills, and techniques of health professionals.

Community services – to provide organized training in emergency aid, blood pressure screening, and other community-wide activities.

Supporting services includes:

Management and general – to provide executive direction, financial management, overall planning, and coordination of the Association’s activities.

Fundraising – to secure financial support from the public.

To the extent these expenses are not directly attributable to a specific functional area, they are allocated across program and supporting services. Management determines such expense allocations by reviewing the Association’s business areas for the proportional benefit to program and supporting services. These allocations are based on time and effort using detailed departmental time studies, or by activity through evaluating departmental areas of focus, or by employee headcount for activities that have an Association-wide benefit, such as technology, depreciation, and facilities costs. See note 9 for the allocation of joint costs.

(k) Income Taxes

The Association is exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code (“IRC”) of 1986, as amended, as an organization described in IRC Section 501(c)(3). Further, the Association has been classified as an organization that is not a private foundation under IRC Section 509(a) and, as such, contributions to the Association qualify for deduction as charitable contributions. However, income generated from activities unrelated to the Association’s exempt purpose is subject to tax under IRC Section 511. The Association did not have a material unrelated business income tax liability for the years ended June 30, 2023 and 2022. The Association believes that it has taken no significant uncertain tax positions.

(I) Fair Value of Financial Instruments

The Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Association determines fair value based on assumptions that market participants would use in pricing an asset or a liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels (see note 4):

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

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

Level 3 – inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect the Association's assumptions based on the best information available in the circumstances. Inputs and valuation techniques used to measure fair value of Level 3 assets include reported fair value at the time of a gift, independent appraisals, and published multiples of similar securities and the price of recent investment and recent transactions from other investors. Split-interest agreements and perpetual trusts are revalued annually based on investment statements provided by third-party trustees.

Inputs generally refer to the assumptions that market participants use to make valuation decisions. The inputs or methods used for valuing investments are not necessarily an indication of the risk associated with those investments. The valuation methodologies used may involve a significant degree of judgment. Because the Association is under no obligation 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.

The fair value of equity securities, debt securities, and mutual funds with readily determinable fair value approximates quoted market prices.

Investments in real estate funds are determined by using the fund manager's net asset value ("NAV"). NAV per share is published by the manager and serves as the basis for current investor transactions; therefore, the Association classifies these investments as Level 2 investments.

The fair value of real estate and other properties held as investments is estimated using private valuations of the property. These investments are classified as Level 3 investments.

As of June 30, 2023, the Association held two joint venture capital investments that invest in private start-up and emerging growth companies in healthcare sectors focusing on a broad set of clinical areas related to cardiovascular and stroke health. The investments are illiquid, long-term investments for which no resale market, public or private, may develop. The Association has committed \$23 million to the funds, of which \$15 million remains uncalled. The fair value of these venture funds is determined by using the fund manager's provided NAV as of March 31, 2023, adjusted for cash flows. Recent transactions from other investors to the extent they are available may also be used in determining fair value. Management relies upon the audited financial statements of the venture funds prepared by a third-party auditor. While the manager provides a NAV, it is not published or readily available; therefore, the Association classifies these as Level 3 investments.

The Association holds several financial instruments designed to support community-based organizations focused on reducing barriers to health equity. These instruments are held primarily to further the mission of the Association. The fair value of these programmatic investments is based on original cost adjusted for cash flows and are classified as Level 3 investments.

For certain investments with limited marketability, the Association has adopted the concept of “practical expedient”, under which investments are stated at estimated fair value using NAV as provided by the general partners and fund managers and as reviewed by management. These NAV are based on underlying securities and holdings, which may be valued at quoted market prices, comparable investments, appraised values, or discounted cash flows.

As a practical expedient to determine fair value, investments in fund of funds are reported using NAV of the underlying funds as provided by the individual fund managers. The fund of funds manager reserves the right to adjust the reported NAV if it is deemed not to be reflective of fair value. Because of the inherent uncertainty of valuations of investments in the underlying funds, the 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.

In accordance with ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*, investments for which fair value is measured using NAV have not been categorized within the fair value hierarchy.

(m) Split-Interest Agreements

The Association has received various types of split-interest agreements, including charitable gift annuities, pooled income funds, charitable remainder trusts, and perpetual trusts as contributions of cash and other financial assets.

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 revenue without donor restrictions, unless otherwise restricted by the donor.

Under the pooled income fund and charitable remainder trust arrangements, the Association has recorded the contribution as contributions of cash and other financial assets revenue with donor restrictions 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 net assets with donor restrictions and are reported as changes in value of split-interest agreements in the statement of activities. The discount rates used for split-interest agreements as of June 30, 2023 and 2022 were 4.51% and 3.17%, respectively.

Under the perpetual trust arrangement, the Association has recorded the asset and has recognized contributions of cash and other financial assets revenue with donor restrictions at the fair value of the Association’s beneficial interest in the trust assets. Distributions received on the trust assets are recorded as revenue without donor restrictions 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 net assets with donor restrictions.

(n) 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the discounts for long-term receivables, research awards payables, split-interest agreements, the useful lives of fixed assets, the collectability of receivables, the valuation of split-interest agreements, investments and perpetual trusts, the postretirement benefits liability, the allocation of joint costs, contributed materials and services, and the functionalization of expenses.

(2) Liquidity and Availability of Resources

The Association's financial assets available for general expenditure within one year of the statement of financial position date are as follows (in thousands):

	2023	2022
Total Assets as of June 30,	<u>\$ 1,853,946</u>	<u>\$ 1,629,543</u>
Less:		
Receivables not collectible within one year	193,713	186,196
Beneficial interests in perpetual trusts	158,277	148,377
Property and equipment, net	80,727	83,385
Endowment funds subject to appropriation and satisfaction of donor restrictions	63,398	59,619
Endowment funds subject to appropriation for general use	14,833	14,019
Investments held in annuity trusts and other illiquid investments	52,458	43,073
Prepaid expenses and other assets	24,013	22,197
Operating lease right-of-use assets	25,081	-
Self insurance funding arrangements and other employee related designations	20,139	16,459
Unfunded commitments to venture capital and private investments	21,277	35,843
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,200,030</u>	<u>\$ 1,020,375</u>

As part of the Association's liquidity management, it structures its financial assets to be available to satisfy its general expenditures, current liabilities, and other obligations as they come due. The Association evaluates its net assets without donor restrictions position annually and ensures availability of cash and investments through a tiered portfolio structure. Tier I includes cash, cash equivalents and short-term investments available for operations. Tier II serves as a contingency source consisting of short-duration bonds and is available to replenish Tier I in the event cash from operations is insufficient to fund expenditures. Tier III is the long-term investment pool and is designed to provide moderate growth through a diversified allocation to equity, fixed income and alternative investments. Tiers II and III are governed by the Association's investment policy statement and overseen by Association senior leadership, an external investment advisor, and the Association's volunteer Investment Committee. Tiers II and III are important components of the Association's liquidity management program and are intended to provide cash proceeds from investment returns to supplement the annual operating and capital budgets, provide a contingency layer of reserves that may be accessed in a prolonged market crisis, provide financial stability during short-term periods of reduced revenues, and provide flexibility to invest additional resources toward mission initiatives, future revenue generation capabilities and operational efficiencies.

(3) Investments

Investments as of June 30, 2023 and 2022 and related returns for the years then ended consisted of the following (in thousands):

	June 30, 2023		
	Interest and Dividends (Expenses)	Realized and Unrealized Gains (Losses)	Fair Value
Equity securities	\$ 8,948	\$ 56,003	\$ 494,925
Governmental securities	3,938	(588)	35,227
Corporate bonds	1,305	97	32,295
Mortgage-backed securities	412	(77)	10,160
Other asset-backed securities	770	(115)	25,200
Fixed income mutual/commingled funds	2,238	3,875	104,113
Fund of funds	-	8,377	104,501
Real estate and other	1,095	(3,108)	26,049
Short-term investments	3,256	(111)	1,688
Unsettled trades and other receivables, net	45	4	9,215
Venture capital	-	335	5,904
Programmatic equity investments	-	-	1,600
Programmatic receivables, net	-	-	290
Investment expenses	(3,394)	-	-
Total	<u>\$ 18,613</u>	<u>\$ 64,692</u>	<u>\$ 851,167</u>

	June 30, 2022		
	Interest and Dividends (Expenses)	Realized and Unrealized Gains (Losses)	Fair Value
Equity securities	\$ 7,322	\$ (60,631)	\$ 399,309
Governmental securities	615	(2,700)	99,490
Corporate bonds	955	(3,148)	81,210
Mortgage-backed securities	160	(399)	9,154
Other asset-backed securities	505	(1,389)	56,122
Fixed income mutual/commingled funds	660	(8,109)	91,164
Private funds	-	(6,027)	-
Fund of funds	-	(8,159)	90,124
Real estate and other	814	4,319	23,714
Short-term investments	154	(87)	39,918
Unsettled trades and other receivables, net	7	-	8,017
Venture capital	-	511	4,415
Investment expenses	(2,606)	-	-
Total	<u>\$ 8,586</u>	<u>\$ (85,819)</u>	<u>\$ 902,637</u>

(4) Fair Value Measurements

The following tables present information about the Association's assets that are measured at fair value on a recurring basis as of June 30, 2023 and 2022, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value (in thousands):

Assets	Balance June 30, 2023	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
1. Equity securities:				
a. Domestic stocks	\$ 349,515	\$ 349,515	\$ -	\$ -
b. International stocks	145,410	145,410	-	-
2. Debt securities:				
a. Government securities	35,227	-	35,227	-
b. Corporate bonds	32,295	-	32,295	-
c. Mortgage-backed securities	10,160	-	10,160	-
d. Other asset-backed securities	25,200	-	25,200	-
3. Fixed income mutual fund	41,550	41,550	-	-
4. Real estate and other	26,049	-	23,821	2,228
5. Venture Capital	5,904	-	-	5,904
6. Short-term investments	1,688	1,688	-	-
7. Unsettled trade and other receivables, net	9,215	9,215	-	-
8. Programmatic investments				
a. Programmatic equity investments	1,600	-	-	1,600
b. Programmatic receivables, net	290	-	-	290
9. Investments reported at net asset value (NAV) ⁽¹⁾				
a. Fund of funds	104,501	-	-	-
b. Fixed income commingled fund	62,563	-	-	-
Total Investments:	<u>\$ 851,167</u>	<u>\$ 547,378</u>	<u>\$ 126,703</u>	<u>\$ 10,022</u>
10 Split-interest agreements receivable, net of discount	\$ 66,787	\$ -	\$ -	\$ 66,787
11 Beneficial interest in perpetual trusts	158,277	-	-	158,277
Split-interest agreements/perpetual trusts (leveled)	<u>\$ 225,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225,064</u>
Liabilities				
1. Gift annuity obligations	<u>\$ 10,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,800</u>

(1) Investments measured at NAV are presented in the table to allow for reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

Assets	Balance June 30, 2022	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
1. Equity securities:				
a. Domestic stocks	\$ 288,186	\$ 288,186	\$ -	\$ -
b. International stocks	111,123	111,123	-	-
2. Debt securities:				
a. Government securities	99,490	-	99,490	-
b. Corporate bonds	81,210	-	81,210	-
c. Mortgage-backed securities	9,154	-	9,154	-
d. Other asset-backed securities	56,122	-	56,122	-
3. Fixed income mutual fund	35,914	35,914	-	-
4. Real estate and other	23,714	-	21,428	2,286
5. Venture Capital	4,415	-	-	4,415
6. Short-term investments	39,918	1,783	38,135	-
7. Unsettled trade and other receivables, net	8,017	8,017	-	-
8. Investments reported at net asset value (NAV) ⁽¹⁾				
a. Fund of funds	90,124	-	-	-
b. Fixed income commingled fund	55,250	-	-	-
Total Investments:	<u>\$ 902,637</u>	<u>\$ 445,023</u>	<u>\$ 305,539</u>	<u>\$ 6,701</u>
9. Split-interest agreements receivable, net of discount	\$ 67,922	\$ -	\$ -	\$ 67,922
10 Beneficial interest in perpetual trusts	148,377	-	-	148,377
Split-interest agreements/perpetual trusts (levelled)	<u>\$ 216,299</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,299</u>
Liabilities				
1. Gift annuity obligations	<u>\$ 10,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,270</u>

(1) Investments measured at NAV are presented in the table to allow for reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The following summarizes the nature of investments that are reported at estimated fair value using net asset value as of June 30, 2023 (in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fund of funds	\$ 104,501	\$ -	Various	30 - 90 days
Fixed income commingled fund	62,563	-	Weekly	3 days

The following summarizes the nature of investments that are reported at estimated fair value using net asset value as of June 30, 2022 (in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fund of funds	\$ 90,124	\$ -	Various	30 - 90 days
Fixed income commingled fund	55,250	-	Weekly	3 days

The fund of funds is a multi-strategy hedge and private capital investment. The hedge strategies include, but are not limited to, hedged equity, global macro, commodity trading advisor, event driven, credit, and equity market neutral. Redemptions are allowed monthly, quarterly, and annually. Included in the fund of funds are private credit and real estate strategies, which can include lock up provisions. As of June 30, 2023, there were no investments subject to lockup provisions, however, \$25 million are held in closed ended funds with no redemption rights and are therefore not liquid. These investments are commitment based and the unfunded commitments are held in cash within the fund of funds and managed by the fund of funds manager. As a result, this amount has not been reflected as an unfunded commitment in the table above for the period-ended June 30, 2023. The full commitment (total of the funded and unfunded) to the private credit and private real estate strategy investments is \$33 million as of June 30, 2023. For the fund of funds investment, there were no gates or "side pockets" (that is, a portion of an underlying fund's portfolio segregated for purposes of allocating gains and losses) in place as of June 30, 2023.

The commingled fixed income fund invests in obligations of varying maturities including corporate bonds, asset backed securities, government, and agency securities. The fund may also invest in noninvestment grade securities in addition to securities denominated in foreign currencies and foreign securities denominated in U.S. dollars. Redemptions are allowed weekly.

During the year ended June 30, 2023, purchases and issues of Level 3 assets and liabilities follow (in thousands):

	<u>Investments</u>	<u>Split-Interest Agreements</u>	<u>Perpetual Trusts</u>	<u>Gift Annuity Obligations</u>
Acquisitions	\$ 1,841	\$ -	\$ 391	\$ (321)
Purchases	1,725	-	-	-

During the year ended June 30, 2022, purchases and issues of Level 3 assets and liabilities follow (in thousands):

	<u>Investments</u>	<u>Split-Interest Agreements</u>	<u>Perpetual Trusts</u>	<u>Gift Annuity Obligations</u>
Acquisitions	\$ -	\$ -	\$ -	\$ (244)
Purchases	1,750	-	-	-

The change in value of split-interest agreements valued using significant unobservable inputs is included in the change in value of split-interest agreements financial statement caption in the accompanying consolidated statement of activities. The change in value of perpetual trusts using significant unobservable inputs is included in the net unrealized gains (losses) on beneficial interest in perpetual trusts financial statement caption in the accompanying consolidated statement of activities. The change in unrealized gains/(losses) relating to assets still held at the reporting date is a gain of \$17 million.

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

Quantitative information regarding unobservable inputs developed by the Association and assumptions used to measure the fair value of the related assets and liabilities of split-interest agreements and gift annuity obligations as of June 30, 2023 is as follows (in thousands):

<u>Type</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Split-interest agreements	\$ 66,787	Discounted Cash Flow	Growth Rate/ Discount Rate	3.36% - 4.29%* 4.51%
Gift annuity obligations	10,800	Discounted Cash Flow	Discount Rate	0.40% - 9.60% 2.79%

* These percentages represent the low and high growth rate ranges plus a risk premium from July 1, 2022 - June 30, 2023

Quantitative information regarding unobservable inputs developed by the Association and assumptions used to measure the fair value of the related assets and liabilities of split-interest agreements and gift annuity obligations as of June 30, 2022 is as follows (in thousands):

Type	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Split-interest agreements	\$ 67,922	Discounted Cash Flow	Growth Rate/ Discount Rate	2.65% - 4.30%* 3.17%
Gift annuity obligations	10,270	Discounted Cash Flow	Discount Rate	0.40% - 9.60% 2.89%

* These percentages represent the low and high growth rate ranges plus a risk premium from July 1, 2021 - June 30, 2022

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.

(5) 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 net assets with donor restrictions. The remaining portion of the donor-restricted endowment fund that is not subject to permanent donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by NYPMIFA.

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

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

Changes in endowment net assets exclusive of beneficial interests in perpetual and other trusts was as follows (in thousands):

	With Donor Restrictions
Endowment net assets, June 30, 2021	\$ 85,978
Contributions	578
Investment returns, net	(7,926)
Appropriation of endowment assets for expenditure	<u>(2,461)</u>
Endowment net assets, June 30, 2022	76,169
Contributions	206
Investment returns, net	7,185
Appropriation of endowment assets for expenditure	<u>(2,711)</u>
Endowment net assets, June 30, 2023	<u><u>\$ 80,849</u></u>

Net asset composition by type of endowment funds with donor restrictions are as follows (in thousands):

	June 30,	
	2023	2022
Original gift amount required to be maintained in perpetuity by donor	\$ 51,159	\$ 50,953
Accumulated investment gains	29,690	25,216
Total Endowment Funds	<u><u>\$ 80,849</u></u>	<u><u>\$ 76,169</u></u>

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 or the amount required to be maintained by the donor or by law that extends donor restrictions. The Association's spending policy does not permit spending from underwater endowment funds unless otherwise required by donor intent or relevant laws and regulations. As of June 30, 2023, there were underwater endowment funds with deficiencies totaling \$12,000.

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 total return 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.

(6) Unconditional Promises

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):

	June 30,	
	2023	2022
Less than one year	\$ 152,771	\$ 135,300
One to five years	128,129	120,703
More than five years	120,506	100,850
Subtotal	401,406	356,853
Allowance for uncollectible accounts	(4,859)	(6,335)
Discount	(60,651)	(36,487)
Total	\$ 335,896	\$ 314,031

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 statement of financial position. 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.

(7) Property and Equipment, net

Property and equipment, net and the related accumulated depreciation and amortization were as follows (in thousands):

	June 30,	
	2023	2022
Land and leasehold improvements	\$ 8,584	\$ 9,837
Buildings and improvements	40,516	48,707
Equipment and furniture	178,584	151,856
Total	227,684	210,400
Less: Accumulated depreciation and amortization	(146,957)	(127,015)
Property and equipment, net	\$ 80,727	\$ 83,385

(8) Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which required recognition of rights and obligations from lease contracts longer than one year as assets and liabilities on the statement of financial position. ASU 2016-02 continues to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities.

In June 2020, the FASB issued ASU No. 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities, providing an optional one-year deferral of the effective date of ASU No. 2016-02, for all private companies and certain not-for-profit entities. For private companies and private not-for-profits, ASU No. 2016-02 was effective for fiscal years beginning after December 15, 2021. The new standard was effective for the Association on July 1, 2022 and adoption was applied with a modified retrospective approach with various optional practical expedients. Accordingly, the results for the prior comparable periods were not adjusted to conform to the current period measurement or recognition of results. Most of the Association's operating and capital lease commitments were subject to the new guidance and were recognized as operating and finance lease liabilities and right-of-use assets upon adoption, resulting in an increase in assets of \$29 million and liabilities of \$31 million on the Association's consolidated statement of financial position as of July 1, 2022. Policy elections and practical expedients that the Association implemented as part of adopting ASU 2016-02 included: (i) excluding from the statement of financial position leases with terms that are less than one year; (ii) for agreements that contain both lease and non-lease components, combining these components together and accounting for them as a single lease; (iii)

the package of practical expedients, which allowed the Association to avoid reassessing contracts that commenced prior to adoption that were properly evaluated under legacy GAAP; (iv) the accounting policy election to utilize the risk-free rate as a not-for-profit entity; and (v) the policy election that eliminated the need for adjusting prior period comparable financial statements prepared under legacy lease accounting guidance. The adoption of ASU 2016-02 resulted in the recording of right-of-use assets and lease liabilities, as well as additional disclosures within the Association's consolidated financial statements.

The Association leases certain facilities and equipment under non-cancelable operating and finance leases, which are recorded as right-of-use assets and lease liabilities. Certain leases also contain escalation clauses and renewal option clauses calling for increased rents. Where a lease contains an escalation clause or a concession, such as a rent holiday or tenant improvement allowance, the Association includes these items in the determination of the right-of-use asset and the lease liabilities. The effects of these escalation clauses or concessions have been reflected in lease expense on a straight-line basis over the expected lease term and any variable lease payments subsequent to establishing the lease liability are expensed as incurred. The lease term commences on the date when the Association has the right to control the use of the leased property, which is typically before lease payments are due under the terms of the lease. Certain of the Association's leases have renewal periods up to 21 years, exercisable at the Association's option, and generally require the Association to pay property taxes, insurance and maintenance costs, in addition to the lease payments. At lease inception, the Association includes all renewals or option periods that are reasonably certain to exercise when determining the expected lease term, as failure to renew the lease would impose an economic burden.

Operating lease assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the expected lease term. To determine the present value of lease payments not yet paid, the Association utilizes the risk-free rates based on the information available at lease commencement date, as rates are not implicitly stated in the Association's leases.

Components of lease expense for the year ended June 30, was as follows (in thousands):

	2023
Operating lease expense	\$ 9,240
Finance lease expense	
Amortization of right-of-use assets	286
Interest on finance lease liabilities	13
Short-term lease expense	1,060
Variable lease expense	1,720
Total lease expense	<u>\$ 12,319</u>

Total operating lease expense was \$10 million for the year ended June 30, 2022, under ASC 840, Operating Leases.

The components of right-of-use assets and lease liabilities on the consolidated statement of financial position is as follows (in thousands):

<u>Lease Asset and Liabilities</u>	<u>Statement of Financial Position Classification</u>	2023
Operating lease right-of-use assets	Operating lease right-of-use assets	\$ 25,081
Finance lease right-of-use assets	Property and equipment, net	454
Total lease assets, net		<u>\$ 25,535</u>
Operating lease liabilities - current	Operating lease liabilities	\$ 8,036
Finance lease liabilities - current	Other liabilities	207
Operating lease liabilities - non-current	Operating lease liabilities	19,343
Finance lease liabilities - non-current	Other liabilities	258
Total lease liabilities		<u>\$ 27,844</u>

The weighted-average remaining lease terms and discount rates as of June 30, 2023 were as follows:

	Weighted-Average Remaining Lease Term (in years)	Weighted-Average Discount Rate
Operating leases	4.10	3.03%
Finance leases	2.62	3.29%

Supplemental cash flow information related to leases as of June 30, 2023 were as follows (in thousands):

	2023
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows related to operating leases	\$ 9,381
Operating cash flows related to finance leases	28
Financing cash flows related to finance leases	242
Right-of-use assets obtained in exchange for new operating lease liabilities	4,197
Right-of-use assets obtained in exchange for new finance lease liabilities	205

The annual maturities of the Association's lease liabilities as of June 30, 2023 were as follows (in thousands):

Fiscal year	Finance leases	Operating leases
2024	\$ 218	\$ 8,730
2025	157	6,886
2026	68	5,492
2027	40	3,794
2028	2	2,774
Thereafter	-	1,473
Total future lease commitments	\$ 485	\$ 29,149
Less: imputed interest	(20)	(1,770)
Present value of lease liabilities	\$ 465	\$ 27,379

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

	June 30,	
	2023	2022
Public health education	\$ 142,896	\$ 127,160
Fundraising	54,911	53,747
Management and general	17,749	18,757
Professional education and training	6,640	4,318
Community services	5,238	4,841
Total joint costs	\$ 227,434	\$ 208,823

(10) Research Awards Payable

The activity in research awards payable during the years ended June 30, 2023 and 2022 and the amounts payable by year are summarized below (in thousands):

	<u>2023</u>	<u>2022</u>
Beginning balance, July 1	\$ 314,951	\$ 308,899
Awards expense:		
New awards	182,901	164,416
Cancellations, declinations, and refunds	(14,241)	(9,824)
Research awards expense before discount	168,660	154,592
Change in discount	(11,605)	(9,119)
Total research awards expense	157,055	145,473
Payments	(124,084)	(139,421)
Ending balance, June 30	<u>\$ 347,922</u>	<u>\$ 314,951</u>
Payable in fiscal year ending June 30:		
2024		\$ 181,437
2025		108,524
2026		58,244
2027		19,952
2028		2,005
Thereafter		160
Total		<u>370,322</u>
Less: unamortized discount		(22,400)
Net research awards payable		<u>\$ 347,922</u>

(11) Retirement Plans

The Association has a 401(a) defined-contribution plan (the "401(a) Plan"). Employees are eligible on their date of hire when they are at least 21 years of age ("Eligible Participants").

The Association contributes to the 401(a) Plan an amount equal to the following percentages of base salary, as defined by the 401(a) Plan, depending upon the Eligible Participant's years of service:

<u>Participant's years of service</u>	<u>Percentage</u>
Zero to 2	4%
Greater than 2 but less than 5	6%
Greater than 5 but less than 10	8%
10 or more	10%

Eligible Participants are 100% vested in the Association's contributions to the 401(a) Plan after two years of service. Eligible Participants are not permitted to contribute to the 401(a) Plan.

The Association also has a 403(b) defined-contribution plan (the "403(b) Plan") sponsored by the Association. Eligible Participants can make elective contributions to the 403(b) Plan beginning on their date of hire. The Association contributes an employer matching contribution to the 403(b) Plan for each employee equal to 100% of an employee's elective contribution up to 4% of base salary.

Total retirement plan costs for the years ended June 30, 2023 and 2022 were \$29 million and \$26 million, respectively.

(12) 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.

(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 changes in net assets.

(14) Subsequent Events

The Association has evaluated subsequent events after the statement of financial position date of June 30, 2023 through October 25, 2023, which was the date the consolidated financial statements were available to be issued and determined that no additional subsequent events occurred that would require disclosure.