

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**MINNEAPOLIS HEART INSTITUTE FOUNDATION  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Minneapolis Heart Institute Foundation  
Minneapolis, Minnesota

We have audited the accompanying financial statements of Minneapolis Heart Institute Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 accounting principles generally accepted in the United States of America; 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 audits. We conducted our audits 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.

Board of Directors  
Minneapolis Heart Institute Foundation

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minneapolis Heart Institute Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule, statement of operations, 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.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
April 19, 2017

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,288,583	\$ 1,385,426
Investments (Note 3)	20,803,166	20,991,799
Contributions Receivable	1,660,416	1,104,865
Pledges Receivable, Net of Allowance of \$40,385 and \$83,703 in 2016 and 2015, Respectively (Notes 5 and 7)	1,380,691	953,696
Other Receivables, Net of Allowance of \$50,000 for 2016 and 2015	1,505,698	1,449,652
Other Assets	58,649	31,424
Furniture and Equipment, Net (Note 6)	113,390	154,442
Total Assets	\$ 26,810,593	\$ 26,071,304
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 306,831	\$ 486,608
Accrued Payroll Costs	494,387	259,608
Accrued Pension and Deferred Compensation	369,262	470,923
Accrued Research and Study Costs	312,714	463,405
Deferred Rent	84,055	119,245
Deferred Research Study Revenues	36,125	39,344
Total Liabilities	1,603,374	1,839,133
<b>NET ASSETS</b>		
Unrestricted:		
Designated (Note 9)	4,859,333	5,231,100
Temporarily Restricted (Note 10):		
General Support	422,922	10,000
Restricted Endowment Income	3,480,582	3,141,203
Research and Education Projects	3,380,617	2,630,482
Net Assets - Temporarily Restricted	7,284,121	5,781,685
Permanently Restricted:		
Endowments (Note 11)	13,063,765	13,219,386
Total Net Assets	25,207,219	24,232,171
Total Liabilities and Net Assets	\$ 26,810,593	\$ 26,071,304

See accompanying Notes to Financial Statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUES</b>								
Contributions	\$ 2,016,412	\$ 2,113,810	\$ 38,312	\$ 4,168,534	\$ 1,556,054	\$ 1,284,801	\$ 129,417	\$ 2,970,272
Special Events, Net of Expenses of \$360,740 and \$295,869 in 2016 and 2015, Respectively	321,454	-	-	321,454	352,606	-	-	352,606
Grants	346,087	447,349	-	793,436	227,168	209,374	-	436,542
Sublicense Revenue	851,422	-	-	851,422	826,623	-	-	826,623
Research Study Revenues	3,211,984	1,948	-	3,213,932	3,841,796	-	-	3,841,796
Income from Services	58,081	12,086	-	70,167	101,954	7,500	-	109,454
Investment Gain (Loss) (Note 3)	228,055	1,065,312	-	1,293,367	(78,565)	(362,496)	-	(441,061)
Contribution (Loss)	(20,596)	-	(193,933)	(214,529)	-	(216,082)	(80,203)	(296,285)
Insurance Proceeds	178,879	-	-	178,879	-	-	-	-
Net Assets Released from Restrictions	2,138,069	(2,138,069)	-	-	2,271,515	(2,271,515)	-	-
Total Support and Revenues	9,329,847	1,502,436	(155,621)	10,676,662	9,099,151	(1,348,418)	49,214	7,799,947
<b>EXPENSES</b>								
Program Services:								
Education	1,279,584	-	-	1,279,584	1,624,649	-	-	1,624,649
Research	4,968,611	-	-	4,968,611	5,310,661	-	-	5,310,661
Total Program Services	6,248,195	-	-	6,248,195	6,935,310	-	-	6,935,310
Supporting Services:								
Fund Raising	969,741	-	-	969,741	886,000	-	-	886,000
General and Administrative	2,483,678	-	-	2,483,678	2,006,409	-	-	2,006,409
Total Supporting Services	3,453,419	-	-	3,453,419	2,892,409	-	-	2,892,409
Total Expenses	9,701,614	-	-	9,701,614	9,827,719	-	-	9,827,719
<b>CHANGE IN NET ASSETS</b>	(371,767)	1,502,436	(155,621)	975,048	(728,568)	(1,348,418)	49,214	(2,027,772)
Net Assets - Beginning of Year	5,231,100	5,781,685	13,219,386	24,232,171	5,959,668	7,130,103	13,170,172	26,259,943
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 4,859,333</u>	<u>\$ 7,284,121</u>	<u>\$ 13,063,765</u>	<u>\$ 25,207,219</u>	<u>\$ 5,231,100</u>	<u>\$ 5,781,685</u>	<u>\$ 13,219,386</u>	<u>\$ 24,232,171</u>

See accompanying Notes to Financial Statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016				2015			
	Program Services	Fund Raising	General and Administrative	Total	Program Services	Fund Raising	General and Administrative	Total
Salaries and Wages	\$ 3,440,233	\$ 632,263	\$ 1,413,029	\$ 5,485,525	\$ 3,766,957	\$ 541,538	\$ 1,081,648	\$ 5,390,143
Payroll Taxes and Employee Benefits	881,941	166,800	279,279	1,328,020	870,034	125,132	262,152	1,257,318
Outside Services	1,138,485	18,413	274,774	1,431,672	1,414,882	82,554	307,675	1,805,111
Community Relations	37,768	6,007	32,747	76,522	20,421	6,700	28,844	55,965
Rent	407,606	60,762	83,295	551,663	398,539	66,632	92,753	557,924
Equipment Maintenance	47,206	5,721	6,695	59,622	41,156	9,781	5,575	56,512
Legal and Accounting	1,625	2,747	142,791	147,163	-	-	59,233	59,233
Insurance	25,071	-	23,495	48,566	25,071	-	21,688	46,759
Printing and Publication	12,257	15,035	1,489	28,781	17,661	16,647	170	34,478
Travel	93,933	27,662	45,547	167,142	161,310	5,657	34,072	201,039
Telephone	34,062	3,823	2,590	40,475	51,785	4,042	4,714	60,541
Office and Supplies	40,172	14,889	7,614	62,675	52,500	9,961	6,132	68,593
Audio Visual	2,295	-	2,011	4,306	1,207	-	1,760	2,967
Employee Dues and Memberships	7,775	1,447	2,260	11,482	9,655	847	810	11,312
Employee Seminar Fees	17,090	575	8,149	25,814	41,925	1,191	16,260	59,376
Depreciation	26,035	2,494	35,477	64,006	34,426	3,263	56,859	94,548
Miscellaneous	34,641	11,103	122,436	168,180	27,781	12,055	26,064	65,900
<b>Total Functional Expenses</b>	<b>\$ 6,248,195</b>	<b>\$ 969,741</b>	<b>\$ 2,483,678</b>	<b>\$ 9,701,614</b>	<b>\$ 6,935,310</b>	<b>\$ 886,000</b>	<b>\$ 2,006,409</b>	<b>\$ 9,827,719</b>

See accompanying Notes to Financial Statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 975,048	\$ (2,027,772)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Permanently Restricted Contributions	(38,312)	(129,417)
Net Realized Gain on Investments	(312,442)	(898,709)
Net Unrealized Loss (Gain) on Investments	(755,404)	1,791,775
Depreciation	64,006	94,548
Changes in Assets and Liabilities:		
Contributions Receivable	(555,551)	(85,653)
Unrestricted and Temporarily Restricted Pledges Receivable	(635,814)	(538,271)
Other Receivables	(56,046)	105,668
Other Assets	(27,225)	625
Accounts Payable	(179,777)	316,208
Accrued Payroll Costs	234,779	(91,788)
Accrued Pension and Deferred Compensation	(101,661)	32,871
Accrued Research Study Costs	(150,691)	(51,287)
Accrued Rent	(35,190)	(31,178)
Deferred Research Study Revenue	(3,219)	(142,317)
Net Cash Used by Operating Activities	(1,577,499)	(1,654,697)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Furniture and Equipment	(22,954)	(33,742)
Purchase of Investments	(446,256)	(2,952,806)
Proceeds from Sale of Investments	1,702,735	3,739,571
Net Cash Provided by Investing Activities	1,233,525	753,023
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in Permanently Restricted Pledges Receivable	208,819	127,243
Permanently Restricted Contributions	38,312	129,417
Net Cash Provided by Financing Activities	247,131	256,660
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(96,843)	(645,014)
Cash and Cash Equivalents - Beginning of Year	1,385,426	2,030,440
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,288,583	\$ 1,385,426

See accompanying Notes to Financial Statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 ORGANIZATION**

The Minneapolis Heart Institute Foundation (the Foundation) is a nonprofit corporation organized under the laws of the state of Minnesota. The Foundation seeks to improve cardiovascular health through education and clinical research. The principal focus of the Foundation's work is in the following areas:

- Developing new clinical knowledge about prevention, diagnosis, and treatment of cardiovascular diseases;
- Translating new knowledge and technology into effective practice in healthcare systems;
- Educating health professionals about advances in managing cardiovascular health; and
- Educating individuals, families, and communities about promoting health and preventing disease.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Foundation conform to U.S. generally accepted accounting principles (GAAP). The following is a summary of the more significant accounting policies:

**Basis of Presentation**

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

**Unrestricted Net Assets**

This classification contains net assets that are not subject to donor-imposed stipulations and are available for support of the operations of the Foundation. As reflected in the statements of financial position, the Foundation's board has designated unrestricted net assets for research and other purposes.

**Temporarily Restricted Net Assets**

This category includes net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

**Permanently Restricted Net Assets**

These are net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The permanently restricted net assets include the Founders, T. Peterson, Education, Gobel/Van Tassel, Nicoloff, Kiser, Giel, Ireland, and Patient Safety and Advocacy endowments. The earnings from the Founders, T. Peterson, and Ireland endowments are unrestricted and available for research or education programs. The earnings from the Education endowment are restricted to education programs. The earnings from the Gobel/Van Tassel endowment are restricted to cardiology research. The earnings from the Nicoloff endowment are restricted to cardiac surgery research. The earnings from the Kiser endowment are restricted to collaborative projects with Children's Heart Link, a Minnesota nonprofit organization. The Giel endowment earnings support research chairs and physician research. The Patient Safety and Advocacy endowment earnings support patient safety and advocacy programs.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Foundation considers all highly liquid securities purchased with an original maturity of three months or less to be cash equivalents.

**Investments**

The Foundation's investments include mutual funds, index funds, limited partnership investments, and a multi-strategy fund of funds. Investments in mutual funds and index funds are reported at fair value based on quoted market prices at year-end. The investments in the limited partnerships are reported at fair value, using net asset value as a practical expedient, as determined by the partnership's general partner. Using net asset value as a practical expedient, the multi-strategy fund of funds is recorded as estimated fair value of the underlying assets. The estimated fair value as determined by the general partners or the fund manager may differ from the value that would have been used had ready markets for the investment existed and the differences could be significantly higher or lower for any specific holding.

**Contributions**

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions to be received after one year are discounted using a rate ranging from 0.875% to 4.78%. Amortization of discounts is included in contribution revenue.

Contributed materials, fixed assets, or investments are recorded at fair value when received.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions (Continued)**

Contributions with donor-imposed restrictions that are met in the same year as they are received are reported as unrestricted revenues. Contributions with donor-imposed restrictions that are not met in the same year as they are received are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed condition is met.

Contributions receivable are current contributions anticipated to be collected within the following year. Pledges receivable are multi-year contributions that are expected to be received over several years. An allowance for uncollectible pledges and contributions receivable is provided based upon management's estimate of unconditional promises to give which will ultimately not be collected. The change in this allowance is presented as contribution (loss) gain in the statements of activities.

**Grants**

Grants represent contributions provided by donors to support various education and research projects.

**Other Receivables**

Other receivables include amounts earned under research agreements prior to year-end that have been invoiced to the sponsor and remained outstanding at year-end and amounts related to a charitable remainder unitrust for which the Foundation does not serve as the trustee.

**Furniture and Equipment**

All expenditures over \$500 for furniture and equipment are capitalized at cost and recorded at cost, less accumulated depreciation. Depreciation is provided using the straight-line method. Estimated useful lives of furniture and equipment range from 4 to 10 years.

**Sublicense Revenue**

The Foundation has a license agreement with a related party, which grants the Foundation the right to use certain service and trademarks royalty-free and sublicense such trademarks to other affiliated medical professional associations. The Foundation has also entered into a sublicense agreement with another related party granting use of the subject service and trademarks. Sublicense revenue is recognized upon receipt. Accordingly, no receivable has been recognized by the Foundation for amounts due under the sublicense agreement through the conclusion of its term.

The initial term of the sublicense agreement expired on December 31, 2009. The Foundation entered into a new sublicense agreement effective January 1, 2010 through December 31, 2019, at terms substantially similar to the agreement in place during 2009.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Research Study Revenues and Deferred Research Study Revenue**

The Foundation conducts research activities and programs under various agreements. Revenue is recognized as the activities are conducted and related research expenses are incurred. Deferred research study revenue represents revenue received for research studies to be completed within future periods.

**Volunteers**

A number of volunteers have made significant contributions of time to the Foundation's policymaking, program, and support functions. The value of this contributed time does not meet the criteria for recognition as contributed service revenue and, accordingly, is not reflected in the accompanying financial statements.

**Functional Allocation of Expenses**

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on a percentage of direct labor hours expended or a percentage of the total number of Foundation employees.

**Income Taxes**

The Foundation has received a determination letter from the Internal Revenue Service indicating it is classified as a tax-exempt organization under Section 501(c)(3) and is not a private foundation under Sections 509(a)(1) and 170(b)(1)(A)(iii) of the Internal Revenue Code. The Foundation is also exempt from Minnesota income taxes under Minnesota Statute Chapter 290.05. The Foundation is subject to federal and state income taxes only on any unrelated business income under the provisions of Section 511 of the Internal Revenue Code.

The Foundation follows accounting standards for uncertain tax positions and files as a tax-exempt organization. The Foundation has no uncertain income tax positions and no liability has been recognized by the Foundation under this standard.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications**

Certain reclassifications have been made to the prior year financial statements to conform with current year presentation. The reclassifications had no effect on the change in net assets or total net assets as previously reported.

**Subsequent Events**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 19, 2017, the date the financial statements were available to be issued.

**NOTE 3 INVESTMENTS**

Investments consist of the following at December 31:

	2016	2015
U.S. Large-Cap Equity	\$ 5,137,850	\$ 5,541,578
U.S. Small/Mid-Cap Equity	2,351,747	2,213,316
International Equity	5,129,574	4,909,815
Fixed Income	5,086,078	5,119,130
Real Estate	6,668	20,127
Hedge Fund of Funds	3,091,249	3,187,833
Total	<u>\$ 20,803,166</u>	<u>\$ 20,991,799</u>

Investment gain consists of the following for the years ended December 31:

	2016	2015
Interest and Dividends Net of Investment Expenses of \$76,686 and \$75,451 in 2016 and 2015, Respectively	\$ 225,521	\$ 452,005
Net Realized Gains	312,442	898,709
Net Unrealized Gains(Losses)	755,404	(1,791,775)
Total	<u>\$ 1,293,367</u>	<u>\$ (441,061)</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 4 FAIR VALUE MEASUREMENTS**

The Foundation uses Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 820), *Fair Value Measurements*, which established a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

The Foundation early adopted the standard on disclosures for investments in certain entities that calculate net asset value per share or its equivalent which removes those investments that calculate net asset value per share from the fair value disclosure.

The three levels of the fair value hierarchy under ASC 820 are described below:

*Level 1* – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets, or liabilities.

*Level 2* – Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such as similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.

*Level 3* – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument.

The following tables summarize the Foundation's assets that were accounted for at fair value hierarchy of ASC 820, as of December 31:

<u>Description</u>	2016			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments:				
U.S. Large-Cap Equity	\$ 5,137,850	\$ -	\$ -	\$ 5,137,850
U.S. Small/Mid-Cap Equity	1,042,162	-	-	1,042,162
International Equity	5,129,574	-	-	5,129,574
Fixed Income	3,745,242	-	-	3,745,242
	<u>\$ 15,054,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>15,054,828</u>
Investments Held at Net Asset Value or its Equivalent				<u>5,748,338</u>
Total				<u>\$ 20,803,166</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

<u>Description</u>	2015			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments:				
U.S. Large-Cap Equity	\$ 5,541,578	\$ -	\$ -	\$ 5,541,578
U.S. Small/Mid-Cap Equity	1,080,170	-	-	1,080,170
International Equity	4,909,815	-	-	4,909,815
Fixed Income	3,884,328	-	-	3,884,328
	<u>\$ 15,415,891</u>	<u>\$ -</u>	<u>\$ -</u>	15,415,891
Investments Held at Net Asset Value or its Equivalent				5,575,908
Total				<u>\$ 20,991,799</u>

The following is a summary of the investments whose net asset value approximates fair value and the related unfunded commitments and redemption restrictions associated with each major category at December 31:

	2016			
	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Multi-Strategy Fund of Funds (1)	\$ 3,091,249	\$ -	Not Applicable	Not Applicable
Real Estate Funds (2)	6,668	-	Not Applicable	Not Applicable
Small/Mid-Cap Funds (3)	1,309,585	-	Monthly	10 to 30 Days
Fixed Income Funds (4)	1,340,836	-	Monthly	60 Days
Total	<u>\$ 5,748,338</u>	<u>\$ -</u>		

  

	2015			
	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Multi-Strategy Fund of Funds (1)	\$ 3,187,833	\$ -	Not Applicable	Not Applicable
Real Estate Funds (2)	20,127	-	Not Applicable	Not Applicable
Small/Mid-Cap Funds (3)	1,133,145	-	Monthly	10 to 30 Days
Fixed Income Funds (4)	1,234,803	-	Monthly	60 Days
Total	<u>\$ 5,575,908</u>	<u>\$ -</u>		

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

- (1) Multi-Strategy Fund of Funds – This fund invests in hedge funds, private equity, real estate, and natural resources. The portfolio will typically include 15% – 35% opportunistic equity, 15% – 35% enhanced fixed income, 10% – 30% absolute return, 5% – 15% real estate, 5% – 15% private equity, and 5% – 15% energy and natural resources focused strategies. The net asset value (NAV) of the fund is determined monthly using the fair value of the master fund’s investment in underlying managers. These values may be subject to later adjustment or revision.

If all units owned by a partner are repurchased, the partner will receive an initial payment equal to 95% of the estimated value of the units approximately 90 days after the valuation date, subject to audit adjustment, and the balance due will be determined and paid within 45 days after completion of the fund’s annual audit.

- (2) Real Estate Funds – This category invests primarily in U.S. real estate. The fund has diversified investments across the following property types: residential condominiums and apartments, office, warehouse, land, hotel, and R&D/Flex. The fair value of the investment is estimated using estimated values of the underlying properties. Properties are appraised internally each year and externally at the time of acquisition and at the time of refinancing. This investment cannot be redeemed. Distributions will be received as the underlying investments of the fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 10 years, with possible extensions.
- (3) Small/Mid-Cap Funds – This category employs a long-only, fundamental, value-oriented approach to equity management focusing primarily on U.S. small-cap and mid-cap stocks, with market capitalizations generally between \$100 million and \$10 billion. The net asset value (NAV) of the fund is determined monthly using the market value, or fair value if market data is unavailable, of the underlying securities.
- (4) Fixed Income Funds – This category consists of two funds. One invests primarily in closed-end registered investment companies that invest in fixed-income securities and directly in fixed-income securities. The net asset value (NAV) of the fund is determined monthly using the market value, or fair value if market data is unavailable, of the underlying funds. Subsequent to the first six months of the initial investment, upon 60 days’ prior written notice, all or any portion of interest in the fund, as of the last day of any month, can be withdrawn. Redemptions will be paid within 30 days after the date of withdrawal, and may be paid either in cash, in-kind, or a combination of both. The second fund is an absolute return bond fund which invests in a wide range of fixed income sectors and securities. The fund is valued daily and has daily liquidity.

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Foundation’s interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the Foundation were to settle these investments in the secondary market, a buyer may require a discount to the reported net assets value, and the discount could be significant.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 5 PLEDGES RECEIVABLE**

Pledges receivable at December 31 are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Due Within One Year	\$ 451,945	\$ 296,593
Two Through Five Years	950,508	632,038
More Than Five Years	20,000	62,500
Total	<u>1,422,453</u>	<u>991,131</u>
Discount	(41,762)	(37,435)
Total	<u>\$ 1,380,691</u>	<u>\$ 953,696</u>

**NOTE 6 FURNITURE AND EQUIPMENT, NET**

Furniture and equipment, net, is as follows at December 31:

	<u>2016</u>	<u>2015</u>
Furniture and Equipment	\$ 948,244	\$ 943,222
Less: Accumulated Depreciation	(834,854)	(788,780)
Total	<u>\$ 113,390</u>	<u>\$ 154,442</u>

**NOTE 7 RELATED PARTY TRANSACTIONS**

Contributions received from board members of the Foundation during 2016 and 2015 totaled \$385,720 and \$101,816, respectively. Pledges receivable from board members of the Foundation totaled \$265,365 and \$135,900 at December 31, 2016 and 2015, respectively.

**NOTE 8 COMMITMENTS**

On August 15, 2008, the Foundation entered into a lease with Health Care Property Investors, Inc. for space within the Minneapolis Heart Institute building which commenced on January 1, 2009. During 2012, the lease was amended to increase the square footage under lease. The noncancelable operating lease extends through March 31, 2019. Rent expense in 2016 and 2015 was \$344,946 and \$340,935, respectively.

Future minimum lease payments as of December 31, 2016 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 348,957
2018	352,968
2019	88,242
Total	<u>\$ 790,167</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
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**NOTE 9 UNRESTRICTED NET ASSETS**

Unrestricted net assets are designated for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Designated:		
Physician Research	\$ 212,418	\$ 214,749
Projects/Reserves	4,630,651	4,922,971
Board-Designated	16,264	93,380
Total Unrestricted	<u>\$ 4,859,333</u>	<u>\$ 5,231,100</u>

**NOTE 10 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
General Support - Restricted for Time	\$ 422,922	\$ 10,000
Restricted Endowment Income	3,480,582	3,141,203
Research and Education Projects:		
Education Projects	1,372,851	1,843,441
Research Projects	180,386	297,881
International Outreach	75,430	92,343
Optimist and Stem Cell Research	28,098	28,872
Interventional Research	276,884	-
Lead Registry Research	106,660	149,554
Electrophysiology Research	55,804	75,102
Imaging Research	120,549	92,385
Women's Research	-	5,935
Congestive Heart Failure Research	11,886	-
Advanced Technology	8,243	10,841
Investigator Initiated Research	444,184	-
Structural Research	699,642	25,846
Transplant Research	-	8,282
Total Research and Education Projects	<u>3,380,617</u>	<u>2,630,482</u>
Total Temporarily Restricted	<u>\$ 7,284,121</u>	<u>\$ 5,781,685</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
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**NOTE 11 FOUNDATION ENDOWMENT FUNDS**

The Foundation's endowment consists of nine individual funds established for the ongoing support of research and education activities. Endowment funds in 2013 included both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. During 2014, the board designation of endowment funds was removed. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation follows Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA governs an institution's, such as the Foundation, management and investment of endowment funds. The board of directors, in consultation with legal counsel, has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)**

**Endowment Net Asset Composition by Type of Fund**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted	\$ -	\$ 3,480,582	\$ 13,063,765	\$ 16,544,347

  

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted	\$ -	\$ 3,141,203	\$ 13,219,386	\$ 16,360,589

**Changes in Endowment Net Assets**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ -	\$ 3,141,203	\$ 13,219,386	\$ 16,360,589
Investment Return:				
Income	-	185,616	-	185,616
Net Realized and Unrealized Gain	-	879,696	-	879,696
Total Investment Gain	-	1,065,312	-	1,065,312
Contributions	-	-	38,312	38,312
Contribution Loss	-	-	(193,933)	(193,933)
Appropriation of Endowment Assets for Expenditures	-	(725,933)	-	(725,933)
Endowment Net Assets - End of Year	\$ -	\$ 3,480,582	\$ 13,063,765	\$ 16,544,347

  

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ -	\$ 4,036,190	\$ 13,170,172	\$ 17,206,362
Investment Return:				
Income	-	521,353	-	521,353
Net Realized and Unrealized Loss	-	(883,849)	-	(883,849)
Total Investment Loss	-	(362,496)	-	(362,496)
Contributions	-	-	129,417	129,417
Contribution Loss	-	-	(80,203)	(80,203)
Appropriation of Endowment Assets for Expenditures	-	(532,491)	-	(532,491)
Endowment Net Assets - End of Year	\$ -	\$ 3,141,203	\$ 13,219,386	\$ 16,360,589

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)**

**Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)**

Endowment funds as of December 31 are as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Founders Endowment	\$ -	\$ 1,554,922	\$ 5,897,942	\$ 7,452,864
T. Peterson Endowment	-	16,520	34,323	50,843
Education Endowment	-	62,289	288,104	350,393
Gobel/Van Tassel Endowment	-	229,834	757,444	987,278
Nicoloff Endowment	-	714,626	1,003,614	1,718,240
Kiser Endowment	-	40,747	36,434	77,181
Giel Endowment	-	799,280	4,812,699	5,611,979
Thomas Ireland Endowment	-	50,802	183,205	234,007
Patient Safety and Advocacy Endowment	-	11,562	50,000	61,562
Total	<u>\$ -</u>	<u>\$ 3,480,582</u>	<u>\$ 13,063,765</u>	<u>\$ 16,544,347</u>

  

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Founders Endowment	\$ -	\$ 1,370,669	\$ 5,897,943	\$ 7,268,612
T. Peterson Endowment	-	15,232	34,323	49,555
Education Endowment	-	53,546	288,104	341,650
Gobel/Van Tassel Endowment	-	205,188	757,444	962,632
Nicoloff Endowment	-	736,541	1,003,614	1,740,155
Kiser Endowment	-	35,833	36,434	72,267
Giel Endowment	-	661,626	4,988,319	5,649,945
Thomas Ireland Endowment	-	50,420	163,205	213,625
Patient Safety and Advocacy Endowment	-	12,148	50,000	62,148
Total	<u>\$ -</u>	<u>\$ 3,141,203</u>	<u>\$ 13,219,386</u>	<u>\$ 16,360,589</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce a targeted investment return of 8% annually over a long-term horizon. Actual returns in any given year may vary from this amount.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)**

**Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) (Continued)**

In order to achieve its long-term rate-of-return objectives, the Foundation has implemented an investment strategy that focuses on capital appreciation (realized and unrealized). Generation of current income (through interest and dividends) is a secondary objective. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives. An emphasis on equity-based investments implies a willingness by the Foundation to take on investment related risk in return for higher return potential.

The Foundation has a policy of appropriating for distribution each year 4% to 5% of its endowment fund's average fair value based on the prior 36-month rolling period. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% – 4% annually, which should exceed long-term inflation expectations in order to create real growth. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional growth through new gifts and investment return.

**NOTE 12 PENSION PLAN**

The Foundation has a 401(k) defined contribution plan covering all employees who meet the eligibility requirements of the plan. The Foundation made voluntary annual contributions to the plan in an amount equal to 5% of base employee compensation, which includes incentive compensation. Employees may also voluntarily contribute to the plan. Employees are vested in the employer contributions to the plan based upon years of service. The Foundation also matches, on a one-to-one basis, up to 2.5% of an employee's contribution into the 401(k). Pension expense for the plan was \$369,263 and \$330,268 in 2016 and 2015, respectively.

**NOTE 13 LEGAL MATTERS**

The Foundation is involved in legal claims incidental to the normal course of its activities. The Foundation maintains liability coverage for such contingencies which could potentially be exceeded by the claims. Although the ultimate outcomes are not reasonably determinable or probable, management believes, based on their current assessment, that the final disposition of these claims will not have a material adverse effect on the financial position of the Foundation.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION  
SUPPLEMENTARY INFORMATION  
STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2016**

	<u>Operations</u>	<u>Funds with Time or Purpose Restriction</u>	<u>Endowments</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 2,016,412	\$ 2,113,810	\$ 38,312	\$ 4,168,534
Special Events, Net	321,454	-	-	321,454
Grants	346,087	447,349	-	793,436
Sublicense Revenue	851,422	-	-	851,422
Research Study Revenues	3,211,984	1,948	-	3,213,932
Income from Services	58,081	12,086	-	70,167
Insurance Proceeds	178,879	-	-	178,879
Investment Gain	184	227,872	1,065,311	1,293,367
Net Assets Released from Restrictions	1,412,125	(1,412,125)	-	-
Net Assets Released - Endowment Earnings	861,799	(135,864)	(725,935)	-
Contribution Loss	(20,596)	-	(193,933)	(214,529)
Total Support and Revenues	<u>9,237,831</u>	<u>1,255,076</u>	<u>183,755</u>	<u>10,676,662</u>
<b>OPERATING EXPENSES</b>				
Payroll Costs	6,813,545	-	-	6,813,545
Professional Services	921,111	-	-	921,111
Research Study Costs	657,724	-	-	657,724
Occupancy Costs	551,663	-	-	551,663
Travel and Meetings	167,142	-	-	167,142
Office and Supplies	195,861	-	-	195,861
Community Relations	43,951	-	-	43,951
Other Expenses	285,945	-	-	285,945
Total Operating Expenses	<u>9,636,942</u>	<u>-</u>	<u>-</u>	<u>9,636,942</u>
<b>NET OPERATING LOSS</b>	(399,111)	1,255,076	183,755	1,039,720
<b>NONOPERATING EXPENSES</b>				
Depreciation	64,006	-	-	64,006
Unrelated Business Income Taxes	666	-	-	666
<b>BOARD-DESIGNATED FUNDS</b>	<u>269,437</u>	<u>(269,437)</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (194,346)</u>	<u>\$ 985,639</u>	<u>\$ 183,755</u>	<u>\$ 975,048</u>