

MINNEAPOLIS HEART INSTITUTE FOUNDATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2018 AND 2017

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Minneapolis Heart Institute Foundation
Minneapolis, Minnesota

Report on the Financial Statements

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, 2018 and 2017, 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.

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, 2018 and 2017, 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 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 16, 2019

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 3,050,574	\$ 1,963,567
Investments (Note 3)	21,721,329	24,019,837
Contributions Receivable	103,148	1,155,271
Pledges Receivable, Net (Notes 5 and 7)	2,499,297	1,983,950
Other Receivables, Net of Allowance of \$25,000 and \$50,000 in 2018 and 2017, Respectively	2,055,518	1,992,978
Other Assets	177,492	85,583
Furniture and Equipment, Net (Note 6)	103,146	83,041
Total Assets	\$ 29,710,504	\$ 31,284,227
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 317,878	\$ 405,649
Accrued Payroll Costs	503,760	388,826
Accrued Pension	355,568	356,052
Amounts Due for Research and Study Costs	464,831	400,099
Deferred Rent	1,643	44,855
Deferred Research Study Revenues	531,581	340,434
Total Liabilities	2,175,261	1,935,915
NET ASSETS		
Without Donor Restrictions (Note 9)	5,138,433	5,094,298
With Donor Restrictions (Note 10):		
General Support - Restricted for Time	265,201	432,976
Restricted Endowment Income	3,719,117	5,628,459
Research and Education Projects	5,323,211	5,123,202
Perpetual in Nature	13,089,281	13,069,377
Total With Donor Restrictions	22,396,810	24,254,014
Total Net Assets	27,535,243	29,348,312
Total Liabilities and Net Assets	\$ 29,710,504	\$ 31,284,227

See accompanying Notes to Financial Statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES						
Contributions	\$ 3,295,467	\$ 1,955,106	\$ 5,250,573	\$ 1,079,657	\$ 3,170,815	\$ 4,250,472
Special Events, Net of Expenses of \$304,737 and \$280,009 in 2018 and 2017, Respectively	186,792	-	186,792	197,451	-	197,451
Grants	506,659	500,277	1,006,936	478,803	374,056	852,859
Sublicense Revenue	-	-	-	851,422	-	851,422
Research Study Revenues	4,238,114	-	4,238,114	4,371,917	-	4,371,917
Income from Services	88,685	-	88,685	69,813	-	69,813
Investment Gain (Loss) (Note 3)	(262,718)	(1,225,590)	(1,488,308)	590,960	2,812,897	3,403,857
Contribution (Loss)	-	(70,100)	(70,100)	-	(48,500)	(48,500)
Insurance Proceeds	-	-	-	161,739	-	161,739
Net Assets Released from Restrictions (Note 10)	3,016,897	(3,016,897)	-	2,403,140	(2,403,140)	-
Total Support and Revenues	11,069,896	(1,857,204)	9,212,692	10,204,902	3,906,128	14,111,030
EXPENSES						
Program Services:						
Education	1,309,344	-	1,309,344	1,167,738	-	1,167,738
Research	6,296,134	-	6,296,134	5,623,438	-	5,623,438
Total Program Services	7,605,478	-	7,605,478	6,791,176	-	6,791,176
Fundraising	1,136,672	-	1,136,672	999,323	-	999,323
General and Administrative	2,283,611	-	2,283,611	2,179,438	-	2,179,438
Total Supporting Services	3,420,283	-	3,420,283	3,178,761	-	3,178,761
Total Expenses	11,025,761	-	11,025,761	9,969,937	-	9,969,937
CHANGE IN NET ASSETS	44,135	(1,857,204)	(1,813,069)	234,965	3,906,128	4,141,093
Net Assets - Beginning of Year	5,094,298	24,254,014	29,348,312	4,859,333	20,347,886	25,207,219
NET ASSETS - END OF YEAR	<u>\$ 5,138,433</u>	<u>\$ 22,396,810</u>	<u>\$ 27,535,243</u>	<u>\$ 5,094,298</u>	<u>\$ 24,254,014</u>	<u>\$ 29,348,312</u>

See accompanying Notes to Financial Statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018				2017			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Salaries and Wages	\$ 3,979,309	\$ 682,442	\$ 1,120,929	\$ 5,782,680	\$ 3,628,431	\$ 605,499	\$ 919,430	\$ 5,153,360
Payroll Taxes and Employee Benefits	898,745	165,132	190,335	1,254,212	847,922	145,699	178,696	1,172,317
Outside Services	1,764,188	82,722	622,657	2,469,567	1,481,937	105,578	548,631	2,136,146
Community Relations	8,830	374	28,587	37,791	8,263	244	31,563	40,070
Rent	436,220	61,192	57,491	554,903	397,280	61,194	75,478	533,952
Direct Special Event Expenses	-	304,737	-	304,737	-	280,009	-	280,009
Equipment Maintenance	51,797	4,653	5,560	62,010	42,178	2,942	4,075	49,195
Legal and Accounting	49,172	2,960	72,472	124,604	25,831	-	126,175	152,006
Insurance	39,025	-	30,179	69,204	25,071	-	26,068	51,139
Printing and Publication	35,536	68,142	1,368	105,046	18,179	19,365	4,524	42,068
Travel	143,170	22,424	44,472	210,066	97,796	28,287	32,790	158,873
Telephone	34,318	4,241	1,555	40,114	33,020	3,527	1,615	38,162
Office and Supplies	70,784	24,747	10,431	105,962	51,139	14,321	7,382	72,842
Employee Dues and Memberships	7,794	-	9,611	17,405	8,147	-	4,600	12,747
Employee Seminar Fees	36,671	459	8,424	45,554	24,739	190	8,180	33,109
Depreciation	17,096	1,590	30,159	48,845	19,568	1,795	30,982	52,345
Provision for Bad Debts	-	-	23,426	23,426	-	-	4,000	4,000
Miscellaneous	32,823	15,594	25,955	74,372	81,675	10,682	175,249	267,606
Subtotal	<u>7,605,478</u>	<u>1,441,409</u>	<u>2,283,611</u>	<u>11,330,498</u>	<u>6,791,176</u>	<u>1,279,332</u>	<u>2,179,438</u>	<u>10,249,946</u>
Direct Special Event Expenses	-	(304,737)	-	(304,737)	-	(280,009)	-	(280,009)
Total Functional Expenses	<u>\$ 7,605,478</u>	<u>\$ 1,136,672</u>	<u>\$ 2,283,611</u>	<u>\$ 11,025,761</u>	<u>\$ 6,791,176</u>	<u>\$ 999,323</u>	<u>\$ 2,179,438</u>	<u>\$ 9,969,937</u>

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,813,069)	\$ 4,141,093
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Provided by Operating Activities:		
Contributions Perpetual in Nature	(20,000)	(20,612)
Net Realized Gain on Investments	(761,085)	(172,064)
Net Unrealized (Gain) Loss on Investments	2,959,218	(2,709,579)
Depreciation	48,845	52,345
Changes in Assets and Liabilities:		
Contributions Receivable	1,052,123	611,652
Pledges Receivable	(520,447)	(812,078)
Other Receivables	(62,540)	(593,787)
Other Assets	(91,909)	(26,934)
Accounts Payable	(87,771)	146,566
Accrued Payroll Costs	114,934	(105,561)
Accrued Pension and Deferred Compensation	(484)	(13,210)
Accrued Research Study Costs	64,732	39,637
Accrued Rent	(43,212)	(39,200)
Deferred Research Study Revenue	191,147	304,309
Net Cash Provided by Operating Activities	1,030,482	802,577
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	(68,950)	(21,996)
Purchase of Investments	(3,886,139)	(2,054,851)
Proceeds from Sale of Investments	3,986,514	1,719,823
Net Cash Provided (Used) by Investing Activities	31,425	(357,024)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Pledges Receivable - Perpetual in Nature	5,100	208,819
Contributions Perpetual in Nature	20,000	20,612
Net Cash Provided by Financing Activities	25,100	229,431
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,087,007	674,984
Cash and Cash Equivalents - Beginning of Year	1,963,567	1,288,583
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,050,574	\$ 1,963,567

See accompanying Notes to Financial Statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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 accounting principles generally accepted in the United States of America. 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:

Net Assets Without Donor Restrictions – 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 net assets for research, operating reserves, and other purposes.

Net Assets With Donor Restrictions – 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 as well as donor-imposed restrictions that are perpetual in nature. The net assets with perpetual donor restrictions 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 have no donor restrictions and are available for research or education programs. The earnings from the Education endowment are restricted to education

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Net Assets With Donor Restrictions (Continued)

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 use unless specifically restricted by the donor. Contributions to be received after one year are discounted using a rate ranging from 1.88% to 2.63%. Amortization of discounts is included in contribution revenue.

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

Contributions with donor-imposed restrictions that are met in the same year as they are received are reported as revenues without donor restrictions. Contributions with donor-imposed restrictions that are not met in the same year as they are received are reported as revenues with donor restrictions and are reclassified to net assets without donor restrictions when the donor-imposed condition is met.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

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.

Furniture and Equipment

All expenditures over \$2,500 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.

Trademark License Revenue

The Foundation entered into an agreement with a related party, which grants the related party the right to use certain licensed trademarks in connection with the provision of health care service related to the prevention, diagnosis and treatment of cardiovascular disease provided at its hospital-based clinics, and facilities and outreach clinics primarily staffed in cardiology by the MHI Physicians.

The term of the trademark license agreement is twelve years commencing on January 8, 2018. The Foundation will receive an annual royalty of \$25,000 per year each January for the term of this agreement. Revenue is recognized upon receipt. Accordingly, no receivable has been recognized by the Foundation for amounts due under the trademark license agreement through the conclusion of its term.

Charitable Donation Agreement

The Foundation entered into a conditional agreement with a related party, where the related party will pay to the Foundation a voluntary nonreciprocal charitable contribution in the amount of \$23,700,000 in equal consecutive monthly installments of \$164,583 with the first monthly installment in January, 2018, and the final installment to be paid in December 2029.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charitable Donation Agreement (Continued)

Revenue is recognized as earned according to the agreement. For 2018, the 2018 amounts have been recognized in the statements of activities as contribution revenue in the amount of \$1,975,000.

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 study activities 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 statements 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 (IRC). 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 IRC.

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 accounting principles generally accepted in the United States of America 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, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 16, 2019, the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented (except for presentation of the statement of functional expenses) which resulted in no change to the total previously reported net assets.

NOTE 3 INVESTMENTS

Investments consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
U.S. Large-Cap Equity	\$ 5,850,159	\$ 6,200,452
U.S. Small/Mid-Cap Equity	2,519,683	2,671,469
International Equity	5,059,184	6,068,145
Fixed Income	6,488,651	6,669,117
Hedge Fund of Funds	1,803,652	2,410,654
Total	<u>\$ 21,721,329</u>	<u>\$ 24,019,837</u>

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

	<u>2018</u>	<u>2017</u>
Interest and Dividends Net of Investment Expenses of \$77,252 in 2018 and 2017	\$ 709,825	\$ 522,214
Net Realized Gains	761,085	172,064
Net Unrealized Gain (Loss)	<u>(2,959,218)</u>	<u>2,709,579</u>
Total	<u>\$ (1,488,308)</u>	<u>\$ 3,403,857</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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>	2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. Large-Cap Equity	\$ 5,850,159	\$ -	\$ -	\$ 5,850,159
U.S. Small/Mid-Cap Equity	2,519,683	-	-	2,519,683
International Equity	5,059,184	-	-	5,059,184
Fixed Income	5,323,130	-	-	5,323,130
Total	<u>\$ 18,752,156</u>	<u>\$ -</u>	<u>\$ -</u>	18,752,156
Investments Held at Net Asset Value or its Equivalent				2,969,173
Total				<u>\$ 21,721,329</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Description	2017			
	Level 1	Level 2	Level 3	Total
Investments:				
U.S. Large-Cap Equity	\$ 6,200,452	\$ -	\$ -	\$ 6,200,452
U.S. Small/Mid-Cap Equity	1,256,689	-	-	1,256,689
International Equity	6,068,145	-	-	6,068,145
Fixed Income	5,221,069	-	-	5,221,069
Total	<u>\$ 18,746,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>18,746,355</u>
Investments Held at Net Asset Value or its Equivalent				<u>5,273,482</u>
Total				<u>\$ 24,019,837</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:

	2018			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	\$ 1,803,652	\$ -	Not Applicable	Not Applicable
Fixed Income Funds (3)	1,165,521	-	Monthly	60 Days
Total	<u>\$ 2,969,173</u>	<u>\$ -</u>		

	2017			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	\$ 2,410,654	\$ -	Not Applicable	Not Applicable
Small/Mid-Cap Funds (2)	1,414,780	-	Monthly	10 to 30 Days
Fixed Income Funds (3)	1,448,048	-	Monthly	60 Days
Total	<u>\$ 5,273,482</u>	<u>\$ -</u>		

(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.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

- (2) 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 NAV of the fund is determined monthly using the market value, or fair value if market data is unavailable, of the underlying securities.
- (3) Fixed Income Funds – This fund invests primarily in closed-end registered investment companies that invest in fixed-income securities and directly in fixed-income securities. The 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.

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV 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.

NOTE 5 PLEDGES RECEIVABLE

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

	2018	2017
Due Within One Year	\$ 1,283,278	\$ 626,639
Two Through Five Years	1,275,416	1,452,439
More Than Five Years	-	10,000
Subtotal	<u>2,558,694</u>	<u>2,089,078</u>
Allowance for Doubtful Accounts	-	(40,385)
Discount	<u>(59,397)</u>	<u>(64,743)</u>
Total	<u><u>\$ 2,499,297</u></u>	<u><u>\$ 1,983,950</u></u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 FURNITURE AND EQUIPMENT, NET

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

	<u>2018</u>	<u>2017</u>
Furniture and Equipment	\$ 843,790	\$ 891,302
Less: Accumulated Depreciation	<u>(740,644)</u>	<u>(808,261)</u>
Total	<u>\$ 103,146</u>	<u>\$ 83,041</u>

NOTE 7 RELATED PARTY TRANSACTIONS

Contributions received from board members of the Foundation during 2018 and 2017 totaled \$208,992 and \$59,718, respectively. Pledges receivable from board members of the Foundation totaled \$43,923 and \$215,861 at December 31, 2018 and 2017, 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. On December 5, 2018, the Foundation entered into a third amendment to the lease to increase the square footage under the lease and to extend the lease through March 31, 2029. Rent expense in 2018 and 2017 was \$355,297 and \$348,957, respectively.

Future minimum lease payments as of December 31, 2018 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 368,400
2020	369,764
2021	377,143
2022	384,664
2023	392,374
Thereafter	<u>2,191,241</u>
Total	<u>\$ 4,083,586</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are designated for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Board Designated:		
Physician Research	\$ 211,407	\$ 211,671
Operating Reserve	4,927,026	4,882,627
Total Net Assets Without Donor Restrictions	<u>\$ 5,138,433</u>	<u>\$ 5,094,298</u>

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
General Support - Restricted for Time	\$ 265,201	\$ 432,976
Restricted Endowment Income	3,719,117	5,628,459
Research and Education Projects:		
Education Projects	651,090	1,105,076
Research Projects	68,815	67,565
International Outreach	132,994	83,632
Interventional Research	1,200	1,200
Lead Registry Research	130,522	133,822
Congestive Heart Failure Research	21,224	13,086
Advanced Technology	7,787	7,787
Investigator Initiated Research	4,309,579	3,583,132
Structural Research	-	127,902
Total Research and Education Projects	<u>5,323,211</u>	<u>5,123,202</u>
Perpetual in Nature	13,089,281	13,069,377
Total With Donor Restrictions	<u>\$ 22,396,810</u>	<u>\$ 24,254,014</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets released from donor restrictions consist of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
General Support - Restricted for Time	\$ 146,191	\$ 110,058
Restricted Endowment Income	683,748	665,020
Research and Education Projects:		
Education Projects	595,906	901,104
Research Projects	-	2,790
International Outreach	39,422	58,163
Stem Cell Research	-	16,584
Lead Registry Research	3,300	4,125
Congestive Heart Failure Research	1,000	-
Advanced Technology	-	456
Investigator Initiated Research	1,419,428	559,999
Structural Research	<u>127,902</u>	<u>84,841</u>
Total Research and Education Projects	<u>2,186,958</u>	<u>1,628,062</u>
 Total Net Assets Released from Donor Restrictions	 <u>\$ 3,016,897</u>	 <u>\$ 2,403,140</u>

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 accounting principles generally accepted in the United States of America, 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.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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 net assets with donor restrictions: (a) the original value of the gifts donated to the endowment that is perpetual in nature, (b) the original value of subsequent gifts to the endowment that is perpetual in nature, and (c) accumulations to the 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 temporary in nature is recorded in net assets with donor restrictions 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

Endowment Net Asset Composition by Type of Fund

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	\$ -	\$ 13,089,281	\$ 13,089,281
Accumulated Investment Gains	-	3,719,117	3,719,117
Total	<u>\$ -</u>	<u>\$ 16,808,398</u>	<u>\$ 16,808,398</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	\$ -	\$ 13,069,377	\$ 13,069,377
Accumulated Investment Gains	-	5,628,459	5,628,459
Total	<u>\$ -</u>	<u>\$ 18,697,836</u>	<u>\$ 18,697,836</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

**Description of Amounts Classified as Net Assets With Donor Restrictions
(Endowment Only)**

Endowment funds as of December 31 are as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
	\$	\$	\$
Founders Endowment	-	7,560,846	7,560,846
T. Peterson Endowment	-	51,561	51,561
Education Endowment	-	355,280	355,280
Gobel/Van Tassel Endowment	-	1,001,049	1,001,049
Nicoloff Endowment	-	1,740,806	1,740,806
Kiser Endowment	-	84,350	84,350
Giel Endowment	-	5,675,377	5,675,377
Ireland Endowment	-	276,753	276,753
Patient Safety and Advocacy Endowment	-	62,376	62,376
Total	<u>\$ -</u>	<u>\$ 16,808,398</u>	<u>\$ 16,808,398</u>

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
	\$	\$	\$
Founders Endowment	-	8,418,652	8,418,652
T. Peterson Endowment	-	57,461	57,461
Education Endowment	-	395,943	395,943
Gobel/Van Tassel Endowment	-	1,115,621	1,115,621
Nicoloff Endowment	-	1,940,662	1,940,662
Kiser Endowment	-	90,553	90,553
Giel Endowment	-	6,323,816	6,323,816
Ireland Endowment	-	285,593	285,593
Patient Safety and Advocacy Endowment	-	69,535	69,535
Total	<u>\$ -</u>	<u>\$ 18,697,836</u>	<u>\$ 18,697,836</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, 2018 AND 2017**

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

**Description of Amounts Classified as Net Assets With Donor Restrictions
(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% (the distribution for the year ended December 31, 2018 was 4%) 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% to 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 \$346,570 and \$351,523 in 2018 and 2017, 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 on these claims will not have a material adverse effect on the financial position of the Foundation.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 14 LIQUIDITY AND AVAILABILITY

As part of the Foundation's liquidity management, it invests cash in excess of operating requirements in short-term investments. Additionally, there is a board-designated operating reserve. The Board's objective is to manage this reserve to ensure the continued operations of the Foundation within a negative environment, to allow the Foundation to take advantage of opportunities, and to define and establish the process to manage operating surpluses and deficits. Although the Foundation does not intend to spend from this reserve other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation, amounts from this reserve could be made available in the event of financial distress or an immediate liquidity need.

The Foundation's financial assets due within one year of the balance sheet date available for general expenditures are as follows:

Cash and Cash Equivalents	\$ 2,031,236
Other Receivables	2,055,518
Contributions Receivable	103,148
Short-Term Investments	<u>2,796,097</u>
Total	<u><u>\$ 6,985,999</u></u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

NOTE 15 NONREVOLVING LOAN

Effective December 19, 2018, the Foundation entered into a promissory note with a maturity date of December 19, 2025.

Available borrowings under the nonrevolving line of credit are \$1,000,000 for the purpose of tenant improvements. Phase 1 will be up to a 24-month advance period with monthly interest-only payments at 30 day LIBOR plus 2.25%. Phase 2 will begin at project completion or the end of 24 months. This term loan will be for five years with a 10-year amortization and monthly principal and interest payments. The interest rate will be a five-year fixed rate at the five-year LIBOR Swap plus 2.00%. Prepayments up to 20% of the final loan amount are allowed annually without penalty.

This promissory note is secured by general business assets. At December 31, 2018, there was \$-0- of borrowings on the note.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>Operations</u>	Funds with Time or Purpose Restriction	<u>Endowments</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 3,295,467	\$ 1,935,106	\$ 20,000	\$ 5,250,573
Special Events, Net	186,792	-	-	186,792
Grants	506,659	500,277	-	1,006,936
Research Study Revenues	4,238,114	-	-	4,238,114
Income from Services	88,685	-	-	88,685
Investment Gain (Loss)	4,123	(266,841)	(1,225,590)	(1,488,308)
Net Assets Released from Restrictions	2,333,147	(2,333,147)	-	-
Net Assets Released - Endowment Earnings	683,748	-	(683,748)	-
Contribution Loss	-	(70,000)	(100)	(70,100)
Total Support and Revenues	<u>11,336,735</u>	<u>(234,605)</u>	<u>(1,889,438)</u>	<u>9,212,692</u>
OPERATING EXPENSES				
Payroll Costs	7,036,892	-	-	7,036,892
Professional Services	1,745,064	-	-	1,745,064
Research Study Costs	849,107	-	-	849,107
Occupancy Costs	554,903	-	-	554,903
Travel and Meetings	210,066	-	-	210,066
Office and Supplies	313,133	-	-	313,133
Community Relations	28,069	-	-	28,069
Other Expenses	239,682	-	-	239,682
Total Operating Expenses	<u>10,976,916</u>	<u>-</u>	<u>-</u>	<u>10,976,916</u>
NET OPERATING LOSS	359,819	(234,605)	(1,889,438)	(1,764,224)
NONOPERATING EXPENSES				
Depreciation	48,845	-	-	48,845
CHANGE IN NET ASSETS	<u>\$ 310,974</u>	<u>\$ (234,605)</u>	<u>\$ (1,889,438)</u>	<u>\$ (1,813,069)</u>