

MINNEAPOLIS HEART INSTITUTE FOUNDATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2019 AND 2018

**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, 2019 and 2018, 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, 2019 and 2018, 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 15, 2020

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 3,856,638	\$ 3,050,574
Investments (Note 3)	25,760,982	21,721,329
Contributions Receivable	321,734	103,148
Pledges Receivable, Net (Notes 5 and 7)	5,640,386	2,499,297
Other Receivables, Net of Allowance of \$79,619 and \$25,000 in 2019 and 2018, Respectively	3,950,731	2,055,518
Other Assets	184,245	177,492
Property and Equipment, Net (Note 6)	1,979,114	103,146
Total Assets	\$ 41,693,830	\$ 29,710,504
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 462,988	\$ 317,878
Accrued Payroll Costs	724,995	503,760
Accrued Pension	425,452	355,568
Amounts Due for Research and Study Costs	533,764	464,831
Deferred Rent	1,058,372	1,643
Deferred Revenues (Note 2)	830,042	531,581
Total Liabilities	4,035,613	2,175,261
NET ASSETS		
Without Donor Restrictions (Note 9)	6,671,847	5,138,433
With Donor Restrictions (Note 10):		
General Support - Restricted for Time	345,577	265,201
Restricted Endowment Income	6,785,555	3,719,117
Research and Education Projects	10,745,960	5,323,211
Perpetual in Nature	13,109,278	13,089,281
Total With Donor Restrictions	30,986,370	22,396,810
Total Net Assets	37,658,217	27,535,243
Total Liabilities and Net Assets	\$ 41,693,830	\$ 29,710,504

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES						
Contributions	\$ 3,256,814	\$ 6,941,873	\$ 10,198,687	\$ 3,295,467	\$ 1,955,106	\$ 5,250,573
Special Events, Net of Expenses of \$341,626 and \$304,737 in 2019 and 2018, Respectively	258,208	-	258,208	186,792	-	186,792
Grants	546,044	229,851	775,895	506,659	500,277	1,006,936
Research Study Revenues	5,956,656	-	5,956,656	4,238,114	-	4,238,114
Income from Services	422,363	-	422,363	88,685	-	88,685
Investment Gain (Loss) (Note 3)	838,519	3,776,792	4,615,311	(262,718)	(1,225,590)	(1,488,308)
Contribution Loss	-	(35,077)	(35,077)	-	(70,100)	(70,100)
Net Assets Released from Restrictions (Note 10)	2,323,879	(2,323,879)	-	3,016,897	(3,016,897)	-
Total Support and Revenues	<u>13,602,483</u>	<u>8,589,560</u>	<u>22,192,043</u>	<u>11,069,896</u>	<u>(1,857,204)</u>	<u>9,212,692</u>
EXPENSES						
Program Services:						
Education	1,167,525	-	1,167,525	1,309,344	-	1,309,344
Research	7,239,125	-	7,239,125	6,296,134	-	6,296,134
Total Program Services	<u>8,406,650</u>	<u>-</u>	<u>8,406,650</u>	<u>7,605,478</u>	<u>-</u>	<u>7,605,478</u>
Fundraising	1,102,153	-	1,102,153	1,136,672	-	1,136,672
General and Administrative	2,560,266	-	2,560,266	2,283,611	-	2,283,611
Total Supporting Services	<u>3,662,419</u>	<u>-</u>	<u>3,662,419</u>	<u>3,420,283</u>	<u>-</u>	<u>3,420,283</u>
Total Expenses	<u>12,069,069</u>	<u>-</u>	<u>12,069,069</u>	<u>11,025,761</u>	<u>-</u>	<u>11,025,761</u>
CHANGE IN NET ASSETS	1,533,414	8,589,560	10,122,974	44,135	(1,857,204)	(1,813,069)
Net Assets - Beginning 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>
NET ASSETS - END OF YEAR	<u>\$ 6,671,847</u>	<u>\$ 30,986,370</u>	<u>\$ 37,658,217</u>	<u>\$ 5,138,433</u>	<u>\$ 22,396,810</u>	<u>\$ 27,535,243</u>

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Salaries and Wages	\$ 4,520,115	\$ 685,552	\$ 1,349,081	\$ 6,554,748	\$ 3,979,309	\$ 682,442	\$ 1,120,929	\$ 5,782,680
Payroll Taxes and Employee Benefits	983,243	169,009	240,570	1,392,822	898,745	165,132	190,335	1,254,212
Outside Services	1,536,846	53,483	544,112	2,134,441	1,764,188	82,722	622,657	2,469,567
Community Relations	46,404	1,828	36,943	85,175	8,830	374	28,587	37,791
Rent	470,549	59,668	68,393	598,610	436,220	61,192	57,491	554,903
Direct Special Event Expenses	-	341,626	-	341,626	-	304,737	-	304,737
Equipment Maintenance	63,139	5,658	7,573	76,370	51,797	4,653	5,560	62,010
Legal and Accounting	80,955	-	36,237	117,192	49,172	2,960	72,472	124,604
Insurance	56,337	-	33,541	89,878	39,025	-	30,179	69,204
Printing and Publication	32,901	41,103	2,020	76,024	35,536	68,142	1,368	105,046
Travel	253,335	46,854	35,376	335,565	143,170	22,424	44,472	210,066
Telephone	32,205	3,756	1,588	37,549	34,318	4,241	1,555	40,114
Office and Supplies	151,324	13,314	10,548	175,186	70,784	24,747	10,431	105,962
Employee Dues and Memberships	10,441	390	27,878	38,709	7,794	-	9,611	17,405
Employee Seminar Fees	43,553	689	5,503	49,745	36,671	459	8,424	45,554
Depreciation	96,209	10,358	34,832	141,399	17,096	1,590	30,159	48,845
Provision for Bad Debts	-	-	100,073	100,073	-	-	23,426	23,426
Miscellaneous	29,094	10,491	25,998	65,583	32,823	15,594	25,955	74,372
Subtotal	8,406,650	1,443,779	2,560,266	12,410,695	7,605,478	1,441,409	2,283,611	11,330,498
Direct Special Event Expenses	-	(341,626)	-	(341,626)	-	(304,737)	-	(304,737)
Total Functional Expenses	<u>\$ 8,406,650</u>	<u>\$ 1,102,153</u>	<u>\$ 2,560,266</u>	<u>\$ 12,069,069</u>	<u>\$ 7,605,478</u>	<u>\$ 1,136,672</u>	<u>\$ 2,283,611</u>	<u>\$ 11,025,761</u>

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 10,122,974	\$ (1,813,069)
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Provided by Operating Activities:		
Contributions Perpetual in Nature	(20,000)	(20,000)
Net Realized Gain on Investments	(4,023)	(761,085)
Net Unrealized (Gain) Loss on Investments	(4,005,398)	2,959,218
Depreciation	141,399	48,845
Noncash Additions of Property and Equipment	(1,107,399)	-
Changes in Assets and Liabilities:		
Contributions Receivable	(218,586)	1,052,123
Pledges Receivable	(3,141,089)	(520,447)
Other Receivables	(1,895,213)	(62,540)
Other Assets	(6,753)	(91,909)
Accounts Payable	145,110	(87,771)
Accrued Payroll Costs	221,235	114,934
Accrued Pension and Deferred Compensation	69,884	(484)
Accrued Research Study Costs	68,933	64,732
Accrued Rent	1,056,729	(43,212)
Deferred Revenues	298,461	191,147
Net Cash Provided by Operating Activities	1,726,264	1,030,482
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	(909,968)	(68,950)
Purchase of Investments	(4,080,019)	(3,886,139)
Proceeds from Sale of Investments	4,049,787	3,986,514
Net Cash Provided (Used) by Investing Activities	(940,200)	31,425
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Pledges Receivable - Perpetual in Nature	-	5,100
Contributions Perpetual in Nature	20,000	20,000
Net Cash Provided by Financing Activities	20,000	25,100
NET INCREASE IN CASH AND CASH EQUIVALENTS	806,064	1,087,007
Cash and Cash Equivalents - Beginning of Year	3,050,574	1,963,567
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,856,638	\$ 3,050,574
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash Additions of Property and Equipment	\$ 1,107,399	\$ -

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 AND 2018

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 and Grants

Contributions and grants, which include unconditional promises to give, are recognized as revenues in the period received. All contributions and grants are available for use unless specifically restricted by the donor.

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

Contributions and grants with donor-imposed restrictions that are met in the same year as they are received are reported as revenues without donor restrictions. Contributions and grants 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, 2019 AND 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Grants (Continued)

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. The Foundation received contributions and grants of \$452,219 for which conditions have not yet been met which are included in deferred revenues on the statement of financial position as of December 31, 2019.

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 and all pledges receivable to be received after one year are discounted using a rate ranging from 1.75% to 2.63%. Amortization of discounts is included in contribution revenue. 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.

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. Also included in other receivables for the year ended December 31, 2019 is a tenant improvement receivable for \$824,125 which was received subsequent to year-end.

Property and Equipment

All expenditures over \$2,500 for property 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 property 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, 2019 AND 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charitable Donation Agreement (Continued)

Revenue is recognized as earned according to the agreement. The amounts have been recognized in the statements of activities as contribution revenue in the amount of \$1,975,000 for the years ended December 31, 2019 and 2018.

Research Study Revenues

The Foundation conducts research activities and programs under various agreements. Amounts received are recognized as earned and are reported as revenue when the work has been performed. Amounts received but not yet earned are reported as deferred revenues in the statement of financial position. The Foundation received research study revenue of \$352,523 in advance of work being performed which has been included in deferred revenues as of December 31, 2019.

Income from Services

Income from services includes amounts from various programs related to education and research. Amounts received are recognized as earned and are reported as revenue when the work has been performed. Amounts received but not yet earned are reported as deferred revenues on the statement of financial position. The Foundation received income from services of \$25,300 in advance of work being performed which has been included in deferred revenues as of December 31, 2019.

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.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 15, 2020, the date the financial statements were available to be issued.

During the period from January 1, 2020 through April 15, 2020, both domestic and international equity markets have experienced large declines. These losses are not included in the financial statements as of and for the year ended December 31, 2019.

Change in Accounting Principle

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. These financial statements reflect the application of ASC 606 guidance beginning in fiscal year 2019. The adoption of ASU 2014-09 did not significantly impact the Foundation's reported historical revenue therefore has been applied prospectively.

Additionally in June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. These financial statements reflect the adoption of ASU 2018-08 beginning in fiscal year 2019. The implementation of this standard did not impact the Foundation's reported revenue and has been applied prospectively.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 INVESTMENTS

Investments consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
U.S. Large-Cap Equity	\$ 7,376,603	\$ 5,850,159
U.S. Small/Mid-Cap Equity	3,154,024	2,519,683
International Equity	6,649,018	5,059,184
Fixed Income	7,173,679	6,488,651
Hedge Fund of Funds	1,407,658	1,803,652
Total	<u>\$ 25,760,982</u>	<u>\$ 21,721,329</u>

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

	<u>2019</u>	<u>2018</u>
Interest and Dividends Net of Investment Expenses of \$77,252 in 2019 and 2018	\$ 605,890	\$ 709,825
Net Realized Gains	4,023	761,085
Net Unrealized Gain (Loss)	4,005,398	(2,959,218)
Total	<u>\$ 4,615,311</u>	<u>\$ (1,488,308)</u>

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.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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

Description	2019			Total
	Level 1	Level 2	Level 3	
Investments:				
U.S. Large-Cap Equity	\$ 7,376,603	\$ -	\$ -	\$ 7,376,603
U.S. Small/Mid-Cap Equity	3,154,024	-	-	3,154,024
International Equity	6,649,018	-	-	6,649,018
Fixed Income	5,820,904	-	-	5,820,904
Total	<u>\$ 23,000,549</u>	<u>\$ -</u>	<u>\$ -</u>	23,000,549
Investments Held at Net Asset Value or its Equivalent				2,760,433
Total				<u>\$ 25,760,982</u>

Description	2018			Total
	Level 1	Level 2	Level 3	
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>

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:

	2019			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	\$ 1,407,658	\$ -	Not Applicable	Not Applicable
Fixed Income Funds (2)	1,352,775	-	Monthly	60 Days
Total	<u>\$ 2,760,433</u>	<u>\$ -</u>		
	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 (2)	1,165,521	-	Monthly	60 Days
Total	<u>\$ 2,969,173</u>	<u>\$ -</u>		

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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) 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:

	2019	2018
Due Within One Year	\$ 1,198,192	\$ 1,283,278
Two Through Five Years	3,299,015	1,275,416
More Than Five Years	1,500,000	-
Subtotal	5,997,207	2,558,694
Allowance for Doubtful Accounts	(33,077)	-
Discount	(323,744)	(59,397)
Total	<u>\$ 5,640,386</u>	<u>\$ 2,499,297</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 PROPERTY AND EQUIPMENT, NET

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

	<u>2019</u>	<u>2018</u>
Leasehold Improvements	\$ 1,641,866	\$ 98,077
Furniture and Equipment	1,057,161	745,713
Less: Accumulated Depreciation	(719,913)	(740,644)
Total	<u>\$ 1,979,114</u>	<u>\$ 103,146</u>

NOTE 7 RELATED PARTY TRANSACTIONS

Contributions received from board members of the Foundation during 2019 and 2018 totaled \$198,038 and \$208,992, respectively. Pledges receivable from board members of the Foundation totaled \$30,346 and \$43,923 at December 31, 2019 and 2018, 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. The lease requires escalating annual payments. In addition, the Foundation also received a tenant improvement allowance for leasehold improvements. The total recorded in property and equipment and in deferred rent during 2019 is approximately \$1,107,000. This amount will be amortized over the life of the lease and there is \$1,024,344 remaining in deferred rent on the statement of financial position at December 31, 2019.

Rent is recorded based on straight-line rent over the term of the lease. Rent expense in 2019 and 2018 was \$398,258 and \$355,297, respectively. Total deferred rent recorded on the statement of financial position is \$34,028 and \$1,643 for the years ended 2019 and 2018, respectively.

Future minimum lease payments as of December 31, 2019 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 369,764
2021	377,143
2022	384,664
2023	392,374
2024	400,132
Thereafter	1,791,109
Total	<u>\$ 3,715,186</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Board-Designated:		
Physician Research	\$ 204,904	\$ 211,407
Operating Reserve	6,466,943	4,927,026
Total Net Assets Without Donor Restrictions	<u>\$ 6,671,847</u>	<u>\$ 5,138,433</u>

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
General Support - Restricted for Time	\$ 345,577	\$ 265,201
Restricted Endowment Income	6,785,555	3,719,117
Research and Education Projects:		
Education Projects	414,600	651,090
Research Projects	68,815	68,815
International Outreach	742,157	132,994
Interventional Research	14,313	1,200
Lead Registry Research	125,872	130,522
Congestive Heart Failure Research	42,469	21,224
Advanced Technology	-	7,787
Investigator Initiated Research	9,263,998	4,309,579
Endovascular Research	1,200	-
Core Imaging Research Center	72,536	-
Total Research and Education Projects	<u>10,745,960</u>	<u>5,323,211</u>
Perpetual in Nature	13,109,278	13,089,281
Total With Donor Restrictions	<u>\$ 30,986,370</u>	<u>\$ 22,396,810</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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>2019</u>	<u>2018</u>
General Support - Restricted for Time	\$ 106,427	\$ 146,191
Restricted Endowment Income	710,357	683,748
Research and Education Projects:		
Education Projects	276,532	595,906
Research Projects	-	-
International Outreach	96,255	39,422
Lead Registry Research	8,400	3,300
Congestive Heart Failure Research	-	1,000
Advanced Technology	7,787	-
Investigator Initiated Research	1,118,121	1,419,428
Structural Research	-	127,902
Total Research and Education Projects	<u>1,507,095</u>	<u>2,186,958</u>
 Total Net Assets Released from Donor Restrictions	 <u>\$ 2,323,879</u>	 <u>\$ 3,016,897</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.

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.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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

	2019		
	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	\$ -	\$ 13,109,278	\$ 13,109,278
Accumulated Investment Gains	-	6,785,555	6,785,555
Total	<u>\$ -</u>	<u>\$ 19,894,833</u>	<u>\$ 19,894,833</u>
	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>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

Changes in Endowment Net Assets

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets -			
Beginning of Year	\$ -	\$ 16,808,398	\$ 16,808,398
Investment Return:			
Income	-	487,387	487,387
Net Realized and Unrealized Gain	-	3,289,405	3,289,405
Total Investment Gain	-	3,776,792	3,776,792
Contributions	-	20,000	20,000
Contribution Loss	-	-	-
Appropriation of Endowment			
Assets for Expenditures	-	(710,357)	(710,357)
Endowment Net Assets -			
End of Year	<u>\$ -</u>	<u>\$ 19,894,833</u>	<u>\$ 19,894,833</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets -			
Beginning of Year	\$ -	\$ 18,697,836	\$ 16,544,347
Investment Return:			
Income	-	579,381	430,466
Net Realized and Unrealized Loss	-	(1,804,971)	2,382,431
Total Investment Loss	-	(1,225,590)	2,812,897
Contributions	-	20,000	20,000
Contribution Loss	-	(100)	(100)
Appropriation of Endowment			
Assets for Expenditures	-	(683,748)	(683,748)
Endowment Net Assets -			
End of Year	<u>\$ -</u>	<u>\$ 16,808,398</u>	<u>\$ 18,697,836</u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
	-	-	-
Founders Endowment	\$ -	\$ 8,936,464	\$ 8,936,464
T. Peterson Endowment	-	60,964	60,964
Education Endowment	-	420,072	420,072
Gobel/Van Tassel Endowment	-	1,183,607	1,183,607
Nicoloff Endowment	-	2,058,191	2,058,191
Kiser Endowment	-	103,617	103,617
Giel Endowment	-	6,709,782	6,709,782
Ireland Endowment	-	348,387	348,387
Patient Safety and Advocacy Endowment	-	73,749	73,749
Total	<u>\$ -</u>	<u>\$ 19,894,833</u>	<u>\$ 19,894,833</u>
	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>

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, 2019 AND 2018**

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, 2019 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 \$417,493 and \$346,570 in 2019 and 2018, 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, 2019 AND 2018**

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 dates available for general expenditures are as follows:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 1,495,205	\$ 2,031,236
Other Receivables	3,950,728	2,055,518
Contributions Receivable	321,734	103,148
Short-Term Investments	<u>2,796,097</u>	<u>2,796,097</u>
Total	<u>\$ 8,563,764</u>	<u>\$ 6,985,999</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 LINE OF CREDIT

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. During 2019, the revolving loan was converted into a line of credit on November 26, 2019. Total available to draw on the line of credit is \$1,000,000 and carries a variable interest rate. The line of credit is secured by general business assets.

At December 31, 2019 and 2018, there was \$-0- of outstanding line of credit.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Operations	Funds with Time or Purpose Restriction	Endowments	Total
SUPPORT AND REVENUES				
Contributions	\$ 3,256,814	\$ 6,921,873	\$ 20,000	\$ 10,198,687
Special Events, Net	258,208	-	-	258,208
Grants	546,044	229,851	-	775,895
Research Study Revenues	5,956,656	-	-	5,956,656
Income from Services	422,363	-	-	422,363
Investment Gain (Loss)	9,688	828,831	3,776,792	4,615,311
Net Assets Released from Restrictions	1,650,622	(1,650,622)	-	-
Net Assets Released - Endowment Earnings	710,357	-	(710,357)	-
Contribution Loss	-	(35,077)	-	(35,077)
Total Support and Revenues	<u>12,810,752</u>	<u>6,294,856</u>	<u>3,086,435</u>	<u>22,192,043</u>
OPERATING EXPENSES				
Payroll Costs	7,947,569	-	-	7,947,569
Professional Services	1,355,873	-	-	1,355,873
Research Study Costs	895,760	-	-	895,760
Occupancy Costs	598,610	-	-	598,610
Travel and Meetings	335,565	-	-	335,565
Office and Supplies	365,131	-	-	365,131
Community Relations	57,128	-	-	57,128
Other Expenses	372,034	-	-	372,034
Total Operating Expenses	<u>11,927,670</u>	<u>-</u>	<u>-</u>	<u>11,927,670</u>
NET OPERATING GAIN	883,082	6,294,856	3,086,435	10,264,373
NONOPERATING EXPENSES				
Depreciation	141,399	-	-	141,399
BOARD-DESIGNATED FUNDS	<u>(37,097)</u>	<u>37,097</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>\$ 704,586</u>	<u>\$ 6,331,953</u>	<u>\$ 3,086,435</u>	<u>\$ 10,122,974</u>