

MINNEAPOLIS HEART INSTITUTE FOUNDATION

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE**

YEARS ENDED DECEMBER 31, 2015 AND 2014

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Minneapolis Heart Institute Foundation
Minneapolis, Minnesota

We have audited the accompanying financial statements of Minneapolis Heart Institute Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

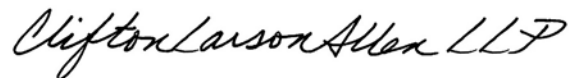
Board of Directors
Minneapolis Heart Institute Foundation

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 27, 2016

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and Cash Equivalents	\$ 1,385,426	\$ 2,030,440
Investments (Note 3)	20,991,799	22,671,630
Contributions Receivable	1,104,865	1,019,212
Pledges Receivable (Net of Allowance of \$83,703 and \$117,000 in 2015 and 2014, Respectively) (Notes 5 and 7)	953,696	542,668
Other Receivables	1,449,652	1,555,320
Other Assets	31,424	32,049
Furniture and Equipment, Net (Note 6)	154,442	215,248
Total Assets	\$ 26,071,304	\$ 28,066,567
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 486,608	\$ 170,400
Accrued Payroll Costs	259,608	351,396
Accrued Pension and Deferred Compensation	470,923	438,052
Accrued Research and Study Costs	463,405	514,692
Deferred Rent	119,245	150,423
Deferred Research Study Revenues	39,344	181,661
Total Liabilities	1,839,133	1,806,624
NET ASSETS		
Unrestricted:		
Designated (Note 9)	5,231,100	5,959,668
Temporarily Restricted (Note 10):		
General Support	10,000	22,419
Charitable Trusts	-	125,945
Restricted Endowment Income	3,141,203	4,036,190
Research and Education Projects	2,630,482	2,945,549
Net Assets - Temporarily Restricted	5,781,685	7,130,103
Permanently Restricted:		
Endowments (Note 11)	13,219,386	13,170,172
Total Net Assets	24,232,171	26,259,943
Total Liabilities and Net Assets	\$ 26,071,304	\$ 28,066,567

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES								
Contributions	\$ 1,556,054	\$ 1,284,801	\$ 129,417	\$ 2,970,272	\$ 1,848,503	\$ 663,734	\$ 306,555	\$ 2,818,792
Special Events, Net of Expenses of \$295,869 and \$230,499 in 2015 and 2014, Respectively	352,606	-	-	352,606	368,633	-	-	368,633
Grants	227,168	209,374	-	436,542	677,762	85,494	-	763,256
Sublicense Revenue	826,623	-	-	826,623	809,743	-	-	809,743
Research Study Revenues	3,841,796	-	-	3,841,796	3,423,083	-	-	3,423,083
Income from Services	101,954	7,500	-	109,454	211,812	31,050	-	242,862
Investment (Loss) Gain (Note 3)	(78,565)	(362,496)	-	(441,061)	228,624	910,770	-	1,139,394
Change in Value of Split-Interest Agreements	-	-	-	-	109,205	9,590	-	118,795
Contribution (Loss) Gain	-	(216,082)	(80,203)	(296,285)	-	(715,200)	1,770	(713,430)
Net Assets Released from Restrictions	2,271,515	(2,271,515)	-	-	2,783,842	(2,783,842)	-	-
Total Support and Revenues	<u>9,099,151</u>	<u>(1,348,418)</u>	<u>49,214</u>	<u>7,799,947</u>	<u>10,461,207</u>	<u>(1,798,404)</u>	<u>308,325</u>	<u>8,971,128</u>
EXPENSES								
Program Services:								
Education	1,624,649	-	-	1,624,649	2,183,693	-	-	2,183,693
Research	5,310,661	-	-	5,310,661	5,259,662	-	-	5,259,662
Total Program Services	<u>6,935,310</u>	<u>-</u>	<u>-</u>	<u>6,935,310</u>	<u>7,443,355</u>	<u>-</u>	<u>-</u>	<u>7,443,355</u>
Supporting Services:								
Fund Raising	886,000	-	-	886,000	564,860	-	-	564,860
General and Administrative	2,006,409	-	-	2,006,409	1,595,587	-	-	1,595,587
Total Supporting Services	<u>2,892,409</u>	<u>-</u>	<u>-</u>	<u>2,892,409</u>	<u>2,160,447</u>	<u>-</u>	<u>-</u>	<u>2,160,447</u>
Total Expenses	<u>9,827,719</u>	<u>-</u>	<u>-</u>	<u>9,827,719</u>	<u>9,603,802</u>	<u>-</u>	<u>-</u>	<u>9,603,802</u>
CHANGE IN NET ASSETS	(728,568)	(1,348,418)	49,214	(2,027,772)	857,405	(1,798,404)	308,325	(632,674)
Net Assets - Beginning of Year	<u>5,959,668</u>	<u>7,130,103</u>	<u>13,170,172</u>	<u>26,259,943</u>	<u>5,102,263</u>	<u>8,928,507</u>	<u>12,861,847</u>	<u>26,892,617</u>
NET ASSETS - END OF YEAR	<u>\$ 5,231,100</u>	<u>\$ 5,781,685</u>	<u>\$ 13,219,386</u>	<u>\$ 24,232,171</u>	<u>\$ 5,959,668</u>	<u>\$ 7,130,103</u>	<u>\$ 13,170,172</u>	<u>\$ 26,259,943</u>

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Program Services	Fund Raising	General and Administrative	Total	Program Services	Fund Raising	General and Administrative	Total
Salaries and Wages	\$ 3,766,957	\$ 541,538	\$ 1,081,648	\$ 5,390,143	\$ 3,740,857	\$ 323,588	\$ 868,748	\$ 4,933,193
Payroll Taxes and Employee Benefits	870,034	125,132	262,152	1,257,318	825,662	81,577	172,730	1,079,969
Outside Services	1,414,882	82,554	307,675	1,805,111	1,843,244	42,002	168,199	2,053,445
Community Relations	20,421	6,700	28,844	55,965	52,434	12,943	7,905	73,282
Rent	398,539	66,632	92,753	557,924	440,066	45,149	66,962	552,177
Equipment Maintenance	41,156	9,781	5,575	56,512	60,567	7,364	4,713	72,644
Legal and Accounting	-	-	59,233	59,233	18,820	-	108,841	127,661
Insurance	25,071	-	21,688	46,759	28,770	-	20,218	48,988
Printing and Publication	17,661	16,647	170	34,478	25,930	19,826	409	46,165
Travel	161,310	5,657	34,072	201,039	170,502	7,042	49,064	226,608
Telephone	51,785	4,042	4,714	60,541	50,703	2,965	3,881	57,549
Office and Supplies	52,500	9,961	6,132	68,593	67,410	9,377	5,014	81,801
Audio Visual	1,207	-	1,760	2,967	4,703	-	-	4,703
Depreciation	34,426	3,263	56,859	94,548	46,218	6,726	67,531	120,475
Miscellaneous	79,361	14,093	43,134	136,588	67,469	6,301	21,372	95,142
Provision for Bad Debts	-	-	-	-	-	-	30,000	30,000
Total Functional Expenses	\$ 6,935,310	\$ 886,000	\$ 2,006,409	\$ 9,827,719	\$ 7,443,355	\$ 564,860	\$ 1,595,587	\$ 9,603,802

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,027,772)	\$ (632,674)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Permanently Restricted Contributions	(129,417)	(306,555)
Net Realized Gain on Investments	(898,709)	(293,935)
Net Unrealized Loss (Gain) on Investments	1,791,775	(500,277)
Depreciation	94,548	120,472
Change in Value of Split-Interest Agreements	-	(109,205)
Changes in Assets and Liabilities:		
Contributions Receivable	(85,653)	1,981,724
Unrestricted and Temporarily Restricted Pledges Receivable	(538,271)	709,278
Other Receivables	105,668	(334,245)
Other Assets	625	51,270
Accounts Payable	316,208	(241,441)
Accrued Payroll Costs	(91,788)	3,625
Accrued Pension and Deferred Compensation	32,871	(10,682)
Accrued Research Study Costs	(51,287)	245,892
Accrued Rent	(31,178)	(27,167)
Deferred Research Study Revenue	(142,317)	13,061
Net Cash Provided (Used) by Operating Activities	(1,654,697)	669,141
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	(33,742)	(11,450)
Purchase of Investments	(2,952,806)	(3,139,123)
Proceeds from Sale of Investments	3,739,571	2,706,687
Net Cash Provided (Used) by Investing Activities	753,023	(443,886)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to Annuitants	-	(18,149)
Change in Permanently Restricted Pledges Receivable	127,243	69,765
Permanently Restricted Contributions	129,417	306,555
Net Cash Provided by Financing Activities	256,660	358,171
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(645,014)	583,426
Cash and Cash Equivalents - Beginning of Year	2,030,440	1,447,014
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,385,426	\$ 2,030,440

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 ORGANIZATION

The Minneapolis Heart Institute Foundation (the Foundation) is a not-for-profit corporation organized under the laws of the State of Minnesota. The Foundation seeks to improve cardiovascular health through education and clinical research. The principal focus of the Foundation's work is in the following areas:

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Permanently Restricted Net Assets

These are net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The permanently restricted net assets include the Founders, T. Peterson, Education, Gobel/Van Tassel, Nicoloff, Kiser, Giel, Ireland, and Patient Safety and Advocacy endowments. The earnings from the Founders, T. Peterson and Ireland endowments are unrestricted and available for research or education programs. The earnings from the Education endowment are restricted to education programs. The earnings from the Gobel/Van Tassel endowment are restricted to cardiology research. The earnings from the Nicoloff endowment are restricted to cardiac surgery research. The earnings from the Kiser endowment are restricted to collaborative projects with Children's Heart Link, a Minnesota not-for-profit 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 statement of cash flows, the Foundation considers all highly liquid securities purchased with an original maturity of three months or less to be cash equivalents.

Investments

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

Contributions

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

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

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

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

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

Grants

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

Other Receivables

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

Furniture and Equipment

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

Split-Interest Agreements

In 2014 the Foundation was the beneficiary of a charitable remainder unit trust. The Foundation recognized the contribution from charitable trusts when the trust was established. The contribution amount when the Foundation is not the trustee is the present value of expected future cash flows from the trust. Assets related to charitable remainder trusts are included in other receivables on the statement of financial position. The trust was terminated and the remainder amounts distributed in 2015.

Sublicense Revenue

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

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sublicense Revenue (Continued)

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

Research Study Revenues and Deferred Research Study Revenue

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

Volunteers

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

Functional Allocation of Expenses

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

Income Taxes

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

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to be consistent with the presentation in 2015. These reclassifications had no impact on changes in net assets as previously reported.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 27, 2016, the date the financial statements were available to be issued.

NOTE 3 INVESTMENTS

Investments consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
US Large Cap Equity	\$ 5,541,578	\$ 7,136,917
US Small/Mid Cap Equity	2,213,316	2,916,013
International Equity	4,909,815	4,286,375
Fixed Income	5,119,130	5,729,054
Real Estate	20,127	55,561
Hedge Fund of Funds	3,187,833	2,547,710
Total	<u>\$ 20,991,799</u>	<u>\$ 22,671,630</u>

Investment gain consists of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and Dividends Net of Investment Expenses of \$75,451 and \$74,459 in 2015 and 2014, Respectively	\$ 452,005	\$ 345,182
Net Realized Gains	898,709	293,935
Net Unrealized Gains/(Losses)	(1,791,775)	500,277
Total	<u>\$ (441,061)</u>	<u>\$ 1,139,394</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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>	2015			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments:				
US Large Cap Equity	\$ 5,541,578	\$ -	\$ -	\$ 5,541,578
US Small/Mid Cap Equity	1,080,170	-	-	1,080,170
International Equity	4,909,815	-	-	4,909,815
Fixed Income	2,603,231	-	-	2,603,231
	<u>\$ 14,134,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>14,134,794</u>
Investments Held at Net Asset Value or its Equivalent				6,857,005
Total				<u>\$ 20,991,799</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Description	2014			Total
	Level 1	Level 2	Level 3	
Investments:				
US Large Cap Equity	\$ 7,136,917	\$ -	\$ -	\$ 7,136,917
US Small/Mid Cap Equity	1,524,340	-	-	1,524,340
International Equity	4,286,375	-	-	4,286,375
Fixed Income	3,424,646	-	-	3,424,646
Remainder Unitrust	-	-	125,945	125,945
	<u>\$ 16,372,278</u>	<u>\$ -</u>	<u>\$ 125,945</u>	<u>16,498,223</u>
Investments Held at Net Asset Value or its Equivalent				<u>6,299,352</u>
Total				<u>\$ 22,797,575</u>

The following table is a roll forward of the Level 3 investments, Interest in Charitable Remainder Unitrust for the years ended December 31, 2015 and 2014:

	2015	2014
Balance at Beginning of Year	\$ 125,945	\$ 116,355
Realized and Unrealized Gains	227	9,590
Distributions from Trust	(126,172)	-
Balance at End of Year	<u>\$ -</u>	<u>\$ 125,945</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 June 30:

	2015			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	\$ 3,187,833	\$ -	Not Applicable	Not Applicable
Real Estate Funds (2)	20,127	-	Not Applicable	Not Applicable
Small-Midcap Funds (3)	1,133,145	-	Monthly	10 to 30 Days
Fixed Income Funds (4)	2,515,900	-	Monthly	60 Days
Total	<u>\$ 6,857,005</u>	<u>\$ -</u>		
	2014			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	\$ 2,547,710	\$ -	Not Applicable	Not Applicable
Real Estate Funds (2)	55,561	-	Not Applicable	Not Applicable
Small-Midcap Funds (3)	1,391,673	-	Monthly	10 to 30 Days
Fixed Income Funds (4)	2,304,408	-	Monthly	60 Days
Total	<u>\$ 6,299,352</u>	<u>\$ -</u>		

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

- (2) Real Estate Funds – This category invests primarily in US real estate. The fund has diversified investments across the following property types: residential condominiums and apartments, office, warehouse, land, hotel and R&D/Flex. The fair value of the investment is estimated using estimated values of the underlying properties. Properties are appraised internally each year and externally at the time of acquisition and at the time of re-financing. This investment cannot be redeemed. Distributions will be received as the underlying investments of the Fund are liquidated. It is estimated that the underlying assets of the Fund will be liquidated over the next 7 to 10 years, with possible extensions.
- (3) Small-Midcap Funds – This category employs a long-only, fundamental, value-oriented approach to equity management focusing primarily on U.S. small-cap and mid-cap stocks, with market capitalizations generally between \$100 million and \$10 billion. The net asset value (NAV) of the Fund is determined monthly using the market value, or fair value if market data is unavailable, of the underlying securities.
- (4) Fixed Income Funds – This category consists of two funds. One invests primarily in closed-end registered investment companies that invest in fixed-income Securities and directly in fixed-income securities. The net asset value (NAV) of the Fund is determined monthly using the market value, or fair value if market data is unavailable, of the underlying funds. Subsequent to the first 6 months of the initial investment, upon 60 days' prior written notice, all or any portion of interest in the Fund as of the last day of any month can be withdrawn. Redemptions will be paid within 30 days after the date of withdrawal, and may be paid either in cash, in-kind or a combination of both. The second fund is an absolute return bond fund which invests in a wide range of fixed income sectors and securities. The fund is valued daily and has daily liquidity.

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

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5 PLEDGES RECEIVABLE

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

	2015	2014
Due Within One Year	\$ 296,593	\$ 212,268
Two Through Five Years	632,038	326,439
More Than Five Years	62,500	27,087
	991,131	565,794
Discount	(37,435)	(23,126)
Total	<u>\$ 953,696</u>	<u>\$ 542,668</u>

NOTE 6 FURNITURE AND EQUIPMENT, NET

Furniture and equipment, net, is as follows at December 31, 2015 and 2014:

	2015	2014
Furniture and Equipment	\$ 943,222	\$ 1,019,854
Less: Accumulated Depreciation	(788,780)	(804,606)
Total	<u>\$ 154,442</u>	<u>\$ 215,248</u>

NOTE 7 RELATED-PARTY TRANSACTIONS

Contributions received from board members of the Foundation during 2015 and 2014 totaled \$101,816 and \$135,223, respectively. Pledges receivable from board members of the Foundation totaled \$135,900 and \$135,862 at December 31, 2015 and 2014, respectively.

NOTE 8 COMMITMENTS

On August 15, 2008, the Foundation entered into a lease with Health Care Property Investors, Inc. for space within the Minneapolis Heart Institute building which commenced on January 1, 2009. During 2012, the lease was amended to increase the square footage under lease. The non-cancelable operating lease extends through March 31, 2019. Rent expense in 2015 and 2014 was \$340,935 and \$336,924, respectively.

Future minimum lease payments as of December 31, 2015 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 344,946
2017	348,957
2018	352,968
2019	88,242
Total	<u>\$ 1,135,113</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 9 UNRESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Designated:		
Physician Research	\$ 214,749	\$ 217,945
Projects/Reserves	4,922,971	5,539,308
Board Designated	93,380	202,415
Total Unrestricted	<u>\$ 5,231,100</u>	<u>\$ 5,959,668</u>

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
General Support	\$ 10,000	\$ 22,419
Charitable Trusts:		
R. Peterson Charitable Remainder Unitrust	-	125,945
Restricted Endowment Income	3,141,203	4,036,190
Research and Education Projects:		
Education Projects	1,843,441	1,675,351
Research Projects	297,881	259,969
Hypertrophic Cardiomyopathy Research	-	195,000
International Outreach	92,343	92,366
Optimist and Stem Cell Research	28,872	16,584
Lead Registry Research	149,554	240,692
Electrophysiology Research	75,102	88,248
Imaging Research	92,385	78,850
Women's Research	5,935	5,935
Advanced Technology	10,841	-
Structural Research	25,846	53,107
Transplant Research	8,282	239,447
Total Research and Education Projects	<u>2,630,482</u>	<u>2,945,549</u>
Total Temporarily Restricted	<u>\$ 5,781,685</u>	<u>\$ 7,130,103</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 11 FOUNDATION ENDOWMENT FUNDS

The Foundation's endowment consists of 9 individual funds established for the ongoing support of research and education activities. Endowment funds in 2013 included both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. During 2014, the board designation of endowment funds was removed. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation follows Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA governs an institution's, such as the Foundation, management and investment of endowment funds. The board of directors, in consultation with legal counsel, has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

Endowment Net Asset Composition by Type of Fund

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

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted	\$ -	\$ 4,036,190	\$ 13,170,172	\$ 17,206,362

Changes in Endowment Net Assets for the Years Ended December 31, 2015 and 2014:

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

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ 4,085,757	\$ 3,627,207	\$ 12,861,847	\$ 20,574,811
Investment Return:				
Income	68,714	275,032	-	343,746
Net Realized and Unrealized Gain	158,400	635,738	-	794,138
Total Investment Gain	227,114	910,770	-	1,137,884
Contributions	-	-	306,555	306,555
Contribution Gain	-	-	1,770	1,770
Appropriation of Endowment Assets for Expenditures	(130,508)	(501,787)	-	(632,295)
Change in Board Designation	(4,182,363)	-	-	(4,182,363)
Endowment Net Assets - End of Year	\$ -	\$ 4,036,190	\$ 13,170,172	\$ 17,206,362

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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

Endowment funds as of December 31, 2015 and 2014 are as follows:

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

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Founders Endowment	\$ -	\$ 1,813,900	\$ 5,897,943	\$ 7,711,843
T. Peterson Endowment	-	18,233	34,323	52,556
Education Endowment	-	74,465	288,104	362,569
Gobel/Van Tassel Endowment	-	264,033	757,444	1,021,477
Nicoloff Endowment	-	775,775	1,003,614	1,779,389
Kiser Endowment	-	37,463	36,434	73,897
Giel Endowment	-	983,827	4,959,115	5,942,942
Thomas Ireland Endowment	-	54,945	143,195	198,140
Patient Safety and Advocacy Endowment	-	13,549	50,000	63,549
Total	<u>\$ -</u>	<u>\$ 4,036,190</u>	<u>\$ 13,170,172</u>	<u>\$ 17,206,362</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.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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

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.

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

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

NOTE 12 PENSION PLAN

The Foundation has a 401(k) defined contribution plan covering all employees who meet the eligibility requirements of the plan. The Foundation made voluntary annual contributions to the plan in an amount equal to 5% of base employee compensation, which includes incentive compensation. Employees may also voluntarily contribute to the plan. Employees are vested in the Employer contributions to the plan based upon years of service. The Foundation also matches, on a one-to-one basis, up to 2.5% of an employee's contribution into the 401(k). Pension expense for the plan was \$330,268 and \$299,275 in 2015 and 2014, respectively.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
SUPPLEMENTARY SCHEDULE
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2015**

	<u>Operations</u>	<u>Funds with Time or Purpose Restriction</u>	<u>Endowments</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 1,556,054	\$ 1,284,801	\$ 129,416	\$ 2,970,271
Special Events, Net	352,607	-	-	352,607
Grants	227,168	209,374	-	436,542
Sublicense Revenue	826,623	-	-	826,623
Research Study Revenues	3,841,799	-	-	3,841,799
Income from Services	101,954	7,500	-	109,454
Investment Gain (Loss)	685	(79,251)	(362,495)	(441,061)
Net Assets Released from Restrictions	1,739,035	(1,739,035)	-	-
Net Assets Released - Endowment Earnings	668,354	(135,864)	(532,490)	-
Contribution Loss	-	(216,082)	(80,203)	(296,285)
Total Support and Revenues	<u>9,314,279</u>	<u>(668,557)</u>	<u>(845,772)</u>	<u>7,799,950</u>
OPERATING EXPENSES				
Payroll Costs	6,647,460	-	-	6,647,460
Professional Services	1,011,874	-	-	1,011,874
Research Study Costs	852,470	-	-	852,470
Occupancy Costs	557,924	-	-	557,924
Travel and Meetings	201,039	-	-	201,039
Office and Supplies	223,091	-	-	223,091
Community Relations	23,317	-	-	23,317
Other Expenses	207,799	-	-	207,799
Total Operating Expenses	<u>9,724,974</u>	<u>-</u>	<u>-</u>	<u>9,724,974</u>
NET OPERATING LOSS	(410,695)	(668,557)	(845,772)	(1,925,024)
NONOPERATING EXPENSES				
Depreciation	94,548	-	-	94,548
Unrelated Business Income Taxes	8,200	-	-	8,200
BOARD DESIGNATED FUNDS	<u>516,706</u>	<u>(516,706)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>\$ 3,263</u>	<u>\$ (1,185,263)</u>	<u>\$ (845,772)</u>	<u>\$ (2,027,772)</u>