



**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

Financial Statements and Schedule

December 31, 2009

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
4200 Wells Fargo Center  
90 South Seventh Street  
Minneapolis, MN 55402

## **Independent Auditors' Report**

The Board of Directors  
Minneapolis Heart Institute Foundation:

We have audited the accompanying statement of financial position of the Minneapolis Heart Institute Foundation (the Foundation) as of December 31, 2009 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2008 financial statements, and in our report dated April 7, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minneapolis Heart Institute Foundation as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**KPMG LLP**

April 7, 2010

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

Statement of Financial Position

December 31, 2009

(with comparative information for December 31, 2008)

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 1,607,051	1,436,105
Investments (note 3)	16,566,756	12,794,924
Contributions receivable	333,365	69,811
Pledges receivable (net of allowance of \$8,630 and \$0 in 2009 and 2008, respectively) (notes 5 and 7)	1,885,328	1,079,458
Other receivables	1,334,113	1,534,996
Other assets	33,369	28,515
Furniture and equipment, net (note 6)	385,450	371,601
Total assets	\$ 22,145,432	17,315,410
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 313,902	448,491
Accrued payroll costs	314,727	323,942
Accrued pension and deferred compensation	317,633	297,797
Accrued research study costs	318,412	244,497
Annuity payment liability	166,127	177,176
Deferred rent	208,764	—
Deferred research study revenues	107,552	59,330
Total liabilities	1,747,117	1,551,233
Net assets:		
Unrestricted:		
Designated – other (note 9)	802,429	467,416
Designated – endowment (note 9)	3,047,988	1,327,779
Net assets – unrestricted	3,850,417	1,795,195
Temporarily restricted (note 10):		
General support	46,765	59,695
Charitable trusts	107,386	91,389
Restricted endowment income	367,493	36,692
Research and education projects	3,572,147	1,551,196
Net assets – temporarily restricted	4,093,791	1,738,972
Permanently restricted:		
Endowments (note 11)	12,454,107	12,230,010
Net assets – permanently restricted	12,454,107	12,230,010
Total net assets	20,398,315	15,764,177
Commitments (note 8)		
Total liabilities and net assets	\$ 22,145,432	17,315,410

See accompanying notes to financial statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

Statement of Activities

Year ended December 31, 2009

(with comparative summarized information for year ended December 31, 2008)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>	
				<u>2009</u>	<u>2008</u>
Support and revenues:					
Contributions	\$ 1,405,422	256,055	224,124	1,885,601	1,406,270
Grants	2,832,221	2,487,965	—	5,320,186	2,047,044
Sublicense revenue	724,543	—	—	724,543	703,440
Research study revenues	3,165,299	—	—	3,165,299	3,110,714
Income from services	230,369	—	—	230,369	233,724
Investment gain (loss) (note 3)	1,787,547	681,611	—	2,469,158	(5,101,730)
Net assets released from restriction	1,078,179	(1,078,179)	—	—	—
Change in value of split-interest agreements	(13,149)	15,997	—	2,848	(43,283)
Contribution loss	—	(8,630)	(27)	(8,657)	(1,000)
	<u>11,210,431</u>	<u>2,354,819</u>	<u>224,097</u>	<u>13,789,347</u>	<u>2,355,179</u>
Total support and revenues					
Expenses:					
Program services:					
Education	1,883,911	—	—	1,883,911	684,064
Research	5,643,713	—	—	5,643,713	5,676,368
	<u>7,527,624</u>	<u>—</u>	<u>—</u>	<u>7,527,624</u>	<u>6,360,432</u>
Total program services					
Supporting services:					
Fund-raising	737,856	—	—	737,856	761,297
General and administrative	889,729	—	—	889,729	895,366
	<u>1,627,585</u>	<u>—</u>	<u>—</u>	<u>1,627,585</u>	<u>1,656,663</u>
Total supporting services					
Total expenses	<u>9,155,209</u>	<u>—</u>	<u>—</u>	<u>9,155,209</u>	<u>8,017,095</u>
Change in net assets	2,055,222	2,354,819	224,097	4,634,138	(5,661,916)
Net assets, beginning of year	<u>1,795,195</u>	<u>1,738,972</u>	<u>12,230,010</u>	<u>15,764,177</u>	<u>21,426,093</u>
Net assets, end of year	\$ <u>3,850,417</u>	<u>4,093,791</u>	<u>12,454,107</u>	<u>20,398,315</u>	<u>15,764,177</u>

See accompanying notes to financial statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

Statement of Functional Expenses

Year ended December 31, 2009

(with comparative summarized information for year ended December 31, 2008)

	<b>Program services</b>	<b>Fund-raising</b>	<b>General and administrative</b>	<b>Total expenses</b>	
				<b>2009</b>	<b>2008</b>
Salaries and wages	\$ 3,520,355	445,542	500,547	4,466,444	4,660,388
Payroll taxes and employee benefits	743,300	79,972	99,610	922,882	922,047
Outside services	2,188,299	69,525	42,593	2,300,417	1,325,016
Community relations	47,206	9,812	7,179	64,197	33,703
Rent	353,213	45,987	45,648	444,848	353,647
Equipment maintenance	39,239	6,136	1,718	47,093	45,657
Legal and accounting	6,062	—	77,756	83,818	53,448
Insurance	32,589	—	9,212	41,801	41,078
Printing and publication	66,436	29,625	819	96,880	58,339
Travel	250,530	18,900	15,666	285,096	222,552
Telephone	23,670	1,651	548	25,869	25,727
Office and supplies	89,300	14,864	8,913	113,077	107,192
Audio visual	3,442	—	—	3,442	5,324
Depreciation	52,988	3,860	60,304	117,152	87,150
Miscellaneous	65,995	11,482	19,216	96,693	75,827
Provision for bad debts	45,000	500	—	45,500	—
	<u>\$ 7,527,624</u>	<u>737,856</u>	<u>889,729</u>	<u>9,155,209</u>	<u>8,017,095</u>

See accompanying notes to financial statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

Statement of Cash Flows

Year ended December 31, 2009

(with comparative information for year ended December 31, 2008)

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Change in net assets	\$ 4,634,138	(5,661,916)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Permanently restricted contributions	(224,124)	(72,884)
Net realized loss (gain) on investments	2,100,319	3,705
Net unrealized (gain) loss on investments	(4,215,707)	5,581,800
Gifted securities	(10,210)	—
Gain on sale of fixed assets	(217)	—
Depreciation	117,152	87,150
Change in value of split-interest agreements	13,149	18,065
Changes in assets and liabilities:		
Contributions receivable	(263,554)	42,249
Amounts due from related party	—	273,627
Unrestricted and temporarily restricted pledges receivable	(833,209)	26,420
Other receivables	200,883	(120,656)
Other assets	(4,854)	(10,120)
Accounts payable	(134,589)	118,310
Accrued payroll costs	(9,215)	(54,396)
Accrued pension and deferred compensation	19,836	183
Accrued research study costs	73,915	39,262
Accrued rent	208,764	—
Deferred research study revenue	48,222	(96,591)
Net cash provided by operating activities	1,720,699	174,208
Cash flows from investing activities:		
Purchase of furniture and equipment	(132,157)	(257,838)
Purchase of investments	(5,903,213)	(1,325,314)
Proceeds from sale of fixed asset	1,373	—
Proceeds from sale of investments	4,256,979	908,569
Net cash used in investing activities	(1,777,018)	(674,583)
Cash flows from financing activities:		
Payments to annuitants	(24,198)	(24,398)
Change in permanently restricted pledges receivable	27,339	573,980
Permanently restricted contributions	224,124	72,884
Net cash provided by financing activities	227,265	622,466
Net increase in cash and cash equivalents	170,946	122,091
Cash and cash equivalents, beginning of year	1,436,105	1,314,014
Cash and cash equivalents, end of year	\$ 1,607,051	1,436,105

See accompanying notes to financial statements.

# MINNEAPOLIS HEART INSTITUTE FOUNDATION

## Notes to Financial Statements

December 31, 2009

### (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.

### (2) Summary of Significant Accounting Policies

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

#### (a) *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 has designated a portion of the unrestricted net assets for endowment and research 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.

#### **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, and Ireland 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

# MINNEAPOLIS HEART INSTITUTE FOUNDATION

## Notes to Financial Statements

December 31, 2009

not-for-profit organization. The Giel endowment earnings support research chairs and physician research.

**(b) 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 1.125% to 4.78%. Amortization of discounts is included in contribution revenue.

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

Contributions with donor-imposed restrictions that are met in the same year as they are received are reported as 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.

**(c) Grants**

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

**(d) Sublicense Revenue**

The Foundation has a license agreement with a related party, which grants the Foundation the right to use certain service and trade marks royalty-free and sublicense such marks 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. The sublicense agreement called for total payments to be made by the sublicensee to the Foundation of approximately \$724,543 during the year ended December 31, 2009. Sublicense revenue is recognized upon receipt. Accordingly, no receivable has been recognized by the Foundation for amounts due under the sublicense agreement through the conclusion of its term.

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

**(e) Research Study Revenues**

The Foundation conducts research activities and programs under various agreements. Revenue is recognized as the activities are conducted and related research expenses are incurred.

**(f) 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.

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## Notes to Financial Statements

December 31, 2009

**(g) *Deferred Research Study Revenue***

Deferred research study revenue represents revenue received for research studies to be completed within a prescribed time period. The Foundation recognizes revenue from these studies in the period in which the corresponding expenses are incurred.

**(h) *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 trust for which the Foundation does not serve as the trustee.

**(i) *Investments***

The Foundation's investments include mutual funds, auction rate securities, limited partnership investments, and a hedge fund of funds. Investments in mutual funds are reported at fair value based on quoted market prices at year-end. Auction rate securities are reported at cost, which approximates fair value. The investments in the limited partnerships are reported at fair value, using net asset value as a practical expedient, as determined by the partnerships' general partners. Using net asset value as a practical expedient, the hedge fund of funds is recorded at 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.

**(j) *Statement of Cash Flows***

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.

**(k) *Furniture and Equipment***

Furniture and equipment are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method. Estimated useful lives of furniture and equipment range from four to ten years.

**(l) *Split-Interest Agreements***

The split-interest agreements include charitable remainder trusts and charitable gift annuities. The Foundation recognizes the contribution from charitable trusts when the trust is established and recognizes the contribution from the charitable annuity gifts when the agreement is executed. 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. Under a charitable gift annuity, the Foundation recognizes a liability based on the net present value of estimated future cash disbursements to be paid to the beneficiary using discount rates and assumptions reflecting current market conditions of the liability and the use of the appropriate mortality tables. The liability is included in annuity payment liability on the statement of financial position.

## MINNEAPOLIS HEART INSTITUTE FOUNDATION

### Notes to Financial Statements

December 31, 2009

**(m) *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.

**(n) *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's accounting policy provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The Foundation recorded no amounts in 2009 for unrecognized tax benefits.

**(o) *Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**(p) *Prior Year Summarized Information***

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2008 from which the summarized information was derived.

## MINNEAPOLIS HEART INSTITUTE FOUNDATION

### Notes to Financial Statements

December 31, 2009

#### (3) Investments

Investments consist of the following at December 31, 2009:

	<u>Carrying value</u>
Equity mutual funds	\$ 7,912,391
Fixed income mutual funds	5,931,765
Real estate mutual funds	528,280
Hedge fund of funds	650,223
Auction rate securities	400,000
Equity security	10,210
Limited partnerships	1,133,887
	<u>\$ 16,566,756</u>

The mutual funds invest in a diversified portfolio of equities, international equities, and fixed-income securities.

Investment income consists of the following for the year ended December 31, 2009:

Interest, dividends, and capital gains net of investment expenses of \$48,810	\$ 353,770
Net realized losses	(2,100,319)
Net unrealized gain	4,215,707
	<u>\$ 2,469,158</u>

#### (4) Fair Value Measurements

As of January 1, 2008, the Foundation adopted 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 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, 2009

The following table summarizes the Foundation's investments that were accounted for at fair value within the fair value hierarchy of ASC 820, as of December 31, 2009:

Description	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 5,019,007	—	—	5,019,007
International mutual funds	2,893,384	—	—	2,893,384
Fixed income mutual funds	5,931,765	—	—	5,931,765
Real estate mutual funds	528,280	—	—	528,280
Hedge fund of funds	—	—	650,223	650,223
Auction rate securities	—	400,000	—	400,000
Equity security	10,210	—	—	10,210
Limited partnership investments	—	—	1,133,887	1,133,887
Total investments	<u>\$ 14,382,646</u>	<u>400,000</u>	<u>1,784,110</u>	<u>16,566,756</u>

The following table is a rollforward of the Level 3 investments during the year ended December 31, 2009:

	Hedge fund of funds	Limited partnerships	Total
Beginning balance at January 1, 2009	\$ —	373,442	373,442
Total gains or losses (realized/unrealized)	50,223	120,445	170,668
Purchases, sales, issuances, and settlements (net)	600,000	640,000	1,240,000
Transfers in and/or out of Level 3	—	—	—
Ending balance at December 31, 2009	<u>\$ 650,223</u>	<u>1,133,887</u>	<u>1,784,110</u>
Net change in unrealized gains included in the change in net assets for the period relating to investments held at December 31, 2009			\$ 170,668

The Foundation has \$1,784,110 of Level 3 investments funds which are reported at fair value. Effective January 1, 2009, the Foundation elected to apply the concepts of Accounting Standards Update No. 2009-12, *Investment in Certain Entities that Calculate Net Asset Value per Share*, to its Level 3 investments. This guidance amends ASC Topic 820 and permits, as a practical expedient, fair value of investments within its scope to be estimated using net asset value or its equivalent.

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 asset value, and the discount could be significant.

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### Notes to Financial Statements

December 31, 2009

	<b>Fair value</b>	<b>Unfunded commitments</b>	<b>Redemption frequency</b>	<b>Redemption notice period</b>
Multi-strategy hedge funds (1)	\$ 650,223	—	Quarterly	65 days
Real estate funds (2)	288,146	—	Not applicable	Not applicable
Small-midcap funds (3)	845,741	—	Monthly	30 days
	\$ 1,784,110	—		

- (1) Multi-strategy hedge funds – This category 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. The investment in this Fund may be subject to a repurchase fee equal to 5% of the amount requested if the partner has been a partner for less than 12 months prior to the valuation date. The remaining restriction period for this investment was six months at December 31, 2009.
  
- (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, hotels 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 seven to ten 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.

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### Notes to Financial Statements

December 31, 2009

#### (5) Pledges Receivable

Pledges receivable are expected to be collected as follows:

Less than one year	\$	860,537
One year through five years		977,243
More than five years		133,935
		<u>1,971,715</u>
Discount		<u>(86,387)</u>
	\$	<u><u>1,885,328</u></u>

#### (6) Furniture and Equipment, Net

Furniture and equipment, net, are as follows at December 31, 2009:

Furniture and equipment	\$	1,659,326
Less accumulated depreciation		<u>(1,273,876)</u>
	\$	<u><u>385,450</u></u>

#### (7) Related-Party Transactions

A summary of significant related-party transactions is as follows:

- Contributions received from board members of the Foundation during 2009 totaled \$99,470.
- Pledges receivable totaled \$230,530 at December 31, 2009 from board members of the Foundation.

#### (8) Commitments

On August 15, 2008, the Foundation entered into a new lease with Health Care Property Investors, Inc. for space within the Minneapolis Heart Institute building commencing on January 1, 2009. The noncancelable operating lease extends through December 31, 2018. Rent expense in 2009 was \$444,848. Future minimum lease payments as of December 31, 2009 are as follows:

Year ending December 31:		
2010	\$	264,840
2011		268,151
2012		271,461
2013		274,772
2014		278,082
Beyond		<u>1,218,266</u>
	\$	<u><u>2,575,572</u></u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

Notes to Financial Statements

December 31, 2009

**(9) Unrestricted Net Assets**

Unrestricted net assets are designated for the following purposes at December 31, 2009:

Designated – other:		
Physician research	\$	413,297
Projects/reserves		<u>389,132</u>
Total designated – other		802,429
Designated – research and education endowments		<u>3,047,988</u>
Total unrestricted	\$	<u><u>3,850,417</u></u>

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

Notes to Financial Statements

December 31, 2009

**(10) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31, 2009:

General support	\$ <u>46,765</u>
Charitable trusts:	
R. Peterson Charitable Remainder Unitrust	<u>107,386</u>
Total charitable trusts	<u>107,386</u>
Restricted endowment income:	
Founders endowment	150,125
T. Peterson Endowment	6,874
Gobel/Van Tassel endowment	43,552
Nicoloff endowment	149,405
Kiser endowment	11,452
T. Ireland endowment	<u>6,085</u>
Total restricted endowment income	<u>367,493</u>
Research and education projects:	
Education projects	882,360
Research projects	95,840
Complementary therapies research	30,738
Hypertrophic cardiomyopathy research	320,996
Peripheral artery disease research	11,749
International outreach	54,271
Stem cell research	220,640
Lead registry research	1,033,014
Imaging research	83,141
Level one education and research	448,034
Radar multicenter trial	71,557
Women's research	2,508
Waconia research	221,466
Preclinical research	<u>95,833</u>
Total research and education projects	<u>3,572,147</u>
Total temporarily restricted	<u>\$ 4,093,791</u>

**(11) Foundation Endowment Funds**

The Foundation's endowment consists of 10 individual funds established for the ongoing support of research and education activities. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## MINNEAPOLIS HEART INSTITUTE FOUNDATION

### Notes to Financial Statements

December 31, 2009

On August 1, 2008, the State of Minnesota adopted the UPMIFA. The 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization 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 organization 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 organization
7. The investment policies of the organization

(a) *Endowment Net Asset Composition by Type of Fund*

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (198,265)	367,493	12,454,107	12,623,335
Board-designated endowment funds	3,246,253	—	—	3,246,253
	\$ 3,047,988	367,493	12,454,107	15,869,588

**MINNEAPOLIS HEART INSTITUTE FOUNDATION**

Notes to Financial Statements

December 31, 2009

**(b) Changes in Endowment Net Assets for the year ended December 31, 2009**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets – beginning of year	\$ 1,327,779	36,692	12,230,010	13,594,481
Investment return:				
Income	138,672	211,641	—	350,313
Net realized and unrealized gains (losses)	<u>1,646,628</u>	<u>469,970</u>	<u>—</u>	<u>2,116,598</u>
Total investment income	<u>1,785,300</u>	<u>681,611</u>	<u>—</u>	<u>2,466,911</u>
Miscellaneous expense	189	—	—	189
Contributions	153,760	—	224,097	377,857
Appropriation of endowment assets for expenditures	<u>218,662</u>	<u>350,810</u>	<u>—</u>	<u>569,472</u>
Endowment net assets – end of year	\$ <u><u>3,047,988</u></u>	<u><u>367,493</u></u>	<u><u>12,454,107</u></u>	<u><u>15,869,588</u></u>

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

Endowment funds as of December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Founders endowment	\$ 1,651,643	150,125	5,897,943	7,699,711
T. Peterson endowment	—	6,874	34,323	41,197
Education endowment	152,274	—	288,104	440,378
Gobel/Van Tassel endowment	246,820	43,552	755,944	1,046,316
Nicoloff endowment	166,992	149,405	1,003,374	1,319,771
Kiser endowment	124,106	11,452	36,434	171,992
Transplant endowment	533,448	—	—	533,448
Giel endowment	172,705	—	4,395,550	4,568,255
Thomas Ireland endowment	—	6,085	42,435	48,520
	\$ <u><u>3,047,988</u></u>	<u><u>367,493</u></u>	<u><u>12,454,107</u></u>	<u><u>15,869,588</u></u>

## MINNEAPOLIS HEART INSTITUTE FOUNDATION

### Notes to Financial Statements

December 31, 2009

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. In accordance with U.S. generally accepted accounting principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets were \$198,265 as of December 31, 2009. These deficiencies resulted from extreme, unfavorable market downturn during 2008. Appropriations, consistent with spending rate policies, continued during 2009.

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 four to five percent 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.

#### **(12) Pension Plan**

The Foundation has a defined contribution plan covering all employees who meet the eligibility requirements of the plan. The Foundation makes annual contributions to the plan in an amount equal to 7.5% 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. Pension expense for the plan was \$246,974 in 2009.

#### **(13) Subsequent Events**

In connection with the preparation of the financial statements and in accordance with the recently issued ASC Topic 855, *Subsequent Events*, the Foundation evaluated subsequent events after the balance sheet date of December 31, 2009 through April 7, 2010, which was the date the financial statements were available to be issued and determined there are no additional items to declare.

## MINNEAPOLIS HEART INSTITUTE FOUNDATION

## Statement of Operations

Year ended December 31, 2009

	<u>Operations</u>	<u>Funds with time or purpose restriction</u>	<u>Endowments</u>	<u>Total</u>
Support and revenues:				
Contributions	\$ 1,126,662	256,055	224,124	1,606,841
Contributions – undesignated estate gifts	278,760	—	—	278,760
Grants	2,832,221	2,487,965	—	5,320,186
Sublicense revenue	724,543	—	—	724,543
Research study revenues	3,165,299	—	—	3,165,299
Income from services	230,369	—	—	230,369
Investment gain (loss)	2,250	—	2,466,908	2,469,158
Net assets released from restriction	727,369	(727,369)	—	—
Net assets released – endowment earnings	569,472	—	(569,472)	—
Change in value of split-interest agreements	(13,149)	15,997	—	2,848
Contribution loss	—	(8,630)	(27)	(8,657)
Total revenues	<u>9,643,796</u>	<u>2,024,018</u>	<u>2,121,533</u>	<u>13,789,347</u>
Operating expenses:				
Payroll costs	5,389,326	—	—	5,389,326
Professional services	1,380,393	—	189	1,380,582
Research study costs	1,003,654	—	—	1,003,654
Occupancy costs	444,847	—	—	444,847
Travel and meetings	285,096	—	—	285,096
Office and supplies	286,362	—	—	286,362
Community relations	40,540	—	—	40,540
Other expenses	205,836	—	—	205,836
Total operating expenses	<u>9,036,054</u>	<u>—</u>	<u>189</u>	<u>9,036,243</u>
Net operating income	<u>607,742</u>	<u>2,024,018</u>	<u>2,121,344</u>	<u>4,753,104</u>
Depreciation	117,152	—	—	117,152
Unrelated business income taxes	1,814	—	—	1,814
Total nonoperating expenses	<u>118,966</u>	<u>—</u>	<u>—</u>	<u>118,966</u>
Board – designated funds	(153,760)	—	153,760	—
Change in net assets	<u>\$ 335,016</u>	<u>2,024,018</u>	<u>2,275,104</u>	<u>4,634,138</u>

See accompanying independent auditors' report.