



Hennepin Healthcare Research Institute

A Component Unit of Hennepin
Healthcare System, Inc.

Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

The Board of Directors
Hennepin Healthcare Research Institute

Report on the Financial Statements

We have audited the accompanying financial statements of Hennepin Healthcare Research Institute (HHRI), a component unit of Hennepin Healthcare System, Inc., as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise HHRI's basic financial statements as listed in the table of contents.

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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of HHRI as of December 31, 2019 and 2018, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information 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 audits 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2020, on our consideration of Hennepin Healthcare Research Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hennepin Healthcare Research Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hennepin Healthcare Research Institute's internal control over financial reporting and compliance.

RSM US LLP

Duluth, Minnesota
May 27, 2020

Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.

Statements of Net Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 1,975,659	\$ 2,422,673
Investments	15,209,266	12,609,571
Receivables:		
Contract and grant	7,520,241	5,508,742
Promises to give	-	5,100
Related parties	658,922	686,231
Prepaid expenses	246,650	300,338
Assets limited as to use:		
Investments	23,980,209	20,579,042
Receivables:		
Contract and grant	573,818	834,968
Promises to give	6,500	18,460
Total assets limited as to use	24,560,527	21,432,470
Capital assets, net of accumulated depreciation	2,029,460	2,340,587
Total assets	\$ 52,200,725	\$ 45,305,712
Liabilities and Net Position		
Liabilities:		
Accounts payable	\$ 3,511,058	\$ 2,148,656
Accrued expenses	1,497,051	1,621,970
Payable to related party	1,102,718	701,305
Unearned revenue	1,044,619	1,804,922
Total liabilities	7,155,446	6,276,853
Net position:		
Investment in capital assets	2,029,460	2,340,587
Restricted, nonexpendable	17,489,098	14,854,264
Restricted, expendable	7,071,429	6,578,206
Unrestricted	18,455,292	15,255,802
Total net position	45,045,279	39,028,859
Total liabilities and net position	\$ 52,200,725	\$ 45,305,712

See notes to financial statements.

Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating revenues:		
U.S. government contracts and grants	\$ 25,060,137	\$ 23,656,942
Other contracts and grants	11,349,897	10,826,572
Contributions	509,623	567,947
Other	13,260	33,700
Total operating revenues	36,932,917	35,085,161
Operating expenses:		
Research and education	34,588,987	32,472,154
General and administrative	3,127,076	3,116,505
Total operating expenses	37,716,063	35,588,659
Loss from operations	(783,146)	(503,498)
Nonoperating revenues (expenses), investment income (loss), net	6,365,441	(1,812,095)
Income (loss) before transfers	5,582,295	(2,315,593)
Transfers from related parties	434,125	318,281
Increase (decrease) in net position	6,016,420	(1,997,312)
Net position:		
Beginning	39,028,859	41,026,171
Ending	\$ 45,045,279	\$ 39,028,859

See notes to financial statements.

Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Contracts and grants revenue	\$ 33,926,692	\$ 33,561,809
Contributions revenue	526,683	534,490
Other revenue	13,260	33,700
Research and education expenses	(32,429,123)	(31,528,344)
General and administrative expenses	(3,025,986)	(3,018,404)
Net cash used in operating activities	(988,474)	(416,749)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(257,244)	(807,685)
Transfers from related parties	434,125	318,281
Net cash provided by (used in) capital and related financing activities	176,881	(489,404)
Cash flows from investing activities:		
Interest and dividend income	1,253,682	1,315,437
Purchases of investments	(889,103)	(3,246,213)
Proceeds from the sale of investments	-	1,483,014
Net cash provided by (used in) investing activities	364,579	(447,762)
Net decrease in cash and cash equivalents	(447,014)	(1,353,915)
Cash and cash equivalents:		
Beginning of year	2,422,673	3,776,588
End of year	\$ 1,975,659	\$ 2,422,673
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (783,146)	\$ (503,498)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	568,371	475,890
Donated capital assets	-	(28,055)
Changes in assets and liabilities:		
Contract and grant receivables	(1,750,349)	(905,753)
Receivables from related parties	27,309	(424,998)
Promises to give	17,060	(5,402)
Prepaid expenses	53,688	(41,971)
Accounts payable and accrued expenses	1,237,483	352,072
Payable to related party	401,413	255,920
Unearned revenue	(760,303)	409,046
Net cash used in operating activities	\$ (988,474)	\$ (416,749)
Supplemental disclosure of noncash capital and financing activities, donated capital assets	\$ -	\$ 28,055

See notes to financial statements.

**Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization: Hennepin Healthcare Research Institute (HHRI), formally known as Minneapolis Medical Research Foundation is a Minnesota nonprofit corporation which has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Hennepin Healthcare System, Inc. (HHS) is the sole member of HHRI. HHS is a public corporation and component unit of Hennepin County (the County).

HHRI is organized to engage in charitable, educational and scientific activities in support of HHS, in the pursuit of its research and educational missions. A major portion of the HHRI's contributions and support is derived from restricted basic and clinical research grants and contracts that are awarded to HHRI annually from private donors and federal agencies such as the Department of Health and Human Services.

Reporting entity: In accordance with Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, HHS has included HHRI as a blended component within its financial statements. HHS is the sole corporate member of HHRI. Accounting principles generally accepted in the United States of America require that the financial reporting entity include 1) the primary government, and 2) organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria, there are no other organizations or agencies whose financial statements should be combined and presented with these basic financial statements.

Accounting basis and standards: The financial statements of HHRI have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as GAAP for state and local governments.

HHRI recognizes revenues and expenses on the accrual basis of accounting using the economic resources measurement focus. Revenue is recognized when earned and expenses are recognized when a liability has been incurred. Under this basis of accounting, all assets and liabilities associated with HHRI are included in the statements of net position.

In order to ensure observation and restrictions placed on the use of the resources available to HHRI, the accounts of HHRI are maintained in accordance with the principals of fund accounting. This is the procedure by which resources of various purposes are classified for accounting purposes into funds that are in accordance with activities or purposes stated. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined to report by classification and only the net position is shown.

Cash and cash equivalents: Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

**Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Contract and grant receivables and revenues: Contract and grant receivables are recorded at estimated net realizable value. A receivable is recorded and revenue is recognized when eligible expenditures are incurred, as defined in each grant or contract. Revenues from contracts and grants, excluding revenues and expenses from contracts with subrecipients, are recognized when all eligibility requirements, including time requirements, are met. Contracts and grants may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses. Payments received in advance are deferred to the applicable period in which the expenditures are incurred.

Promises to give: Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in contribution revenue in the statements of revenues, expenses, and changes in net position. Management determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2019 and 2018, no allowance has been recorded, as management believes all promises to give are collectible.

Capital assets: Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Furniture and equipment	3-20
Building and leasehold improvements	5-20

Gifts of long-lived assets such as buildings or equipment are reported at fair value at the time of the gift and are reported as additions to unrestricted net position, and are excluded from operating income (loss), unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted—expendable net position. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Investments and investment income: Investments in mutual funds which invest in equity securities and bonds with readily determinable fair values are measured at fair value in the statements of net position. Investment income or loss (including realized gains and losses on investments, interest, dividends and changes in unrealized gains and losses) is included in nonoperating revenues.

Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Compensated absences: HHRI's employees earn vacation and sick leave days at varying rates depending on length of service. Employees below the manager level can earn up to 160 hours and manager level employees can earn up to 200 hours of vacation annually. All employees can accumulate vacation up to a maximum of 320 hours. Employees are paid for accumulated vacation upon termination. Employees are not paid for accumulated sick leave days upon termination and a liability is not recorded. The liability for accrued vacation is included with accrued expenses in the accompanying statements of net position as the benefits are earned.

Self-insurance reserves: HHRI is self-insured for employee health and dental benefits. HHRI accrues an estimated liability for unpaid claims, including incurred but not reported claims. These reserves, which are included in accrued expenses on the statements of net position, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Net position: The statement of net position displays HHRI's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets—Net capital assets reduced by the outstanding balance of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted, nonexpendable—Net position that is subject to donor stipulations that must be maintained permanently by HHRI.

Restricted, expendable—Net position that is subject to donor stipulations that will be available to HHRI for direct use by a designated program as specified by the donor.

Unrestricted—Net position that does not meet the definitions of restricted or net invested in capital assets above.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), HHRI's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

HHRI uses the total return concept to manage endowments unless donor restrictions state otherwise. This systematic formula is used to determine the portion of gains and losses that can be expended and the portion of gains and losses to be preserved to protect the restricted nonexpendable principal from loss of purchasing power. Unless specified by the donor, HHRI's total return policy allows up to 4% of restricted, nonexpendable net positions, based on a 12-quarter trailing average, to be used for operations. During 2019 and 2018, \$521,112 and \$423,573, respectively, of investment return was released under this policy. At December 31, 2019 and 2018, the fair market value of all restricted—nonexpendable endowment gifts exceeded the aggregate original value of the gifts.

**Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Certain net position amounts have been designated by the Board of Directors for specific purposes. Below is a schedule of net position designated by the Board of Directors:

	2019	2018
Designated:		
Invested in capital assets	\$ 2,029,460	\$ 2,340,587
Investigator directed research and education	9,557,593	8,031,534
Other	5,558,384	6,158,890
	<u>\$ 17,145,437</u>	<u>\$ 16,531,011</u>

Concentrations of credit risk: HHRI's cash balances are maintained in various bank deposit accounts. At times the balances of these deposits may be in excess of federally insured limits.

Operating revenues and expenses: HHRI's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of HHRI result from exchange transactions associated with providing charitable, educational, and scientific activities - HHRI's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Donor-restricted gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either restricted, expendable or restricted, nonexpendable support if they are received with donor stipulations that limit the use of the donated assets. When donor stipulated time restrictions or purpose restrictions are met or accomplished, restricted, expendable net position are reclassified as unrestricted net position and reported in the statements of revenues, expenses, and changes in net position as a spend down of net position.

Functional expenses: The costs of services provided and expenses are allocated to research and education and supporting services based on identification of both direct and indirect expenses.

Income taxes: HHRI is exempt from income taxes as a nonprofit corporation under Internal Revenue Service Code Section 501(c)(3) and is an organization that is not a private foundation under the Internal Revenue Code. HHRI is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, HHRI is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. HHRI has determined in 2019 that it is subject to unrelated business income tax and will be filing an Exempt Organization Business Income Tax Return Form 990T with the IRS.

HHRI believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. HHRI would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

HHRI's 2016-2019 tax years are open for examination by federal and state taxing authorities. HHRI files as a tax exempt organization, should that status be challenged in the future, all years since inception would be subject to review by the IRS.

**Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Reclassifications: Reclassifications have been made to the December 31, 2018 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported net position or changes in net position.

Subsequent events: HHRI has evaluated subsequent events through May 27, 2020, the date on which the financial statements were available to be issued. On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which HHRI operates. It is unknown how long the adverse conditions impacting the financial markets and economies associated with the coronavirus will last.

Note 2. Investments and Investment Income

HHRI categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets that can be accessed at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3: Unobservable inputs for the asset. In these situations, HHRI develops inputs using the best information available in the circumstances.

Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 2. Investments and Investment Income (Continued)

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to HHRI's assessment of the quality, risk or liquidity profile of the asset.

All of HHRI's investments are classified within Level 1 because they are comprised of open-ended mutual funds with readily determinable fair values based on daily redemption values. There are no investments within Level 2 or Level 3.

Assets measured at fair value on a recurring basis as of December 31, 2019 and 2018, are as follows:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Mutual funds, equities:				
Large-cap	\$ 11,786,084	\$ -	\$ -	\$ 11,786,084
Mid-cap	2,072,184	-	-	2,072,184
Small-cap	1,770,570	-	-	1,770,570
International	5,674,539	-	-	5,674,539
Alternative	2,208,990	-	-	2,208,990
Mutual funds, bonds:				
Fixed income core	14,278,240	-	-	14,278,240
Short-term fixed income	1,398,868	-	-	1,398,868
Total investments	<u>\$ 39,189,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,189,475</u>
	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds, equities:				
Large-cap	\$ 9,092,715	\$ -	\$ -	\$ 9,092,715
Mid-cap	1,677,852	-	-	1,677,852
Small-cap	1,468,305	-	-	1,468,305
International	4,606,596	-	-	4,606,596
Alternative	1,874,870	-	-	1,874,870
Mutual funds, bonds:				
Fixed income core	13,131,896	-	-	13,131,896
Short-term fixed income	1,336,379	-	-	1,336,379
Total investments	<u>\$ 33,188,613</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,188,613</u>

Deposits, custodial credit risk: Custodial credit risk is the risk that in the event of a bank or investment company failure, HHRI's deposits may not be returned to it. HHRI's deposit policy does not further restrict bank deposits or limit investment deposits. As of December 31, 2019, \$769,257 of HHRI's bank balance of deposits with financial institutions was exposed to custodial credit risk.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. HHRI's investment policy considers interest rate risk by establishing two investment pools, long-term and intermediate term with established limits on the percentage of funds that can be invested in equities and fixed income funds.

Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 2. Investments and Investment Income (Continued)

Credit risk: HHRI's credit policy does not limit the type of investments it can invest in. HHRI does have a formal policy that considers credit risk when making investment choices. The performance of HHRI's investments and investment managers are reviewed quarterly by HHRI's Investment Committee (the committee) and its investment advisor. Any changes to HHRI's investments or investment managers must be approved by the committee.

Concentration of credit risk: HHRI will limit credit risk, the risk of loss due to the failure of the security issue or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. HHRI's investments in mutual funds do not meet the definition of a security in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*, they are exempt from such classification.

Investment income: Investment income (loss) on investments and cash and cash equivalents consist of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Investment income:		
Interest and dividend income	\$ 1,253,682	\$ 1,315,437
Realized losses on investments	-	(144,447)
Change in unrealized gains and losses on investments, net	5,111,759	(2,983,085)
	<u>\$ 6,365,441</u>	<u>\$ (1,812,095)</u>

Note 3. Capital Assets

Capital asset additions, retirements, transfers and balances for the years ended December 31, 2019 and 2018, are as follows:

	Balance, December 31, 2018	Transfers/ Additions	Retirements	Balance, December 31, 2019
Capital assets not being depreciated, construction in progress	\$ 354,516	\$ (342,505)	\$ (12,011)	\$ -
Capital assets being depreciated:				
Building and leasehold improvements	7,456,329	62,557	-	7,518,886
Furniture and equipment	4,982,209	563,896	(147,372)	5,398,733
Total capital assets being depreciated	<u>12,438,538</u>	<u>626,453</u>	<u>(147,372)</u>	<u>12,917,619</u>
Less accumulated depreciation for:				
Building and leasehold improvements	(6,743,926)	(145,676)	-	(6,889,602)
Furniture and equipment	(3,708,541)	(422,695)	132,679	(3,998,557)
Total accumulated depreciation	<u>(10,452,467)</u>	<u>\$ (568,371)</u>	<u>\$ 132,679</u>	<u>(10,888,159)</u>
Net capital assets being depreciated	<u>1,986,071</u>			<u>2,029,460</u>
Capital assets, net	<u>\$ 2,340,587</u>			<u>\$ 2,029,460</u>

**Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 3. Capital Assets (Continued)

	Balance, December 31, 2017	Transfers/ Additions	Retirements	Balance, December 31, 2018
Capital assets not being depreciated, construction in progress	\$ 304,930	\$ 49,586	\$ -	\$ 354,516
Capital assets being depreciated:				
Building and leasehold improvements	7,437,359	18,970	-	7,456,329
Furniture and equipment	4,345,584	767,184	(130,559)	4,982,209
Total capital assets being depreciated	11,782,943	786,154	(130,559)	12,438,538
Less accumulated depreciation for:				
Building and leasehold improvements	(6,600,912)	(143,014)	-	(6,743,926)
Furniture and equipment	(3,506,224)	(332,876)	130,559	(3,708,541)
Total accumulated depreciation	(10,107,136)	\$ (475,890)	\$ 130,559	(10,452,467)
Net capital assets being depreciated	1,675,807			1,986,071
Capital assets, net	<u>\$ 1,980,737</u>			<u>\$ 2,340,587</u>

Note 4. Leases

HHRI leases a total of 66,921 square feet of space for its activities. The location of the space includes 12,662 square feet in the Parkside Building for Berman Center and General Administrative activities and 54,259 square feet in the Shapiro Building for Research activities.

The 54,259 square feet in the Shapiro Building is leased from a related party, Hennepin Healthcare System, Inc. All space in the Shapiro Building is leased on a month-to-month basis.

The 12,662 square feet in the Parkside Building for Berman Center and General Administrative activities lease ends December 31, 2022.

Total lease and rental payments for building space, certain equipment and parking lot space for the years ended December 31, 2019 and 2018, was \$1,185,235 and \$1,123,974, respectively. All leases have been recorded as operating leases. Scheduled payments on HHRI's operating lease commitments are as follows:

Years ending December 31,	
2020	\$ 200,795
2021	204,095
2022	209,723
	<u>\$ 614,613</u>

**Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 5. Retirement Plans

HHRI has a defined contribution retirement plan under which benefit eligible employees become participants upon reaching age 21. Participants become 100% vested in their accounts after 3 years of service. HHRI makes contributions of 9.5% of annual compensation up to \$280,000 with an additional 5.7% contribution on compensation over the Social Security wage base up to \$280,000 of compensation. Contributions are deposited with the plan trustee who invests the plan assets. Contributions made by HHRI under this plan for the years ended December 31, 2019 and 2018, were \$1,112,738 and \$1,105,337, respectively. HHRI also offers a tax-deferred employee savings plan, but makes no contributions to this plan.

Note 6. Related-Party Transactions

The following summarizes related-party transactions as of and for the years ended December 31, 2019, and 2018:

	2019		2018	
	Revenue	Receivables	Revenue	Receivables
Hennepin County	\$ 83,532	\$ 4,789	\$ 719,235	\$ 23,330
Hennepin Health Foundation	176,930	12,809	238,616	47,473
Hennepin Healthcare System	1,598,102	641,324	1,350,601	615,428
	<u>\$ 1,858,564</u>	<u>\$ 658,922</u>	<u>\$ 2,308,452</u>	<u>\$ 686,231</u>

HHRI incurred expenses related to services provided by HHS which are included in the appropriate operating expenses in the statements of revenues, expenses, and changes in net position. At December 31, 2019 and 2018, HHRI had accrued expenses and payables to HHS in the amount of \$1,102,718 and \$701,305, respectively. Expenses related to HHS services for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Physician and other salaries	\$ 2,613,308	\$ 2,379,435
Physician and other fringe benefits	641,626	575,600
Rent	758,347	734,299
Purchased services	218,812	194,276
Miscellaneous expenses	332,050	283,317
Supplies	40,444	81,226
Training and education	-	17,650
	<u>\$ 4,604,587</u>	<u>\$ 4,265,803</u>

HHRI received contributed services from HHS in the amounts of \$652,078 and \$884,788 for the years ended December 31, 2019 and 2018, respectively, which are not required to be recognized under generally accepted accounting principles as promulgated by GASB.

**Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 7. Endowments

HHRI's endowment consists of six individual funds established for a variety of purposes. Its entire endowment is classified as restricted - nonexpendable. In accordance with its Investment Policy Statement (IPS), gifts to endowments are accepted with the understanding that investment gains and losses are restricted - nonexpendable except for the portion of the endowment used annually in accordance with its spending rate, unless donor restrictions state otherwise.

Interpretation of relevant law: The Board of Directors of HHRI has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (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 donor stipulations to the contrary. As a result of this interpretation, HHRI classifies as restricted - nonexpendable net position (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; (c) gains and losses from investments, less the portion of the endowment used annually in accordance with its spending rate; and (d) 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. In accordance with Minnesota UPMIFA, HHRI 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 HHRI and the restricted - nonexpendable 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 HHRI
7. The investment policies of HHRI

The amount appropriated for expenditure is classified as unrestricted unless restricted for purpose by the donor.

Endowment net position are composed entirely of donor-restricted endowment funds. Changes in the endowment net position for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Endowment net position, beginning	\$ 14,854,264	\$ 16,584,363
Investment gain (loss)	3,155,946	(1,306,526)
Appropriation of endowment assets for expenditure	(521,112)	(423,573)
Endowment net position, ending	<u>\$ 17,489,098</u>	<u>\$ 14,854,264</u>

Fund values: The fair value of HHRI's endowment equals or exceeds the level required by donor stipulation or law. In accordance with HHRI's IPS policy, gains and losses from investments for endowments are restricted - nonexpendable except for the portion used annually in accordance with its spending rate. The fair value of restricted - nonexpendable endowment gifts was greater than the aggregate original value of all gifts to the endowment by \$5,811,271 and \$3,176,437 at December 31, 2019 and 2018, respectively.

**Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 7. Endowments (Continued)

Return objectives and risk parameters: HHRI 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that match or exceed the sum of inflation rate plus the annual spending rate and the annual administrative fee. Investments are measured by appropriate benchmarks and monitored monthly. Portfolios with multiple asset classes are measured against a composite benchmark, which reflects the target asset allocation. Investment risks are considered within the context of all managed assets and the need to meet specific objectives as determined by the Investment Committee. Volatility and risk will be controlled through asset allocation strategies and the selection of Investment Managers of mutual funds.

Strategies employed for achieving objectives: To satisfy its long-term objectives, HHRI relies on a balanced asset allocation model in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HHRI targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: HHRI's annual spending rate for its endowments is up to 4% of an endowment's 12-quarter trailing average fund balance except where donor stipulations state otherwise. The objective of HHRI's investment return is to match or exceed the sum of the inflation rate plus the annual spending rate and the annual administrative fee. HHRI's policy reflects a commitment to endowment growth by balancing the reinvestment of annual earnings with the operating needs of the organization. Accordingly, over the long-term, HHRI expects the current policy to allow its endowment to grow at a rate of return that equals or exceeds the various benchmarks that are representative of the asset allocation model identified. This is consistent with HHRI's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts, changes in inflation, and investment return.

Note 8. Beneficial Interests in Perpetual Trusts

HHRI is named as a beneficiary of two perpetual trusts that are held by a third party. HHRI receives a percentage of the income generated by the trust funds. During the years ended December 31, 2019 and 2018, HHRI recorded income of \$49,145 and \$41,983, respectively, in its statements of revenues, expenses, and changes in net position. Generally accepted accounting principles as promulgated by GASB do not allow HHRI to record its interest in the trusts as an asset in the statements of net position. HHRI's percentage value of the market value of the Trusts' investments at December 31, 2019 and 2018 was \$987,228 and \$868,187, respectively.

Note 9. Self-Insurance

HHRI is self-insured for its employee health insurance program. HHRI pays annual health care claims up to \$80,000 per employee with a \$1,885,631 annual maximum cap. A third-party insurance carrier covers health care claims exceeding maximum limits. Estimated claims, administrative costs, and reserves that have been incurred but are unpaid are reflected as accrued expenses on the statements of net position and totaled \$230,000 and \$192,105 as of December 31, 2019 and 2018, respectively. HHRI's total cost for health insurance was approximately \$1,941,000 and \$2,007,000 in employee health insurance expenses for the years ended December 31, 2019 and 2018, respectively.

Hennepin Healthcare Research Institute
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 10. Professional Liability Insurance

HHRI purchases comprehensive liability coverage on a claims-made basis from Midwest Medical Insurance Company covering claims of up to \$5,000,000 per occurrence or \$7,000,000 in the aggregate, subject to certain deductible and self-retention amounts. Should these claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. HHRI has obtained coverage through January 1, 2021. Management has reviewed HHRI's claims history and determined that the ultimate cost of the resolution of such potential claims is not considered to be material and, accordingly, no accrual has been made for these costs.

Note 11. Concentrations

HHRI receives a substantial amount of its support and revenue from U.S. Government contracts and grants. A significant reduction in the level of support from the U.S. Government may have an effect on HHRI's programs and activities.

Note 12. New Accounting Standards

GASB Statement No. 84, *Fiduciary Activities*: the primary objective of this statement is to establish criteria for identifying fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. The provisions in Statement No. 84 are effective for HHRI's financial statements for periods beginning after December 15, 2019.

GASB Statement No. 87, *Leases*: the primary objective of this statement is to require government lessees to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset and report amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, interest expense on the lease liability and note disclosures about the lease within the lessee's financial statements. This statement also requires lessors to recognize a lease receivable and a deferred inflow of resources and to continue to report leased assets in its financial statements. The lessor will also be required to report lease revenue, recognized over the term of the lease, corresponding with the reduction of the deferred inflow, interest income on the receivable, and note disclosures about the lease within their financial statements. The provisions in GASB Statement No. 87 are effective for HHRI's financial statements for periods beginning after December 15, 2020.

HHRI has not yet determined the effect the statements noted above will have on its financial statements.

Hennepin Healthcare Research Institute

Schedule of Operating Expenses by Natural Classification

	Year Ended December 31, 2019							
	Research and Education		Facility Costs		Grants Administration	Total Research and Education	General and Administrative	Total
	Site 1	Site 2	Site 1	Site 2				
Operating expenses:								
Salaries	\$ 1,649,874	\$ 9,962,204	\$ 193,310	\$ 568,466	\$ 904,842	\$ 13,278,696	\$ 1,758,057	\$ 15,036,753
Fringe benefits	505,587	2,984,806	59,957	176,609	284,616	4,011,575	562,061	4,573,636
Supplies, forms and reproduction	452,335	367,346	19,414	8,379	9,379	856,853	86,134	942,987
Purchased services	998,794	2,182,523	117,248	3,377	7,967	3,309,909	218,144	3,528,053
Subcontracts	229,576	10,027,389	-	-	-	10,256,965	-	10,256,965
Depreciation	4,106	160,535	187,245	104,796	10,598	467,280	101,091	568,371
Travel and education	74,119	552,213	1,020	24,564	3,940	655,856	12,589	668,445
Facility costs	432,179	550,886	18,484	43,516	12,714	1,057,779	224,892	1,282,671
Legal, consulting and audit	-	32,009	-	-	-	32,009	45,281	77,290
Animal care	94,408	6,711	-	-	-	101,119	-	101,119
Insurance	-	-	-	-	-	-	79,570	79,570
Miscellaneous	3,936	520,333	13,963	14,272	8,442	560,946	39,257	600,203
Total operating expenses	\$ 4,444,914	\$ 27,346,955	\$ 610,641	\$ 943,979	\$ 1,242,498	\$ 34,588,987	\$ 3,127,076	\$ 37,716,063

	Year Ended December 31, 2018							
	Research and Education		Facility Costs		Grants Administration	Total Research and Education	General and Administrative	Total
	Site 1	Site 2	Site 1	Site 2				
Operating expenses:								
Salaries	\$ 1,692,565	\$ 9,652,485	\$ 220,656	\$ 342,882	\$ 1,139,905	\$ 13,048,493	\$ 1,757,104	\$ 14,805,597
Fringe benefits	554,410	2,951,287	65,822	108,343	361,660	4,041,522	576,428	4,617,950
Supplies, forms and reproduction	316,615	499,515	26,248	11,117	16,797	870,292	98,827	969,119
Purchased services	110,406	2,275,327	98,461	1,816	4,677	2,490,687	191,309	2,681,996
Subcontracts	768,022	8,483,359	-	-	-	9,251,381	-	9,251,381
Depreciation	4,105	73,969	199,500	89,649	10,566	377,789	98,101	475,890
Travel and education	83,996	645,597	411	18,631	3,553	752,188	6,618	758,806
Facility costs	455,576	500,023	18,212	36,619	23,856	1,034,286	214,887	1,249,173
Legal, consulting and audit	3,149	17,366	6,175	-	-	26,690	62,763	89,453
Animal care	137,367	5,195	-	-	-	142,562	-	142,562
Insurance	-	-	-	-	-	-	82,229	82,229
Miscellaneous	(2,804)	407,857	13,046	11,764	6,401	436,264	28,239	464,503
Total operating expenses	\$ 4,123,407	\$ 25,511,980	\$ 648,531	\$ 620,821	\$ 1,567,415	\$ 32,472,154	\$ 3,116,505	\$ 35,588,659



**Hennepin Healthcare
Research Institute**
A Component Unit of Hennepin
Healthcare System, Inc.

Compliance Report
December 31, 2019

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RSM US LLP

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

To the Board of Directors
Hennepin Healthcare Research Institute

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Hennepin Healthcare Research Institute, which comprise the statements of net position as of December 31, 2019, the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 27, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hennepin Healthcare Research Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hennepin Healthcare Research Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Hennepin Healthcare Research Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hennepin Healthcare Research Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Duluth, Minnesota
May 27, 2020



RSM US LLP

**Report on Compliance of the Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

To the Board of Directors
Hennepin Healthcare Research Institute

Report on Compliance for Each Major Federal Program

We have audited Hennepin Healthcare Research Institute's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Hennepin Healthcare Research Institute's major federal program for the year ended December 31, 2019. Hennepin Healthcare Research Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Hennepin Healthcare Research Institute's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hennepin Healthcare Research Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Hennepin Healthcare Research Institute's compliance.

Opinion on the Major Federal Program

In our opinion, Hennepin Healthcare Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Hennepin Healthcare Research Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hennepin Healthcare Research Institute's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hennepin Healthcare Research Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Hennepin Healthcare Research Institute as of and for the year ended December 31, 2019, and have issued our report there on dated May 27, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Duluth, Minnesota
May 27, 2020

Hennepin Healthcare Research Institute

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
Research and Development Cluster				
Direct:				
Agency for Healthcare Research and Quality Creating a Patient-Centered Report Card for Solid Organ Transplant Candidates	93.226	N/A	\$ 106,503	\$ 229,937
Health Resources and Services Administration— Federal Contract Scientific Registry of Transplant Recipients (SRTR)	93.RD	N/A	372,451	6,262,198
National Institutes of Health—Federal Contract United States Renal Data Systems (USRDS) Coordinating Center	93.RD	N/A	3,075	775,894
National Institutes of Health:				
Animal Models to Inform FDA Tobacco Regulation: Assessing the Relative Abuse Liability of Different Classes of Tobacco Products	93.077	N/A	20,510	263,338
Animal Models to Inform FDA Tobacco Regulation: Assessing the Relative Abuse Liability of Different Classes of Tobacco Products	93.279	N/A	21,866	215,599
APSREE (ASPIrin in Reducing Events in the Elderly) Period Seven	93.866	N/A	1,967,122	2,167,259
ASPREE XT (ASPIrin in Reducing Events in the Elderly eXtension)	93.866	N/A	2,125,282	2,570,016
Behavioral Economic Modeling of Tobacco and Alcohol Co-Abuse Liability	93.279	N/A	-	56,834
Development of an Integrated Depression and Behavioral Risk Factor Reduction Intervention for Secondary Prevention Following Acute Coronary Syndrome	93.837	N/A	-	47,426
Enhancing Efficacy of Vaccines for Substance Abuse through Polymer-Assisted Deliver of Immunomodulators	93.279	N/A	43,768	43,768
Genetic Variants Associated with Tacrolimus Metabolism in Kidney Transplant Recipients	93.855	N/A	-	122,636
Gut Microbiota and Effect on Immune Suppressants in Transplantation	93.855	N/A	49,913	198,027
Hyperbaric Oxygen Brain Injury Treatment (HOBIT) Trial—CCC	93.853	N/A	582,794	817,513
Hyperbaric Oxygen Brain Injury Treatment (HOBIT) Trial—CCC	93.853	N/A	184,703	494,322
Implementation of Cessation Treatment in Community Based Mental Health Centers	93.279	N/A	-	856
Infection Prevention in Total Knee Replacement	93.855	N/A	-	13,378
Medication Support for People with Diabetes Experiencing Homelessness	93.847	N/A	-	159,026
Memory T Follicular Helper Cell Kinetics and Localization During Recall Immune Responses to Tetanus Vaccination	93.855	N/A	-	88,363
NorthStar Node of the Clinical Trials Network	93.279	N/A	-	(230)
NorthStar Node of the Clinical Trials Network	93.279	N/A	42,383	201,217
Subtotal forward			\$ 5,520,370	\$14,727,377

Hennepin Healthcare Research Institute

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
Subtotal forwarded			\$ 5,520,370	\$14,727,377
NorthStar Node of the Clinical Trials Network	93.279	N/A	1,039	143,023
NorthStar Node of the Clinical Trials Network—ADAPT Supplement	93.279	N/A	-	170,721
NorthStar Node of the Clinical Trials Network—ADAPT Supplement	93.279	N/A	-	81,819
NorthStar Node of the Clinical Trials Network—Analyses of VA Databases to Examine Patient Characteristics Associated with Buprenorphine Termination During Opioid Use Disorder Treatment	93.279	N/A	244,193	250,096
NorthStar Node of the Clinical Trials Network—COMPUTE Supplement	93.279	N/A	427,776	439,041
NorthStar Node of the Clinical Trials Network—COMPUTE 2.0	93.279	N/A	-	17,985
NorthStar Node of the Clinical Trials Network—COMPUTE 2.0	93.279	N/A	76,830	110,894
NorthStar Node of the Clinical Trials Network—EXHIT ENTRE Supplement	93.279	N/A	166,405	213,193
NorthStar Node of the Clinical Trials Network—EXHIT ENTRE Supplement	93.279	N/A	10,562	227,784
NorthStar Node of the Clinical Trials Network—UTAH Supplement	93.279	N/A	89,596	92,263
Population Pharmacokinetics: Methadone—Antiretroviral Interactions in Vietnam	93.279	N/A	99,748	249,732
Population Pharmacokinetics: Methadone—Antiretroviral Interactions in Vietnam Supplement	93.279	N/A	20,321	25,695
Predictors and Outcomes of Frailty in Dialysis Patients	93.847	N/A	88,647	207,926
Prevalence and Impact of Frailty among Dialysis Patients	93.847	N/A	21,472	111,400
Secondary Prevention Following Acute Coronary Syndrome Using Integrated Smoking Cessation and Mood Management	93.837	N/A	169,401	523,086
Targeted Anticoagulant Therapy to Reduce Inflammation in Treated HIV Disease	93.839	N/A	279,423	373,870
Targeted Tobacco Regulatory Science: Nicotine Dose Effects in Animal Models of Smoking Initiation in Vulnerable Adolescent Subpopulations	93.077	N/A	806	196,137
The Effects of Age and Treated HIV Infection on Myocardial Disease in South Africa	93.837	N/A	102,016	136,768
The Hemodialysis Opioid Prescription Effort Consortium	93.847	N/A	-	22,644
The Natural History of Cognitive Decline in Chronic Kidney Disease: Renal, Vascular and Alzheimer's Disease Contributions	93.866	N/A	265,964	570,904
Treatment to Reduce Inflammation and Improve Immune Recovery Among Older HIV Patients [Losartan to Reduce Inflammation and Fibrosis Endpoints in HIV Trial (LIFE-HIV)]	93.866	N/A	146,026	382,443
Vaccines for Heroin and Prescription Opioid Abuse	93.279	N/A	241,701	2,085,045
Vaccines for Heroin and Prescription Opioid Abuse Supplement	93.310	N/A	-	10,937
Total direct awards			<u>\$ 7,972,296</u>	<u>\$21,370,783</u>

Hennepin Healthcare Research Institute

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
Indirect:				
National Institutes of Health (NIH):				
Brigham and Women's Hospital, Inc./NIH				
Optimizing Revascularization of Coronary Artery Disease in Chronic Kidney Disease Patients	93.837	5R01HL118314-04	\$ -	\$ 69,284
Butler Hospital/NIH				
Improving Functioning in HIV Patients with Chronic Pain and Comorbid Depressive Symptoms	93.361	R01NR015977	-	168,102
HealthPartners Institute for Education and Research/NIH				
Hotspotting Cardiometabolic Disparities for Simulated Advances in Population Health	93.866	1R01AG052533-01A1	-	76,358
Mayo Clinic/NIH:				
Multi-Purpose Use and Validation of a Patient-Reported Measure of Treatment Burden in Primary Care	93.361	1R01NR015441-01A1	-	42
Multi-Purpose Use and Validation of a Patient-Reported Measure of Treatment Burden in Primary Care	93.361	5R01NR015441-02	-	2,185
Multi-Purpose Use and Validation of a Patient-Reported Measure of Treatment Burden in Primary Care	93.361	5R01NR015441-03	-	19,888
Multi-Purpose Use and Validation of a Patient-Reported Measure of Treatment Burden in Primary Care	93.361	5R01NR015441-04	-	141,786
Shared Decision Making for Stroke Prevention in Atrial Fibrillation	93.837	5R01HL131535-03	-	26,838
Shared Decision Making for Stroke Prevention in Atrial Fibrillation	93.837	5R01HL131535-04	-	37,321
Stories for Change: Digital Storytelling for Diabetes Self-Management among Hispanic Immigrants	93.847	1R01DK113999-01A1	-	48,612
Stories for Change: Digital Storytelling for Diabetes Self-Management among Hispanic Immigrants	93.847	1R01DA113999-02	-	76,414
Minnesota Resuscitation Solutions, LLC/NIH				
Head Up Cardiopulmonary Resuscitation Device	93.837	1R43HL139184-01	-	38,811
Miriam Hospital/NIH				
Acceptance and Commitment Therapy for Tobacco Cessation Initiated in a Psychiatric Partial Hospital	93.279	1R03DA043596-01A1 REVISED	-	19,351
Oregon Health & Science University/NIH				
Buprenorphine to Improve HIV Care Engagement and Outcomes: A Randomized Trial	93.279	4R01DA037441-03	-	6
Buprenorphine to Improve HIV Care Engagement and Outcomes: A Randomized Trial	93.279	5R01DA037441-04	-	83
Rhode Island Hospital/NIH				
IAMSBI RT: Implementing Alcohol Misuse SBIRT in a National Cohort of Pediatric Trauma Centers	93.273	5R01AA025914-03	-	4,981
San Diego State University/NIH				
PrEP IT: A Pilot Test of a Mobile Peer Support Intervention to Optimize PrEP Adherence and Retention in PrEP Care for Youth	93.242	1R34MH116878-01A1	-	6,551
Teachers College, Columbia University/NIH				
Exploring the Effects of Strength Training on Depressive Symptoms and Cardiovascular Risk in Black Men	93.361	R21NR016112	-	5,228
University of California, San Francisco/NIH				
Effect of N-803 on B Cell Follicles in Antiretroviral Treated HIV Disease	93.855	5UM1AI126611-04	-	11,033
Subtotal forward			\$ -	\$ 752,874

Hennepin Healthcare Research Institute

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
Subtotal forwarded			\$ -	\$ 752,874
University of California, San Francisco/NIH Racial and Ethnic Disparities in Access to Kidney Transplantation	93.847	5R01DK115629-03	-	44,682
University of California, San Francisco/NIH Reaching Equity for Adults and Children in Transplant (REACH-TRANSPLANT)	93.847	R01DK120886	-	1,125
University of Miami/NIH: Clinical Research in ALS and Related Deficiencies for Therapeutic Development (CREATE)	93.853	5U54NS092091-05	-	38,533
Clinical Research in ALS and Related Deficiencies for Therapeutic Development (CREATE)	93.853	2U54NS092091-06 REVISED	-	10,202
University of Minnesota/NIH: Combined tDCS and Cognitive Training for the Treatment of Opioid Addiction	93.279	UG3DA048508	-	1,384
Enhancing Efficacy of Vaccines for Substance Abuse Through Polymer-assisted Deliver of Immunomodulators	93.279	7R01DA041730-04	-	25,204
INSIGHT (International Network for Strategic Initiatives in Global HIV Trials)	93.855	5UM1AI120197-02	-	72
INSIGHT (International Network for Strategic Initiatives in Global HIV Trials)	93.855	5UM1AI120197-03	-	32,330
Medication Support for People with Diabetes Experiencing Homelessness	93.350	5KLTR002492-02	-	29,466
Memory T Follicular Helper Cell Kinetics and Localization During Recall Immune Responses to Tetanus Vaccination	93.350	5KLTR002492-02	-	25,954
NRSA Training Core	93.350	1TL1TR002493-01	-	4,030
NRSA Training Core	93.350	5TL1TR002493-02	-	44,284
Phase 1a/1b Clinical Trials of Multivalent Opioid Vaccine Components	93.279	5UG3DA047711-02	-	8,220
PrEP IT: A Pilot Test of a Mobile Peer Support Intervention to Optimize PrEP Adherence and Retention in PrEP Care for Youth	93.242	1R34MH116878-01A1	-	18,634
Translational-competent Yet Defective HIV-1 Proviruses and Inflammation	93.855	3U01AI136780-01S1	-	42,221
University of Minnesota Clinical and Translational Science Institute	93.350	1UL1TR002494-01	-	41,782
University of Minnesota Clinical and Translational Science Institute - Option Year 2	93.350	5ULTR002494-02	-	167,163
Vaccines for Fentanyl and its Derivatives: a Strategy to Reduce Illicit Use and Overdose	93.279	1UG3DA048386-01	-	56,619
University of Montana/NIH Pre-clinical Assessment of Vaccine Safety and Efficacy	93.RD	HHSN272201800048C	-	21,010
University of North Carolina at Chapel Hill/NIH Influence of PTSD Symptoms on Chronic Pain Development after Sexual Assault	93.846	5R01AR064700-05	-	1,700
University of Vermont/NIH Thrombosis and Bleeding Risk Assessment in Medical Inpatients	93.839	1R01HL141290-01A1	-	11,792
Subtotal forward			\$ -	\$ 1,379,281

Hennepin Healthcare Research Institute

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
Subtotal forwarded			\$ -	\$ 1,379,281
Wake Forest University Health Sciences/NIH Chromatin Mobility in Response to DNA Damage	93.396	U01CA214282	-	29,127
Washington University/NIH Supramolecular Nanovaccines for Opioid Use Disorders	93.279	1R21DA047138-01	-	42,685
Waybetter, Inc./NIH QuitBet: A Digital Social Game that Pays You to Stop Smoking	93.279	1R44DA048668	-	8,228
Yale University/NIH Transitions Clinic Network: Post Incarceration Addiction Treatment, Healthcare, and Social Support (TCN PATHS) Study	93.279	1UG1DA050072-01 Revised	-	56,694
Total Indirect National Institutes of Health			-	1,516,015
Department of Defense:				
Henry M. Jackson Foundation/U.S. Army Medical Research Acquisition Activity Optimizing Skin-Implant Interface of Osseointegrated Device	12.420	W81XWH-17-2-0059	264,863	328,448
Total Indirect Department of Defense			264,863	328,448
Department of Health and Human Services:				
University of California/SAMHSA 2017 Cooperative Agreement for Workforce Development in Vietnam: HIV-Addiction Technology Transfer Center North and South	93.243	1H79TI080575-01	-	(1,427)
University of California/SAMHSA 2017 Cooperative Agreement for Workforce Development in Vietnam: HIV-Addiction Technology Transfer Center North and South	93.243	5H79TI080575-02	-	18,989
University of California/SAMHSA 2017 Cooperative Agreement for Workforce Development in Vietnam: HIV-Addiction Technology Transfer Center North and South	93.243	5H79TI080575-03	-	3,471
University of Michigan/HRSA Maternal and Child Health Field-Initiated Research Program	93.110	1R40MC32882-01-00	-	708
University of Minnesota/AHRQ: Minnesota Learning Health System Mentored Career Development Program (MNLHS)	93.226	1K12HS026379-01	-	70,695
Minnesota Learning Health System Mentored Career Development Program (MNLHS)	93.226	5K12HS026379-02	-	28,396
University of Minnesota/Centers for Disease Control Reduction of Malaria in U.S. Residents Returning from Overseas Travel	93.283	1U01CK000357-04	-	5,818
Total Indirect Department of Health and Human Services			-	126,650
Total Research and Development Cluster			\$ 8,237,159	\$ 23,341,896

Hennepin Healthcare Research Institute

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
Other Programs				
Department of Health and Human Services				
Health Resources and Services Administration (HRSA):				
Indigent Metropolitan AIDS Care Collaborative (i-MAC2)	93.918	N/A	\$ 23,129	\$ 24,589
Minnesota Part D Clinical Consortium (MNDC2)	93.153	N/A	153,785	153,785
Minnesota Department of Health/HRSA:				
Benefits Counseling to Individuals Living with HIV in Minnesota	93.917	GRK%137196	-	17,617
Rapid Access Arm of Benefits Counseling Contract	93.917	GRK%137196	-	30,657
Total Department of Health and Human Services—				
Other Programs			176,914	226,648
Total All programs			\$ 8,414,073	\$ 23,568,544

(a) Total Department of Defense: \$328,448 (12.420)

(b) Total Department of Health and Human Services \$23,240,096 (93.XXX)

93.RD	\$ 7,059,102
93.077	459,475
93.110	708
93.153	153,785
93.226	329,028
93.242	25,185
93.243	21,033
93.273	4,981
93.279	4,843,809
93.283	5,818
93.310	10,937
93.350	312,679
93.361	337,231
93.396	29,127
93.837	879,534
93.839	385,662
93.846	1,700
93.847	671,829
93.853	1,360,570
93.855	508,060
93.866	5,766,980
93.917	48,274
93.918	24,589

See notes to schedule of expenditures of federal awards.

Hennepin Healthcare Research Institute

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2019

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Hennepin Healthcare Research Institute under programs of the federal government for the year ended December 31, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Hennepin Healthcare Research Institute, it is not intended to, and does not, present the net position, changes in net position, or cash flows of Hennepin Healthcare Research Institute.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rates

Indirect cost rates for Hennepin Healthcare Research Institute were based on applicable U.S. Department of Health and Human Services negotiated rates or sponsor-specified (capped) rates. Hennepin Healthcare Research Institute did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Hennepin Healthcare Research Institute

**Summary of Findings and Questioned Costs
Year Ended December 31, 2019**

I. Summary of Auditor's Results

A. Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? _____ Yes X No
 - Significant deficiency(ies) identified? _____ Yes X None reported
3. Noncompliance material to the financial statements noted? _____ Yes X No

B. Federal Awards

1. Internal control over major federal programs:
 - Material weakness(es) identified? _____ Yes X No
 - Significant deficiency(ies) identified? _____ Yes X None reported
2. Type of auditor's report issued on compliance for major federal programs: Unmodified
 - Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? _____ Yes X No

3. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
-------------	------------------------------------

Multiple	Research and Development Cluster
----------	----------------------------------

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? X Yes _____ No

II. Financial Statement Findings

None reported.

III. Findings and Questioned Costs for Federal Awards

None reported.

Hennepin Healthcare Research Institute
Summary Schedule of Prior Audit Findings
For the Year December 31, 2019

The prior year single audit disclosed no findings in the *Schedule of Findings and Questioned Costs* and no uncorrected or unresolved findings exist from the prior audit's *Summary of Prior Audit Findings*.

Mark Willmert

Mark Willmert, Chief Financial Officer

[Improving patient care and the health of our community through research and education](#)

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