

**Hennepin Health Foundation
d/b/a Hennepin Healthcare
Foundation
A Component Unit of Hennepin Healthcare
System, Inc.**

Financial Report
December 31, 2022

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statements of net position	3
Statements of revenue, expenses and changes in net position	4
Statements of cash flows	5
Notes to financial statements	6-15



RSM US LLP

Independent Auditor's Report

Board of Directors
Hennepin Health Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hennepin Health Foundation (HHF), a component unit of Hennepin Healthcare System, Inc., as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise HHF's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of HHF as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HHF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matter

Management has omitted the 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HHF's ability to continue as a going concern for twelve months beyond the date of the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HHF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HHF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2023 on our consideration of the HHF's internal control over financial reporting and on 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 the HHF'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 HHF's internal control over financial reporting and compliance.

RSM US LLP

Davenport, Iowa
March 1, 2023

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Statements of Net Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 217,220	\$ 1,709,304
Accounts receivable	32,700	27,700
Receivable from related parties	983,543	3,000
Investments	997,034	946,134
Assets limited as to use:		
Cash and cash equivalents	13,679,465	10,644,826
Contributions and grants receivable, net	3,390,327	5,568,693
Investments	14,142,750	16,780,711
Total assets limited as to use	31,212,542	32,994,230
Nondepreciable capital assets, art collection	992,519	929,759
Total assets	\$ 34,435,558	\$ 36,610,127
Liabilities and Net Position		
Liabilities:		
Grants payable, related parties	\$ 1,097,902	\$ 425,600
Payable to related parties	87,183	648,365
Accounts payable and other	40,886	21,825
Total liabilities	1,225,971	1,095,790
Net position:		
Net investment in capital assets	992,519	929,759
Restricted:		
Expendable	27,501,552	28,502,091
Nonexpendable	3,710,990	4,492,139
Unrestricted	1,004,526	1,590,348
Total net position	33,209,587	35,514,337
Total liabilities and net position	\$ 34,435,558	\$ 36,610,127

See notes to financial statements.

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
Operating revenue:		
Contributions	\$ 4,042,862	\$ 2,902,984
Grants and contracts	7,727,674	3,841,442
Noncash contributions	3,900,314	3,654,040
Special events	77,750	45,304
Commissions	104,897	94,674
Other income	316,557	390,479
Total operating revenue	16,170,054	10,928,923
Operating expenses:		
Grants and disbursements	10,756,497	3,394,782
Personnel expense	2,938,031	2,931,854
Supplies and services	1,155,584	1,062,573
Facility	229,544	67,931
Other	294,150	187,044
Total operating expenses	15,373,806	7,644,184
Income from operations	796,248	3,284,739
Nonoperating (losses) gains, investment income, net	(3,128,989)	1,756,435
Total nonoperating (expenses) revenue	(3,128,989)	1,756,435
(Loss) income before contributions	(2,332,741)	5,041,174
Contributions to permanent endowment	27,991	44,037
Change in net position	(2,304,750)	5,085,211
Net position:		
Beginning of year	35,514,337	30,429,126
End of year	\$ 33,209,587	\$ 35,514,337

See notes to financial statements.

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Contributions	\$ 5,235,586	\$ 2,667,731
Grants	7,727,674	3,841,442
Special events	77,750	45,304
Other revenues	316,558	387,479
Other payments	(294,051)	(187,043)
Commissions	104,897	94,674
Paid for grants	(10,084,195)	(3,502,360)
Paid to suppliers	(964,967)	(2,935,766)
Net cash provided by operating activities	2,119,252	411,461
Cash flows provided by noncapital financing activities, contributions to permanent endowments	27,991	44,037
Cash flows used in capital financing activities, purchases of capital assets	(62,760)	(143,913)
Cash flows from investing activities:		
Purchase of investments	(948,646)	(764,623)
Sale of investments	7,308	36,910
Investment earnings received	399,410	616,358
Net cash used in investing activities	(541,928)	(111,355)
Net increase in cash and cash equivalents	1,542,555	200,230
Cash and cash equivalents:		
Beginning of year, including cash and cash equivalents limited as to use: 2021 \$10,644,826; 2020 \$7,538,354	12,354,130	12,153,900
End of year, including cash and cash equivalents limited as to use: 2022 \$13,679,465; 2021 \$10,644,826	\$ 13,896,685	\$ 12,354,130
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 796,248	\$ 3,284,739
Changes in assets and liabilities related to operating activities:		
Accounts receivable	(5,000)	(3,000)
Receivable from related parties	(980,543)	-
Grants and contributions receivable	2,178,366	(235,402)
Grants payable	672,302	(107,578)
Payable to related parties	(561,182)	(2,530,956)
Accounts payable and other	19,061	3,658
Net cash provided by operating activities	\$ 2,119,252	\$ 411,461
Supplemental schedule of noncash investing, capital and financing activities:		
Noncash contributions	\$ 3,900,314	\$ 3,654,040
Net change in unrealized gains and losses on investments	\$ (3,680,172)	\$ 1,140,077
Donated artwork	\$ 32,880	\$ 150

See notes to financial statements.

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: Hennepin Health Foundation d/b/a Hennepin Healthcare Foundation (HHF) is a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3). Hennepin Healthcare System, Inc. (HHS) is the sole member of HHF. HHS is a public corporation and a component unit of Hennepin County (the County), Minnesota.

HHF supports the mission of HHS, Minnesota's largest public safety net and academic medical center where no one is turned away due to lack of insurance or inability to pay. HHS is home to the largest and busiest trauma center in the state, and trains the majority of the physicians, nurses and other clinicians who care for the citizens of Minnesota. HHS's hospital and clinics deliver more than 87,000 emergency and urgent care visits and more than 670,000 clinic visits a year. HHF raises and administers philanthropic support for HHS and its research arm, Hennepin Healthcare Research Institute (HHRI), in the following functional areas:

Innovations in patient care: Programs funded in this area help to improve the patient and family experience, reduce barriers to health care access, assist with social determinants of health and launch innovation in care delivery. Examples of funded activities include: Volunteer Services, Inspire Arts Program, Children's Literacy, Redleaf Center for Family Healing, renovations to patient and family waiting areas, and a variety of specific department funds for urgent patient needs. HHF provides support for MVNA home health and in home hospice services which provided more than 11,000 home health visits in 2022. New in 2022, the Pediatric Mobile Health unit provided care for over 2,400 patients.

Trauma and critical care: This area provides funding to patient care services related to HHS's Level 1 Trauma designation. Funded programs include patient comfort in traumatic brain injury, the burn unit, stroke, heart health, poison control and toxicology care, care during and after transplant, and care in dealing with the effects of domestic violence, sexual assault, and child abuse and neglect. Operating the largest, multi-chamber Hyperbaric Oxygen (HBO) Chamber in the state, the HBO provided over 4,600 treatments in 2021. The Regional Poison Information Center for Minnesota, North and South Dakota, managed at HHS, handled over 59,000 calls in 2022.

Educating the workforce of tomorrow: HHS is the state's primary training center for physicians, nurses, ancillary care, pre-hospital emergency personnel and other health professions. Funded programs include: Talent Garden Program with Youth Summits exposing 221 Black and LatinX youth to future careers in medicine, a scholarship program to assist employees in nonpatient care areas in entering health careers, various ongoing training funds for hospital departments and clinics, a fund to support emergency medicine residency education and the Hennepin Medical History Center which collects, preserves and interprets the history of HHS, Metropolitan Medical Center and its organizational predecessors.

Research: Searching for new ways to improve care is a commitment voiced in the mission of HHS, where medical research directed by HHRI leads to breakthroughs in medical treatment and disease prevention. HHRI is the third largest nonprofit medical research organization in Minnesota and it ranks in the top 10% of all institutions receiving research funding from the National Institutes of Health. As its philanthropic partner, HHF raises funds to support its research endeavors ranging from addiction and kidney disease to traumatic brain injury.

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

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 HHF as a blended component within their financial statements. HHS is the sole corporate member of HHF. 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 organizations or agencies whose financial statements should be combined and presented with these basic financial statements.

Accounting basis and standards: The financial statements of HHF 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.

HHF 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 HHF are included in the statements of net position.

In order to ensure observation and restrictions placed on the use of the resources available to HHF, the accounts of HHF are maintained in accordance with the principles 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 a maturity of three months or less and HHF's share of the cash management pool of the County. The pool is a cash equivalent (see Note 2).

Assets limited as to use: Assets limited as to use include assets restricted by donors for specific purposes.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and recognized in nonoperating (losses) gains, investment income, net in the statements of revenue, expenses and changes in net position (see Note 4).

Accounts receivable: Accounts receivable are recorded at net realizable value. HHF provides an allowance for uncollectible accounts using the reserve method, which is based on management judgment considering historical information. Accounts more than 90 days past due are individually analyzed for collectability. In addition, an allowance is provided for other accounts when a significant pattern of uncollectability has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At December 31, 2022 and 2021, management determined that an allowance was not warranted.

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Contributions and grants receivable: Contributions receivable are unconditional promises to give. Contributions and grants receivable are recorded, net of an allowance for uncollectable accounts, at the time of the gift. Conditional promises to give are not recorded as revenue until such time as the conditions are substantially met. Contributions and grants receivable that are expected to be collected in greater than one year are recorded at the present value of the amounts expected to be collected using a discount rate reflective of the market and conditions at the time of the gift. Amortization of the discount is included in contribution revenue. HHF provides an allowance for uncollectable accounts using the reserve method, which is based on management judgment considering historical information. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

Art collection: HHF has pieces of art located throughout HHS. The art is valued at cost or fair value at the date of the purchase or donation. HHF typically only records pieces that are originals and signed prints. HHF set its capitalization threshold for pieces at \$300.

Furniture and equipment: All expenditures for equipment exceeding \$1,000 are capitalized at cost. Contributed items are recorded at fair value at date of donation. Depreciation is computed through the use of the straight-line method over the assets' estimated useful lives. There was no furniture and equipment as of December 31, 2022 and 2021.

Grants payable: Unconditional grants are recorded as expense when approved by HHF's Board of Directors.

Grants and contributions: Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses. There were no restricted to capital acquisitions as of December 31, 2022 and 2021.

Functional expenses: The cost of services provided and expenses are allocated to program, fundraising and management and general services based on identification of both direct and indirect expenses:

	2022	Percent	2021	Percent
Program services:				
Hennepin Healthcare System, Inc.	\$ 11,800,482		\$ 4,270,958	
Hennepin Healthcare Research Institute	99,832		68,784	
Other organizations	75,000		120,987	
Special events	48,358		128,044	
Total program services	12,023,672	78%	4,588,773	60%
Fundraising	2,098,491	14	1,914,732	25
Management and general	1,251,643	8	1,140,679	15
	<u>\$ 15,373,806</u>	<u>100%</u>	<u>\$ 7,644,184</u>	<u>100%</u>

Noncash contributions: Goods and services donated to HHF are recorded at fair value as determined by management at the time of receipt.

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Net position: The net investment in capital assets consists of capital assets, net of accumulated depreciation and any outstanding borrowings used to finance the purchase or construction of these assets. Restricted expendable net position are amounts that must be used for a particular purpose, as specified by creditors, grantors, donors or contributors external to HHF. Restricted nonexpendable net position are amounts that represent donors' fund principal that must be maintained in perpetuity. Unrestricted net position are amounts that do not meet the definition of the other components of net position described above. Restricted expendable net position is available for the following donor-imposed purposes as of December 31:

	2022	2021
Innovations in patient care	\$ 20,406,754	\$ 23,195,439
Educating the workforce of tomorrow	4,775,249	3,732,830
Critical care mission	2,092,375	1,365,549
Research	12,285	12,580
Special events	214,889	195,693
	<u>\$ 27,501,552</u>	<u>\$ 28,502,091</u>

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets (including artwork) and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Income taxes: HHF has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC) and Minnesota Statute and corresponding tax codes and, therefore, the financial statements do not include a provision for income taxes. It has been classified as an organization that is not a private foundation under the IRC and charitable contributions by donors are tax deductible.

HHF's 2019–2022 tax years are open for examination by federal and state taxing authorities. HHF 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 Internal Revenue Service.

New accounting guidance: On January 1, 2022, HHF adopted GASB Statement No. 87, *Leases*. The statement required the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. The standard did not have an impact on the HHF financial statements.

Note 2. Interest in Hennepin County Investment Pool

The County's Office of Budget and Finance is responsible for the treasury function of all the County's deposits and investments held by its funds. Cash from all funds is pooled for deposit and investment purposes. At December 31, 2022 and 2021, HHF comprised \$13,896,685 or 0.64% and \$12,354,130 or 0.65%, respectively, of the County's total cash and investments. As of December 31, 2022, a majority of the pool's investments were invested in U.S. government and agency issues, with the remainder invested in repurchase agreements and money market funds. Detailed information about the County's deposits with financial institutions, repurchase agreements, interest rate risk, credit risk, concentration of credit risk and custodial credit risk can be obtained directly from the County's 2022 financial statements. Investment earnings and losses are allocated based on average monthly cash balances.

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 3. Concentrations

Financial instruments that potentially subject HHF to concentrations of credit risk consist principally of pledges and grants receivable. HHF had approximately 77% of its contributions and grants receivable balance from three grantors/donors at December 31, 2022.

Note 4. Investments

Fair value: HHF 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: Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2: Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3: Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

HHF uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The following tables present the fair value hierarchy for the investments of assets measured at fair value on a recurring basis as of December 31:

	2022			
	Level 1	Level 2	Level 3	Total
Mutual funds—bonds:				
Short term	\$ 1,661,172	\$ -	\$ -	\$ 1,661,172
Intermediate term	4,132,316	-	-	4,132,316
Mutual funds—equities:				
Small Cap	986,374	-	-	986,374
Mid Cap	975,645	-	-	975,645
Large Cap	4,611,206	-	-	4,611,206
International	2,600,142	-	-	2,600,142
Total investments at fair value	<u>\$ 14,966,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>14,966,855</u>
Cash and cash equivalents				172,929
Total investments				<u>\$ 15,139,784</u>

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 4. Investments (Continued)

	2021			
	Level 1	Level 2	Level 3	Total
Mutual funds—bonds:				
Short term	\$ 1,723,953	\$ -	\$ -	\$ 1,723,953
Intermediate term	4,636,397	-	-	4,636,397
Mutual funds—equities:				
Small Cap	1,052,385	-	-	1,052,385
Mid Cap	1,284,282	-	-	1,284,282
Large Cap	5,633,706	-	-	5,633,706
International	3,230,741	-	-	3,230,741
Total investments at fair value	<u>\$ 17,561,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>17,561,464</u>
Cash and cash equivalents				165,381
Total investments				<u>\$ 17,726,845</u>

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting HHF's exposure to interest rate risk, HHF's investment policy states there will be a long-term investment pool and near term investment pool. Near term pool is invested with Hennepin County Treasury Department in fixed income securities with an average weighted maturity of 3.3 years. The long-term investment pool is invested in mutual funds.

As of December 31, 2022, HHF had the following investments and maturities:

	Carrying Amount	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years
Mutual funds—bonds	\$ 5,793,488	<u>\$ 5,793,488</u>	\$ -	\$ -	\$ -
Mutual funds—equities	9,173,367				
Cash and cash equivalents	172,929				
	<u>\$ 15,139,784</u>				

As of December 31, 2021, HHF had the following investments and maturities:

	Carrying Amount	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years
Mutual funds—bonds	\$ 6,360,350	<u>\$ 6,360,350</u>	\$ -	\$ -	\$ -
Mutual funds—equities	11,201,114				
Cash and cash equivalents	165,381				
	<u>\$ 17,726,845</u>				

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. HHF does not have a policy specific to investment credit risk.

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 4. Investments (Continued)

As of December 31, 2022 and 2021, the investments, as rated by Moody's, had the following ratings:

Type of Investment	2022		2021	
	Carrying Amount	Quality Rating	Carrying Amount	Quality Rating
Mutual funds—bonds	\$ 5,793,488	AAA-BB	\$ 6,360,350	AAA-BB
Not rated:				
Mutual funds—equities	9,173,367		11,201,114	
Cash and cash equivalents	172,929		165,381	
Total investments	<u>\$ 15,139,784</u>		<u>\$ 17,726,845</u>	

Concentration of risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. HHF's investment policy does not limit the type of investment but does establish asset allocation targets.

As of December 31, 2022 and 2021, not more than 5% of HHF's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

Custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the fund will not be able to recover the value or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in HHF's name and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in HHF's name. HHF's investment policy does not limit the value of investments that may be held by an outside party. At December 31, 2022 and 2021, HHF's investments had no custodial credit risk exposure.

Note 5. Contributions and Grants Receivable

Contributions and grants receivable consists of grants from foundations and contributions from individuals and foundations. The discount rate used was 4% for December 31, 2022 and 2021.

Pledges and grants receivable as of December 31, 2022 and 2021, are as follows:

	2022	2021
Receivable in less than one year	\$ 3,217,313	\$ 2,853,836
Receivable in one to five years	191,448	2,832,726
Total pledges and grants receivable	3,408,761	5,686,562
Less allowance for doubtful accounts	10,000	10,000
Less discount on long-term receivables	8,434	107,869
Net pledges and grant receivable	<u>\$ 3,390,327</u>	<u>\$ 5,568,693</u>

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 6. Endowment

Restricted nonexpendable net position totaled \$3,710,990 and \$4,492,139 as of December 31, 2022 and 2021, respectively, with two new endowments established in 2021, the Immunotherapy and the Diversity in Research funds.

Interpretation of relevant law: The Board of Directors of HHF have interpreted the Minnesota Prudent Management of Institutional Funds Act (MPMIFA) 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, HHF classifies as restricted nonexpendable net position the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until expended by HHF in a manner consistent with the donor's intent. In accordance with MPMIFA, HHF considers the following factors in making a determination to expend or accumulate donor-restricted endowment fund earnings:

- The purposes of HHF and donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Investment policies
- Other available financial resources

Spending policy, objectives and strategies: HHF has adopted investment and spending policies for permanently restricted cash contributions that attempt to provide a predictable stream of funding to programs, while maintaining purchasing power. The annual investment withdrawal is calculated at 4% of the three-year quarterly average of the investment market values at September 30. All earnings from these funds are reflected as restricted expendable net position until appropriated for program expenditures.

Endowment net position composition by type as of December 31, 2022 and 2021, is as follows:

	2022		
	Restricted Expendable	Restricted Nonexpendable	Total
Donor-restricted endowment funds	\$ -	\$ 3,710,990	\$ 3,710,990
	2021		
	Restricted Expendable	Restricted Nonexpendable	Total
Donor-restricted endowment funds	\$ 1,069	\$ 4,492,139	\$ 4,493,208

Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.

Notes to Financial Statements

Note 6. Endowment (Continued)

The changes in endowment net position for the years ended December 31, 2022 and 2021, are as follows:

	2022		
	Restricted Expendable	Restricted Nonexpendable	Total
Endowment investments, beginning	\$ 1,069	\$ 4,492,139	\$ 4,493,208
Investment loss, net	-	(653,264)	(653,264)
Contributions and additions	-	29,425	29,425
Appropriations	(1,069)	(157,310)	(158,379)
Endowment investments, ending	\$ -	\$ 3,710,990	\$ 3,710,990

	2021		
	Restricted Expendable	Restricted Nonexpendable	Total
Endowment investments, beginning	\$ 364	\$ 4,127,608	\$ 4,127,972
Investment gain, net	-	471,050	471,050
Contributions and additions	705	42,535	43,240
Appropriations	-	(149,054)	(149,054)
Endowment investments, ending	\$ 1,069	\$ 4,492,139	\$ 4,493,208

Occasionally, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires HHF to retain as a fund of perpetual duration. As of December 31, 2022, the original gift values of \$1,245,000 and the fair values of \$1,099,875 and the deficiencies of \$145,125 were reported in nonexpendable net assets. No nonexpendable net assets were below original gift value in 2021. These deficiencies, which HHF believes are temporary, resulted from unfavorable market fluctuations. Appropriations during the year ended December 31, 2022 were made in accordance with the board of trustees underwater fund policy.

Note 7. Related-Party Transactions

In-kind contributions: HHS employs all HHF personnel and, therefore, provides all salaries, employee benefits and administrative costs for those personnel. For the years ended December 31, 2022 and 2021, salaries and benefits paid by HHS totaled \$2,938,031 and \$2,931,854, respectively.

HHS provides computer usage, office supplies and professional services utilized by HHF, which totaled \$661,715 and \$619,729 for the years ended December 31, 2022 and 2021, respectively.

HHS supports HHF by providing space for the general office and for collections of the Hennepin Historical Center and the Inspire Arts Program. The total estimated support of space was \$229,315 and \$67,701 for the years ended December 31, 2022 and 2021, respectively.

**Hennepin Health Foundation
A Component Unit of Hennepin Healthcare System, Inc.**

Notes to Financial Statements

Note 7. Related-Party Transactions (Continued)

Contributions: HHF supports HHS with monies given to maintain programs, provide urgent needs, assist in patient care and provide seed money for new initiatives. For the years ended December 31, 2022 and 2021, HHF distributed \$10,440,167 and \$3,205,012, respectively, to HHS.

HHF serves as the fundraising portal of the HHS campus, including its research partner HHRI. HHF dedicates a portion of its fundraising efforts to assist HHRI in providing startup and bridge funding for medical research. HHF distributed \$99,832 and \$68,784 to HHRI for the years ended December 31, 2022 and 2021, respectively.

Due to/due from related party: As of December 31, 2022, HHS owes HHF \$934,960. At December 31, 2021, HHF owed HHS \$629,558.

The County owed HHF \$48,583 and \$3,000 as of December 31, 2022 and 2021, respectively.

HHF owed HHRI \$87,183 and \$18,807 as of December 31, 2022 and 2021, respectively.