

**UNIVERSITY OF LOUISVILLE AND JEWISH HERITAGE
FUND FOR EXCELLENCE
CARDIOVASCULAR INNOVATION INSTITUTE, INC.**

**Auditor's Report and Financial Statements
June 30, 2016 and 2015**

**UNIVERSITY OF LOUISVILLE AND JEWISH HERITAGE
FUND FOR EXCELLENCE
CARDIOVASCULAR INNOVATION INSTITUTE, INC.**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
University of Louisville and Jewish Heritage Fund
for Excellence Cardiovascular Innovation Institute, Inc.
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Louisville and Jewish Heritage Fund for Excellence Cardiovascular Innovation Institute, Inc. (Institute), which comprise of the statements of financial position of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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 the Institute, as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
January 6, 2017

**University of Louisville and Jewish Heritage Fund for Excellence
Cardiovascular Innovation Institute, Inc.**

Statements of Financial Position

June 30, 2016 and 2015

| | 2016 | 2015 |
|--|-------------|-------------|
| ASSETS | | |
| Accounts and contributions receivable from related parties | \$ 57,909 | \$ 98,942 |
| Capital assets, net | - | 209 |
| Total assets | \$ 57,909 | \$ 99,151 |
| LIABILITIES AND DEFICIENCY IN NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 31,782 | \$ 30,871 |
| Due to University of Louisville | 271,934 | 363,912 |
| Total liabilities | 303,716 | 394,783 |
| Deficiency in net assets | (245,807) | (295,632) |
| Total liabilities and deficiency in net assets | \$ 57,909 | \$ 99,151 |

See notes to financial statements

**University of Louisville and Jewish Heritage Fund for Excellence
Cardiovascular Innovation Institute, Inc.**

Statements of Activities

Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| REVENUES | | |
| Gifts | \$ 560,000 | \$ 550,000 |
| Testing revenues | 17,532 | 17,022 |
| Other revenue | 122,595 | 62,431 |
| Total revenues | <u>700,127</u> | <u>629,453</u> |
| OPERATING EXPENSES | | |
| Research operations (including depreciation) | 266,307 | 269,864 |
| General and administrative | 383,995 | 403,379 |
| Total operating expenses | <u>650,302</u> | <u>673,243</u> |
| Change in net assets | 49,825 | (43,790) |
| Deficiency in net assets at beginning of year | <u>(295,632)</u> | <u>(251,842)</u> |
| Deficiency in net assets at end of year | <u><u>\$ (245,807)</u></u> | <u><u>\$ (295,632)</u></u> |

See notes to financial statements

**University of Louisville and Jewish Heritage Fund for Excellence
Cardiovascular Innovation Institute, Inc.**

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 49,825 | \$ (43,790) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation expense | 209 | 2,505 |
| Change in assets and liabilities: | | |
| Accounts receivable | 41,033 | 56,221 |
| Prepaid expenses | - | - |
| Accounts payable and accrued liabilities | 911 | 6,024 |
| Due to University of Louisville | (91,978) | (20,960) |
| Net cash provided by operating activities | - | - |
| Net change in cash | - | - |
| Cash at beginning of year | - | - |
| Cash at end of year | \$ - | \$ - |

See notes to financial statements

**University of Louisville and Jewish Heritage Fund for Excellence
Cardiovascular Innovation Institute, Inc.**

Notes to Financial Statements

June 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies

a. Organization

University of Louisville and Jewish Heritage Fund for Excellence Cardiovascular Innovation Institute, Inc. (the Institute) is a Kentucky non-profit, non-stock corporation. During the fiscal year ended June 30, 2015, the Institute changed their name from the University of Louisville and Jewish Hospital Cardiovascular Innovation Institute, Inc. The Institute had two original members consisting of the University of Louisville (University) and Jewish Hospital and St. Mary's Healthcare, Inc. (JHSMH). In December 2012 as part of its merger with KentuckyOne Healthcare, JHSMH transferred its interest in the Institute to the Jewish Heritage Fund for Excellence (Fund). The original members entered into an agreement regarding the operation of the Institute with an effective date of July 1, 2008 for an initial term of two years. Effective July 1, 2015, the term has been extended to June 30, 2020.

The Institute's purpose is to focus on the discovery, development and implementation of innovative treatments for cardiovascular disease.

b. Cash

The Institute's cash is held by the University. The University currently uses commercial banks and the Commonwealth of Kentucky (the Commonwealth) as its depositories. Deposits held with commercial banks are covered up to the limits of federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. As of June 30, 2016 and 2015, the Institute had a negative cash balance, which is shown in the amount Due to University of Louisville in the accompanying statements of financial position.

c. Accounts Receivable

Accounts receivable consists primarily of research recovery fees due from the University and the University of Louisville Research Foundation, Inc. (Research Foundation). Accounts receivable are recorded net of estimated uncollectible accounts.

d. Capital Assets

Capital assets are stated at cost or estimated acquisition value at date of receipt from donors. The provision for depreciation is calculated using the straight-line method based on the estimated useful lives of the assets.

e. Tax Status

The Institute has received a favorable determination letter from the Internal Revenue Service exempting it from federal income taxes under §501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Institute is subject to federal income tax on any unrelated business taxable income.

The Institute files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Institute is no longer subject to U.S. federal examination by tax authorities prior to fiscal year 2013.

f. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

g. Contributions Revenue Policy

The Institute recognizes contribution revenue when gifts are received or when an unconditional promise to make a gift has been received.

h. Functional Allocation of Expenses

The costs of supporting the research operations have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the research operations and general and administrative categories based on actual expenses and other methods. In addition to research expenses, costs related to training, testing and quality assurance connected with research activities of the Institute are included in research operations in the accompanying statements of activities.

i. Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

2. Ground Lease

The University entered into a Ground Lease with JHSMH to lease certain property for \$1 annually for the purpose of JHSMH constructing improvements, which are solely for the use of the Institute. The Ground Lease commenced on January 1, 2007 and has a term of thirty years. Upon termination of the Ground Lease, the improvements become property of the University.

3. Capital Assets

Capital assets as of June 30, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------|-----------------|-----------------|
| Equipment | \$ 56,638 | \$ 56,638 |
| Accumulated depreciation | <u>(56,638)</u> | <u>(56,429)</u> |
| Total, net | <u>\$ -</u> | <u>\$ 209</u> |

4. Transactions with Related Organizations

a. University of Louisville

In accordance with University policy, the University contributes to the Institute a specified percentage of the facilities and administrative fees recovered by sponsored projects related to the Institute. Additionally, the University's Office of the Executive Vice-President of Health Affairs contributes an equal amount. For the years ended June 30, 2016 and 2015, the University contributed \$44,000 and \$7,000, respectively, to the Institute related to this policy. These amounts are shown in other revenue on the accompanying statements of activities. As of June 30, 2016 and 2015, approximately \$46,000 and \$86,000 is included in accounts receivable representing amounts due from the University pursuant to this policy.

The Institute performs certain training, testing, and other research services for the University. During the years ended June 30, 2016 and 2015 approximately \$4,000 was shown as testing revenues related to these services in the accompanying statements of activities.

The University provides certain services related to information technology, physical plant, and research analysis to the Institute. During the years ended June 30, 2016 and 2015, the Institute paid \$100,000 and \$91,000, respectively, to the University for these services.

The University also provides various services (office space, management oversight, etc.) to the Institute, for which an overall value has not been assigned/determined and therefore is not recorded in the accompanying financial statements.

b. Jewish Heritage Fund for Excellence

During each of the years ended June 30, 2016 and 2015, the Fund contributed \$275,000 to the Institute, which is shown in gifts in the accompanying statements of activities.

c. University of Louisville Research Foundation, Inc. (Research Foundation)

The Research Foundation is a separate corporation organized for the purpose of conducting the research, clinical operations, and other sponsored activities of the University. The Institute performs certain training, testing, and other research services for the Research Foundation. During the years ended June 30, 2016 and 2015, approximately \$14,000 and \$13,000, respectively, was shown as testing revenues related to these services in the accompanying statements of activities.

The Research Foundation provides certain services related to administrative services to the Institute. During each of the years ended June 30, 2016 and 2015, the Institute paid \$12,000 to the Research Foundation for these services.

The Institute has agreements with several departments within the Research Foundation to receive a portion of the facilities and administrative fee revenue earned related to sponsored program grants and contracts related to the Institute. During the years ended June 30, 2016 and 2015, the total revenue related to these agreements was \$73,000 and \$56,000, respectively, and is shown in other revenue in the accompanying statements of activities.

During each of the years ended June 30, 2016 and 2015, the Research Foundation made cash contributions of \$285,000 and \$275,000, respectively to the Institute.

The accompanying statements of financial position as of June 30, 2016 and 2015 includes accounts receivable of approximately \$12,000 and \$13,000 representing amounts due from the Research Foundation pursuant to the above services and agreements.

5. Natural Classification

Expenses by natural classification for the years ended June 30, 2016 and 2015 were approximately:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------|-------------------|-------------------|
| Salaries and wages | \$ 422,682 | \$ 419,653 |
| Employee benefits | 99,620 | 99,551 |
| Supplies and other services | 127,791 | 151,534 |
| Depreciation | 209 | 2,505 |
| | <u>\$ 650,302</u> | <u>\$ 673,243</u> |

6. Reliance on Third-party Liquidity

The Institute has received a commitment from the University to provide additional funds during the next fiscal year to meet liquidity needs not covered by operating cash flows.