MINNEAPOLIS HEART INSTITUTE FOUNDATION

FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE

YEARS ENDED DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Minneapolis Heart Institute Foundation
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Minneapolis Heart Institute Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Minneapolis Heart Institute Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minneapolis Heart Institute Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 10, 2013

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	$ 2,602,402	$ 2,987,560
Investments (Note 3)	18,210,552	15,997,170
Contributions Receivable	170,285	150,560
Pledges Receivable (Net of Allowance of $360,000 and $376,695 in 2012 and 2011, Respectively) (Notes 5 and 7)	1,839,259	1,393,630
Other Receivables	1,612,491	1,330,490
Other Assets	60,871	30,130
Furniture and Equipment, Net (Note 6)	411,736	376,990
Total Assets	$ 24,907,596	$ 22,266,530
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 331,239	$ 326,840
Accrued Payroll Costs	324,409	383,220
Accrued Pension and Deferred Compensation	395,885	347,270
Accrued Research and Study Costs	321,766	390,530
Annuity Payment Liability	136,074	141,080
Deferred Rent	192,598	185,540
Deferred Research Study Revenues	155,642	138,940
Total Liabilities	1,857,613	1,913,420
NET ASSETS		
Unrestricted:		
Designated - Other (Note 9)	1,299,648	1,844,888
Designated - Endowments (Note 9)	3,575,066	3,101,483
Net Assets - Unrestricted	4,874,714	4,946,371
Temporarily Restricted (Note 10):		
General Support	70,106	633,969
Charitable Trusts	116,856	109,631
Restricted Endowment Income	1,588,865	473,121
Research and Education Projects	3,549,465	1,850,066
Net Assets - Temporarily Restricted	5,325,292	3,066,787
Permanently Restricted:		
Endowments (Note 11)	12,849,977	12,339,952
Total Net Assets	23,049,983	20,353,110
Total Liabilities and Net Assets	$ 24,907,596	$ 22,266,530

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Contributions	$ 964,330	$ 41,450	$ 510,025	$ 1,515,805
Special Events, Net of Expenses of $292,116 and $334,772 in 2012 and 2011, Respectively	383,084	-	-	383,084
Grants	1,491,794	2,558,641	-	4,050,435
Sublicense Revenue	783,475	-	-	783,475
Research Study Revenues	3,433,592	-	-	3,433,592
Income from Services	171,684	-	-	171,684
Investment Gain (Loss) (Note 3)	587,388	1,555,678	-	2,143,066
Net Assets Released from Restrictions	1,904,229	(1,904,229)	-	-
Change in Value of Split-Interest Agreements	(19,196)	7,225	-	(11,971)
Contribution Loss	(4,000)	(260)	-	(4,260)
Total Support and Revenues	9,696,380	2,258,505	510,025	12,464,910
EXPENSES				
Program Services:				
Education	1,759,534	-	-	1,759,534
Research	5,779,321	-	-	5,779,321
Total Program Services	7,538,855	-	-	7,538,855
Supporting Services:				
Fund Raising	841,168	-	-	841,168
General and Administrative	1,388,014	-	-	1,388,014
Total Supporting Services	2,229,182	-	-	2,229,182
Total Expenses	9,768,037	-	-	9,768,037
CHANGE IN NET ASSETS	(71,657)	2,258,505	510,025	2,696,873
Net Assets, Beginning of Year	4,946,371	3,066,787	12,339,952	20,353,110
NET ASSETS, END OF YEAR	$ 4,874,714	$ 5,325,292	$ 12,849,977	$ 23,049,983

See accompanying Notes to Financial Statements.

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 519,032	$ 9,571	$ 219,668	$ 748,271
974,747	-	-	974,747
1,805,926	854,444	-	2,660,370
766,793	-	-	766,793
3,837,294	-	-	3,837,294
128,801	-	-	128,801
(135,791)	(393,042)	-	(528,833)
1,344,395	(1,344,395)	-	-
(7,901)	(266)	-	(8,167)
(5,000)	1,860	(375,000)	(378,140)
9,228,296	(871,828)	(155,332)	8,201,136
1,271,960	-	-	1,271,960
6,186,964	-	-	6,186,964
7,458,924	-	-	7,458,924
852,922	-	-	852,922
1,117,869	-	-	1,117,869
1,970,791	-	-	1,970,791
9,429,715	-	-	9,429,715
(201,419)	(871,828)	(155,332)	(1,228,579)
5,147,790	3,938,615	12,495,284	21,581,689
$ 4,946,371	$ 3,066,787	$ 12,339,952	$ 20,353,110

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			
	Program Services	Fund-Raising	General and Administrative	Total
Salaries and Wages	$ 4,074,457	$ 521,218	$ 764,866	$ 5,360,541
Payroll Taxes and Employee Benefits	876,451	89,365	151,316	1,117,132
Outside Services	1,495,589	73,540	88,255	1,657,384
Community Relations	56,244	17,871	13,631	87,746
Rent	385,294	45,209	57,294	487,797
Equipment Maintenance	50,615	11,268	4,709	66,592
Legal and Accounting	39,291	-	86,933	126,224
Insurance	30,488	-	10,221	40,709
Printing and Publication	28,409	27,388	606	56,403
Travel	263,596	20,966	39,922	324,484
Telephone	30,463	2,468	1,581	34,512
Office and Supplies	89,878	15,278	7,572	112,728
Audio Visual	3,052	650	903	4,605
Depreciation	55,098	11,178	63,973	130,249
Miscellaneous	59,930	4,769	27,057	91,756
Provision for Bad Debts	-	-	69,175	69,175
	$ 7,538,855	$ 841,168	$ 1,388,014	$ 9,768,037

	2011			
	Program Services	Fund-Raising	General and Administrative	Total
Salaries and Wages	$ 3,759,071	$ 472,675	$ 628,536	$ 4,860,282
Payroll Taxes and Employee Benefits	832,540	108,143	119,750	1,060,433
Outside Services	1,889,030	109,536	45,987	2,044,553
Community Relations	39,022	22,361	5,710	67,093
Rent	355,266	57,014	42,226	454,506
Equipment Maintenance	52,092	9,819	3,052	64,963
Legal and Accounting	6,839	-	122,413	129,252
Insurance	28,793	-	8,377	37,170
Printing and Publication	35,134	36,693	367	72,194
Travel	230,658	10,151	21,145	261,954
Telephone	22,007	1,881	581	24,469
Office and Supplies	81,978	10,468	6,927	99,373
Audio Visual	3,109	75	-	3,184
Depreciation	59,603	11,127	55,455	126,185
Miscellaneous	63,782	2,979	22,343	89,104
Provision for Bad Debts	-	-	35,000	35,000
	$ 7,458,924	$ 852,922	$ 1,117,869	$ 9,429,715

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 2,696,873	$ (1,228,579)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Permanently Restricted Contributions	(510,025)	(219,668)
Net Realized Gain on Investments	(249,947)	(488,864)
Net Unrealized (Gain) Loss on Investments	(1,540,508)	1,385,540
Depreciation	130,249	126,185
Change in Value of Split-Interest Agreements	19,196	7,901
Changes in Assets and Liabilities:		
Contributions Receivable	(19,725)	(119,310)
Unrestricted and Temporarily Restricted Pledges Receivable	(535,570)	(121,924)
Other Receivables	(282,001)	9,180
Other Assets	(30,741)	(6,734)
Accounts Payable	4,399	(117,450)
Accrued Payroll Costs	(58,811)	(48,160)
Accrued Pension and Deferred Compensation	48,615	(3,850)
Accrued Research Study Costs	(68,764)	470
Accrued Rent	7,058	(13,270)
Deferred Research Study Revenue	16,702	36,290
Net Cash Used by Operating Activities	(373,000)	(802,243)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	(164,995)	(101,910)
Purchase of Investments	(3,641,644)	(7,381,983)
Proceeds from Sale of Investments	3,218,717	7,264,997
Net Cash Used by Investing Activities	(587,922)	(218,896)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to Annuitants	(24,202)	(24,191)
Change in Permanently Restricted Pledges Receivable	89,941	93,452
Permanently Restricted Contributions	510,025	219,668
Net Cash Provided by Financing Activities	575,764	288,929
NET DECREASE IN CASH AND CASH EQUIVALENTS	(385,158)	(732,210)
Cash and Cash Equivalents - Beginning of Year	2,987,560	3,719,770
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,602,402	$ 2,987,560

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Permanently Restricted Net Assets

These are net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The permanently restricted net assets include the Founders, T. Peterson, Education, Gobel/Van Tassel, Nicoloff, Kiser, Giel, Ireland, and Patient Safety and Advocacy endowments. The earnings from the Founders, T. Peterson and Ireland endowments are unrestricted and available for research or education programs. The earnings from the Education endowment are restricted to education programs. The earnings from the Gobel/Van Tassel endowment are restricted to cardiology research. The earnings from the Nicoloff endowment are restricted to cardiac surgery research. The earnings from the Kiser endowment are restricted to collaborative projects with Children's Heart Link, a Minnesota not-for-profit organization. The Giel endowment earnings support research chairs and physician research. The Patient Safety and Advocacy endowment earnings support patient safety and advocacy programs.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid securities purchased with an original maturity of three months or less to be cash equivalents.

Investments

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

Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions to be received after one year are discounted using a rate ranging from 0.13% to 4.78%. Amortization of discounts is included in contribution revenue.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

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

Grants

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

Other Receivables

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

Furniture and Equipment

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

Split-Interest Agreements

The split-interest agreements include charitable remainder trusts and charitable gift annuities. The Foundation recognizes the contribution from charitable trusts when the trust is established and recognizes the contribution from the charitable annuity gifts when the agreement is executed. The contribution amount when the Foundation is not the trustee is the present value of expected future cash flows from the trust. Assets related to charitable remainder trusts are included in other receivables on the statement of financial position. Under a charitable gift annuity, the Foundation recognizes a liability based on the net present value of estimated future cash disbursements to be paid to the beneficiary using discount rates reflecting market conditions when the agreement is executed and current mortality rate assumptions. The liability is included in annuity payment liability on the statement of financial position.

Sublicense Revenue

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sublicense Revenue (Continued)

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

Research Study Revenues and Deferred Research Study Revenue

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

Volunteers

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

Functional Allocation of Expenses

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

Income Taxes

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

The Foundation's accounting policy provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The Foundation recorded no amounts in 2012 and 2011 for unrecognized tax benefits.

The Foundation's 2009 through 2011 tax years are open for examination by federal and state taxing authorities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to be consistent with the presentation in 2012. These reclassifications had no impact on the change in net assets as previously reported.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 10, 2013, the date the financial statements were available to be issued.

NOTE 3 INVESTMENTS

Investments consist of the following at December 31, 2012 and 2011:

	2012	2011
US Large Cap Equity	$ 4,687,902	$ 4,629,444
US Small/Mid Cap Equity	3,105,549	1,954,739
International Equity	3,602,576	2,682,781
Fixed Income	5,018,307	4,985,376
Real Estate	103,259	776,639
Hedge Fund of Funds	1,692,959	968,191
Total	$ 18,210,552	$ 15,997,170

Investment gain (loss) consists of the following for the years ended December 31, 2012 and 2011:

	2012	2011
Interest, Dividends, and Capital Gains Net of Investment Expenses of $62,161 and $61,787 in 2012 and 2011, Respectively	$ 352,611	$ 367,843
Net Realized Gains	249,947	488,864
Net Unrealized Gain (Loss)	1,540,508	(1,385,540)
Total	$ 2,143,066	$ (528,833)

NOTE 4 FAIR VALUE MEASUREMENTS

The Foundation uses Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 820), *Fair Value Measurements*, which established a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such as similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument.

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

	2012			
Description	Level 1	Level 2	Level 3	Total
Investments:				
US Large Cap Equity	$ 4,687,902	$ -	$ -	$ 4,687,902
US Small/Mid Cap Equity	1,170,915	1,934,634	-	3,105,549
International Equity	3,602,576	-	-	3,602,576
Fixed Income	3,943,930	1,074,377	-	5,018,307
Real Estate	-	-	103,259	103,259
Hedge Fund of Funds	-	1,692,959	-	1,692,959
Remainder Unitrust	-	-	116,856	116,856
Total	$ 13,405,323	$ 4,701,970	$ 220,115	$ 18,327,408

	2011			
Description	Level 1	Level 2	Level 3	Total
Investments:				
US Large Cap Equity	$ 4,629,444	$ -	$ -	$ 4,629,444
US Small/Mid Cap Equity	904,422	1,050,317	-	1,954,739
International Equity	2,682,781	-	-	2,682,781
Fixed Income	4,985,376	-	-	4,985,376
Real Estate	545,391	-	231,248	776,639
Hedge Fund of Funds	-	968,191	-	968,191
Remainder Unitrust	-	-	109,631	109,631
Total	$ 13,747,414	$ 2,018,508	$ 340,879	$ 16,106,801

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table is a roll forward of the Level 3 investments during the years ended December 31, 2012 and 2011:

	Real Estate Funds	Interest in Charitable Remainder Unitrust
Beginning Balance at January 1, 2011	$ 265,530	$ 109,897
Total Losses (Realized and Unrealized)	(34,282)	(266)
Ending Balance at December 31, 2011	231,248	109,631
Total Losses (Realized and Unrealized)	(127,989)	7,225
Purchases, Sales, Issuance, and Settlement (Net)	-	-
Transfers in and/or Out of Level 3	-	-
Ending Balance at December 31, 2012	$ 103,259	$ 116,856

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

Quantitative Information about Level 3 Fair Value Measurements

The unobservable inputs used to determine the fair value of Real Estate Funds has been estimated using external and internal appraisals of property investments. The unobservable inputs used to determine the fair value of the Interest in Charitable Remainder Trust are the underlying assets controlled by the trustee. The underlying assets consist of marketable securities that are either classified as Level 1 or Level 2 assets and the Foundation's fair value is determined by taking the trust's total value multiplied by their interest in the trust, as stated in the trust document.

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)

Fair value measurements of Levels 2 and 3 investments funds at December 31, 2012 and 2011 are as follows:

	2012			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	$ 1,692,959	$ -	Quarterly	65 Days
Real Estate Funds (2)	103,259	-	Not Applicable	Not Applicable
Small-Midcap Funds (3)	1,934,634	-	Monthly	10 to 30 Days
Fixed Income Funds (4)	1,074,377	-	Monthly	60 Days
Total	$ 3,730,852	$ -		

	2011			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	$ 968,191	$ -	Quarterly	65 Days
Real Estate Funds (2)	231,248	-	Not Applicable	Not Applicable
Small-Midcap Funds (3)	1,050,317	-	Monthly	30 Days
Total	$ 2,249,756	$ -		

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

If all units owned by a Partner are repurchased, the Partner will receive an initial payment equal to 95% of the estimated value of the units approximately 90 days after the valuation date, subject to audit adjustment, and the balance due will be determined and paid within 45 days after completion of the Fund's annual audit. The investment in this Fund may be subject to a repurchase fee equal to 5% of the amount required if the partner has been a partner for less than 12 months prior to the valuation date. The remaining restriction period for this investment was six months at December 31, 2011.

(2) Real Estate Funds – This category invests primarily in US real estate. The fund has diversified investments across the following property types: residential condominiums and apartments, office, warehouse, land, hotel and R&D/Flex. The fair value of the investment is estimated using estimated values of the underlying properties. Properties are appraised internally each year and externally at the time of acquisition and at the time of re-financing. This investment cannot be redeemed. Distributions will be received as the underlying investments of the Fund are liquidated. It is estimated that the underlying assets of the Fund will be liquidated over the next 7 to 10 years, with possible extensions.

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

(3) Small-Midcap Funds – This category employs a long-only, fundamental, value-oriented approach to equity management focusing primarily on U.S. small-cap and mid-cap stocks, with market capitalizations generally between $100 million and $10 billion. The net asset value (NAV) of the Fund is determined monthly using the market value, or fair value if market data is unavailable, of the underlying securities.

(4) Closed End Bond Fund of Funds – This fund invests primarily in closed-end registered investment companies that invest in fixed-income Securities and directly in fixed-income securities. The net asset value (NAV) of the Fund is determined monthly using the market value, or fair value if market data is unavailable, of the underlying funds. Subsequent to the first 6 months of the initial investment, upon 60 days' prior written notice, all or any portion of interest in the Fund as of the last day of any month can be withdrawn. Redemptions will be paid within 30 days after the date of withdrawal, and may be paid either in cash, in-kind or a combination of both.

NOTE 5 PLEDGES RECEIVABLE

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

	2012	2011
Due Within One Year	$ 395,627	$ 902,747
Two Through Five Years	1,412,618	441,923
More Than Five Years	76,285	97,439
	1,884,530	1,442,109
Discount	(45,271)	(48,479)
Total	$ 1,839,259	$ 1,393,630

NOTE 6 FURNITURE AND EQUIPMENT, NET

Furniture and equipment, net, is as follows at December 31, 2012 and 2011:

	2012	2011
Furniture and Equipment	$ 2,054,918	$ 1,906,827
Less: Accumulated Depreciation	(1,643,182)	(1,529,837)
Total	$ 411,736	$ 376,990

NOTE 7 RELATED-PARTY TRANSACTIONS

Contributions received from board members of the Foundation during 2012 and 2011 totaled $143,505 and $225,314, respectively. Pledges receivable from board members of the Foundation totaled $220,538 and $186,299 at December 31, 2012 and 2011, respectively.

NOTE 8 COMMITMENTS

On August 15, 2008, the Foundation entered into a lease with Health Care Property Investors, Inc. for space within the Minneapolis Heart Institute building which commenced on January 1, 2009. During 2012 the lease was amended to increase the square footage under lease. The non-cancelable operating lease extends through March 31, 2019. Rent expense in 2012 and 2011 was $285,281 and $272,243, respectively.

Future minimum lease payments as of December 31, 2012 are as follows:

Year Ending December 31,	Amount
2013	$ 332,913
2014	336,924
2015	340,935
2016	344,946
2017	348,957
Beyond	441,210
Total	$ 2,145,885

NOTE 9 UNRESTRICTED NET ASSETS

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

	2012	2011
Designated - Other:		
Physician Research	$ 395,821	$ 399,822
Projects/Reserves	578,372	1,090,662
Board Designated	325,455	354,404
Total Designated - Other	1,299,648	1,844,888
Designated - Endowments	3,575,066	3,101,483
Total Unrestricted	$ 4,874,714	$ 4,946,371

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
General Support	$ 70,106	$ 633,969
Charitable Trusts:		
R. Peterson Charitable Remainder Unitrust	116,856	109,631
Restricted Endowment Income	1,588,865	473,121
Research and Education Projects:		
Education Projects	1,348,004	339,180
Research Projects	107,159	110,399
Complementary Therapies Research	20,265	20,265
Hypertrophic Cardiomyopathy Research	-	60,450
Peripheral Artery Disease Research	-	21
International Outreach	19,349	16,452
Optimist and Stem Cell Research	1,001,504	32,000
Lead Registry Research	539,869	589,545
Electrophysiology Research	127,658	128,680
Imaging Research	73,095	100,171
Level One Education and Research	12,245	143,377
Radar Multicenter Trial	10,153	45,376
Women's Research	5,935	6,067
Waconia Research	5,000	55,050
Endovascular Research	9,400	29,800
Transplant Research	269,829	173,233
Total Research and Education Projects	3,549,465	1,850,066
Total Temporarily Restricted	$ 5,325,292	$ 3,066,787

NOTE 11 FOUNDATION ENDOWMENT FUNDS

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

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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

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

Endowment Net Asset Composition by Type of Fund

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	$ -	$ 1,588,865	$ 12,849,977	$ 14,438,842
Board-Designated	3,575,066	-	-	3,575,066
Total	$ 3,575,066	$ 1,588,865	$ 12,849,977	$ 18,013,908

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	$ -	$ 473,121	$ 12,339,952	$ 12,813,073
Board-Designated	3,101,483	-	-	3,101,483
Total	$ 3,101,483	$ 473,121	$ 12,339,952	$ 15,914,556

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

Changes in Endowment Net Assets for the Years Ending December 31:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	$ 3,101,483	$ 473,121	$ 12,339,952	$ 15,914,556
Investment Return:				
Income	70,358	281,462	-	351,820
Net Realized and Unrealized Gain	515,995	1,274,210	-	1,790,205
Total Investment Gain	586,353	1,555,672	-	2,142,025
Contributions	-	-	510,025	510,025
Appropriation of Endowment Assets for Expenditures	(112,770)	(439,928)	-	(552,698)
Endowment Net Assets - End of Year	$ 3,575,066	$ 1,588,865	$ 12,849,977	$ 18,013,908

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	$ 3,485,914	$ 1,146,831	$ 12,495,284	$ 17,128,029
Investment Return (Loss):				
Income	77,216	288,453	-	365,669
Net Realized and Unrealized Loss	(216,133)	(681,494)	-	(897,627)
Total Investment Loss	(138,917)	(393,041)	-	(531,958)
Contributions	-	-	219,668	219,668
Contribution Loss	-	-	(375,000)	(375,000)
Appropriation of Endowment Assets for Expenditures	(245,514)	(280,669)	-	(526,183)
Endowment Net Assets - End of Year	$ 3,101,483	$ 473,121	$ 12,339,952	$ 15,914,556

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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

Endowment funds as of December 31, 2012 and 2011 are as follows:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Founders Endowment	$ 1,812,865	$ 740,490	$ 5,897,943	$ 8,451,298
T. Peterson Endowment	-	10,894	34,323	45,217
Education Endowment	171,389	23,830	288,104	483,323
Gobel/Van Tassel Endowment	270,894	121,534	755,944	1,148,372
Nicoloff Endowment	206,286	420,703	1,003,614	1,630,603
Kiser Endowment	153,308	22,718	36,434	212,460
Transplant Endowment	585,483	-	-	585,483
Giel Endowment	374,841	225,850	4,680,420	5,281,111
Thomas Ireland Endowment	-	21,978	103,195	125,173
Patient Safety Endowment	-	868	50,000	50,868
Total	$ 3,575,066	$ 1,588,865	$ 12,849,977	$ 18,013,908

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Founders Endowment	$ 1,652,232	$ 152,282	$ 5,897,943	$ 7,702,457
T. Peterson Endowment	-	6,875	34,323	41,198
Education Endowment	152,284	-	288,104	440,388
Gobel/Van Tassel Endowment	246,828	43,582	755,944	1,046,354
Nicoloff Endowment	180,925	245,580	1,003,614	1,430,119
Kiser Endowment	134,458	15,446	36,434	186,338
Transplant Endowment	533,470	-	-	533,470
Giel Endowment	201,286	-	4,240,395	4,441,681
Thomas Ireland Endowment	-	9,356	83,195	92,551
Total	$ 3,101,483	$ 473,121	$ 12,339,952	$ 15,914,556

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce a targeted investment return of 8% annually over a long-term horizon. Actual returns in any given year may vary from this amount.

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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

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

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

NOTE 12 PENSION PLAN

The Foundation has a defined contribution plan covering all employees who meet the eligibility requirements of the plan. The Foundation makes annual contributions to the plan in an amount equal to 7.5% of base employee compensation, which includes incentive compensation. Employees may also voluntarily contribute to the plan. Employees are vested in the Employer contributions to the plan based upon years of service. On September 1, 2011, the Foundation converted the defined contribution plan into a 401(k) plan. Under the 401(k) plan, the Foundation contributed 5% of W-2 compensation for eligible employees. The Foundation also matches, on a one-to-one basis, up to 2.5% of an employee's contribution into the 401(k). Pension expense for the plan was $301,647 and $262,359 in 2012 and 2011, respectively.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
SUPPLEMENTARY SCHEDULE
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2012

	Operations	Funds with Time or Purpose Restriction	Endowments	Total
SUPPORT AND REVENUES				
Contributions	$ 964,330	$ 41,450	$ 510,025	$ 1,515,805
Special Events	383,084	-	-	383,084
Grants	1,491,794	2,558,641	-	4,050,435
Sublicense Revenue	783,475	-	-	783,475
Research Study Revenues	3,433,592	-	-	3,433,592
Income from Services	171,684	-	-	171,684
Investment Gain	1,040	-	2,142,026	2,143,066
Net Assets Released from Restrictions	1,464,296	(1,464,296)	-	-
Net Assets Released - Endowment Earnings	552,698	-	(552,698)	-
Change in Value of Split-Interest Agreements	(19,196)	7,225	-	(11,971)
Contribution Gain	(4,000)	(260)	-	(4,260)
Total Support and Revenues	9,222,797	1,142,760	2,099,353	12,464,910
OPERATING EXPENSES				
Payroll Costs	6,477,674	-	-	6,477,674
Professional Services	850,288	-	-	850,288
Research Study Costs	933,320	-	-	933,320
Occupancy Costs	487,796	-	-	487,796
Travel and Meetings	324,484	-	-	324,484
Office and Supplies	274,838	-	-	274,838
Community Relations	50,370	-	-	50,370
Other Expenses	239,018	-	-	239,018
Total Operating Expenses	9,637,788	-	-	9,637,788
NET OPERATING (LOSS) INCOME	(414,991)	1,142,760	2,099,353	2,827,122
NONOPERATING EXPENSES				
Depreciation	130,249	-	-	130,249
BOARD DESIGNATED FUNDS	28,949	(28,949)	-	-
CHANGE IN NET ASSETS	$ (516,291)	$ 1,113,811	$ 2,099,353	$ 2,696,873