

MINNEAPOLIS HEART INSTITUTE FOUNDATION

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE**

YEARS ENDED DECEMBER 31, 2013 AND 2012

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
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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, 2013 and 2012, 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, 2013 and 2012, 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 3, 2014

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	\$ 1,447,014	\$ 2,602,402
Investments (Note 3)	21,444,982	18,210,552
Contributions Receivable	2,983,772	170,285
Pledges Receivable (Net of Allowance of \$317,000 and \$360,000 in 2013 and 2012, Respectively) (Notes 5 and 7)	1,321,711	1,839,259
Other Receivables	1,238,239	1,612,491
Other Assets	83,319	60,871
Furniture and Equipment, Net (Note 6)	324,270	411,736
Total Assets	\$ 28,843,307	\$ 24,907,596
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 411,841	\$ 331,239
Accrued Payroll Costs	347,771	324,409
Accrued Pension and Deferred Compensation	448,734	395,885
Accrued Research and Study Costs	268,800	321,766
Annuity Payment Liability	127,354	136,074
Deferred Rent	177,590	192,598
Deferred Research Study Revenues	168,600	155,642
Total Liabilities	1,950,690	1,857,613
NET ASSETS		
Unrestricted:		
Designated - Other (Note 9)	1,016,506	1,299,648
Designated - Endowments (Note 9)	4,085,757	3,575,066
Net Assets - Unrestricted	5,102,263	4,874,714
Temporarily Restricted (Note 10):		
General Support	116,629	70,106
Charitable Trusts	116,355	116,856
Restricted Endowment Income	3,627,207	1,588,865
Research and Education Projects	5,068,316	3,549,465
Net Assets - Temporarily Restricted	8,928,507	5,325,292
Permanently Restricted:		
Endowments (Note 11)	12,861,847	12,849,977
Total Net Assets	26,892,617	23,049,983
Total Liabilities and Net Assets	\$ 28,843,307	\$ 24,907,596

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES								
Contributions	\$ 1,453,495	\$ 602,669	\$ 69,936	\$ 2,126,100	\$ 964,330	\$ 41,450	\$ 510,025	\$ 1,515,805
Special Events, Net of Expenses of \$264,172 and \$292,116 in 2013 and 2012, Respectively	263,673	-	-	263,673	383,084	-	-	383,084
Grants	1,216,024	2,385,506	-	3,601,530	1,491,794	2,558,641	-	4,050,435
Sublicense Revenue	800,833	-	-	800,833	783,475	-	-	783,475
Research Study Revenues	3,814,850	-	-	3,814,850	3,433,592	-	-	3,433,592
Income from Services	299,864	-	-	299,864	171,684	-	-	171,684
Investment Gain (Note 3)	633,946	2,504,586	-	3,138,532	587,388	1,555,678	-	2,143,066
Net Assets Released from Restrictions	1,889,045	(1,889,045)	-	-	1,904,229	(1,904,229)	-	-
Change in Value of								
Split-Interest Agreements	(15,477)	(501)	-	(15,978)	(19,196)	7,225	-	(11,971)
Contribution Loss	(5,500)	-	(58,066)	(63,566)	(4,000)	(260)	-	(4,260)
Total Support and Revenues	<u>10,350,753</u>	<u>3,603,215</u>	<u>11,870</u>	<u>13,965,838</u>	<u>9,696,380</u>	<u>2,258,505</u>	<u>510,025</u>	<u>12,464,910</u>
EXPENSES								
Program Services:								
Education	2,262,865	-	-	2,262,865	1,759,534	-	-	1,759,534
Research	5,691,335	-	-	5,691,335	5,779,321	-	-	5,779,321
Total Program Services	<u>7,954,200</u>	<u>-</u>	<u>-</u>	<u>7,954,200</u>	<u>7,538,855</u>	<u>-</u>	<u>-</u>	<u>7,538,855</u>
Supporting Services:								
Fund Raising	801,671	-	-	801,671	841,168	-	-	841,168
General and Administrative	1,367,333	-	-	1,367,333	1,388,014	-	-	1,388,014
Total Supporting Services	<u>2,169,004</u>	<u>-</u>	<u>-</u>	<u>2,169,004</u>	<u>2,229,182</u>	<u>-</u>	<u>-</u>	<u>2,229,182</u>
Total Expenses	<u>10,123,204</u>	<u>-</u>	<u>-</u>	<u>10,123,204</u>	<u>9,768,037</u>	<u>-</u>	<u>-</u>	<u>9,768,037</u>
CHANGE IN NET ASSETS	227,549	3,603,215	11,870	3,842,634	(71,657)	2,258,505	510,025	2,696,873
Net Assets, Beginning of Year	<u>4,874,714</u>	<u>5,325,292</u>	<u>12,849,977</u>	<u>23,049,983</u>	<u>4,946,371</u>	<u>3,066,787</u>	<u>12,339,952</u>	<u>20,353,110</u>
NET ASSETS, END OF YEAR	<u>\$ 5,102,263</u>	<u>\$ 8,928,507</u>	<u>\$ 12,861,847</u>	<u>\$ 26,892,617</u>	<u>\$ 4,874,714</u>	<u>\$ 5,325,292</u>	<u>\$ 12,849,977</u>	<u>\$ 23,049,983</u>

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013				2012			
	Program Services	Fund-Raising	General and Administrative	Total	Program Services	Fund-Raising	General and Administrative	Total
Salaries and Wages	\$ 4,020,682	\$ 508,828	\$ 773,565	\$ 5,303,075	\$ 4,074,457	\$ 521,218	\$ 764,866	\$ 5,360,541
Payroll Taxes and Employee Benefits	853,721	102,030	167,415	1,123,166	876,451	89,365	151,316	1,117,132
Outside Services	1,846,025	34,513	137,691	2,018,229	1,495,589	73,540	88,255	1,657,384
Community Relations	59,808	15,548	3,258	78,614	56,244	17,871	13,631	87,746
Rent	429,553	51,750	76,278	557,581	385,294	45,209	57,294	487,797
Equipment Maintenance	63,360	9,198	4,495	77,053	50,615	11,268	4,709	66,592
Legal and Accounting	-	-	33,281	33,281	39,291	-	86,933	126,224
Insurance	32,926	-	10,740	43,666	30,488	-	10,221	40,709
Printing and Publication	25,002	30,851	698	56,551	28,409	27,388	606	56,403
Travel	351,990	5,924	30,126	388,040	263,596	20,966	39,922	324,484
Telephone	51,370	3,644	2,492	57,506	30,463	2,468	1,581	34,512
Office and Supplies	83,979	18,517	6,559	109,055	89,878	15,278	7,572	112,728
Audio Visual	4,026	680	300	5,006	3,052	650	903	4,605
Depreciation	54,090	11,379	69,780	135,249	55,098	11,178	63,973	130,249
Miscellaneous	77,668	8,809	22,270	108,747	59,930	4,769	27,057	91,756
Provision for Bad Debts	-	-	28,385	28,385	-	-	69,175	69,175
	<u>\$ 7,954,200</u>	<u>\$ 801,671</u>	<u>\$ 1,367,333</u>	<u>\$ 10,123,204</u>	<u>\$ 7,538,855</u>	<u>\$ 841,168</u>	<u>\$ 1,388,014</u>	<u>\$ 9,768,037</u>

See accompanying Notes to Financial Statements.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 3,842,634	\$ 2,696,873
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Permanently Restricted Contributions	(69,936)	(510,025)
Net Realized Gain on Investments	(873,168)	(249,947)
Net Unrealized Gain on Investments	(2,030,322)	(1,540,508)
Depreciation	135,248	130,249
Change in Value of Split-Interest Agreements	15,477	19,196
Changes in Assets and Liabilities:		
Contributions Receivable	(2,813,487)	(19,725)
Unrestricted and Temporarily Restricted Pledges Receivable	437,505	(535,570)
Other Receivables	374,252	(282,001)
Other Assets	(22,448)	(30,741)
Accounts Payable	80,602	4,399
Accrued Payroll Costs	23,362	(58,811)
Accrued Pension and Deferred Compensation	52,849	48,615
Accrued Research Study Costs	(52,966)	(68,764)
Accrued Rent	(15,008)	7,058
Deferred Research Study Revenue	12,958	16,702
Net Cash Used by Operating Activities	(902,448)	(373,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	(47,782)	(164,995)
Purchase of Investments	(6,111,258)	(3,641,644)
Proceeds from Sale of Investments	5,780,318	3,218,717
Net Cash Used by Investing Activities	(378,722)	(587,922)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to Annuitants	(24,197)	(24,202)
Change in Permanently Restricted Pledges Receivable	80,043	89,941
Permanently Restricted Contributions	69,936	510,025
Net Cash Provided by Financing Activities	125,782	575,764
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,155,388)	(385,158)
Cash and Cash Equivalents - Beginning of Year	2,602,402	2,987,560
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,447,014	\$ 2,602,402

See accompanying Notes to Financial Statements.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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.

Contributions receivable are current contributions anticipated to be collected within the following year. Pledges receivable are multi-year contributions that are expected to be received over several years.

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.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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 2013 and 2012 for unrecognized tax benefits.

The Foundation's 2010 through 2012 tax years are open for examination by federal and state taxing authorities.

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.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 3, 2014, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to agree with the current year presentation. The reclassification had no effect on the change in net assets or total net assets as previously reported.

NOTE 3 INVESTMENTS

Investments consist of the following at December 31, 2013 and 2012:

	2013	2012
US Large Cap Equity	\$ 6,284,062	\$ 4,687,902
US Small/Mid Cap Equity	2,828,597	3,105,549
International Equity	4,363,324	3,602,576
Fixed Income	5,501,263	5,018,307
Real Estate	66,987	103,259
Hedge Fund of Funds	2,400,749	1,692,959
Total	<u>\$ 21,444,982</u>	<u>\$ 18,210,552</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 3 INVESTMENTS (CONTINUED)

Investment gain consists of the following for the years ended December 31, 2013 and 2012:

	2013	2012
Interest and Dividends Net of Investment Expenses of \$66,791 and \$62,161 in 2013 and 2012, Respectively	\$ 235,042	\$ 352,611
Net Realized Gains	873,168	249,947
Net Unrealized Gains	2,030,322	1,540,508
Total	\$ 3,138,532	\$ 2,143,066

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 tables summarize the Foundation's assets that were accounted for at fair value hierarchy of ASC 820, as of December 31:

<u>Description</u>	2013			Total
	Level 1	Level 2	Level 3	
Investments:				
US Large Cap Equity	\$ 6,284,062	\$ -	\$ -	\$ 6,284,062
US Small/Mid Cap Equity	1,536,269	1,292,328	-	2,828,597
International Equity	4,363,324	-	-	4,363,324
Fixed Income	4,362,026	1,139,237	-	5,501,263
Real Estate	-	-	66,987	66,987
Multi-Strategy Fund of Funds	-	-	2,400,749	2,400,749
Remainder Unitrust	-	-	116,355	116,355
Total	\$ 16,545,681	\$ 2,431,565	\$ 2,584,091	\$ 21,561,337

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Description	2012			Total
	Level 1	Level 2	Level 3	
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
Multi-Strategy Fund of Funds	-	-	1,692,959	1,692,959
Remainder Unitrust	-	-	116,856	116,856
Total	<u>\$ 13,405,323</u>	<u>\$ 3,009,011</u>	<u>\$ 1,913,074</u>	<u>\$ 18,327,408</u>

The following table is a roll forward of the Level 3 investments during the years ended December 31, 2013 and 2012:

	Interest in Charitable			Total
	Real Estate Funds	Remainder Unitrust	Multi-Strategy Fund of Funds	
Beginning Balance at January 1, 2012	\$ 231,248	\$ 109,631	\$ 966,191	\$ 1,307,070
Total Realized and Unrealized Gains (Losses)	(127,989)	7,225	76,768	(43,996)
Purchases, Sales, Issuance, and Settlement (Net)	-	-	650,000	650,000
Ending Balance at December 31, 2012	103,259	116,856	1,692,959	1,913,074
Total Realized and Unrealized Gains (Losses)	(36,272)	(501)	207,790	171,017
Purchases, Sales, Issuance, and Settlement (Net)	-	-	500,000	500,000
Ending Balance at December 31, 2013	<u>\$ 66,987</u>	<u>\$ 116,355</u>	<u>\$ 2,400,749</u>	<u>\$ 2,584,091</u>

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.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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, 2013 and 2012 are as follows:

	2013			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	\$ 2,400,749	\$ -	Not Applicable	Not Applicable
Real Estate Funds (2)	66,987	-	Not Applicable	Not Applicable
Small-Midcap Funds (3)	1,292,328	-	Monthly	10 to 30 Days
Fixed Income Funds (4)	1,139,237	-	Monthly	60 Days
Total	<u>\$ 3,760,064</u>	<u>\$ -</u>		

	2012			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Fund of Funds (1)	\$ 1,692,959	\$ -	Not Applicable	Not Applicable
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	<u>\$ 3,730,852</u>	<u>\$ -</u>		

- (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.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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

- (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.
- (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:

	2013	2012
Due Within One Year	\$ 316,540	\$ 395,627
Two Through Five Years	684,291	1,412,618
More Than Five Years	395,435	76,285
	1,396,266	1,884,530
Discount	(74,555)	(45,271)
Total	\$ 1,321,711	\$ 1,839,259

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 6 FURNITURE AND EQUIPMENT, NET

Furniture and equipment, net, is as follows at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Furniture and Equipment	\$ 1,021,959	\$ 2,054,918
Less: Accumulated Depreciation	(697,689)	(1,643,182)
Total	<u>\$ 324,270</u>	<u>\$ 411,736</u>

NOTE 7 RELATED-PARTY TRANSACTIONS

Contributions received from board members of the Foundation during 2013 and 2012 totaled \$121,827 and \$143,505, respectively. Pledges receivable from board members of the Foundation totaled \$165,538 and \$220,538 at December 31, 2013 and 2012, 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 2013 and 2012 was \$332,913 and \$285,281, respectively.

Future minimum lease payments as of December 31, 2013 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 336,924
2015	340,935
2016	344,946
2017	348,957
2018	352,968
Beyond	88,242
Total	<u>\$ 1,812,972</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 9 UNRESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Designated - Other:		
Physician Research	\$ 389,559	\$ 395,821
Projects/Reserves	318,512	578,372
Board Designated	<u>308,435</u>	<u>325,455</u>
Total Designated - Other	1,016,506	1,299,648
Designated - Endowments	<u>4,085,757</u>	<u>3,575,066</u>
Total Unrestricted	<u><u>\$ 5,102,263</u></u>	<u><u>\$ 4,874,714</u></u>

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
General Support	\$ 116,629	\$ 70,106
Charitable Trusts:		
R. Peterson Charitable Remainder Unitrust	116,355	116,856
Restricted Endowment Income	3,627,207	1,588,865
Research and Education Projects:		
Education Projects	2,924,025	1,348,004
Research Projects	403,919	107,159
Complementary Therapies Research	20,265	20,265
Hypertrophic Cardiomyopathy Research	150,000	-
International Outreach	53,193	19,349
Optimist and Stem Cell Research	624,111	1,001,504
Lead Registry Research	421,300	539,869
Electrophysiology Research	123,241	127,658
Imaging Research	88,734	73,095
Level One Education and Research	-	12,245
Radar Multicenter Trial	-	10,153
Women's Research	5,935	5,935
Structural Research	3,486	-
Waconia Research	-	5,000
Endovascular Research	-	9,400
Transplant Research	<u>250,107</u>	<u>269,829</u>
Total Research and Education Projects	<u>5,068,316</u>	<u>3,549,465</u>
Total Temporarily Restricted	<u><u>\$ 8,928,507</u></u>	<u><u>\$ 5,325,292</u></u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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.

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

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

Endowment Net Asset Composition by Type of Fund

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted	\$ -	\$ 3,627,207	\$ 12,861,847	\$ 16,489,054
Board-Designated	4,085,757	-	-	4,085,757
Total	<u>\$ 4,085,757</u>	<u>\$ 3,627,207</u>	<u>\$ 12,861,847</u>	<u>\$ 20,574,811</u>
	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	<u>\$ 3,575,066</u>	<u>\$ 1,588,865</u>	<u>\$ 12,849,977</u>	<u>\$ 18,013,908</u>

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

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ 3,575,066	\$ 1,588,865	\$ 12,849,977	\$ 18,013,908
Investment Return:				
Income	47,418	187,507	-	234,925
Net Realized and Unrealized Gain	586,374	2,317,080	-	2,903,454
Total Investment Gain	633,792	2,504,587	-	3,138,379
Contributions	-	-	69,936	69,936
Contribution Loss	-	-	(58,066)	(58,066)
Appropriation of Endowment Assets for Expenditures	(123,101)	(466,245)	-	(589,346)
Endowment Net Assets - End of Year	<u>\$ 4,085,757</u>	<u>\$ 3,627,207</u>	<u>\$ 12,861,847</u>	<u>\$ 20,574,811</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>\$ 3,575,066</u>	<u>\$ 1,588,865</u>	<u>\$ 12,849,977</u>	<u>\$ 18,013,908</u>

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

Endowment funds as of December 31, 2013 and 2012 are as follows:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Founders Endowment	\$ 2,065,564	\$ 1,665,832	\$ 5,906,310	\$ 9,637,706
T. Peterson Endowment	-	17,222	34,323	51,545
Education Endowment	195,377	67,487	288,104	550,968
Gobel/Van Tassel Endowment	308,808	244,343	757,444	1,310,595
Nicoloff Endowment	243,906	680,441	1,003,614	1,927,961
Kiser Endowment	181,265	33,505	36,434	251,204
Transplant Endowment	667,425	-	-	667,425
Giel Endowment	423,412	863,088	4,662,423	5,948,923
Thomas Ireland Endowment	-	45,145	123,195	168,340
Patient Safety Endowment	-	10,144	50,000	60,144
Total	<u>\$ 4,085,757</u>	<u>\$ 3,627,207</u>	<u>\$ 12,861,847</u>	<u>\$ 20,574,811</u>

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 11 FOUNDATION ENDOWMENT FUNDS (CONTINUED)

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

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>\$ 3,575,066</u>	<u>\$ 1,588,865</u>	<u>\$ 12,849,977</u>	<u>\$ 18,013,908</u>

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.

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.

MINNEAPOLIS HEART INSTITUTE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 \$328,046 and \$301,647 in 2013 and 2012, respectively.

**MINNEAPOLIS HEART INSTITUTE FOUNDATION
SUPPLEMENTARY SCHEDULE
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2013**

	<u>Operations</u>	<u>Funds with Time or Purpose Restriction</u>	<u>Endowments</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 1,453,494	\$ 602,669	\$ 69,937	\$ 2,126,100
Special Events	263,673	-	-	263,673
Grants	1,216,023	2,385,507	-	3,601,530
Sublicense Revenue	800,833	-	-	800,833
Research Study Revenues	3,814,850	-	-	3,814,850
Income from Services	299,864	-	-	299,864
Investment Gain	153	-	3,138,379	3,138,532
Net Assets Released from Restrictions	1,422,801	(1,422,801)	-	-
Net Assets Released - Endowment Earnings	589,347	-	(589,347)	-
Change in Value of Split-Interest Agreements	(15,477)	(501)	-	(15,978)
Contribution Gain	(5,500)	-	(58,066)	(63,566)
Total Support and Revenues	<u>9,840,061</u>	<u>1,564,874</u>	<u>2,560,903</u>	<u>13,965,838</u>
OPERATING EXPENSES				
Payroll Costs	6,426,241	-	-	6,426,241
Professional Services	1,061,511	-	-	1,061,511
Research Study Costs	989,999	-	-	989,999
Occupancy Costs	557,580	-	-	557,580
Travel and Meetings	388,040	-	-	388,040
Office and Supplies	305,172	-	-	305,172
Community Relations	23,140	-	-	23,140
Other Expenses	236,272	-	-	236,272
Total Operating Expenses	<u>9,987,955</u>	<u>-</u>	<u>-</u>	<u>9,987,955</u>
NET OPERATING (LOSS) INCOME	(147,894)	1,564,874	2,560,903	3,977,883
NONOPERATING EXPENSES				
Depreciation	135,249	-	-	135,249
BOARD DESIGNATED FUNDS	<u>17,019</u>	<u>(17,019)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>\$ (266,124)</u>	<u>\$ 1,547,855</u>	<u>\$ 2,560,903</u>	<u>\$ 3,842,634</u>