HENNEPIN HEALTH FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

HENNEPIN HEALTH FOUNDATION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

INDEPENDENT AUDITORS' REPORT	**1**
FINANCIAL STATEMENTS	
BALANCE SHEETS	**2**
STATEMENTS OF ACTIVITIES	**3**
STATEMENTS OF CASH FLOWS	**5**
NOTES TO FINANCIAL STATEMENTS	**6**

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Hennepin Health Foundation
Minneapolis, Minnesota

We have audited the accompanying financial statements of Hennepin Health Foundation (a nonprofit organization), which comprise the balance sheets as of December 31, 2012 and 2011, 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.

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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hennepin Health 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 26, 2013

HENNEPIN HEALTH FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,387,573	$ 1,051,816
Accounts Receivable	43,897	22,326
Contributions Receivable, Net of Allowance	421,448	81,117
Inventory	107,292	96,694
Prepaid Expense	4,839	2,514
Total Current Assets	1,965,049	1,254,467
FURNITURE AND EQUIPMENT		
Furniture and Equipment	306,358	306,358
Accumulated Depreciation	(237,629)	(185,681)
Total Furniture and Equipment	68,729	120,677
OTHER ASSETS		
Certificates of Deposit	161,020	212,982
Art Collection	363,916	470,512
Total Other Assets	524,936	683,494
Total Assets	$ 2,558,714	$ 2,058,638
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 144,311	$ 153,184
Accrued Expense	21,278	26,858
Grants Payable	129,744	-
Due to Fiscal Agent	30,136	15,890
Total Current Liabilities	325,469	195,932
NET ASSETS		
Unrestricted	817,911	912,208
Temporarily Restricted	1,405,334	940,498
Permanently Restricted	10,000	10,000
Total Net Assets	2,233,245	1,862,706
Total Liabilities and Net Assets	$ 2,558,714	$ 2,058,638

See accompanying Notes to Financial Statements.

HENNEPIN HEALTH FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
SUPPORT AND REVENUE				
Support:				
Contributions	$ 90,958	$ 894,926	$ -	$ 985,884
Grants and Contracts	16,915	188,566	-	205,481
Non-Cash Contributions	1,315,048	43,780	-	1,358,828
Total Support	1,422,921	1,127,272	-	2,550,193
Revenue:				
Sales	1,007,797	-	-	1,007,797
Special Events, Net of Direct Expenses of $73,114 - 2012; $96,544 - 2011	-	203,395	-	203,395
Commissions	141,350	-	-	141,350
Investment Income	3,394	215	-	3,609
Realized and Unrealized Gain on Investments	(1,962)	-	-	(1,962)
Other Income	15,208	27	-	15,235
Net Assets Released from Restrictions	866,073	(866,073)	-	-
Total Revenue	2,031,860	(662,436)	-	1,369,424
Total Support and Revenue	3,454,781	464,836	-	3,919,617
EXPENSE				
Program Services:				
Retail Ventures	1,095,400	-	-	1,095,400
Innovation in Patient Care	993,019	-	-	993,019
Educating the Workforce of Tomorrow	222,634	-	-	222,634
Research	96,425	-	-	96,425
Critical Care	59,564	-	-	59,564
Total Program Services	2,467,042	-	-	2,467,042
Support Services:				
Management and General	490,177	-	-	490,177
Fund Raising	591,859	-	-	591,859
Total Support Services	1,082,036	-	-	1,082,036
Total Expense	3,549,078	-	-	3,549,078
CHANGE IN NET ASSETS	(94,297)	464,836	-	370,539
Net Assets - Beginning of Year	912,208	940,498	10,000	1,862,706
NET ASSETS - END OF YEAR	$ 817,911	$ 1,405,334	$ 10,000	$ 2,233,245

See accompanying Notes to Financial Statements

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
$ 70,238	$ 281,322	$ -	$ 351,560
7,322	196,338	-	203,660
1,105,474	43,780	-	1,149,254
1,183,034	521,440	-	1,704,474
851,308	-	-	851,308
-	208,475	-	208,475
129,731	-	-	129,731
6,738	215	-	6,953
(2,557)	4	-	(2,553)
1,255	5,032	-	6,287
415,355	(415,355)	-	-
1,401,830	(201,629)	-	1,200,201
2,584,864	319,811	-	2,904,675
961,967	-	-	961,967
681,967	-	-	681,967
167,718	-	-	167,718
145,954	-	-	145,954
36,339	-	-	36,339
1,993,945	-	-	1,993,945
418,036	-	-	418,036
535,491	-	-	535,491
953,527	-	-	953,527
2,947,472	-	-	2,947,472
(362,608)	319,811	-	(42,797)
1,274,816	620,687	10,000	1,905,503
$ 912,208	$ 940,498	$ 10,000	$ 1,862,706

HENNEPIN HEALTH FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	$ 370,539	$ (42,797)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	51,948	52,454
Unrealized Loss on Investments	1,962	2,514
Realized Loss on Investments	-	39
Donations to Art Collection	-	(6,693)
Write-offs from Art Collection	106,596	-
Donated Securities	-	-
(Increase) Decrease in Accounts Receivable	(21,571)	23,607
(Increase) Decrease in Contributions Receivable	(340,331)	227,892
(Increase) Decrease in Inventory	(10,598)	(13,174)
Increase in Prepaid Expense	(2,325)	(189)
Increase (Decrease) in Accounts Payable	(8,873)	(44,729)
Increase in Accrued Expense	(5,580)	3,231
Increase (Decrease) in Grants Payable	129,744	-
Increase (Decrease) in Due to Fiscal Agent	14,246	(46,827)
Net Cash Provided by Operating Activities	285,757	155,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Art Collection	-	(14,997)
Proceeds from Certificates of Deposit	50,000	100,000
Net Cash Provided by Investing Activities	50,000	85,003
NET INCREASE IN CASH AND CASH EQUIVALENTS	335,757	240,331
Cash and Cash Equivalents - Beginning of Year	1,051,816	811,485
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,387,573	$ 1,051,816

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Purpose

Hennepin Health Foundation (HHF) supports the mission of Hennepin County Medical Center (HCMC), Minnesota's largest public safety net and academic medical center. No one is turned away due to lack of insurance or inability to pay. HCMC is home to the largest and busiest trauma center in the state, and trains the majority of the physicians, nurses and other clinicians who care for the citizens of this state. HCMC's hospital and clinics serve more than 140,000 people from across the state making more than 350,000 visits each year. Hennepin Health Foundation raises and administers philanthropic support for HCMC in the following functional areas:

Innovations in Patient Care

Programs funded in this area help to meet urgent, unmet or unaffordable needs for HCMC patients, and to continuously improve the quality of patient care and satisfaction. Examples of funded programs include: Volunteer Services, the Inspire Arts Program, the Children's Literacy Program, the Women's Mental Health Program, the Chaplaincy Program, and a variety of hospital and clinic departmental funds for patient comfort and support.

Trauma and Critical Care

This area provides funding to patient care services related to HCMC's Level 1 Trauma designation. Funded programs include patient comfort in traumatic brain injury, the burn unit, stroke, heart health, poison control and toxicology care, care during and after transplant, and care in dealing with the effects of domestic violence, sexual assault, and child abuse and neglect.

Educating the Workforce of Tomorrow

HCMC is the state's primary training center for physicians, nurses, ancillary care, pre-hospital emergency personnel and other health professions. Funded programs include: the development of a health sciences education center to improve the quality of instruction and learning for trainees in the medicine, nursing and allied health professions, a scholarship program to assist employees in non-patient care areas in entering health careers, various ongoing training funds for hospital departments and clinics, a fund to support emergency medicine residency education and the Hennepin Medical History Center which collects, preserves, and interprets the history of HCMC, Metropolitan Medical Center, and its organizational predecessors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization Purpose (Continued)

Research

Searching for new ways to improve care is a commitment voiced in the mission of Hennepin County Medical Center, where medical research directed by the Minnesota Medical Research Foundation (MMRF) leads to breakthroughs in medical treatment and disease prevention. MMRF is the third largest nonprofit medical research organization in Minnesota and it ranks in the top seven percent of all institutions receiving research funding from the National Institutes of Health. Its philanthropic partner, the Foundation raises funds to support its research endeavors ranging from addiction and kidney disease to traumatic brain injury.

Financial Statement Presentations

Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of Hennepin Health Foundation and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control to carry out the purposes for which the organization exists. The net proceeds of the Gift Shops and the PeRx Coffee Kiosks are board designated to support the disbursement of grants throughout the HCMC Campus. The art collection is board designated to be displayed throughout HCMC. The reserves brought forward from the Service League are board designated to provide continuing financial stability to the Foundation.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by the actions of HHF or the passage of time.

Permanently Restricted – Accounts for the principal amount of the contributions accepted with the donor instruction that the principal be maintained perpetuity with the annual investment revenues available for current use or temporarily restricted as to purpose.

The Foundation has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and short-term investments that have a maturity of three months or less when purchased. The Foundation maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

Certificates of Deposit

Certificates of deposit are recorded at market value. The terms of the certificates range from 24 to 60 months, with the current Certificates all maturing in May 2013.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are recorded at net realizable value. The Foundation provides an allowance for bad debts using the reserve method, which is based on management judgment considering historical information. Merchandise is sold on an unsecured basis. Accounts more than 90 days past due are individually analyzed for collectability. In addition, an allowance is provided for other accounts when a significant pattern of uncollectability has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At December 31, 2012 and 2011, an allowance was not warranted.

Contributions Receivable

Contributions receivable are recorded at net realizable value. Conditional pledges are not included as support until such time as the conditions are substantially met. An allowance of $1,898 was recorded at December 31, 2012 and 2011. All contributions are due to be collected within 1 year.

Inventory

Inventories consist of merchandise on hand at the gift shop and are recorded at cost. Inventory is accounted for by the first-in, first-out method.

Art Collection

The Foundation has pieces of art located throughout the Hennepin County Medical Center, Inc. complex. The art is valued at cost or fair market value at the date of the purchase or donation. The Foundation typically only records pieces that are originals and signed prints. During 2012, the Foundation increased its capitalization threshold for pieces to $300 and reconciled the existing collection, which resulted in a write-off of $106,596.

Furniture and Equipment

All major expenditures for equipment are capitalized at cost. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contribution is recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted. Depreciation is computed through the use of the straight-line method over the assets' estimated useful lives.

Grants Payable

Unconditional grants are recorded as expense when approved by the Foundation's Board of Directors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Foundation's principal revenue sources are sales of gifts and merchandise, commissions from vending machines and coffee kiosks, non-cash contributions from Hennepin County Medical Center, Inc., and contributions from special events and charitable campaigns. Revenue is recognized when the product is delivered or the service is performed.

Non-Cash Contributions

Goods and services donated to the Foundation are recorded at the fair market value as determined by management at the time of receipt.

Functional Allocation of Expense

The cost of providing various program and other activities have been summarized on a functional basis in the statement of activities. Salaries and related expenses are allocated based on the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or support service, are allocated on the best estimates of management.

Estimates

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

Fair Value Measurement

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

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

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

Subsequent to initial recognition, the Foundation may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Income Taxes

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

The Foundation's 2009 - 2011 tax years are open for examination by federal and state taxing authorities. The Foundation files as a tax exempt organization, should that status be challenged in the future, all years since inception would be subject to review by the IRS.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 26, 2013, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS

Financial Instruments that potentially subject the Foundation to concentrations of credit risk consist principally of pledge receivables.

The Foundation had approximately 64% of its pledge receivable balance from 1 donor at the year ended December 31, 2012. The Foundation had approximately 25% of its pledge receivable balance from 1 donor at the year ended December 31, 2011.

NOTE 3 FAIR VALUE MEASUREMENT

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Partnership measures fair value refer to Note 1 - Summary of Significant Accounting Policies.

The following table presents the fair value hierarchy for the balances of assets and liabilities measured at fair value on a recurring basis as of December 31:

	2012			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit (Brokered)	$ -	$ 161,020	$ -	$ 161,020

	2011			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit (Brokered)	$ -	$ 212,982	$ -	$ 212,982

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets restricted as to purpose and time consists of the following at December 31:

	2012	2011
Innovations in Patient Care	$ 758,717	$ 377,434
Educating the Workforce of Tomorrow	466,956	449,426
Trauma/Critical Care	147,275	113,638
Other	32,386	-
Total	$ 1,405,334	$ 940,498

Net Assets Released From Restrictions

Net assets released from purpose restrictions totaled $919,034 and $415,355 for the years ended December 31, 2012 and 2011, respectively.

NOTE 5 ENDOWMENT

Permanently restricted net assets at December 31, 2012 and 2011, consist of a $10,000 endowment for the Rosenberg Acts of Kindness Fund, the earnings from which are temporarily restricted as to purpose.

Interpretation of Relevant Law

In August 2008, the Codification on Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to the Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Fund was issued. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original donor-restricted endowment gifts as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this stipulation, the Foundation classifies as permanently restricted net assets (a) the original value of cash gifts donated to the permanent endowment and (b) the discounted value of future gifts promised to the permanent endowment, net of allowances for uncollectible pledges.

The remaining portion of donor–restricted endowment funds 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 by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Spending Policy, Objectives and Strategies

The Foundation has adopted investment and spending policies for permanently restricted cash contributions that attempt to provide a predictable stream of funding to programs, while maintaining purchasing power. The annual investment withdrawal is calculated at 5% of the 3-year quarterly average of the investment market values at September 30th. All earnings from these funds are reflected as temporarily restricted net assets until appropriates for program expenditures.

NOTE 5 ENDOWMENT (CONTINUED)

Spending Policy, Objectives and Strategies (Continued)

Endowment net asset composition by type and changes in endowment net assets are as following for the years ended December 31:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Donor-Restricted Endowment Funds	$ -	$ 2,456	$ 10,000	$ 12,456

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Donor-Restricted Endowment Funds	$ -	$ 2,363	$ 10,000	$ 12,363

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Endowment Investments, January 1, 2011	$ -	$ 2,363	$ 10,000	$ 12,363
Investment Gain	-	722	-	722
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	-	(629)	-	(629)
Endowment Investments, December 31, 2012	$ -	$ 2,456	$ 10,000	$ 12,456

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Donor-Restricted Endowment Funds	$ -	$ 2,363	$ 10,000	$ 12,363
Endowment Investments, January 1, 2010	$ -	$ 2,278	$ 10,000	$ 12,278
Investment Gain	-	225	-	225
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	-	(140)	-	(140)
Endowment Investments, December 31, 2011	$ -	$ 2,363	$ 10,000	$ 12,363

NOTE 6 RELATED PARTY TRANSACTIONS

Certain personnel of the Foundation are employees of HCMC. HCMC is providing all administration costs of Hennepin Health Foundation, staff, supplies and services. For the years ended December 31, 2012 and 2011, total salaries and benefits paid by HCMC totaled $863,499 and $702,378 and donated goods and services totaled $362,813 and $312,084, respectively.

HCMC supports the Foundation by providing space for the general office, gift shop, coffee shop, and space for collections of the Hennepin Historical Center and the Inspire Arts Program. HCMC also provides computer usage, office supplies, and professional services utilized by the Foundation. The total estimated support of space and office equipment usage was $131,441 and $128,099 for the years ended December 31, 2012 and 2011, respectively.

The Foundation supports HCMC with monies given to maintain programs, provide urgent needs, assist in patient care and provide seed money for new initiatives. For the years ended December 31, 2012 and 2011, the Foundation disbursed $413,507 and $472,194, respectively, to HCMC.

As of December 31, 2012 and 2011, HCMC owed the Foundation $32,851 and $5,529, respectively, and the Foundation owed HCMC $109,437 and $96,578, respectively.

The Foundation received artwork valued at $1,075 and $6,693 for the years ended December 31, 2012 and 2011, respectively. The artwork is added to the Foundation's collection and is used and displayed by HCMC.

The Foundation serves as the fundraising portal of the HCMC campus, including its research partner, Minneapolis Medical Research Foundation. The Foundation dedicates a portion of its fundraising efforts to assist MMRF in providing start up and bridge funding for medical research.