

**THE METROHEALTH  
FOUNDATION, INC.**

**AUDITED  
FINANCIAL STATEMENTS**

**YEARS ENDED  
DECEMBER 31, 2013 AND  
2012**





# Dave Yost • Auditor of State

Board of Directors  
The MetroHealth Foundation, Inc.  
2500 Metrohealth Drive  
Cleveland, Ohio 44109

We have reviewed the *Independent Auditors' Report* of the The MetroHealth Foundation, Inc., Cuyahoga County, prepared by Barnes Wendling CPAs, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The The MetroHealth Foundation, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

May 12, 2014

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The MetroHealth Foundation, Inc.  
Cleveland, Ohio

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The MetroHealth Foundation, Inc. (a non-profit organization), a component unit of the MetroHealth System, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, and statements of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The MetroHealth Foundation, Inc. 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



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2014 on our consideration of The MetroHealth Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The MetroHealth Foundation, Inc.'s internal control over financial reporting and compliance.

*Barnes Wendling CPAs, Inc.*

Sheffield Village, Ohio  
April 1, 2014

The MetroHealth Foundation, Inc.

Statements of Financial Position

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,644,390	\$ 2,849,580
Promises to give, net ( <i>Note 2</i> )	2,002,757	1,414,922
Due from The MetroHealth System	950,000	-
Investments, at fair value	37,427,685	30,185,573
Equipment, net ( <i>Note 5</i> )	12,220	20,666
Other assets	210,287	140,485
Total assets	<u>\$ 43,247,339</u>	<u>\$ 34,611,226</u>
<b>Liabilities</b>		
Accounts payable and other	\$ 50,599	\$ 71,717
Annuity payment obligations	414,806	426,626
Grants payable to The MetroHealth System	1,049,162	1,436,154
Total liabilities	<u>1,514,567</u>	<u>1,934,497</u>
<b>Net Assets</b>		
Unrestricted:		
Operating	3,369,024	2,443,956
Board designated	1,254,108	1,211,248
Total unrestricted net assets	<u>4,623,132</u>	<u>3,655,204</u>
Temporarily restricted:		
Specific purpose funds ( <i>Note 8</i> )	23,801,564	19,265,975
Permanently restricted:		
Endowment ( <i>Note 7</i> )	13,308,076	9,755,550
Total net assets	<u>41,732,772</u>	<u>32,676,729</u>
Total liabilities and net assets	<u>\$ 43,247,339</u>	<u>\$ 34,611,226</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2013

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenue</b>				
Gifts and grants	\$ 2,193,713	\$ 4,505,507	\$ 2,012,883	\$ 8,712,103
Miscellaneous income	5,554	176,688	-	182,242
Investment income (Note 4)	1,060,328	2,940,004	1,862,375	5,862,707
Investment income transfer (Note 4)	-	322,732	(322,732)	-
Net assets released from restrictions	3,409,342	(3,409,342)	-	-
Total revenue	<u>6,668,937</u>	<u>4,535,589</u>	<u>3,552,526</u>	<u>14,757,052</u>
<b>Expenses</b>				
Grants and distributions	3,321,854	-	-	3,321,854
Fundraising expenses	1,607,456	-	-	1,607,456
Administrative expenses:				
Purchased services	493,621	-	-	493,621
Provision for bad debts	74,160	-	-	74,160
Other	203,918	-	-	203,918
Total administrative expenses	<u>771,699</u>	<u>-</u>	<u>-</u>	<u>771,699</u>
Total expenses	<u>5,701,009</u>	<u>-</u>	<u>-</u>	<u>5,701,009</u>
Increase in net assets	967,928	4,535,589	3,552,526	9,056,043
Net assets at beginning of year	3,655,204	19,265,975	9,755,550	32,676,729
Net assets at end of year	<u>\$ 4,623,132</u>	<u>\$ 23,801,564</u>	<u>\$ 13,308,076</u>	<u>\$ 41,732,772</u>

See notes to the financial statements.



The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue</b>				
Gifts and grants	\$ 2,123,655	\$ 3,118,889	\$ 382,362	\$ 5,624,906
Miscellaneous income	4,120	242,814	-	246,934
Investment income (Note 4)	964,067	2,165,986	895,089	4,025,142
Investment income transfer (Note 4)	-	211,205	(211,205)	-
Net assets released from restrictions	3,593,844	(3,593,844)	-	-
Total revenue	<u>6,685,686</u>	<u>2,145,050</u>	<u>1,066,246</u>	<u>9,896,982</u>
<b>Expenses</b>				
Grants and distributions	4,546,879	-	-	4,546,879
Fundraising expenses	1,345,308	-	-	1,345,308
Administrative expenses:				
Purchased services	445,463	-	-	445,463
Provision for bad debts	134,477	-	-	134,477
Unrelated business income tax (Note 9)	104,500	-	-	104,500
Other	477,421	-	-	477,421
Total administrative expenses	<u>1,161,861</u>	<u>-</u>	<u>-</u>	<u>1,161,861</u>
Total expenses	<u>7,054,048</u>	<u>-</u>	<u>-</u>	<u>7,054,048</u>
Increase in net assets	(368,362)	2,145,050	1,066,246	2,842,934
Net assets at beginning of year	3,714,673	17,120,925	8,998,197	29,833,795
Net asset transfer (Note 4)	308,893	-	(308,893)	-
Net assets at end of year	<u>\$ 3,655,204</u>	<u>\$ 19,265,975</u>	<u>\$ 9,755,550</u>	<u>\$ 32,676,729</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Operating activities</b>		
Increase in net assets	\$ 9,056,043	\$ 2,842,934
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation expense	8,446	4,962
Assignment of Premier Purchasing Partners, L.P.	-	1,116,642
Permanently restricted contributions	(2,012,883)	(382,362)
Net gain on investments	(5,008,647)	(3,345,562)
(Increase) decrease in assets:		
Promises to give, net	(587,835)	1,911
Due from The MetroHealth System	(950,000)	-
Other assets	(69,802)	(82,131)
Increase (decrease) in liabilities:		
Accounts payable and other	(21,118)	50,026
Annuity payment obligations	(11,820)	31,357
Grants payable to MetroHealth System	(386,992)	(268,991)
Income tax payable	-	(154,350)
Net cash and cash equivalents provided by (used in) operating activities	<u>15,392</u>	<u>(185,564)</u>
<b>Investing activities</b>		
Purchase of equipment	-	(25,628)
Proceeds from sale of investments	4,270,590	1,956,817
Purchase of investments	(6,504,055)	(2,728,958)
Net cash and cash equivalents used in investing activities	<u>(2,233,465)</u>	<u>(797,769)</u>
<b>Financing activities</b>		
Permanently restricted contributions	<u>2,012,883</u>	<u>382,362</u>
Net cash and cash equivalents provided by financing activities	<u>2,012,883</u>	<u>382,362</u>
Decrease in cash and cash equivalents	(205,190)	(600,971)
Cash and cash equivalents at beginning of year	<u>2,849,580</u>	<u>3,450,551</u>
Cash and cash equivalents at end of year	<u>\$ 2,644,390</u>	<u>\$ 2,849,580</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 354,200</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**1. Summary of Organization and Significant Accounting Policies**

The MetroHealth Foundation, Inc. (the Foundation) is a not-for-profit organization. The Foundation's purpose is to raise charitable funds and receive grants for the support of projects and goals of The MetroHealth System (the System). Certain administrative and philanthropy services are provided to the Foundation by the System and are recorded by the Foundation as an in-kind contribution with a corresponding expense.

A summary of significant accounting policies is presented below:

*Basis of Presentation* — Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (ASC) 958: *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets:

*Unrestricted Net Assets* — Unrestricted net assets result from public support and revenue not subject to donor imposed restrictions. Gifts and grants revenue includes gifts in-kind that are recorded at fair value as of the donation date. At December 31, 2013 and 2012, the Foundation's Board of Directors had designated \$1,254,108 and \$1,211,248, respectively, for specific future use.

*Temporarily Restricted Net Assets* — Temporarily restricted net assets are used to differentiate resources, the use of which has been restricted by the donors or grantors to a specific time period or purpose, from resources on which no external restrictions have been placed or which arise as a result of the operation of the Foundation. Temporarily restricted gifts and related investment income are recorded as an addition to temporarily restricted net assets in the period received.

*Permanently Restricted Net Assets* — Permanently restricted net assets (endowment funds) consist of amounts held in perpetuity for purposes designated by donors. Investment income from investments in permanently restricted net assets is recorded as an increase to the related temporarily restricted net assets. Unrealized gains and losses on investments are recorded as an addition or reduction to permanently restricted net assets in the period earned in accordance with the donor's intentions. In the event the market value of permanently restricted net assets falls below the original corpus of invested funds, the unrestricted fund balance is encumbered to maintain donor restricted endowment funds at the level required by donor stipulation. Earnings on investments of the endowment funds are expendable to support awards, education, and research activities.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**1. Summary of Organization and Significant Accounting Policies (continued)**

*Income Taxes* — The Foundation is an Ohio nonprofit corporation and was granted tax exempt status under Section 501(c) (3) of the Internal Revenue Code and is exempt from income tax on related income pursuant to Section 501(a) of the Code. The Foundation is required to pay income taxes on unrelated business income earned by the Foundation as discussed in Note 9.

*Use of Estimates* — The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* — The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. For purposes of the financial statements, cash held in investment managed accounts is classified as investments.

*Investments and Investment Income (Loss)* — ASC 958 provides that certain investments are stated at fair value based upon quoted market prices and changes in unrealized gains and losses are reflected in the statement of activities. Investment income includes realized gains and losses (the difference between proceeds received and average cost), unrealized gains and losses, interest, dividends, and fees.

*Annuity Payment Obligations* — The Foundation is the beneficiary of several gift annuity agreements that are managed by third party trustees. The assets held in trust are recorded at fair value at the date of initial recognition. At December 31, 2013 and 2012, total assets of \$657,058 and \$648,119 were held by the Foundation, which are included in investments on the statements of financial position.

Under the terms of the agreements, the Foundation is required to pay periodic fixed payments to beneficiaries during their lifetime. Upon death of the beneficiaries, the assets are to be retained for the Foundation's use. At December 31, 2013 and 2012, liabilities of \$414,806 and \$426,626 were recognized as obligations under annuity agreements. The liabilities represent the present value of the expected beneficiary payments calculated based on the estimated life of the beneficiary and a discount rate. The discount rates used to calculate the present value is 6%. Charitable gift annuities differ from other charitable giving options in that the annuity is a general obligation of the Foundation. Accordingly, if the assets of the gift are exhausted as a result of required payments to beneficiaries, unrestricted assets of the Foundation will be utilized to fund future payments.

*Contributions* — The Foundation recognizes contributions as revenue in the period in which the pledge (promise to give) is received.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**1. Summary of Organization and Significant Accounting Policies (continued)**

*Fair Value of Financial Instruments* – The Foundation adopted applicable sections of the Financial Accounting Standards Board Accounting Standards Codification (ASC) 820: *Fair Value Measurements and Disclosures* for financial assets and financial liabilities. In accordance with ASC 820, fair value is defined as the price the Foundation would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Foundation's investments. The inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Foundation's own assumptions in determining the fair value of the investments)

The input or methodology used for valuing investments is not necessarily an indication of the risk associated with maintaining those investments. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

There were no changes in valuation techniques in determining fair value of investments during the years ended December 31, 2013 and 2012.

Equity mutual funds, exchange traded funds, fixed income mutual funds, and money market funds are valued at quoted prices per share/unit, or other methods by which all significant inputs are observable, either directly or indirectly.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**1. Summary of Organization and Significant Accounting Policies (continued)**

The pooled investment fund, limited partnership interests and common stock - private are valued at market value from reports provided by the investment managers and validated by management and its investment advisor, accordingly specific valuation inputs are not disclosed. Because of the inherent uncertainty of the value terms, the fair values may differ significantly from values that would have been used had a ready market for these investments existed.

The units of account valued by the Foundation are its interest in limited partnerships or other financial instruments and not the underlying holdings of such limited partnerships or other financial instruments. Thus, the inputs used by the Foundation to value its investments in each of the limited partnerships or other financial instruments may differ from the inputs used to value the underlying holdings of such limited partnerships or other financial instruments.

The following is a summary of the inputs used as of December 31, 2013 in valuing the Foundation's investments carried at fair value:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$1,781,900	\$1,781,900	\$-0-	
Common stock - private	25,500			\$ 25,500
Equity mutual funds				
Foreign large blend	2,464,294	2,464,294		
Foreign large growth	2,353,975	2,353,975		
Diversified emerging markets	1,256,588	1,256,588		
Large blend	7,023,236	7,023,236		
Large growth	2,996,887	2,996,887		
Mid-cap growth	662,661	662,661		
Foreign small/mid growth	869,918	869,918		
Small blend	1,025,537	1,025,537		
Small growth	1,032,047	1,032,047		
Total equity mutual funds	<u>19,685,143</u>	<u>19,685,143</u>		
Exchange traded funds:				
Large value	3,323,866	3,323,866		
Mid-cap value	609,599	609,599		
Total exchange traded funds	<u>3,933,465</u>	<u>3,933,465</u>		
Fixed income mutual funds:				
Intermediate-term bonds	4,768,759	4,768,759		
Multi-sector bond	4,192,666	4,192,666		
Total fixed income mutual funds	<u>8,961,425</u>	<u>8,961,425</u>		
Pooled investment fund	1,049,742			1,049,742
Limited partnership interests	1,990,510			1,990,510
Total	<u>\$37,427,685</u>	<u>\$34,361,933</u>	<u>\$-0-</u>	<u>\$3,065,752</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**1. Summary of Organization and Significant Accounting Policies (continued)**

The following is a summary of the inputs used as of December 31, 2012 in valuing the Foundation's investments carried at fair value:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 1,475,951	\$ 1,475,951	\$ -0-	
Common stock - private	41,285			\$ 41,285
Equity mutual funds				
Foreign large blend	2,437,541	2,437,541		
Foreign large value	1,678,077	1,678,077		
Large blend	5,671,428	5,671,428		
Large growth	3,111,005	3,111,005		
Mid-cap growth	574,584	574,584		
Foreign small/mid growth	1,811,742	1,811,742		
Small blend	1,000,295	1,000,295		
Small growth	<u>929,674</u>	<u>929,674</u>		
Total equity mutual funds	17,214,346	17,214,346		
Exchange traded funds:				
Large value	1,423,997	1,423,997		
Mid-cap value	<u>1,623,627</u>	<u>1,623,627</u>		
Total exchange traded funds	3,047,624	3,047,624		
Fixed income mutual funds:				
Intermediate-term bonds	4,582,717	4,582,717		
Multi-sector bond	<u>1,277,025</u>	<u>1,277,025</u>		
Total fixed income mutual funds	5,859,742	5,859,742		
Limited partnership interests	<u>2,546,625</u>			<u>2,546,625</u>
Total	<u>\$30,185,573</u>	<u>\$27,597,663</u>	<u>\$ -0-</u>	<u>\$ 2,587,910</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**1. Summary of Organization and Significant Accounting Policies (continued)**

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>2013</u>	<u>2012</u>
Balance as of January 1	\$ 2,587,910	\$ 2,679,538
Net purchases of Limited Partnership interest	-0-	638,000
Net purchases of Pooled Investment Fund	1,000,000	-0-
Transfer of Premier investment	-0-	( 1,116,642)
Net sales of Limited Partnership interest	( 770,544)	-0-
Net change in unrealized and realized gains (losses)	248,386	387,014
Balance as of December 31	<u>\$ 3,065,752</u>	<u>\$ 2,587,910</u>
Net unrealized appreciation from investments in limited partnerships, pooled investment funds and common stock – private, still held as of December 31	<u>\$ 290,685</u>	<u>\$ 15,444</u>

*Equipment* — Equipment is stated at purchased cost. The cost of equipment purchased in excess of \$1,000 is capitalized. Depreciation is taken on the straight-line method over three years, the estimated useful life of the assets. Gains and losses arising from the sale or disposal of equipment are accounted for in the unrestricted net assets. Maintenance and repairs are charged to expense when incurred. Depreciation expense for the years ended December 31, 2013 and 2012 is \$8,446 and \$4,962 respectively.

*Donated Services* — Donated services are recognized as contributions in accordance with ASC 958, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

*Subsequent Events* — The Foundation has evaluated subsequent events through April 1, 2014 the date which these financial statements were available to be issued.

*Reclassifications* — Certain amounts from the 2012 financial statements have been reclassified to conform with the 2013 presentation.



The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**2. Promises to Give**

Pledge receivables are recorded at net present value using a variable discount rate, 1.4% for 2013 and ranging from 1.4% to 3.4% for 2012, less an allowance for uncollectible accounts, and are due in future years at December 31, as follows:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ <b>1,198,253</b>	\$ 769,505
One to five years	<b>1,000,186</b>	781,453
Six to ten years	<b>7,250</b>	-0-
	<u><b>2,205,689</b></u>	<u>1,550,958</u>
Allowance for uncollectible pledges and present value discount	<u>( <b>202,932</b> )</u>	<u>( 136,036 )</u>
	<u><b>\$ 2,002,757</b></u>	<u>\$ 1,414,922</u>

**3. Conditional Promises to Give**

The Foundation received a conditional pledge of \$10,000,000 commencing in 2005 payable over the next 10 years at \$1,000,000 per year. The outstanding balance of \$1,239,816 and \$2,414,816 at December 31, 2013 and 2012, respectively, is not included in these financial statements in accordance with ASC 958.

**4. Investments**

Investment income for the years ending December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ <b>925,212</b>	\$ 745,727
Net realized gains	<b>313,792</b>	375,803
Net unrealized gains	<b>4,694,855</b>	2,969,759
Less investment management fees	<u>( <b>71,152</b> )</u>	<u>( 66,147 )</u>
	<u><b>\$ 5,862,707</b></u>	<u>\$ 4,025,142</u>

The Foundation's investments had cumulative unrealized gains of \$6,356,143 and \$1,921,220 and cumulative unrealized losses of \$87,904 and \$280,850 at December 31, 2013 and 2012, respectively.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**4. Investments (continued)**

The investment and spending policies of the Foundation provide for realized gains and losses, interest, and dividends from endowed investments to be classified as temporarily restricted in accordance with the donors' intent. Unrealized gains and losses from endowed investments are maintained as permanently restricted unless the market value of permanently restricted net assets falls below the corpus. In that event, the unrestricted fund balance is encumbered to maintain donor restricted endowment funds at the level required by donor stipulation. In 2008 and 2011, the Foundation transferred \$1,876,905 and \$91,621, respectively, to maintain the corpus of the endowment. The Foundation transferred funds from the permanently restricted net assets back to unrestricted net assets because the level required by donor stipulations had been partially recovered in 2009 and 2010. In 2012, the Foundation fully restored previously transferred funds with the \$308,893 transfer to unrestricted net assets. Additionally, due to financial market conditions, the Board may restore temporarily restricted net assets from unrestricted funds to support the commitments of donor-driven gifts or grants.

**5. Equipment**

Equipment at December 31, 2013 and 2012 consisted of the following:

	<b>2013</b>	2012
Software and office equipment	<b>\$ 25,628</b>	\$ 25,628
Less: accumulated depreciation	<b>13,408</b>	4,962
Equipment, net of accumulated depreciation	<b>\$ 12,220</b>	\$ 20,666

**6. Related Party Transactions**

The System submits grant proposals to the Foundation. It also requests distributions of funds as expenses are incurred by the System that are consistent with the Foundation's fund purposes. Grants and distributions payable of \$1,049,162 and \$1,436,154 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, there were no outstanding grant requests. The MetroHealth System identified in-kind support to the Foundation for 2013 and 2012 representing purchased services, rent and other expenses which are included in these financial statements in the amount of \$1,651,823 and \$1,374,711, respectively.

In addition, on July 31, 2012, the Foundation assigned its interest in Premier Purchasing Partners, L.P., with a fair value of \$1,116,642 on the transfer date, to the System. The transfer of Premier Purchasing Partners, L.P. is included with grants and distributions on the Statement of Activities and Changes in Net Assets for the year ended December 31, 2012.

In December 2013, the System pledged a contribution of \$950,000 to the Foundation. The amount was received by the Foundation in January 2014.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**7. Permanently Restricted Net Assets**

Permanently restricted assets at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Anesthesiology	\$ 75,887	\$ 58,369
Community Health	1,149,344	1,028,138
Dentistry	29	26
Dermatology	112,358	100,510
Emergency Medicine	21,894	16,256
Heart and Vascular	1,057,113	635,780
Medical Education	507,824	435,040
Medical Specialties	187,306	154,948
Nursing	6,993	6,256
Orthopedics	2,642,730	2,370,392
Pastoral Care	13,452	12,033
Pathology	1,706	1,526
Pediatrics	547,962	486,398
Physical Medicine and Rehabilitation	1,310,939	1,162,174
Primary Care	58,884	48,923
Psychiatry	16,879	1,701
Radiology	7,262	6,496
Research	1,851,713	1,604,395
Social Work	506,708	-0-
Surgical Specialties	1,643,878	1,088,069
System Wide	409,957	366,230
Women's Health	1,177,258	171,890
	<u>\$ 13,308,076</u>	<u>\$ 9,755,550</u>

Corpus Restoration

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, variances of this nature are reported as deficits of unrestricted net assets, which were \$-0- at December 31, 2013 and 2012.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**7. Permanently Restricted Net Assets (continued)**

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets 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 the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to produce results exceeding the price and yield results of the S&P 500 index, for the equity portion of the portfolio, while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior 36 months through the calendar year-end preceding the fiscal year in which the distribution is planned. 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 annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity and to provide additional real growth through new gifts and investment return.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**7. Permanently Restricted Net Assets (continued)**

Endowment Net Asset Composition by Type of Fund as of December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment funds	\$ -0-	\$2,771,771	\$13,308,076	\$16,079,847
Total	<u>\$ -0-</u>	<u>\$2,771,771</u>	<u>\$13,308,076</u>	<u>\$16,079,847</u>

Changes in Endowment Net Assets for the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ -0-	\$2,384,551	\$9,755,550	\$12,140,101
Investment return:				
Investment income	-0-	121,228	323,989	445,217
Investment income Transfer	-0-	322,732	( 322,732)	-0-
Net unrealized appreciation	<u>-0-</u>	<u>-0-</u>	<u>1,538,386</u>	<u>1,538,386</u>
Total investment return		443,960	1,539,643	1,983,603
Net assets released from restriction	-0-	( 56,740)	-0-	( 56,740)
Contributions	-0-	-0-	2,012,883	2,012,883
Net asset transfer (Note 4)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Endowment net assets, End of year	<u>\$ -0-</u>	<u>\$2,771,771</u>	<u>\$13,308,076</u>	<u>\$16,079,847</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**7. Permanently Restricted Net Assets (continued)**

Endowment Net Asset Composition by Type of Fund as of December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment funds	\$ -0-	\$2,384,551	\$9,755,550	\$12,140,101
Total	<u>\$ -0-</u>	<u>\$2,384,551</u>	<u>\$9,755,550</u>	<u>\$12,140,101</u>

Changes in Endowment Net Assets for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	(\$ 308,893)	\$1,894,265	\$8,998,197	\$10,583,569
Investment return:				
Investment income	-0-	148,694	211,205	359,899
Investment income transfer	-0-	211,205	( 211,205)	-0-
Net unrealized appreciation	<u>-0-</u>	<u>336,666</u>	<u>683,884</u>	<u>1,020,550</u>
Total investment return	-0-	696,565	683,884	1,380,449
Net assets released from restriction	-0-	( 206,279)	-0-	( 206,279)
Contributions	-0-	-0-	382,362	382,362
Net asset transfer (Note 4)	<u>308,893</u>	<u>-0-</u>	<u>( 308,893)</u>	<u>-0-</u>
Endowment net assets, End of year	<u>\$ -0-</u>	<u>\$ 2,384,551</u>	<u>\$9,755,550</u>	<u>\$12,140,101</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**8. Temporarily Restricted Net Assets**

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

	<b>2013</b>	2012
Anesthesiology	\$ 256,469	\$ 222,813
Care Management and Social Work	45,217	31,618
Community Health	1,388,204	934,964
Dentistry	61,139	53,203
Dermatology	88,084	76,166
Emergency Medicine	364,102	220,260
Heart and Vascular	1,207,815	1,577,541
Medical Operations	547,206	487,252
Medical Specialties	1,912,740	1,804,420
Nutrition	35,889	28,359
Orthopedics	1,220,452	1,139,120
Pathology	34,419	33,190
Pediatrics	1,168,704	969,170
Physical Medicine and Rehabilitation	858,675	763,121
Primary Care	627,512	393,023
Psychiatry	814,417	414,780
Pulmonary	220,625	188,972
Radiology	484,695	308,650
Research	1,495,121	1,238,175
Surgical Specialties	4,218,984	3,225,523
System Wide	6,062,473	4,737,212
Women's Health	162,132	96,965
Unrestricted Promises to Give	526,490	321,478
	<b>\$ 23,801,564</b>	<b>\$ 19,265,975</b>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**9. Unrelated Business Income Tax**

As discussed in Note 1, the Foundation is exempt from paying income taxes on income related to its general business purpose. The Foundation is required to pay income taxes on unrelated business income, such as the income earned through the Foundation's investment in Premier Purchasing Partners, L.P., but has sought guidance from the Internal Revenue Service to clarify whether this income qualifies as unrelated business income. During the years ended December 31, 2013 and 2012, the Foundation received income of \$-0- and \$796,144, respectively, from its investment in Premier Purchasing Partners, L.P. As discussed in Note 6, the Foundation assigned its interest in Premier Purchasing Partners, L.P. on July 31, 2012. The Foundation is responsible for the income earned through July 2012, which was \$88,201. The Foundation prepaid taxes of \$17,000 (included with other assets on the Statement of Financial Position) at December 31, 2013 based on this estimate.

**10. Grants Expended from Net Assets Released from Restrictions**

Grants were expended from net assets released from restrictions for the years ended December 31, as follows:

	<u>2013</u>	<u>2012</u>
Net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes:		
Capital Equipment	\$ 406,253	\$ 139,675
Education	1,398,387	875,735
Fundraising	36,492	42,101
Patient Programs	952,710	2,007,087
Research	395,611	266,297
Recruitment	27,666	34,827
Other	192,223	228,122
	<u>\$ 3,409,342</u>	<u>\$ 3,593,844</u>

**11. Concentrations**

The Foundation maintains cash balances at banks, which are insured by the Federal Deposit Insurance Corporation. The Foundation's cash balance on deposit may exceed the insured amount from time to time.



The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2013 and 2012

**12. Other Accomplishments**

Donors occasionally make their gifts directly to The MetroHealth System. In 2013, Foundation and System Philanthropy was responsible for support of \$2,759,328 from Caresource Corporation to transform the treatment of obesity in children where participants will learn to make healthy nutritional choices and attend fitness, cooking and gardening classes in the Aamoth Family Pediatric Wellness Center; and a \$360,390 grant from Pfizer, Inc. to increase utilization of the electronic medical record for gynecologic issues in geriatric patients.

In 2012, the department was responsible for a \$148,486 grant from The Society of Adolescent Health and Medicine to utilize electronic health record technology to improve adolescent vaccination rates, a \$60,000 renewal grant from the Cuyahoga County Board of Development Disabilities to support the mobile dental van and \$48,000 renewal grant from Cuyahoga County for the Fatherhood Initiative.

**13. Income Taxes**

The Foundation is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) and is classified as an organization that is not a "Private Foundation" as defined in Section 509(a) of the Internal Revenue Code. The Foundation is no longer subject to tax examinations for years before 2010 by taxing authorities in jurisdictions where the Foundation has filed returns.

The Foundation evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Foundation's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2013 and 2012, the Foundation has no accrued taxes, interest or penalties related to uncertain tax positions. The Foundation estimates the unrecognized tax benefit will not change significantly within the next twelve months.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

The Board of Directors  
The MetroHealth Foundation, Inc.  
Cleveland, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The MetroHealth Foundation, Inc. (a non-profit organization), a component unit of The MetroHealth System, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 1, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The MetroHealth Foundation Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The MetroHealth Foundation Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The MetroHealth Foundation Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The MetroHealth Foundation Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of the Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Barnes Wendling CPAs, Inc.*

Sheffield Village, Ohio  
April 1, 2014

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# Dave Yost • Auditor of State

**THE METROHEALTH FOUNDATION, INC.**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 22, 2014**