The MetroHealth Foundation, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2017

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The MetroHealth Foundation, Inc., Cuyahoga County, prepared by RSM US LLP, for the audit period January 1, 2017 through December 31, 2017. 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 MetroHealth Foundation, Inc. is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

April 19, 2018

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Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of The MetroHealth Foundation, Inc. and Subsidiaries (the Organization), a component unit of The MetroHealth System, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in conformity 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 March 13, 2018 on our consideration of the Organization'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 the 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 Foundation's internal control over financial reporting and compliance.

RSM US LLP

Cleveland, Ohio
March 13, 2018

The MetroHealth Foundation, Inc.

Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	**$ 2,293,922**	$ 3,162,482
Promises to give, net	**5,584,912**	4,157,814
Related party receivable	**-**	315,417
Investments, at fair value	**54,982,145**	46,119,600
Net investment in lease	**-**	8,640,787
Prepaid expenses	**20,000**	-
Other assets	**389,279**	329,945
Total assets	**$ 63,270,258**	$ 62,726,045
Liabilities and Net Assets		
Accounts payable and other	**$ 63,038**	$ 24,603
Annuity payment obligations	**429,105**	426,604
Note payable, net	**-**	8,528,636
Grants payable to related parties	**1,592,919**	2,198,625
Total liabilities	**2,085,062**	11,178,468
Net assets:		
Unrestricted:		
Operating	**10,095,899**	6,169,082
Funds functioning as endowment funds	**1,941,756**	1,680,030
Board designated	**2,554,455**	1,741,659
Total unrestricted net assets	**14,592,110**	9,590,771
Temporarily restricted:		
Specific purpose funds	**30,200,237**	28,529,764
Permanently restricted:		
Endowment	**16,392,849**	13,427,042
Total net assets	**61,185,196**	51,547,577
Total liabilities and net assets	**$ 63,270,258**	$ 62,726,045

See consolidated notes to financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
Revenue and support:				
Gifts and grants	$ 496,595	$ 2,066,628	$ 3,308,807	**$ 5,872,030**
In-kind contributions - related party	1,880,401	-	-	**1,880,401**
Miscellaneous income	59,809	424,970	-	**484,779**
Investment income, net	5,335,729	2,441,988	-	**7,777,717**
Development operations and service revenue	138,493	-	-	**138,493**
Loss on uncollectable pledges	-	(60,713)	(343,000)	**(403,713)**
Net assets released from restrictions	3,202,400	(3,202,400)	-	**-**
Total revenue	11,113,427	1,670,473	2,965,807	**15,749,707**
Expenses:				
Grants and distributions	3,153,294	-	-	**3,153,294**
Fundraising	568,516	-	-	**568,516**
In-kind expenses - related party	1,880,401	-	-	**1,880,401**
Development operations and service expense	240,293	-	-	**240,293**
Administrative:				
Purchased services	132,362	-	-	**132,362**
Other	137,222	-	-	**137,222**
Total expenses	6,112,088	-	-	**6,112,088**
Increase in net assets	5,001,339	1,670,473	2,965,807	**9,637,619**
Net assets at beginning of year	9,590,771	28,529,764	13,427,042	**51,547,577**
Net assets at ending of year	$ 14,592,110	$ 30,200,237	$ 16,392,849	**$ 61,185,196**

See consolidated notes to financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Gifts and grants	$ 464,803	$ 3,335,573	$ 715,008	$ 4,515,384
In-kind contributions - related party	1,748,037	-	-	1,748,037
Special event revenue, net	1,020,775	-	-	1,020,775
Miscellaneous income	186,932	473,076	-	660,008
Investment income, net	1,895,082	692,978	-	2,588,060
Development operations and service revenue	198,387	-	-	198,387
Loss on uncollectable pledges	-	(100,670)	(21,617)	(122,287)
Net assets released from restrictions	3,642,322	(3,642,322)	-	-
Total revenue	9,156,338	758,635	693,391	10,608,364
Expenses:				
Grants and distributions	3,631,328	-	-	3,631,328
Fundraising	775,918	-	-	775,918
In-kind expenses - related party	1,748,037	-	-	1,748,037
Development operations and service expense	98,942	-	-	98,942
Administrative:				
Purchased services	123,656	-	-	123,656
Other	182,345	-	-	182,345
Total expenses	6,560,226	-	-	6,560,226
Increase in net assets	2,596,112	758,635	693,391	4,048,138
Net assets at beginning of year	6,994,659	27,771,129	12,733,651	47,499,439
Net assets at ending of year	$ 9,590,771	$ 28,529,764	$ 13,427,042	$ 51,547,577

See consolidated notes to financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase in net assets	$ 9,637,619	$ 4,048,138
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Amortization of debt issuance costs	119,324	19,246
Permanently restricted contributions	(3,308,807)	(693,391)
Loss on uncollectible pledges	403,713	181,509
Change in allowance for uncollectible pledges and present value discount	84,787	28,833
Net realized and unrealized gains on investments	(6,375,387)	(1,811,516)
(Increase) decrease in assets:		
Promises to give	(1,915,598)	(189,828)
Related party receivable	315,417	(297,828)
Prepaid expenses	(20,000)	-
Other assets	(59,334)	(945)
Increase (decrease) in liabilities:		
Accounts payable and other	38,435	(2,946)
Annuity payment obligations	2,501	(2,522)
Grants payable to related party	(605,706)	937,514
Net cash (used in) provided by operating activities	(1,683,036)	2,216,264
Cash flows from investing activities:		
Principal payments on direct financing lease	8,640,787	65,213
Proceeds from sale of investments	4,945,555	6,212,055
Purchase of investments	(7,432,713)	(8,566,934)
Purchase of capital assets	-	(8,706,000)
Net cash provided by (used in) investing activities	6,153,629	(10,995,666)
Cash flows from financing activities:		
Debt issuance costs	-	(138,570)
Proceeds from issuance of note payable	-	8,706,000
Payment on note payable	(8,647,960)	(58,040)
Permanently restricted contributions	3,308,807	693,391
Net cash (used in) provided by financing activities	(5,339,153)	9,202,781
(Decrease) increase in cash and cash equivalents	(868,560)	423,379
Cash and cash equivalents:		
Beginning	3,162,482	2,739,103
Ending	$ 2,293,922	$ 3,162,482
Supplemental disclosure of noncash investing and financing activities:		
Capital assets converted to net investment in lease	$ -	$ 8,706,000
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 86,375	$ 26,703

See notes to consolidated financial statements.

Note 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.

The Foundation is the sole member of three limited liability (LLCs) nonprofit companies that were created and incorporated during 2016. The entities were established to acquire certain real property in Cuyahoga County that was subsequently leased to The MetroHealth System as disclosed in Note 5.

A summary of significant accounting policies is presented below:

Basis of consolidation: The consolidated financial statements as of and for the year ended December 31, 2017 include the financial activity of the Foundation and the LLCs (collectively, referred to as the Organization). All intercompany transactions have been eliminated in consolidation.

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 Foundation 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, 2017 and 2016, the Foundation's Board of Directors had designated $2,554,455 and $1,741,659, respectively, for 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 represent endowment funds which are subject to the restriction of donors that the principal be invested in perpetuity and only the income be utilized.

Tax status: 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. The LLCs are organized as limited liability companies in the State of Ohio.

Income taxes: The Financial Accounting Standards Board (FASB) provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax returns to determine whether the tax positions are more-likely than not of being sustained when challenged or when examined by the applicable tax authority. Tax positions not deemed to meet the more-likely-than not threshold would be recorded as a tax benefit or expense and liability in the current year. For the years ended December 31, 2017 and 2016, management has determined that there are no uncertain tax positions.

Note 1. Summary of Organization and Significant Accounting Policies (Continued)

With few exceptions, the Foundation is no longer subject to examination by the Internal Revenue Service for tax years before 2014.

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. 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.

Allowance for uncollectable pledges: The Foundation provides for an allowance for uncollectable pledges based on an estimate of the collectability of the identified receivables and reserves 100% of the outstanding pledge after twenty-four months without payment in accordance with policy. The allowance is adjusted as information about specific accounts becomes available. The Foundation also compares current allowance amounts to prior collection and write-off experience.

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.

Risks and uncertainties: The Foundation invests in a professionally managed portfolio that contains equity and fixed income investments. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

The investments in the pooled investment fund and limited partnership interests involve a high degree of risk, including the risk that the entire amount invested may be lost. The Foundation has allocated a portion of its assets to invest in partnership interests that invest in and actively trade securities and other financial instruments using a variety of strategies and investment techniques with significant risk characteristics, including the risks arising from the volatility of the equity, fixed income, commodity and currency markets, the risks of borrowings and short sales, and the risks arising from leverage associated with trading in equities, currencies and over-the-counter derivative markets, the liquidity of the derivative instruments and the risk of loss from counter-party defaults. No guarantee or representation is made that the investment program will be successful.

Note 1. Summary of Organization and Significant Accounting Policies (Continued)

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, 2017 and 2016 total assets of $699,867 and $666,596, respectively, 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 lifetimes. Upon death of the beneficiaries, the assets are to be retained for the Foundation's use. At December 31, 2017 and 2016, liabilities of $429,105 and $426,604, respectively, 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 rate 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.

Special events: Special event revenue is recorded as revenue when the activities associated with these events are held.

Net investment in lease: In 2016, the LLCs entered into a direct financing lease. As a result, at lease inception, the present value of future rentals and the residual, if any, are recorded as leased assets. Unearned finance income is amortized to revenues over the lease term. During 2017, the lesee paid down the balance of the lease (see Note 5).

Debt issuance costs: In connection with the issuance of the Note as disclosed in Note 6, the LLC's incurred $138,570 in issuance costs during 2016. Debt issuance costs are amortized on the straight-line method over the term of the debt. This method is not materially different than the effective interest method. In 2017, the Note was paid in full and remaining amortization in the amount of $119,324 was expensed. Amortization of such costs is included in interest expense and was $119,324 and $19,246 for the years ended December 31, 2017 and 2016, respectively. Unamortized debt issuance costs, in the amount of $0 and $119,324 at December 31, 2017 and 2016, respectively, is presented as a direct deduction from notes payable on the balance sheet.

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.

Reclassifications: Certain amounts from the 2016 financial statements have been reclassified to conform with the 2017 presentation.

Recent accounting pronouncements: FASB has issued the following pronouncements that have not yet been implemented by the Foundation and the LLCs**:**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Management is evaluating the effect the standard will have on the consolidated financial statements.

Note 1. Summary of Organization and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. Management is evaluating the effect the standard will have on the consolidated financial statements.

In August, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements for Not-for-Profit Entities*. The objective of this statement is to improve the current net asset classification requirements and information presented in the financial statements and notes about the Foundation's liquidity, financial performance and cash flows. The statement is effective for fiscal years beginning after December 15, 2017. Management is evaluating the effect the standard will have on the consolidated financial statements.

Subsequent events: The Foundation has evaluated subsequent events for potential recognition and/or disclosure through March 13, 2018, the date the financial statements were available to be issued. On March 12, 2018, a five-year campaign was announced to raise a $100 million in philanthropic support for core aspects of The MetroHealth System's West 25th Street campus transformation.

Note 2. Promises to Give

Pledge receivables are recorded at net present value less an allowance for uncollectable accounts and are due in future years at December 31 as follows:

	2017	2016
Less than one year	$ 1,909,974	$ 1,580,300
One to five years	2,780,057	2,844,133
Six to ten years	1,350,000	200,000
More than ten years	500,000	-
	6,540,031	4,624,433
Allowance for uncollectable pledges and present value discount	(955,119)	(466,619)
	$ 5,584,912	$ 4,157,814

Note 3. Fair Value Disclosures

Substantially all of the Foundation's assets and liabilities are considered financial instruments and are either already reflected at fair value or are short-term or replaceable on demand. Therefore, the carrying amounts approximate fair value.

Note 3. Fair Value Disclosures (Continued)

The Foundation adopted applicable sections of the FASB 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 a 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, 2017 and 2016.

The Level 1 securities are valued at quoted prices per share/unit, or other methods by which all significant inputs are observable, either directly or indirectly.

The pooled investment fund and limited partnership interests are measured by the net asset value per share practical expedient. Common stock - private is 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.

Note 3. Fair Value Disclosures (Continued)

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

	2017			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 2,883,954	$ -	$ -	$ 2,883,954
Common stock - private	-	-	24,529	24,529
Equity mutual funds:				
Foreign large blend	3,585,378	-	-	3,585,378
Foreign large growth	3,494,277	-	-	3,494,277
Diversified emerging markets	2,375,783	-	-	2,375,783
Large blend	10,251,833	-	-	10,251,833
Large growth	3,129,184	-	-	3,129,184
Mid-cap blend	2,169,190	-	-	2,169,190
Foreign small/mid growth	1,467,641	-	-	1,467,641
Small blend	1,322,423	-	-	1,322,423
Small growth	1,169,809	-	-	1,169,809
Global real estate	1,048,650	-	-	1,048,650
Energy funds	1,266,693	-	-	1,266,693
Exchange traded funds:				
Large value	3,048,797	-	-	3,048,797
Fixed income mutual funds:				
Intermediate-term bonds	7,259,511	-	-	7,529,511
Multi-sector bond	1,941,991	-	-	1,941,991
World allocation	3,580,828	-	-	3,580,828
	$ 49,995,942	$ -	$ 24,529	50,290,471
Investments measured at net asset value:				
Limited partnership interest - global return				2,030,704
Pooled investment fund				2,444,475
Limited partnership interest				216,495
Total				$ 54,982,145

Note 3. Fair Value Disclosures (Continued)

	2016			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 2,706,663	$ -	$ -	$ 2,706,663
Common stock - private	-	-	24,529	24,529
Common stock - traded	1,957	-	-	1,957
Equity mutual funds:				
Foreign large blend	3,015,826	-	-	3,015,826
Foreign large growth	2,816,834	-	-	2,816,834
Diversified emerging markets	1,620,622	-	-	1,620,622
Large blend	9,577,212	-	-	9,577,212
Large growth	2,910,635	-	-	2,910,635
Mid-cap growth	-	-	-	-
Mid-cap blend	1,580,517	-	-	1,580,517
Foreign small/mid growth	1,041,870	-	-	1,041,870
Small blend	1,294,962	-	-	1,294,962
Small growth	1,114,879	-	-	1,114,879
Exchange traded funds:				
Large value	3,455,638	-	-	3,455,638
Fixed income mutual funds:				
Intermediate-term bonds	6,813,252	-	-	6,813,252
Multi-sector bond	1,541,409	-	-	1,541,409
World allocation	2,025,782	-	-	2,025,782
	$ 41,518,058	$ -	$ 24,529	41,542,587
Investments measured at net asset value:				
Limited partnership interest - global return				1,960,841
Pooled investment fund				2,308,776
Limited partnership interest				307,396
Total				$ 46,119,600

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

	2017	2016
Balance as of January 1,	$ 24,529	$ 24,529
Net change in unrealized and realized gains	-	-
Balance as of December 31,	$ 24,529	$ 24,529

Note 4. Investments

Investment income (loss) for the years ending December 31 consisted of the following:

	2017	2016
Interest and dividends	$ 1,488,406	$ 859,646
Net realized and unrealized gains	6,375,387	1,811,516
Less: investment management fees	(86,076)	(83,102)
	$ 7,777,717	$ 2,588,060

The Foundation is required to disclose the nature and risks of the investments recorded at net asset value. The following table summarizes the nature and risk of these investments as of December 31:

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partership interest - global return	$ 2,030,704	$ -	Monthly	7 days
Pooled investment fund	2,444,475	-	Quarterly	95 days
Limited partership interest	216,495	-	Quarterly	75 days
	$ 4,691,674	$ -		

	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partership interest - global return	$ 1,960,841	$ -	Monthly	7 days
Pooled investment fund	2,308,776	-	Quarterly	95 days
Limited partership interest	307,396	-	Quarterly	75 days
	$ 4,577,013	$ -		

The limited partnership interest – global return aims to provide positive investment returns in all market conditions over the medium to long term. The investment uses a combination of traditional assets (such as equities and bonds) and investment strategies based on advanced derivative techniques, resulting in a highly diversified portfolio.

The pooled investment fund seeks to produce attractive returns with relatively low volatility and correlation to traditional equity and fixed income benchmarks through its selection of portfolio managers and its allocations among various investment strategies.

The limited partnership interest provides capital appreciation consistent with the return characteristic of the alternative investment portfolios. The secondary objective is to provide capital appreciation with less volatility than that of the equity markets.

Note 5. Related Party Transactions

Net investment in direct financing lease: In 2016, the LLCs acquired several properties in Cuyahoga County for approximately $8,700,000. The properties were then leased to The MetroHealth System for an original term of thirty years, with a tenant option to renew for an additional thirty years. A development operations and service agreement (DOSA) required the System to pay the Foundation a monthly amount equal to the principal and interest on the financing in the acquisition of the property. There was no anticipated unguaranteed residual value. In addition, the agreement also required payments to the Foundation for any incidental related costs incurred related to these properties. The DOSA expired in May, 2017.

The leases also required the System to be responsible for any operating expenses related to the maintenance, operation and repairs to the properties. These costs include maintenance, real estate taxes and assessments, insurance on the property and contents and other related costs.

In 2017, the System paid the remaining debt obligation related to the acquisition of property to the Foundation. Based upon the terms of the DOSA, once the obligation has been satisfied by the System, they have the ability to acquire the properties from the Foundation at no additional cost. Based upon the potential transfer of assets and the immaterial remaining base rent, the Foundation has not recorded an asset related to any remaining future payments.

For the year ended December 31, 2017, the LLCs have recognized lease revenue in the amount of $138,493.

Other 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. The grants and distributions of $3,077,394 and $3,478,113 were incurred for the years ended December 31, 2017 and 2016, respectively. Grants and distributions payable of $1,592,919 and $2,198,625 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2017 and 2016, respectively. The MetroHealth System provided in-kind support to the Foundation for 2017 and 2016 representing purchased services, rent and other expenses which are included in these financial statements in the amount of $1,880,401 and $1,748,037, respectively.

As of December 31, 2017, the Foundation was conditionally committed to a $960,392 grant to be paid to a related party of the System. Due to its conditional nature, this commitment is not recorded in the financial statements of the Foundation.

In addition, the Foundation has a receivable of $0 and $315,417 due from the System at December 31, 2017 and 2016, respectively.

Note 6. Note Payable

On October 14, 2016, the LLCs, signed an interim loan agreement (Note) with KeyBank for a total of $8,706,000. The proceeds of the Note were used to acquire eight properties in Cuyahoga County which were subsequently leased to the System. See Note 5 for additional information on lease transaction.

The loan agreement requires monthly payments, commencing on November 15, 2016, including principal of $29,020 together with interest at the adjusted one month LIBOR (.77% at December 31, 2016), plus 1.5%. All outstanding principal, interest and other sums are payable on the maturity date of the note.

Note 6. Note Payable (Continued)

The Note was paid in full in 2017 and the remaining debt issuance costs were written off and included with interest expense.

Total interest expense incurred by the Foundation was $86,375 and $26,703 for the years ended December 31, 2017 and 2016, respectively.

Note 7. Permanently Restricted Net Assets

Permanently restricted assets available for the following purposes at December 31 are as follows:

	2017	2016
Anesthesiology	$ 313,787	$ 296,416
Care management and social work	462,204	462,204
Community health	998,048	998,048
Dentistry	25	25
Dermatology	241,509	141,509
Emergency medicine	23,578	22,500
Heart and vascular	1,233,359	1,240,493
Medical education	526,928	523,166
Medical specialties	2,834,757	216,170
Nursing	6,000	6,000
Orthopedics	2,711,046	2,720,358
Pathology	1,464	1,464
Pediatrics	490,503	489,398
Physical medicine and rehabilitation	1,135,742	1,135,314
Primary care	56,766	56,536
Psychiatry	26,582	26,582
Radiology	3,550	3,550
Research	2,001,315	1,937,861
Surgical specialties	1,769,376	1,609,386
System wide	345,550	345,550
Women's health	1,210,760	1,194,512
	$ 16,392,849	$ 13,427,042

Note 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 Foundation 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.

Endowment net asset composition by type of fund as of December 31 is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 8,095,028	$ 13,213,566	$ 21,308,594
Funds functioning as endowment funds	1,941,756	-	-	1,941,756
Total endowment funds	$ 1,941,756	$ 8,095,028	$ 13,213,566	$ 23,250,350

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 5,794,864	$ 12,525,492	$ 18,320,356
Funds functioning as endowment funds	1,680,030	-	-	1,680,030
Total endowment funds	$ 1,680,030	$ 5,794,864	$ 12,525,492	$ 20,000,386

Note 7. Permanently Restricted Net Assets (Continued)

Changes in endowment net assets for the years ended December 31 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	$ 1,580,953	$ 5,297,502	$ 12,190,704	$ 19,069,159
Investment return:				
Investment income	50,638	578,038	-	628,676
Net unrealized gains	32,130	85,766	-	117,896
Contributions	16,309	-	334,788	351,097
Appropriations	-	(166,442)	-	(166,442)
Endowment net assets, December 31, 2016	1,680,030	5,794,864	12,525,492	20,000,386
Investment return:				
Investment income	69,526	735,249	-	804,775
Net unrealized gains	192,200	1,693,408	-	1,885,608
Contributions	-	5,000	688,074	693,074
Appropriations	-	(133,493)	-	(133,493)
Endowment net assets, December 31, 2017	$ 1,941,756	$ 8,095,028	$ 13,213,566	$ 23,250,350

Note 8. Temporarily Restricted Net Assets

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

	2017	2016
Anesthesiology	$ 315,190	$ 306,338
Care management and social work	237,689	142,753
Community health	1,503,407	1,328,161
Dentistry	56,041	55,937
Dermatology	151,745	107,450
Emergency medicine	252,118	253,986
Heart and vascular	1,371,762	1,262,474
Medical operations	943,631	941,748
Medical specialties	2,677,205	2,461,698
Nutrition	22,999	23,212
Orthopedics	2,792,854	2,456,660
Pathology	59,508	68,021
Pediatrics	1,541,212	1,447,659
Physical medicine and rehabilitation	1,485,578	1,729,197
Primary care	978,284	825,194
Psychiatry	546,069	402,300
Pulmonary	202,769	213,887
Radiology	252,715	260,641
Research	2,074,873	1,680,446
Surgical specialties	4,250,285	4,127,815
System wide	7,263,647	6,971,794
Women's health	948,915	975,182
Unrestricted promises to give	271,741	487,211
	$ 30,200,237	$ 28,529,764

Note 9. 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:

	2017	2016
Net assets were released from donor restrictions by incurring		
expenses satisfying the following temporarily restricted purposes:		
Capital equipment	$ 235,614	$ 527,228
Education	1,548,036	974,675
Fundraising	175,330	230,264
Patient programs	608,845	1,232,360
Research	574,819	545,565
Recruitment	59,756	42,979
Other	-	89,251
	$ 3,202,400	$ 3,642,322

Note 10. Special Event

In May 2016, the Foundation hosted more than 1,250 guests at GALA2016 and GALA AFTERDARK (GALA). Proceeds from the GALA were raised to support capital, patient care, education, research, recruitment and other expenses as directed by the Foundation Board of Directors to support The MetroHealth System's significant transformation. The GALA activity consisted of the following for the year ended December 31, 2016:

	2016				
	Revenue	Direct Benefit Expense to Donors	Special Event Revenue, Net	Fundraising Expense	Net Event Income
Gala	$ 1,260,491	239,716	1,020,775	420,399	$ 600,376

There were no significant special events during the year ended December 31, 2017.

Note 11. Other Accomplishments

Donors occasionally make their gifts directly to The MetroHealth System. In 2017, the System's Department of Foundation and System Philanthropy was responsible for coordinating a $2 million donation of a 7,000 square-foot, custom-built facility to provide temporary housing for patients undergoing treatment for spinal cord injuries. The department also secured a $600,000 grant from the Ohio Department of Health to support our Nurse-Family Partnership program; a $250,000 grant from the Robert Wood Johnson Foundation to design, develop and test new patient-centered media to promote health in response to their Build Health Challenge; and a $159,097 grant from the Ohio Attorney General's Office to support our sexual assault nurse education program.

In 2016, the Department of Foundation and System Philanthropy (FSP) was responsible for securing a $743,302 grant from AIDS United to allow MetroHealth's Department of Infectious Disease to implement an evidence-based intervention for the treatment of opiate addiction using buprenorphine (suboxone) and a $560,000 grant from the Ohio Department of Health for our Nurse Family Partnership program.

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Independent Auditor's 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*

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

We have audited, in accordance with the 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. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of December 31, 2017 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated March 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization's consolidated financial statements are free from 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 this 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.

RSM US LLP

Cleveland, Ohio
March 13, 2018

Dave Yost • Auditor of State

THE METROHEALTH FOUNDATION

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 10, 2018

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