

AUDITED FINANCIAL STATEMENTS

The MetroHealth Foundation, Inc.

December 31, 2004 and 2003



**Auditor of State
Betty Montgomery**

Board of Trustees
The 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 Barnes Wendling CPAs, Inc., for the audit period January 1, 2004 to December 31, 2004. 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.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 20, 2005

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Report of Independent Auditors

Board of Trustees
The MetroHealth Foundation, Inc.

We have audited the accompanying statement of financial position of The MetroHealth Foundation, Inc. as of December 31, 2004, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of The MetroHealth Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The MetroHealth Foundation, Inc. as of December 31, 2003, were audited by other auditors whose report dated March 3, 2004, expressed an unqualified opinion on those statements.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of The MetroHealth Foundation, Inc. as of December 31, 2004, and the results of its operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2005, on our consideration of The MetroHealth Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

March 22, 2005

Barnes Wendling CPAs, Inc.

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The MetroHealth Foundation, Inc.

Statements of Financial Position

	December 31 2004	December 31 2003
Assets		
Cash and cash equivalents	\$ 859,021	\$ 2,166,297
Pledge receivables, net	1,631,625	3,885,121
Investments, at fair value	14,704,402	8,120,474
Due from The MetroHealth System	72,483	220,832
Other	28,863	12,000
Total assets	<u>\$ 17,296,394</u>	<u>\$ 14,404,724</u>
Liabilities and net assets		
Accounts payable and other	\$ 137,585	\$ 168,611
Annuity payment obligations	75,083	77,683
Grants payable to The MetroHealth System	323,024	259,205
Notes payable	295,524	-
Total liabilities	<u>831,216</u>	<u>505,499</u>
Net assets:		
Unrestricted:		
Operating	4,394,316	4,515,865
Temporarily restricted:		
Specific purpose funds	7,298,113	6,201,187
Permanently restricted:		
Endowment	4,772,749	3,182,173
Total net assets	<u>16,465,178</u>	<u>13,899,225</u>
Total liabilities and net assets	<u>\$ 17,296,394</u>	<u>\$ 14,404,724</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities

Year ended December 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Gifts and grants	\$ 807,150	\$ 1,984,298	\$ 1,289,977	\$ 4,081,425
Program income	-	42,382	-	42,382
Investment income (loss)	402,723	676,745	311,093	1,390,561
Net assets released from restrictions	1,676,520	(1,676,520)	-	-
Total revenue	<u>2,886,393</u>	<u>1,026,905</u>	<u>1,601,070</u>	<u>5,514,368</u>
Expenses				
Grants and distributions	1,755,616	-	-	1,755,616
Fundraising expenses	1,175,454	-	-	1,175,454
Administrative expenses:				
Audit, Insurance, and other	132,211	-	-	132,211
Provision for bad debts	2,698	-	-	2,698
Total administrative expenses	<u>134,909</u>	<u>-</u>	<u>-</u>	<u>134,909</u>
Total expenses	<u>3,065,979</u>	<u>-</u>	<u>-</u>	<u>3,065,979</u>
Increase (decrease) in net assets	(179,586)	1,026,905	1,601,070	2,448,389
Net assets at beginning of year	4,515,865	6,201,187	3,182,173	13,899,225
Net asset transfer (<i>Note 1</i>)	170,419	-	(170,419)	-
Change in donor designation (<i>Note 2</i>)	(112,382)	(47,543)	159,925	-
Transfer from The MetroHealth System (<i>Note 3</i>)	-	117,564	-	117,564
Net assets at end of year	<u>\$ 4,394,316</u>	<u>\$ 7,298,113</u>	<u>\$ 4,772,749</u>	<u>\$ 16,465,178</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities

Year ended December 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Gifts and grants	\$ 1,223,758	\$ 2,225,524	\$ 389,103	\$ 3,838,385
Program income	-	28,882	-	28,882
Investment income (loss)	269,652	387,335	408,632	1,065,619
Net assets released from restrictions	1,396,017	(1,396,017)	-	-
Total revenue	<u>2,889,427</u>	<u>1,245,724</u>	<u>797,735</u>	<u>4,932,886</u>
Expenses				
Grants and distributions	1,433,397	-	-	1,433,397
Fundraising expenses	781,341	-	-	781,341
Administrative expenses:				
Audit, Insurance, and other	87,836	-	-	87,836
Provision for bad debts	13,201	-	-	13,201
Total administrative expenses	<u>101,037</u>	<u>-</u>	<u>-</u>	<u>101,037</u>
Total expenses	<u>2,315,775</u>	<u>-</u>	<u>-</u>	<u>2,315,775</u>
Increase (decrease) in net assets	573,652	1,245,724	797,735	2,617,111
Net assets at beginning of year	3,355,363	5,001,166	2,638,404	10,994,933
Net asset transfer (Note 1)	408,632	-	(408,632)	-
Change in donor designation (Note 2)	178,218	(332,884)	154,666	-
Transfer from The MetroHealth System (Note 3)	-	287,181	-	287,181
Net assets at end of year	<u>\$ 4,515,865</u>	<u>\$ 6,201,187</u>	<u>\$ 3,182,173</u>	<u>\$ 13,899,225</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statements of Cash Flows

	Years ended December 31	
	2004	2003
Operating activities		
Increase in net assets	\$ 2,448,390	\$ 2,617,111
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Permanently restricted contributions	(1,289,977)	(389,103)
Decrease (increase) in pledge receivables, net	2,253,496	(646,030)
Decrease (increase) in other assets	(16,863)	16,811
Decrease (increase) in due from The MetroHealth System	148,349	1,404,808
Increase in liabilities	30,193	(5,444)
Net cash used in operating activities	<u>3,573,588</u>	<u>2,998,153</u>
Investing activities		
Increase in investments, net	(6,583,929)	(3,484,385)
Financing activities		
Increase in long-term debt	295,524	-
Fund transfers	117,564	287,181
Permanently restricted contributions	1,289,977	389,103
Net cash provided by financing activities	<u>1,703,065</u>	<u>676,284</u>
(Decrease) increase in cash and cash equivalents	(1,307,276)	190,052
Cash and cash equivalents at beginning of year	2,166,297	1,976,245
Cash and cash equivalents at end of year	<u>\$ 859,021</u>	<u>\$ 2,166,297</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Notes to Financial Statements

Years ended December 31, 2004 and 2003

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, development and accounting services are provided to the Foundation by the System at no charge.

A summary of significant accounting policies is presented below:

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.

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 disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue—Gifts, grants, and program income result from fundraising activities of the Foundation. Though donations are solicited for the Foundation, donors occasionally make their gifts directly to the System.

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.

Investments and Investment Income (Loss)—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 and dividends.

Annuity Payment Obligations—The Foundation has entered into gift annuity agreements, which include provisions requiring the Foundation to pay periodic fixed payments to beneficiaries during their lifetimes. 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.

The MetroHealth Foundation, Inc.

Notes to Financial Statements (continued)

Years ended December 31, 2004 and 2003

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

Basis of Presentation—The Foundation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) no. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, 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.

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 terms designated by donors. Investment income on investments in permanently restricted net assets is recorded as an increase to the related temporarily restricted net assets. Gains (losses) on investments are recorded as an addition (deduction) to permanently restricted net assets in the period received in accordance with the donor's intentions. Earnings on investments of the endowment funds are expendable to support awards, education and research activities. The Foundation transferred \$170,419 and \$408,632 December 31, 2004 and 2003, respectively from permanently restricted net assets to unrestricted net assets to restore amounts previously transferred in prior years in order to maintain donor restricted endowment funds at the level required by the donor stipulations.

Reclassifications— Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

2. Concentrations

The Foundation maintains cash balances at banks, which are insured by the Federal Deposit Insurance Corporation up to \$100,000, and the Foundation may exceed this amount from time to time.

The MetroHealth Foundation, Inc.

Notes to Financial Statements (continued)

Years ended December 31, 2004 and 2003

3. Change in Donor Designation

During 2004 and 2003, the Foundation reevaluated and received confirmation from certain donors indicating a different net asset classification than was originally communicated. The net effect of these adjustments are included in the statement of activities.

4. Related Party Transactions

The System transfers unrestricted monies primarily related to completed clinical trials and temporarily restricted donations to the Foundation. 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 fund purposes. In 2004, the System transferred unrestricted net assets of \$117,564 to the temporarily restricted net assets of the Foundation. Grants and distributions payable of \$323,024 and \$259,205 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2004 and 2003, respectively. At December 31, 2003, \$191,000 of grant and distribution requests had been submitted by the System for payment; approval of these requests is conditional on System Board approval, these amounts are not accrued in the financial statements. At December 31, 2004, there were no outstanding grant requests. When grants awarded to the System have unexpended balances at year-end, the residual is returned to the Foundation; as of December 31, 2004 the receivable due from the System was \$72,483. These funds may then be redistributed for the same or different purposes based on the need in subsequent years.

5. Pledge Receivables

Pledge receivables are recorded at net present value using a discount rate of 3.25% for 2004 and 3.25% for 2003, less an allowance for uncollectible accounts, and are due in future years at December 31, as follows:

	<u>2004</u>	<u>2003</u>
Less than one year	\$ 681,032	\$ 64,688
One to five years	1,119,351	3,977,098
	<u>1,800,383</u>	<u>4,041,786</u>
Allowance for uncollectible pledges and present value discount	<u>(168,758)</u>	<u>(156,665)</u>
	<u>\$ 1,631,625</u>	<u>\$ 3,885,121</u>

The Foundation received notification after year end of a substantial pledge of \$10,000,000 commencing in 2005 payable over the next 10 years at \$1,000,000 per year. This commitment is not included in these financial statements.

The MetroHealth Foundation, Inc.

Notes to Financial Statements (continued)

Years ended December 31, 2004 and 2003

6. Investments

Fair value and cost of investments at December 31, are as follows:

	2004		2003	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	\$ 4,123,390	\$ 4,098,662	\$ 3,144,797	\$ 3,135,408
Common stock	10,353,736	8,880,246	4,975,677	4,569,207
Premier Purchasing Partners, L.P.	227,276	227,276	-	-
	<u>\$ 14,704,402</u>	<u>\$ 13,206,184</u>	<u>\$ 8,120,474</u>	<u>\$ 7,704,615</u>

Unrealized gains were \$1,505,816 and \$416,394 and unrealized losses were \$7,599 and \$535 at December 31, 2004 and 2003, respectively.

7. Temporarily Restricted Net Assets

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

	2004	2003
Care Management and Social Work	\$ 14,906	\$ 7,953
Community Health	852,587	831,473
Dentistry	13,872	12,827
Dermatology	28,637	31,767
Emergency Medicine	259,630	231,898
Heart and Vascular	381,828	280,132
Medical Operations	341,663	51,556
Medical Specialties	898,968	865,779
Nutrition	19,368	17,284
Pathology	15,507	15,321
Pediatrics	410,676	375,771
Physical Medicine and Rehabilitation	258,746	179,186
Primary Care	107,220	74,099
Psychiatry	219,291	224,093
Pulmonary	202,816	227,062
Radiology	301,536	339,781
Research	317,096	281,775
Surgical Specialties	1,452,234	1,110,244
System Wide	1,074,327	975,834
Women's Health	127,205	67,352
	<u>\$ 7,298,113</u>	<u>\$ 6,201,187</u>

The MetroHealth Foundation, Inc.

Notes to Financial Statements (continued)

Years ended December 31, 2004 and 2003

8. Notes Payable

The Foundation has an interest-free note in the amount of \$75,000 that is payable to Premier, Inc. by May 31, 2005 that is secured by a Purchaser's pledge of the shares to the issuer of 10,204 shares of Premier, Inc. At the end of 2004, the Foundation also has a note with a balance of \$220,524 that is secured by an equity interest in Premier Purchasing Partners, L.P. and payable to Premier Purchasing Partners, L.P. in semi annual installments of \$22,052 plus interest at LIBOR plus 1.0% currently 3.96%. Principle reduction of the two notes totals \$119,105 in 2005; \$44,105 in 2006, 2007, 2008, and 2009.

The Foundation's obligation under notes payable consists of the following:

Non Interest bearing note payable, due in one installment of 75,000 May 31, 2005	\$ 75,000
3.96% note payable, due in semi annual installments of \$22,052 plus interest, through December 31, 2009, secured by a Collateral Assignment of limited partnership interest in Premier Purchasing Partners, L.P.	\$ <u>220,524</u>
Total Notes Payable	\$ <u>295,524</u>

The future scheduled maturities of the notes payable are as follows:

Years ending December, 31:	
2005	\$ 119,105
2006	44,105
2007	44,105
2008	44,105
2009	<u>44,104</u>
	\$ <u>295,524</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements (continued)

Years ended December 31, 2004 and 2003

9. Grants Expended

Grants were expended for the years ended December 31, as follows:

	<u>2004</u>	<u>2003</u>
Net assets were released from donor restrictions by incurring expense satisfying the following temporarily restricted purposes:		
Capital Equipment	\$ 233,514	\$ 24,755
Education	497,169	482,039
Fundraising	53,038	1,660
Patient Care	358,996	199,623
Research	296,367	567,952
Recruitment	19,375	17,541
Other	218,061	102,447
	<u>\$ 1,676,520</u>	<u>\$ 1,396,017</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 22, 2005

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

We have audited the financial statements of The MetroHealth Foundation, Inc. (an Ohio nonprofit organization) as of and for the year ended December 31, 2004, and have issued our report dated March 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits obtained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of The MetroHealth Foundation, Inc. as of December 31, 2003, were audited by other auditors whose report dated March 3, 2004 expressed no opinion on compliance and internal control over financial reporting.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The MetroHealth Foundation, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

In addition, we noted other matters involving internal control and its operation that we have reported to management of The MetroHealth Foundation, Inc. in a separate letter dated March 22, 2005.

This report is intended solely for the information and use of the board of trustees, management, Auditor of State's Office, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Barnes Wendling CPAs, Inc.



**Auditor of State
Betty Montgomery**

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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
JULY 5, 2005**