

AUDITED FINANCIAL STATEMENTS

The MetroHealth Foundation, Inc.

December 31, 2006 and 2005



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Report of Independent Auditors* of The MetroHealth Foundation, Inc., Cuyahoga County, prepared by Barnes Wendling CPAs, Inc., for the audit period January 1, 2006 through December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2007

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Building and maintaining net worth since 1946.

Report of Independent Auditors

March 28, 2007

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

We have audited the accompanying statements of financial position of The MetroHealth Foundation, Inc., a component unit of the MetroHealth System, as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years 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 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 of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The MetroHealth Foundation, Inc. at December 31, 2006 and 2005, and the results of its operations, changes in net assets and cash flows for the years 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 28, 2007, 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 grant agreements and other matters. 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 audits.

Barnes Wendling CPAs, Inc.

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The MetroHealth Foundation, Inc.

Statements of Financial Position

	December 31,	
	2006	2005
Assets		
Cash and cash equivalents	\$ 1,277,858	\$ 683,994
Promises to give, net <i>(Note 3)</i>	2,437,450	1,351,392
Investments, at fair value	20,377,884	18,544,551
Due from The MetroHealth System	96,950	100,555
Other	18,454	15,030
Total assets	<u>\$ 24,208,596</u>	<u>\$ 20,695,522</u>
Liabilities and Net Assets		
Accounts payable and other	\$ 80,217	\$ 140,174
Annuity payment obligations	118,994	72,484
Grants payable to The MetroHealth System	942,262	1,472,217
Notes payable <i>(Note 6)</i>	262,896	380,985
Accrued interest payable	3,993	5,197
Income tax payable	261,000	107,000
Total liabilities	<u>1,669,362</u>	<u>2,178,057</u>
Net Assets:		
Unrestricted:		
Operating	3,233,038	2,998,008
Board designated	1,134,780	983,823
Temporarily restricted:		
Specific purpose funds	12,465,019	8,671,619
Permanently restricted:		
Endowment <i>(Note 5)</i>	5,706,397	5,864,015
Total net assets	<u>22,539,234</u>	<u>18,517,465</u>
Total liabilities and net assets	<u>\$ 24,208,596</u>	<u>\$ 20,695,522</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities

Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Gifts and grants	\$ 1,189,582	\$ 4,381,463	\$ 164,039	\$ 5,735,084
Program income	-	90,666	-	90,666
Investment income (Note 5)	1,330,163	1,644,608	(321,657)	2,653,114
Net assets released from restrictions	2,747,992	(2,747,992)	-	-
Total revenue	5,267,737	3,368,745	(157,618)	8,478,864
Expenses				
Grants and distributions	3,117,115	-	-	3,117,115
Fundraising expenses	851,541	-	-	851,541
Administrative expenses:				
Purchased services	360,337	-	-	360,337
Provision for bad debts	3,344	-	-	3,344
Unrelated business income tax (Note 9)	276,050	-	-	276,050
Other	273,363	-	-	273,363
Total administrative expenses	913,094	-	-	913,094
Total expenses	4,881,750	-	-	4,881,750
Increase in net assets	385,987	3,368,745	(157,618)	3,597,114
Net assets at beginning of year	3,981,831	8,671,619	5,864,015	18,517,465
Transfer from The MetroHealth System (Note 2)	-	424,655	-	424,655
Net assets at end of year	\$ 4,367,818	\$ 12,465,019	\$ 5,706,397	\$ 22,539,234

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities

Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Gifts and grants	\$ 1,477,284	\$ 2,658,595	\$ 233,702	\$ 4,369,581
Program income	-	54,008	-	54,008
Investment income	846,063	717,876	107,564	1,671,504
Net assets released from restrictions	3,144,534	(3,144,534)	-	-
Total revenue	<u>5,467,881</u>	<u>285,946</u>	<u>341,266</u>	<u>6,095,093</u>
Expenses				
Grants and distributions	3,202,534	-	-	3,202,534
Fundraising expenses	1,123,361	-	-	1,123,361
Administrative expenses:				
Purchased services	383,709	-	-	383,709
Provision for bad debts	5,228	-	-	5,228
Unrelated business income tax <i>(Note 9)</i>	163,000	-	-	163,000
Other	250,559	-	-	250,559
Total administrative expenses	<u>802,496</u>	<u>-</u>	<u>-</u>	<u>802,496</u>
Total expenses	<u>5,128,391</u>	<u>-</u>	<u>-</u>	<u>5,128,391</u>
Increase in net assets	339,490	285,946	341,266	966,702
Net assets at beginning of year	3,642,341	8,050,088	4,772,749	16,465,178
Transfer from The MetroHealth System <i>(Note 2)</i>	-	335,585	750,000	1,085,585
Net assets at end of year	<u>\$ 3,981,831</u>	<u>\$ 8,671,619</u>	<u>\$ 5,864,015</u>	<u>\$ 18,517,465</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statements of Cash Flows

Years Ended December 31,

	<u>2006</u>	<u>2005</u>
Operating activities		
Increase in net assets	\$ 3,597,114	\$ 966,702
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Permanently restricted contributions	(143,864)	(175,252)
Net gain on investments	2,310,697	(1,425,436)
(Increase) decrease in assets:		
Promises to give, net	(1,086,058)	280,233
Due from The MetroHealth System	3,605	(28,072)
Other assets	(3,424)	13,833
Increase (decrease) in liabilities:		
Accounts payable	(59,957)	2,589
Grants payable	(529,955)	1,149,193
Accrued interest payable	(1,204)	5,197
Income tax payable	154,000	107,000
Annuity payment obligations	46,510	(2,599)
Net cash provided by operating activities	<u>4,287,464</u>	<u>893,388</u>
Investing activities		
Proceeds from sale of investments	11,247,112	1,547,542
Purchase of investments	<u>(15,391,142)</u>	<u>(3,962,255)</u>
Net cash used in investing activities	(4,144,030)	(2,414,713)
Financing activities		
Proceeds from long-term debt	-	178,141
Repayment of long-term debt	(118,089)	(92,680)
Fund transfers	424,655	1,085,585
Permanently restricted contributions	143,864	175,252
Net cash provided by financing activities	<u>450,430</u>	<u>1,346,298</u>
(Decrease) increase in cash and cash equivalents	593,864	(175,027)
Cash and cash equivalents at beginning of year	683,994	859,021
Cash and cash equivalents at end of year	<u>\$ 1,277,858</u>	<u>\$ 683,994</u>
Cash paid for interest	<u>\$ 12,555</u>	<u>\$ 4,929</u>
Cash paid for income taxes	<u>\$ 122,050</u>	<u>\$ 56,000</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Notes to Financial Statements

Years Ended December 31, 2006 and 2005

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 development 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:

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 10.

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, 2006 and 2005

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. 116 and 117.

Presentation — Under SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, 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.

Donated Services — Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, 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.

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, 2006 and 2005, the Foundation's Board of Directors had designated \$1,134,780 and \$983,823, 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 terms 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 received in accordance with the donor's intentions. Earnings on investments of the endowment funds are expendable to support awards, education and research activities.

Reclassifications — Certain amounts from the 2005 financial statements have been reclassified to conform with the 2006 presentation.

The MetroHealth Foundation, Inc.

Notes to Financial Statements (continued)

Years Ended December 31, 2006 and 2005

2. 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 2006, the System transferred net assets to the temporarily restricted net assets in the amount of \$424,655. In 2005, the System transferred net assets to the permanently restricted net assets and the temporarily restricted net assets of the Foundation in the amount of \$750,000 and \$335,585, respectively. Grants and distributions payable of \$942,262 and \$1,472,217 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005 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, 2006 and 2005 the receivable due from the System was \$-0- and \$100,555 respectively. These funds may then be redistributed for the same or different purposes based on the need in subsequent years. The Foundation has recorded an additional receivable for equity transfers and other items from the System of \$96,950 and \$-0- for the years ended December 31, 2006 and 2005, respectively. The MetroHealth System identified In-Kind Support to the Foundation for 2006 and 2005 representing purchased services, rent and other expenses which are included in these financial statements in the amount of \$738,176 and \$875,012, respectively.

3. Promises to Give

Pledge receivables are recorded at net present value using a discount rate of 4.25% for 2006 and 3.25% for 2005, less an allowance for uncollectible accounts, and are due in future years at December 31, as follows:

	<u>2006</u>	<u>2005</u>
Less than one year	\$ 1,086,250	\$ 715,753
One to five years	1,631,037	753,031
	<u>2,717,287</u>	<u>1,468,784</u>
Allowance for uncollectible pledges and present value discount	<u>(279,837)</u>	<u>(117,392)</u>
	<u>\$ 2,437,450</u>	<u>\$ 1,351,392</u>

The MetroHealth Foundation, Inc.

Notes to Financial Statements (continued)

Years Ended December 31, 2006 and 2005

4. 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 \$8,000,000 at December 31, 2006 is not included in these financial statements in accordance with SFAS No. 117.

The Foundation received a conditional pledge of \$500,000 commencing in 2006 and ending in July 2010. The outstanding balance of \$375,000 at December 31, 2006 is not included in these financial statements in accordance with SFAS No. 117.

5. Investments

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

	2006		2005	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	\$ 19,573,609	\$ 18,876,323	\$ 5,154,623	\$ 5,258,135
Common stock	103,877	75,000	12,667,139	10,839,289
Premier Purchasing Partners, L.P.	700,398	700,398	722,789	722,789
	<u>\$ 20,377,884</u>	<u>\$ 19,651,721</u>	<u>\$ 18,544,551</u>	<u>\$ 16,820,213</u>

Investment income for the years ending December 31, 2006 and 2005 consisted of the following:

	2006	2005
Interest and dividends	\$ 342,417	\$ 246,068
Net realized gains	2,978,028	1,199,316
Net change in unrealized gains (losses)	(667,331)	226,120
	<u>\$ 2,653,114</u>	<u>\$ 1,671,504</u>

The Foundation's investments had cumulative unrealized gains of \$1,221,149 and \$1,827,568 and cumulative unrealized losses of \$164,102 and \$103,230 at December 31, 2006 and 2005, respectively.

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, while unrealized gains and losses from endowed investments are maintained as permanently restricted. A reallocation of assets was done in December of 2006 and the Foundation realized gains of more than \$2.5 million, of these gains \$848,000 were realized on the endowment funds. The realized gains (losses) and associated earnings from permanently restricted net assets were then transferred to their corresponding temporarily restricted earnings accounts, which resulted in a decrease in the endowment fund balance during 2006.

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

Years Ended December 31, 2006 and 2005

6. Notes Payable

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

	2006	2005
3.96% note payable, due in semi annual installments plus interest, through June 30, 2010, secured by a Collateral Assignment of limited partnership interest in Premier Purchasing Partners, L.P.	\$ 262,896	\$ 380,985

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

Years ending December, 31:

2007	\$ 61,793
2008	64,432
2009	67,000
2010	69,671
	\$ 262,896

The MetroHealth Foundation, Inc.

Notes to Financial Statements (continued)

Years Ended December 31, 2006 and 2005

7. Permanently Restricted Net Assets

Permanently restricted assets at December 31, are as follows:

	<u>2006</u>	<u>2005</u>
Anesthesiology	\$ 514	\$ 541
Community Health	1,019,233	1,086,202
Dentistry	26	28
Dermatology	99,687	106,236
Heart and Vascular	212,851	215,031
Medical Education	350,275	361,026
Medical Specialties	111,768	105,191
Orthopaedics	921,090	880,055
Pastoral Care	9,325	9,938
Pathology	1,514	1,364
Pediatrics	437,378	456,570
Physical Medicine and Rehabilitation	1,049,374	1,113,464
Primary Care	34,260	35,719
Psychiatry	1,577	546
Radiology	6,015	6,212
Research	753,235	792,830
Surgical Specialties	461,478	459,034
System Wide	145,557	152,702
Women's Health	91,240	81,326
	<u>\$ 5,706,397</u>	<u>\$ 5,864,015</u>

The MetroHealth Foundation, Inc.

Notes to Financial Statements (continued)

Years Ended December 31, 2006 and 2005

8. Temporarily Restricted Net Assets

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

	2006	2005
Care Management and Social Work	\$ 7,144	\$ 14,219
Community Health	3,217,734	738,017
Dentistry	11,933	13,499
Dermatology	15,421	36,663
Emergency Medicine	327,587	268,633
Heart and Vascular	761,124	461,678
Medical Operations	450,851	427,951
Medical Specialties	959,295	999,898
Nutrition	17,601	19,861
Pathology	33,574	16,339
Pediatrics	587,709	650,733
Physical Medicine and Rehabilitation	416,147	263,367
Primary Care	123,402	109,089
Psychiatry	325,507	294,759
Pulmonary	199,297	188,979
Radiology	344,565	322,390
Research	534,892	468,358
Surgical Specialties	2,485,753	2,156,117
System Wide	1,172,416	566,982
Women's Health	167,473	141,189
Unrestricted Promises to Give	305,594	512,898
	<u>\$ 12,465,019</u>	<u>\$ 8,671,619</u>

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 taxes on unrelated business income, such as the income earned through the Foundation's investment in Premier Purchasing Partners, L.P. During the years ended December 31, 2006 and 2005, the Foundation received income of \$632,328 and \$229,235, respectively, from its investment in Premier Purchasing Partners, L.P. Additionally, the Foundation has estimated it will receive another \$330,844 of income in 2007 that was earned prior to December 31, 2006. As such, the Foundation has paid \$100,835 of estimated taxes and accrued an additional \$261,000 at December 31, 2006 based on this estimate.

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

Years Ended December 31, 2006 and 2005

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:

	2006	2005
Net assets were released from donor restrictions by incurring expense satisfying the following temporarily restricted purposes:		
Capital Equipment	\$ 129,259	\$ 690,643
Education	703,229	558,626
Fundraising	83,203	77,535
Patient Care	1,277,178	1,425,934
Research	293,937	99,835
Recruitment	26,107	34,525
Other	235,079	257,436
	\$ 2,747,992	\$ 3,144,534

11. 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.

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

March 28, 2007

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

We have audited the financial statements of The MetroHealth Foundation, Inc., a component unit of The MetroHealth System, as of and for the year ended December 31, 2006, and have issued our report dated March 28, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The MetroHealth Foundation'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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance

As part of obtaining reasonable assurance about whether The MetroHealth Foundation'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.



This report is intended solely for the information and use of the board of trustees, management, 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.



Mary Taylor, CPA
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 10, 2007