The MetroHealth Foundation, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2016

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, 2016 through December 31, 2016. 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
Auditor of State

May 17, 2017

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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, 2016 and 2015, 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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, 2016 and 2015 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, 2017 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, 2017

The MetroHealth Foundation, Inc.

Consolidated Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	**$ 3,162,482**	$ 2,739,103
Promises to give, net	**4,157,814**	4,178,328
Related party receivable	**315,417**	17,589
Investments, at fair value	**46,119,600**	41,953,205
Net investment in lease	**8,640,787**	-
Other assets	**329,945**	329,000
Total assets	**$ 62,726,045**	$ 49,217,225
Liabilities and Net Assets		
Accounts payable and other	**$ 24,603**	$ 27,549
Annuity payment obligations	**426,604**	429,126
Note payable, net	**8,528,636**	-
Grants payable to related party	**2,198,625**	1,261,111
Total liabilities	**11,178,468**	1,717,786
Net assets:		
Unrestricted:		
Operating	**6,169,082**	5,013,437
Funds functioning as endowment funds	**1,680,030**	1,580,953
Board designated	**1,741,659**	400,269
Total unrestricted net assets	**9,590,771**	6,994,659
Temporarily restricted:		
Specific purpose funds	**28,529,764**	27,771,129
Permanently restricted:		
Endowment	**13,427,042**	12,733,651
Total net assets	**51,547,577**	47,499,439
Total liabilities and net assets	**$ 62,726,045**	$ 49,217,225

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	$ 3,416,412	$ 693,391	**$ 4,574,606**
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	-	(181,509)	-	**(181,509)**
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 Statement of Activities and Changes in Net Assets
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Gifts and grants	$ 628,381	$ 6,707,346	$ 439,887	$ 7,775,614
In-kind contributions - related party	1,823,881	-	-	1,823,881
Miscellaneous income	167	296,890	-	297,057
Settlement income	1,076,740	-	-	1,076,740
Investment income (loss), net	362,307	(814,925)	-	(452,618)
Loss on uncollectable pledges	-	(250,406)	-	(250,406)
Net assets released from restrictions	3,945,453	(3,945,453)	-	-
Total revenue	7,836,929	1,993,452	439,887	10,270,268
Expenses:				
Grants and distributions	5,044,858	-	-	5,044,858
Fundraising	397,489	-	-	397,489
In-kind expenses - related party	1,823,881	-	-	1,823,881
Administrative:				
Purchased services	116,659	-	-	116,659
Other	137,872	-	-	137,872
Total expenses	7,520,759	-	-	7,520,759
Increase in net assets	316,170	1,993,452	439,887	2,749,509
Net assets at beginning of year	4,757,407	27,921,495	12,071,028	44,749,930
Net assets reclassified (Note 1)	1,921,082	(2,143,818)	222,736	-
Net assets at ending of year	$ 6,994,659	$ 27,771,129	$ 12,733,651	$ 47,499,439

See consolidated notes to financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase in net assets	$ 4,048,138	$ 2,749,509
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of debt issuance costs	19,246	3,794
Permanently restricted contributions	(693,391)	(439,887)
Loss on uncollectable pledges	181,509	250,406
Change in allowance for uncollectible pledges and present value discount	28,833	180,691
Net realized and unrealized (gains) losses on investments	(1,811,516)	1,544,771
(Increase) decrease in assets:		
Promises to give	(189,828)	(2,132,509)
Related party receivable	(297,828)	(17,589)
Other assets	(945)	(101,438)
Increase (decrease) in liabilities:		
Accounts payable and other	(2,946)	(28,205)
Refundable advance	-	(204,070)
Annuity payment obligations	(2,522)	5,669
Grants payable to related party	937,514	(623,851)
Net cash provided by operating activities	2,216,264	1,187,291
Cash flows from investing activities:		
Principal payments on direct financing lease	65,213	-
Proceeds from sale of investments	6,212,055	7,271,690
Purchase of investments	(8,566,934)	(10,028,783)
Purchase of capital assets	(8,706,000)	-
Net cash used in investing activities	(10,995,666)	(2,757,093)
Cash flows from financing activities:		
Debt issuance costs	(138,570)	-
Proceeds from issuance of note payable	8,706,000	-
Payment on note payable	(58,040)	-
Permanently restricted contributions	693,391	439,887
Net cash provided by financing activities	9,202,781	439,887
Increase (decrease) in cash and cash equivalents	423,379	(1,129,915)
Cash and cash equivalents:		
Beginning	2,739,103	3,869,018
Ending	$ 3,162,482	$ 2,739,103
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	$ 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 6.

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, 2016 include the financial activity of the Foundation and the LLCs (collectively referred to as the Organization). All intercompany transactions have been eliminated in consolidation. The financial statements as of and for the year December 31, 2015 includes the financial activity of the Foundation and are not consolidated.

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, 2016 and 2015, the Foundation's Board of Directors had designated $1,741,659 and $400,269, 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 as discussed in Note 10. The LLCs are organized as limited liability companies in the State of Ohio.

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

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, 2016 and 2015, management has determined that there are no uncertain tax positions.

With few exceptions, the Foundation is no longer subject to examination by the Internal Revenue Service for tax years before 2013.

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. Management records a 5% allowance at the time a pledge is made 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, 2016 and 2015 total assets of $666,596 and $653,143, 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, 2016 and 2015, liabilities of $426,604 and $429,126, 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.

Direct financing 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.

Debt issuance costs: In connection with the issuance of the Note as disclosed in Note 7, 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. Amortization of such costs is included in interest expense and was $19,246 for the years ended December 31, 2016. Unamortized debt issuance costs, in the amount of $119,324 at December 31, 2016 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: In 2015, due to new information received by management, several reclassification entries to net assets were made to correct an error related to allocation of unrealized earnings and classification of certain contributions. The result of the reclassification entry was to decrease temporarily restricted net assets in the amount of $2,143,818 and increase unrestricted and permanently restricted net assets in the amounts of $1,921,082 and $222,736, respectively.

In addition, certain other amounts from the 2015 financial statements have been reclassified to conform with the 2016 presentation.

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

Recent accounting pronouncements: FASB has issued the following pronouncements that have been recently implemented by the Foundation and the LLCs**:**

In April, 2015, the FASB issued ASU 2015-03, *Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The adoption of this standard did not have a material impact on these consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. The amendments in ASU 2015-07 are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The pronouncement has been retrospectively applied to the 2015 financial statements.

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.

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, 2017, the date the financial statements were available to be issued.

Note 2. Promises to Give

Pledge receivables are recorded at net present value using a variable discount rate 2.2% and 2.0% for 2016 and 2015, respectively, less an allowance for uncollectable accounts and are due in future years at December 31 as follows:

	2016	2015
Less than one year	$ 1,580,300	$ 1,602,299
One to five years	2,844,133	2,713,815
Six to ten years	200,000	300,000
	4,624,433	4,616,114
Allowance for uncollectable pledges and present value discount	(466,619)	(437,786)
	$ 4,157,814	$ 4,178,328

Note 3. Conditional Promises to Give

In May 2014, the Foundation received a conditional pledge in the form of a challenge grant totaling $1,000,000. During 2014, the Foundation received $250,000. Of this amount, $204,070 was reflected as a refundable advance because the conditions associated with this portion of the balance had not been met. During 2015, the Foundation met the conditions associated with the entire grant and recorded the remaining balance of $954,070 as gift and grant income. Of this amount, $250,000 is included in the pledge receivable balance at December 31, 2016. This amount is expected to be collected during 2017.

Note 4. 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.

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)

Note 4. Fair Value Disclosures (Continued)

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, 2016 and 2015.

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. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient.

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.

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

Note 4. 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:

	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 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

Note 4. Fair Value Disclosures (Continued)

	2015			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 2,473,223	$ -	$ -	$ 2,473,223
Common stock - private	-		24,529	24,529
Equity mutual funds:				
Foreign large blend	2,475,800	-	-	2,475,800
Foreign large growth	2,579,865	-	-	2,579,865
Diversified emerging markets	1,290,819	-	-	1,290,819
Large blend	7,997,603	-	-	7,997,603
Large growth	3,117,901	-	-	3,117,901
Mid-cap growth	-	-	-	-
Mid-cap blend	1,421,045	-	-	1,421,045
Foreign small/mid growth	1,060,595	-	-	1,060,595
Small blend	1,048,703	-	-	1,048,703
Small growth	1,054,535	-	-	1,054,535
Exchange traded funds:				
Large value	2,982,790	-	-	2,982,790
Fixed income mutual funds:				
Intermediate-term bonds	6,418,845	-	-	6,418,845
Multi-sector bond	1,165,602	-	-	1,165,602
World allocation	1,859,729	-	-	1,859,729
	$ 36,947,055	$ -	$ 24,529	36,971,584
Investments measured at net asset value				
Limited partnership interest - global return				2,000,000
Pooled investment fund				2,298,153
Limited partnership interest				683,468
Total				$ 41,953,205

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

	2016	2015
Balance as of January 1,	$ 24,529	$ 24,064
Net change in unrealized and realized gains	-	465
Balance as of December 31,	$ 24,529	$ 24,529

Note 5. Investments

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

	2016	2015
Interest and dividends	$ 859,646	$ 1,181,853
Net realized and unrealized gains (losses)	1,811,516	(1,544,771)
Less: investment management fees	(83,102)	(89,700)
	$ 2,588,060	$ (452,618)

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:

	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	$ -		

	2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partership interest - global return	$ 2,000,000	$ -	Monthly	7 days
Pooled investment fund	2,298,153	-	Quarterly	95 days
Limited partership interest	683,468	-	Quarterly	75 days
	$ 4,981,621	$ -		

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 6. 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) requires 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 is no anticipated unguaranteed residual value. In addition, the agreement also requires payments to the Foundation for any incidental related costs incurred related to these properties. The DOSA expires no later than April 14, 2018.

The remaining base rent for the leases, following the completion of the DOSA, requires monthly amounts equal to the principal and interest required in the financing in the acquisition of the property. At the time the financing costs are paid in full, the base rent will be reduced to $1 per year per lease.

The leases also require 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.

The following is a schedule of future minimum rentals from direct financing leases as of December 31, 2016:

2017	$ 560,719
2018	8,378,693
2019	36
2020	36
2021	36
Thereafter	893
	8,940,413
Less: unearned income	(299,626)
Present value of lease payments	$ 8,640,787
Less: current portion	(341,067)
Long-term portion	$ 8,299,720

For the year ended December 31, 2016, the LLCs have recognized lease revenue in the amount of $198,387 which is reflected within miscellaneous income on the consolidated statement of activities and changes in net assets.

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 $3,478,113 and $5,028,389 were incurred for the years ended December 31, 2016 and 2015, respectively. Grants and distributions payable of $2,198,625 and $1,261,111 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, there were no outstanding grant requests. The MetroHealth System identified in-kind support to the Foundation for 2016 and 2015 representing purchased services, rent and other expenses which are included in these financial statements in the amount of $1,748,037 and $1,823,881, respectively.

In addition, the Foundation has a receivable of $315,417 and $17,589 from the System at December 31, 2016 and 2015, respectively.

Note 7. 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 6 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.

The maturity date of the Note is the earlier of (i) April 14, 2018; (ii) event of default as defined in the Note; (iii) the date on which the DOSA expires, is cancelled or is terminated.

The Note is secured through the LLCs with rights, titles and interests under the respective (i) DOSA and (ii) each purchase and sale agreements.

The LLCs are required to be in compliance with financial and performance-related covenants.

The Foundation's future principal payments are as follows for the years ending December 31:

2017	$ 348,240
2018	8,299,720
	8,647,960
Less: debt issuance costs	(119,324)
	$ 8,528,636

Total interest expense incurred for the Foundation was $45,949 and $0 for the years ended December 31, 2016 and 2015, respectively.

Note 8. Permanently Restricted Net Assets

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

	2016	2015
Anesthesiology	$ 296,416	$ 276,885
Community health	998,048	998,048
Dentistry	25	25
Dermatology	141,509	141,509
Emergency medicine	22,500	21,460
Heart and vascular	1,240,493	1,169,070
Medical education	523,166	513,327
Medical specialties	216,170	178,609
Nursing	6,000	6,000
Orthopedics	2,720,358	2,239,935
Pastoral care	12,814	12,814
Pathology	1,464	1,464
Pediatrics	489,398	487,642
Physical medicine and rehabilitation	1,135,314	1,131,964
Primary care	56,536	56,456
Psychiatry	26,582	26,082
Radiology	3,550	3,550
Research	1,937,861	1,925,015
Social work	449,390	449,390
Surgical specialties	1,609,386	1,563,961
System wide	345,550	345,795
Women's health	1,194,512	1,184,650
	$ 13,427,042	$ 12,733,651

Corpus restoration: From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, variances of this nature are reported as deficits of unrestricted net assets, which were $0 at December 31, 2016 and 2015.

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.

Note 8. Permanently Restricted Net Assets (Continued)

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:

	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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 5,297,502	$ 12,190,704	$ 17,488,206
Funds functioning as endowment funds	1,580,953	-	-	1,580,953
Total endowment funds	$ 1,580,953	$ 5,297,502	$ 12,190,704	$ 19,069,159

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, 2015	$ 1,622,582	$ 5,864,943	$ 11,593,944	$ 19,081,469
Investment return:				
Investment income	29,602	346,363	-	375,965
Net unrealized loss	(71,231)	(566,116)	-	(637,347)
Contributions	-	-	374,024	374,024
(Appropriations) reclassifications	-	(347,688)	222,736	(124,952)
Endowment net assets, December 31, 2015	1,580,953	5,297,502	12,190,704	19,069,159
Investment return:				
Investment income	50,638	578,038	-	628,676
Net unrealized appreciation	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

Note 9. Temporarily Restricted Net Assets

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

	2016	2015
Anesthesiology	$ 306,338	$ 304,144
Care management and social work	142,753	62,474
Community health	1,328,161	1,292,708
Dentistry	55,937	55,936
Dermatology	107,450	102,609
Emergency medicine	253,986	198,083
Heart and vascular	1,262,474	1,280,730
Medical operations	941,748	838,068
Medical specialties	2,461,698	2,026,844
Nutrition	23,212	27,881
Orthopedics	2,456,660	1,425,456
Pathology	68,021	29,087
Pediatrics	1,447,659	1,316,040
Physical medicine and rehabilitation	1,729,197	1,667,695
Primary care	825,194	1,623,854
Psychiatry	402,300	438,084
Pulmonary	213,887	212,802
Radiology	260,641	263,339
Research	1,680,446	1,551,460
Surgical specialties	4,127,815	4,116,522
System wide	6,971,794	7,471,521
Women's health	975,182	754,284
Unrestricted promises to give	487,211	711,508
	$ 28,529,764	$ 27,771,129

Note 10. Unrelated Business Income Tax

The Foundation had an investment in Premier Purchasing Partners, L.P. for which the Foundation paid income taxes on Unrelated Business Income. The Foundation transferred its interest in Premier Purchasing Partners, L.P. to a related party in 2012. The Foundation filed a claim for refund in U.S. District Court, Northern District of Ohio, seeking to recover the unrelated business income taxes paid. In 2015, a settlement was reached with the Internal Revenue Service and the Foundation received $1,076,740, which includes the majority of previously paid unrelated business income taxes and interest.

Note 11. 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:

	2016	2015
Net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes:		
Capital equipment	$ 527,228	$ 294,897
Education	974,675	1,287,124
Fundraising	230,264	42,865
Patient programs	1,232,360	1,361,818
Research	545,565	880,426
Recruitment	42,979	67,466
Other	89,251	10,857
	$ 3,642,322	$ 3,945,453

Note 12. Special Event

In May 2016, the Foundation hosted more than 1,250 guests at GALA2016 and GALA AFTERDARK (GALA). Revenue and support raised by the event was $1,260,491. Proceeds raised by 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. Because the Board of Directors of the Foundation has not passed a resolution to board designate these funds, the net proceeds of $600,376 have been reflected within unrestricted operating net assets on the statement of financial position at December 31, 2016.

In addition, the Foundation was notified of an anonymous intention to give in the amount of $1,000,000 which was announced at the event. This intention to give is not currently reflected in these financial statements as it does not meet the revenue recognition criteria.

The special event activity consists of the following for the year ended December 31, 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

Note 13. Other Accomplishments

Donors occasionally make their gifts directly to The MetroHealth System. 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.

In 2015, FSP was responsible for securing $1.6 million in support from the United States Department of Health and Human Services to support faculty development and residency training in the primary care disciplines of family medicine, geriatrics, internal medicine, med/peds, pediatrics and ob/gyn; and a $1 million grant from the United States Department of Health and Human Services Office of Hospital Preparedness to ensure our health system is ready to safely and effectively identify, isolate, assess, transport and treat patients infected with or suspected to have Ebola.

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, 2016 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, 2017.

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*.

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* (Continued)

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, 2017

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 30, 2017

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