

**THE METROHEALTH
FOUNDATION, INC.**

**AUDITED
FINANCIAL STATEMENTS**

**YEARS ENDED
DECEMBER 31, 2012 AND 2011**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of The MetroHealth Foundation, Inc., Cuyahoga County, prepared by Barnes Wendling CPAs, Inc., for the audit period January 1, 2012 through December 31, 2012. 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 "Dave Yost".

Dave Yost
Auditor of State

April 29, 2013

INDEPENDENT AUDITORS' REPORT

March 27, 2013

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

Report on the Financial Statements

We have audited the accompanying financial statements of The MetroHealth Foundation, Inc., a component unit of the MetroHealth System, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The MetroHealth Foundation, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013 on our consideration of The MetroHealth Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The MetroHealth Foundation, Inc.'s internal control over financial reporting and compliance.

Barnes Wendling CPAs, Inc.

The MetroHealth Foundation, Inc.

Statements of Financial Position

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 2,849,580	\$ 3,450,551
Promises to give, net <i>(Note 2)</i>	1,414,922	1,416,833
Investments, at fair value	30,185,573	27,184,512
Equipment, net <i>(Note 5)</i>	20,666	-
Other assets	140,485	58,354
Total assets	<u>\$ 34,611,226</u>	<u>\$ 32,110,250</u>
Liabilities		
Accounts payable and other	\$ 71,717	\$ 21,691
Annuity payment obligations	426,626	395,269
Grants payable to The MetroHealth System	1,436,154	1,705,145
Income tax payable	-	154,350
Total liabilities	<u>1,934,497</u>	<u>2,276,455</u>
Net Assets:		
Unrestricted:		
Operating	2,443,956	2,528,687
Board designated	1,211,248	1,185,986
Total unrestricted net assets	<u>3,655,204</u>	<u>3,714,673</u>
Temporarily restricted:		
Specific purpose funds <i>(Note 8)</i>	19,265,975	17,120,925
Permanently restricted:		
Endowment <i>(Note 7)</i>	9,755,550	8,998,197
Total net assets	<u>32,676,729</u>	<u>29,833,795</u>
Total liabilities and net assets	<u>\$ 34,611,226</u>	<u>\$ 32,110,250</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2012

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

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Gifts and grants	\$ 1,926,902	\$ 6,822,232	\$ 328,442	\$ 9,077,576
Miscellaneous income	4,153	161,401	-	165,554
Investment income (Note 4)	631,946	(404,807)	6,500	233,639
Investment income transfer (Note 4)	-	43,710	(43,710)	-
Net assets released from restrictions	5,017,048	(5,017,048)	-	-
Total revenue	<u>7,580,049</u>	<u>1,605,488</u>	<u>291,232</u>	<u>9,476,769</u>
Expenses				
Grants and distributions	5,611,046	-	-	5,611,046
Fundraising expenses	1,694,246	-	-	1,694,246
Administrative expenses:				
Purchased services	394,137	-	-	394,137
Provision for bad debts	194,731	-	-	194,731
Unrelated business income tax (Note 9)	317,501	-	-	317,501
Other	210,265	-	-	210,265
Total administrative expenses	<u>1,116,634</u>	<u>-</u>	<u>-</u>	<u>1,116,634</u>
Total expenses	<u>8,421,926</u>	<u>-</u>	<u>-</u>	<u>8,421,926</u>
Increase in net assets	(841,877)	1,605,488	291,232	1,054,843
Net assets at beginning of year	4,555,628	15,607,980	8,615,344	28,778,952
Net asset transfer (Note 4)	922	(92,543)	91,621	-
Net assets at end of year	<u>\$ 3,714,673</u>	<u>\$ 17,120,925</u>	<u>\$ 8,998,197</u>	<u>\$ 29,833,795</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating activities		
Increase in net assets	\$ 2,842,934	\$ 1,054,843
Adjustments to reconcile increase in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation expense	4,962	-
Assignment of Premier Purchasing Partners, L.P.	1,116,642	-
Permanently restricted contributions	(382,362)	(328,442)
Net (gain) loss on investments	(3,345,562)	266,462
(Increase) decrease in assets:		
Promises to give, net	1,911	117,921
Other assets	(82,131)	12,199
Increase (decrease) in liabilities:		
Accounts payable and other	50,026	(59,316)
Annuity payment obligations	31,357	45,852
Grants payable to MetroHealth System	(268,991)	(532,429)
Income tax payable	(154,350)	(37,900)
Net cash and cash equivalents (used in) provided by operating activities	<u>(185,564)</u>	<u>539,190</u>
Investing activities		
Purchase of equipment	(25,628)	-
Proceeds from sale of investments	1,956,817	8,203,908
Purchase of investments	<u>(2,728,958)</u>	<u>(8,559,484)</u>
Net cash and cash equivalents used in investing activities	<u>(797,769)</u>	<u>(355,576)</u>
Financing activities		
Permanently restricted contributions	<u>382,362</u>	<u>328,442</u>
Net cash and cash equivalents provided by financing activities	<u>382,362</u>	<u>328,442</u>
Increase (decrease) in cash and cash equivalents	(600,971)	512,056
Cash and cash equivalents at beginning of year	<u>3,450,551</u>	<u>2,938,495</u>
Cash and cash equivalents at end of year	<u>\$ 2,849,580</u>	<u>\$ 3,450,551</u>
Cash paid for income taxes	<u>\$ 354,200</u>	<u>\$ 335,400</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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:

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

Unrestricted Net Assets — Unrestricted net assets result from public support and revenue not subject to donor imposed restrictions. Gifts and grants revenue includes gifts in-kind that are recorded at fair value as of the donation date. At December 31, 2012 and 2011, the Foundation's Board of Directors had designated \$1,211,248 and \$1,185,986, respectively, for specific future use.

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

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

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

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

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

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

Annuity Payment Obligations — The Foundation has entered into gift annuity agreements, which include provisions requiring the Foundation to pay periodic fixed payments to beneficiaries during their lifetime. Charitable gift annuities differ from other charitable giving options in that the annuity is a general obligation of the Foundation. Accordingly, if the assets of the gift are exhausted as a result of required payments to beneficiaries, unrestricted assets of the Foundation will be utilized to fund future payments.

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

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.

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

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

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

There were no changes in valuation techniques in determining fair value of investments during the years ended December 31, 2012 and 2011.

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

Fair Value of Financial Instruments (continued)

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

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 1,475,951		\$ 1,475,951	
Common stock - private	41,285			\$ 41,285
Equity mutual funds				
Foreign large blend	2,437,541	\$2,437,541		
Foreign large value	1,678,077	1,678,077		
Large blend	5,671,428	5,671,428		
Large growth	3,111,005	3,111,005		
Mid-cap growth	574,584	574,584		
Foreign small/mid growth	1,811,742	1,811,742		
Small blend	1,000,295	1,000,295		
Small growth	929,674	929,674		
Total equity mutual funds	<u>17,214,346</u>	<u>17,214,346</u>		
Exchange traded funds:				
Large value	1,423,997	1,423,997		
Mid-cap value	1,623,627	1,623,627		
Total exchange traded funds	<u>3,047,624</u>	<u>3,047,624</u>		
Fixed income mutual funds:				
Intermediate-term bonds	4,582,717	4,582,717		
Multi-sector bond	1,277,025	1,277,025		
Total fixed income mutual funds	<u>5,859,742</u>	<u>5,859,742</u>		
Limited partnership interest	<u>2,546,625</u>			<u>2,546,625</u>
Total	<u><u>\$30,185,573</u></u>	<u><u>\$26,121,712</u></u>	<u><u>\$ 1,475,951</u></u>	<u><u>\$ 2,587,910</u></u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

The following is a summary of the inputs used as of December 31, 2011 in valuing the Foundation's investments carried at fair value:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 1,151,757		\$ 1,151,757	
Common stock - private	158,834			\$ 158,834
Equity mutual funds				
Foreign large blend	2,194,841	\$ 2,194,841		
Foreign large value	976,965	976,965		
Diversified emerging markets	614,090	614,090		
Large blend	5,080,572	5,080,572		
Large growth	1,698,310	1,698,310		
Mid-cap growth	500,441	500,441		
Foreign small/mid growth	1,461,561	1,461,561		
Small blend	970,763	970,763		
Small growth	900,198	900,198		
Total equity mutual funds	<u>14,397,741</u>	<u>14,397,741</u>		
Exchange traded funds:				
Large value	1,512,538	1,512,538		
Mid-cap value	405,920	405,920		
Total exchange traded funds	<u>1,918,458</u>	<u>1,918,458</u>		
Fixed income mutual funds:				
Intermediate-term bonds	5,681,236	5,681,236		
Multi-sector bond	1,355,782	1,355,782		
Total fixed income mutual funds	<u>7,037,018</u>	<u>7,037,018</u>		
Limited partnership interest	<u>2,520,704</u>			<u>2,520,704</u>
Total	<u>\$27,184,512</u>	<u>\$23,353,217</u>	<u>\$ 1,151,757</u>	<u>\$ 2,679,538</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

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

	2012	2011
Balance as of January 1	\$ 2,679,538	\$ 2,413,909
Net purchases of Limited Partnership interest	638,000	400,000
Transfer of Premier investment	(1,116,642)	-0-
Net change in unrealized and realized gains (losses)	387,014	(134,371)
Balance as of December 31	\$ 2,587,910	\$ 2,679,538
Net unrealized appreciation (depreciation) from investments in limited partnerships and common stock – private, still held as of December 31	\$ 15,444	(\$ 102,458)

Equipment — Equipment is stated at purchased cost. The cost of equipment purchased in excess of \$1,000 is capitalized. Depreciation is taken on the straight-line method over three years, the estimated useful life of the assets. Gains and losses arising from the sale or disposal of equipment is accounted for in the unrestricted net assets. Maintenance and repairs are charged to expense when incurred. Depreciation expense for the years ended December 31, 2012 and 2011 is \$4,962 and \$-0-, respectively.

Subsequent Events — The Foundation has evaluated subsequent events through March 27, 2013 the date which these financial statements were available to be issued.

Reclassifications — Certain amounts from the 2011 financial statements have been reclassified to conform with the 2012 presentation.

2. Promises to Give

Pledge receivables are recorded at net present value using a variable discount rate, ranging from 1.4% to 3.4% for 2012 and 1.6% to 3.4% for 2011, less an allowance for uncollectible accounts, and are due in future years at December 31, as follows:

	2012	2011
Less than one year	\$ 769,505	\$ 1,012,330
One to five years	781,453	526,230
	1,550,958	1,538,560
Allowance for uncollectible pledges and present value discount	(136,036)	(121,727)
	\$ 1,414,922	\$ 1,416,833

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

3. Conditional Promises to Give

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

The Foundation received a conditional pledge of \$500,000 commencing in 2007 and ending in June 2011. The balance has been paid in full as of December 31, 2011.

4. Investments

Investment income for the years ending December 31, 2012 and 2011 consisted of the following:

	2012	2011
Interest and dividends	\$ 745,727	\$ 565,457
Net realized gains	375,803	813,445
Net change in unrealized (losses) gains	2,969,759	(1,079,907)
Less investment management fees	(66,147)	(65,356)
	<u>\$ 4,025,142</u>	<u>\$ 233,639</u>

The Foundation's investments had cumulative unrealized gains of \$1,921,220 and \$603,955 and cumulative unrealized losses of \$280,850 and \$1,727,101 at December 31, 2012 and 2011, 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. Unrealized gains and losses from endowed investments are maintained as permanently restricted unless the market value of permanently restricted net assets falls below the corpus. In that event, the unrestricted fund balance is encumbered to maintain donor restricted endowment funds at the level required by donor stipulation. In 2008 and 2011, the Foundation transferred \$1,876,905 and \$91,621, respectively, to maintain the corpus of the endowment. The Foundation transferred funds from the permanently restricted net assets back to unrestricted net assets because the level required by donor stipulations had been partially recovered in 2009 and 2010. In 2012, the Foundation fully restored previously transferred funds with the \$308,893 transfer to unrestricted net assets. Additionally, due to financial market conditions, the Board may restore temporarily restricted net assets from unrestricted funds to support the commitments of donor-driven gifts or grants.

5. Equipment

Equipment at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Software and office equipment	\$ 25,628	\$ -0-
Less: accumulated depreciation	4,962	-0-
Equipment, net of accumulated depreciation	<u>\$ 20,666</u>	<u>\$ -0-</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

6. Related Party Transactions

The System submits grant proposals to the Foundation. It also requests distributions of funds as expenses are incurred by the System that are consistent with the Foundation's fund purposes. Grants and distributions payable of \$1,436,154 and \$1,705,145 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, there were no outstanding grant requests. The MetroHealth System identified in-kind support to the Foundation for 2012 and 2011 representing purchased services, rent and other expenses which are included in these financial statements in the amount of \$1,374,711 and \$1,366,873, respectively.

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

7. Permanently Restricted Net Assets

Permanently restricted assets at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Anesthesiology	\$ 58,369	\$ 56,094
Community Health	1,028,138	986,071
Dentistry	26	25
Dermatology	100,510	96,397
Emergency Medicine	16,256	-0-
Heart and Vascular	635,780	555,582
Medical Education	435,040	408,125
Medical Specialties	154,948	147,253
Nursing	6,256	6,000
Orthopedics	2,370,392	2,272,785
Pastoral Care	12,033	9,517
Pathology	1,526	1,464
Pediatrics	486,398	457,800
Physical Medicine and Rehabilitation	1,162,174	1,111,692
Primary Care	48,923	46,113
Psychiatry	1,701	1,632
Radiology	6,496	6,230
Research	1,604,395	1,513,706
Surgical Specialties	1,088,069	858,996
System Wide	366,230	312,050
Women's Health	171,890	150,665
	<u>\$ 9,755,550</u>	<u>\$ 8,998,197</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

7. Permanently Restricted Net Assets (continued)

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- and \$308,893 at December 31, 2012 and 2011, respectively. These variances resulted from unfavorable market fluctuations that occurred in 2008.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to produce results exceeding the price and yield results of the S&P 500 index, for the equity portion of the portfolio, while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior 36 months through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity and to provide additional real growth through new gifts and investment return.

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

7. Permanently Restricted Net Assets (continued)

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

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

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

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

7. Permanently Restricted Net Assets (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	(\$ 308,893)	\$1,894,265	\$8,998,197	\$10,583,569
Total	<u>(\$ 308,893)</u>	<u>\$1,894,265</u>	<u>\$8,998,197</u>	<u>\$10,583,569</u>

Changes in Endowment Net Assets for the year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	(\$ 217,272)	\$2,138,220	\$8,615,344	\$10,536,292
Investment return:				
Investment income	-0-	71,296	-0-	71,296
Investment income transfer	-0-	43,710	(43,710)	-0-
Net unrealized appreciation	<u>-0-</u>	<u>-0-</u>	<u>6,500</u>	<u>6,500</u>
Total investment return	-0-	115,006	(37,210)	77,796
Net assets released from restriction	-0-	(358,961)	-0-	(358,961)
Contributions	-0-	-0-	328,442	328,442
Net asset transfer (Note 4)	<u>(91,621)</u>	<u>-0-</u>	<u>91,621</u>	<u>-0-</u>
Endowment net assets, End of year	<u>(\$ 308,893)</u>	<u>\$ 1,894,265</u>	<u>\$8,998,197</u>	<u>\$10,583,569</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

8. Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Anesthesiology	\$ 222,813	\$ 173,595
Care Management and Social Work	31,618	15,560
Community Health	934,964	837,212
Dentistry	53,203	40,810
Dermatology	76,166	60,499
Emergency Medicine	220,260	206,216
Heart and Vascular	1,577,541	1,312,090
Medical Operations	487,252	414,530
Medical Specialties	1,804,420	1,389,154
Nutrition	28,359	20,624
Orthopedics	1,139,120	1,091,489
Pathology	33,190	28,826
Pediatrics	969,170	839,397
Physical Medicine and Rehabilitation	763,121	903,128
Primary Care	393,023	461,384
Psychiatry	414,780	325,857
Pulmonary	188,972	147,844
Radiology	308,650	250,422
Research	1,238,175	1,206,931
Surgical Specialties	3,225,523	2,235,027
System Wide	4,737,212	4,935,645
Women's Health	96,965	37,138
Unrestricted Promises to Give	321,478	187,547
	<u>\$ 19,265,975</u>	<u>\$ 17,120,925</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

9. Unrelated Business Income Tax

As discussed in Note 1, the Foundation is exempt from paying income taxes on income related to its general business purpose. The Foundation is required to pay income taxes on unrelated business income, such as the income earned through the Foundation's investment in Premier Purchasing Partners, L.P., but has sought a private letter ruling from the Internal Revenue Service to clarify whether this income qualifies as unrelated business income. During the years ended December 31, 2012 and 2011, the Foundation received income of \$796,144 and \$896,052, respectively, from its investment in Premier Purchasing Partners, L.P. As discussed in Note 6, the Foundation assigned its interest in Premier Purchasing Partners, L.P. on July 31, 2012. The Foundation is responsible for the income earned through July 2012, which is estimated at \$70,000. The Foundation has paid \$354,200 of estimated taxes in 2012 and has prepaid taxes of \$95,350 (included with other assets on the Statement of Financial Position) at December 31, 2012 based on this estimate.

10. Grants Expended from Net Assets Released from Restrictions

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

	<u>2012</u>	<u>2011</u>
Net assets were released from donor restrictions by incurring expense satisfying the following temporarily restricted purposes:		
Capital Equipment	\$ 139,675	\$ 810,630
Education	875,735	682,879
Fundraising	42,101	404,247
Patient Programs	2,007,087	1,980,674
Research	266,297	669,266
Recruitment	34,827	46,982
Other	228,122	422,370
	<u>\$ 3,593,844</u>	<u>\$ 5,017,048</u>

11. Concentrations

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

12. Other Accomplishments

Donors occasionally make their gifts directly to The MetroHealth System. In 2011, The Development Department worked collaboratively to help secure a \$1.08 million grant from the United States Department of Health and Human Services to support geriatric physician training; a \$60,000 grant from the Cuyahoga County Board of Developmental Disabilities for the mobile dental van; and a \$48,000 grant from Cuyahoga County for the Fatherhood Initiative.

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

13. Income Taxes

The Organization is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) and is classified as an organization that is not a "Private Foundation" as defined in Section 509(a) of the Internal Revenue Code. The Organization is no longer subject to tax examinations for years before 2008 by taxing authorities in jurisdictions where the Organization has filed returns.

The Organization evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Organization's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2012 and 2011, the Organization has no accrued taxes, interest or penalties related to uncertain tax positions. The Organization estimates the unrecognized tax benefit will not change significantly within the next twelve months.

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 27, 2013
The Board of Directors
The MetroHealth Foundation, Inc.
Cleveland, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The MetroHealth Foundation, Inc., a component unit of The MetroHealth System, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise The MetroHealth Foundation, Inc.'s basic financial statements, and have issued our report thereon dated March 27, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

Purpose of the Report

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

Barnes Wendling CPAs, Inc.

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Dave Yost • Auditor of State

THE METROHEALTH FOUNDATION, INC.

GUERNSEY 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 9, 2013