

# **The MetroHealth Foundation, Inc.**

Financial Report  
December 31, 2014





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the MetroHealth Foundation, Inc., Cuyahoga County, prepared by McGladrey LLP, for the audit period January 1, 2014 through December 31, 2014. 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 cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

August 13, 2015

**This page intentionally left blank.**

## Contents

---

Independent Auditor's Report	1-2
------------------------------	-----

---

Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-17

---

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 <i>Government Auditing Standards</i>	18-19
---	-------

---



## Independent Auditor's Report

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 nonprofit organization), a component unit of The MetroHealth System, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, and cash flows for the year 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.

### Auditor's Responsibility

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

An audit 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 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 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, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report (Continued)

### Other Matter

The financial statements of The MetroHealth Foundation, Inc., as of and for the year ended December 31, 2013, were audited by other auditors whose report dated April 1, 2014, expressed an unmodified opinion on those statements.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2015 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, controls 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 MetroHealth Foundation, Inc.'s internal control over financial reporting and compliance.



Cleveland, Ohio  
March 18, 2015

The MetroHealth Foundation, Inc.

Statements of Financial Position  
December 31, 2014 and 2013

	2014	2013
<b>Assets</b>		
Cash and cash equivalents	\$ 3,869,018	\$ 2,644,390
Promises to give, net	2,476,916	2,002,757
Due from The MetroHealth System	-	950,000
Investments, at fair value	40,740,883	37,427,685
Equipment, net	3,794	12,220
Other assets	227,562	210,287
	<u>47,318,173</u>	<u>43,247,339</u>
<b>Total assets</b>	<b>\$ 47,318,173</b>	<b>\$ 43,247,339</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and other	\$ 55,754	\$ 50,599
Refundable advance	204,070	-
Annuity payment obligations	423,457	414,806
Grants payable to The MetroHealth System	1,884,962	1,049,162
	<u>2,568,243</u>	<u>1,514,567</u>
<b>Total liabilities</b>	<b>2,568,243</b>	<b>1,514,567</b>
<b>Net Assets</b>		
Unrestricted		
Operating	3,441,025	3,369,024
Board designated	1,316,382	1,254,108
	<u>4,757,407</u>	<u>4,623,132</u>
<b>Total unrestricted net assets</b>	<b>4,757,407</b>	<b>4,623,132</b>
Temporarily Restricted		
Specific purpose funds	27,921,495	25,690,058
	<u>27,921,495</u>	<u>25,690,058</u>
Permanently Restricted		
Endowment	12,071,028	11,419,582
	<u>12,071,028</u>	<u>11,419,582</u>
<b>Total net assets</b>	<b>44,749,930</b>	<b>41,732,772</b>
	<u>44,749,930</u>	<u>41,732,772</u>
<b>Total liabilities and net assets</b>	<b>\$ 47,318,173</b>	<b>\$ 43,247,339</b>
	<u>\$ 47,318,173</u>	<u>\$ 43,247,339</u>

See Notes to Financial Statements.

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Gifts and grants	\$ 580,173	\$ 4,448,985	\$ 651,446	\$ 5,680,604
In-kind contributions - related party	1,659,458	-	-	1,659,458
Miscellaneous income	39,923	268,118	-	308,041
Investment income	195,360	1,798,926	-	1,994,286
Loss on uncollectable pledges	-	(151,704)	-	(151,704)
Net assets released from restrictions	4,132,888	(4,132,888)	-	-
<b>Total revenue</b>	<b>6,607,802</b>	<b>2,231,437</b>	<b>651,446</b>	<b>9,490,685</b>
<b>Expenses</b>				
Grants and distributions	2,482,972	-	-	2,482,972
Fundraising	1,602,523	-	-	1,602,523
In-kind expenses - related party	1,659,458	-	-	1,659,458
Administrative				
Purchased services	515,072	-	-	515,072
Other	213,502	-	-	213,502
<b>Total expenses</b>	<b>6,473,527</b>	<b>-</b>	<b>-</b>	<b>6,473,527</b>
<b>Increase in net assets</b>	<b>134,275</b>	<b>2,231,437</b>	<b>651,446</b>	<b>3,017,158</b>
Net assets at beginning of year, reclassified	4,623,132	25,690,058	11,419,582	41,732,772
Net assets at ending of year	\$ 4,757,407	\$ 27,921,495	\$ 12,071,028	\$ 44,749,930

See Notes to Financial Statements.

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Gifts and grants	\$ 541,890	\$ 4,467,951	\$ 2,050,439	\$ 7,060,280
In-kind contributions - related party	1,651,823	-	-	1,651,823
Miscellaneous income	5,554	176,688	-	182,242
Investment income	1,060,328	4,802,379	-	5,862,707
Loss on uncollectable pledges	-	(74,160)	-	(74,160)
Net assets released from restrictions	3,335,182	(3,335,182)	-	-
<b>Total revenue</b>	<b>6,594,777</b>	<b>6,037,676</b>	<b>2,050,439</b>	<b>14,682,892</b>
Expenses				
Grants and distributions	1,670,031	-	-	1,670,031
Fundraising	1,607,456	-	-	1,607,456
In-kind expenses - related party	1,651,823	-	-	1,651,823
Administrative				
Purchased services	493,621	-	-	493,621
Other	203,918	-	-	203,918
<b>Total expenses</b>	<b>5,626,849</b>	<b>-</b>	<b>-</b>	<b>5,626,849</b>
<b>Increase in net assets</b>	<b>967,928</b>	<b>6,037,676</b>	<b>2,050,439</b>	<b>9,056,043</b>
Net assets at beginning of year, reclassified	3,655,204	19,652,382	9,369,143	32,676,729
Net assets at ending of year, reclassified	<u>\$ 4,623,132</u>	<u>\$ 25,690,058</u>	<u>\$ 11,419,582</u>	<u>\$ 41,732,772</u>

See Notes to Financial Statements.

**The MetroHealth Foundation, Inc.**

**Statements of Cash Flows  
Years Ended December 31, 2014 and 2013**

	2014	2013
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$ 3,017,158	\$ 9,056,043
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation expense	8,426	8,446
Permanently restricted contributions	(651,446)	(2,012,883)
Net gain on investments	(825,005)	(5,008,647)
(Increase) decrease in assets		
Promises to give, net	(474,159)	(587,835)
Due from The MetroHealth System	950,000	(950,000)
Other assets	(17,275)	(69,802)
Increase (decrease) in liabilities		
Accounts payable and other	5,155	(21,118)
Refundable advance	204,070	-
Annuity payment obligations	8,651	(11,820)
Grants payable to MetroHealth System	835,800	(386,992)
<b>Net cash provided by operating activities</b>	<b>3,061,375</b>	<b>15,392</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of investments	11,846,271	4,270,590
Purchase of investments	(14,334,464)	(6,504,055)
<b>Net cash used in investing activities</b>	<b>(2,488,193)</b>	<b>(2,233,465)</b>
<b>Cash Flows From Financing Activities</b>		
Permanently restricted contributions	651,446	2,012,883
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,224,628</b>	<b>(205,190)</b>
<b>Cash and cash equivalents</b>		
Beginning	2,644,390	2,849,580
Ending	\$ 3,869,018	\$ 2,644,390

See Notes to Financial Statements.

## The MetroHealth Foundation, Inc.

### Notes to 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.

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, 2014 and 2013, the Foundation's Board of Directors had designated \$1,316,382 and \$1,254,108, 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 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.

**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 year ended December 31, 2014 and 2013, 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 2009.

## The MetroHealth Foundation, Inc.

### Notes to Financial Statements

---

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

**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.

**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 interest involve a high degree of risks, 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.

**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, 2014 and 2013, total assets of \$674,713 and \$657,058, 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 lifetime. Upon death of the beneficiaries, the assets are to be retained for the Foundation's use. At December 31, 2014 and 2013, liabilities of \$423,457 and \$414,806, 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 rates 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.

## The MetroHealth Foundation, Inc.

### Notes to Financial Statements

---

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

**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 are accounted for in the unrestricted net assets. Maintenance and repairs are charged to expense when incurred. Depreciation expense for the years ended December 31, 2014 and 2013 is \$8,426 and \$8,446, respectively.

**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:** The Foundation had a policy whereby unrealized gains and losses from endowed investments were maintained as permanently restricted unless the fair value of permanently restricted net assets fell below corpus. Based upon the provisions of the Uniform Prudent Management of Institutional Funds Acts (UPMIFA), management made a determination that the cumulative unrealized gains reflected within permanently restricted net assets should be reclassified to temporarily restricted net assets. As a result, \$386,407 and \$1,539,643 in unrealized gains were reclassified from permanently restricted to temporarily restricted net assets as of January 1, 2013 and December 31, 2013, respectively.

In addition, \$37,556 in contributions were reclassified from temporarily restricted to permanently restricted gifts for the year ended December 31, 2013 due to new information received by management.

In addition, certain other amounts from the 2013 financial statements have been reclassified to conform with the 2014 presentation.

**Subsequent events:** The Foundation has evaluated subsequent events for potential recognition and/or disclosure through March 18, 2015, 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 1.4% and 1.4% for 2014 and 2013, respectively, less an allowance for uncollectible accounts, and are due in future years at December 31, as follows:

	2014	2013
Less than one year	\$ 1,450,985	\$ 1,198,253
One to five years	1,281,026	1,000,186
Six to ten years	2,000	7,250
	<u>2,734,011</u>	<u>2,205,689</u>
Allowance for uncollectible pledges and present value discount	(257,095)	(202,932)
	<u>\$ 2,476,916</u>	<u>\$ 2,002,757</u>

#### Note 3. Conditional Promises to Give

The Foundation received a conditional pledge in the form of a 4-year challenge grant totaling \$1,000,000 commencing in May 2014. The initial payment of \$250,000 was received by the Foundation in December 2014. As it relates to this pledge, these financial statements reflect revenue of \$45,930 and a refundable advance of \$204,070 which represents the portion of the pledge whose conditions had not been met at December 31, 2014. The outstanding pledge balance of \$750,000 at December 31, 2014 is not included as a pledge receivable within these financial statements because the conditions surrounding the pledge had not been met.

## The MetroHealth Foundation, Inc.

### Notes to Financial Statements

---

#### 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 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, 2014 and 2013.

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

The pooled investment fund, limited partnership interest and common stock - private are 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.

**The MetroHealth Foundation, Inc.**

**Notes to Financial Statements**

**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:

	2014			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 2,762,800	\$ -	\$ -	\$ 2,762,800
Common stock - private	-	-	24,064	24,064
Equity mutual funds:				
Foreign large blend	3,060,781	-	-	3,060,781
Foreign large growth	2,444,463	-	-	2,444,463
Diversified emerging markets	1,199,376	-	-	1,199,376
Large blend	7,342,529	-	-	7,342,529
Large growth	3,076,094	-	-	3,076,094
Mid-cap growth	111,244	-	-	111,244
Mid-cap blend	1,440,337	-	-	1,440,337
Foreign small/mid growth	844,901	-	-	844,901
Small blend	977,297	-	-	977,297
Small growth	1,043,477	-	-	1,043,477
Exchange traded funds:				
Large value	3,126,016	-	-	3,126,016
Fixed income mutual funds:				
Intermediate-term bonds	5,575,280	-	-	5,575,280
Multi-sector bond	4,540,418	-	-	4,540,418
Pooled investment fund	-	-	1,838,935	1,838,935
Limited partnership interest	-	-	1,332,871	1,332,871
<b>Total</b>	<b>\$ 37,545,013</b>	<b>\$ -</b>	<b>\$ 3,195,870</b>	<b>\$ 40,740,883</b>

**The MetroHealth Foundation, Inc.**

**Notes to Financial Statements**

**Note 4. Fair Value Disclosures (Continued)**

	2013			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,781,900	\$ -	\$ -	\$ 1,781,900
Common stock - private	-	-	25,500	25,500
Equity mutual funds:				
Foreign large blend	2,464,294	-	-	2,464,294
Foreign large growth	2,353,975	-	-	2,353,975
Diversified emerging markets	1,256,588	-	-	1,256,588
Large blend	7,023,236	-	-	7,023,236
Large growth	2,996,887	-	-	2,996,887
Mid-cap growth	662,661	-	-	662,661
Foreign small/mid growth	869,918	-	-	869,918
Small blend	1,025,537	-	-	1,025,537
Small growth	1,032,047	-	-	1,032,047
Exchange traded funds:				
Large value	3,323,866	-	-	3,323,866
Mid-cap value	609,599	-	-	609,599
Fixed income mutual funds:				
Intermediate-term bonds	4,768,759	-	-	4,768,759
Multi-sector bond	4,192,666	-	-	4,192,666
Pooled investment fund	-	-	1,049,742	1,049,742
Limited partnership interest	-	-	1,990,510	1,990,510
<b>Total</b>	<b>\$ 34,361,933</b>	<b>\$ -</b>	<b>\$ 3,065,752</b>	<b>\$ 37,427,685</b>

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

	2014	2013
Balance as of January 1,	\$ 3,065,752	\$ 2,587,910
Net purchases of pooled investment fund	750,060	1,000,000
Net sale of limited partnership interest	(727,113)	(770,544)
Net change in unrealized and realized gains	107,171	248,386
<b>Balance as of December 31,</b>	<b>\$ 3,195,870</b>	<b>\$ 3,065,752</b>

Net unrealized appreciation from investments in limited partnership interest, pooled investment fund and common stock – private, still held as of December 31, 2014 and 2013 was \$294,457 and \$290,685, respectively.

## The MetroHealth Foundation, Inc.

### Notes to Financial Statements

---

#### Note 5. Investments

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

	2014	2013
Interest and dividends	\$ 1,252,227	\$ 925,212
Net realized gains	738,637	313,792
Net unrealized gains	86,638	4,694,855
Less investment management fees	(83,216)	(71,152)
	<u>\$ 1,994,286</u>	<u>\$ 5,862,707</u>

The Foundation's investments had cumulative unrealized gains of \$6,464,355 and \$6,356,143 and cumulative unrealized losses of \$130,728 and \$87,904 at December 31, 2014 and 2013, respectively.

#### Note 6. Equipment

Equipment at December 31 consisted of the following:

	2014	2013
Software and office equipment	\$ 25,628	\$ 25,628
Less: accumulated depreciation	(21,834)	(13,408)
<b>Equipment, net of accumulated depreciation</b>	<u>\$ 3,794</u>	<u>\$ 12,220</u>

#### Note 7. 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 \$1,884,962 and \$1,049,162 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, there were no outstanding grant requests. The MetroHealth System identified in-kind support to the Foundation for 2014 and 2013 representing purchased services, rent and other expenses which are included in these financial statements in the amount of \$1,659,458 and \$1,651,823, respectively.

In December 2013, the System pledged a contribution of \$950,000 to the Foundation. The amount was received by the Foundation in January 2014.

## The MetroHealth Foundation, Inc.

### Notes to Financial Statements

---

#### Note 8. Permanently Restricted Net Assets

Permanently restricted assets at December 31 are as follows:

	2014	2013
Anesthesiology	\$ 102,892	\$ 65,772
Community health	986,071	986,071
Dentistry	25	25
Dermatology	96,997	96,397
Emergency medicine	19,909	18,784
Heart and vascular	1,050,468	907,070
Medical education	444,117	435,685
Medical specialties	175,047	160,903
Nursing	6,000	6,000
Orthopedics	2,268,651	2,267,315
Pastoral care	11,541	11,541
Pathology	1,464	1,464
Pediatrics	474,159	470,121
Physical medicine and rehabilitation	1,131,145	1,125,174
Primary care	51,667	50,520
Psychiatry	20,582	14,482
Radiology	6,230	6,230
Research	1,743,586	1,588,667
Social Work	449,390	434,728
Surgical specialties	1,496,849	1,410,892
System wide	351,720	351,720
Women's health	1,182,518	1,010,021
	<u>\$ 12,071,028</u>	<u>\$ 11,419,582</u>

**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, 2014 and 2013.

**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.

**The MetroHealth Foundation, Inc.**

**Notes to Financial Statements**

**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:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 4,660,265	\$ 11,419,582	\$ 16,079,847

  

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 5,864,943	\$ 12,071,028	\$ 17,935,971

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, 2013, reclassified	\$ -	\$ 2,770,958	\$ 9,369,143	\$ 12,140,101
Investment Return:				
Investment income	-	407,661	-	407,661
Net unrealized appreciation	-	1,538,386	-	1,538,386
Contributions	-	-	2,050,439	2,050,439
Appropriations	-	(56,740)	-	(56,740)
Endowment net assets, December 31, 2013	-	4,660,265	11,419,582	16,079,847
Investment Return:				
Investment income	-	787,578	-	787,578
Net unrealized appreciation	-	475,414	-	475,414
Contributions	-	-	651,446	651,446
Appropriations	-	(58,314)	-	(58,314)
<b>Endowment net assets, December 31, 2014</b>	<b>\$ -</b>	<b>\$ 5,864,943</b>	<b>\$ 12,071,028</b>	<b>\$ 17,935,971</b>

**The MetroHealth Foundation, Inc.**

**Notes to Financial Statements**

---

**Note 9. Temporarily Restricted Net Assets**

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

	2014	2013
Anesthesiology	\$ 279,449	\$ 266,585
Care management and social work	70,669	45,215
Community health	2,083,147	1,551,474
Dentistry	62,303	61,143
Dermatology	109,282	104,045
Emergency medicine	237,766	367,212
Heart and vascular	1,396,015	1,357,858
Medical operations	874,102	720,633
Medical specialties	2,175,152	1,912,740
Nutrition	39,427	35,889
Orthopedics	1,817,874	1,595,867
Pathology	33,360	34,661
Pediatrics	1,499,985	1,246,545
Physical medicine and rehabilitation	1,143,365	1,044,440
Primary care	1,748,381	635,877
Psychiatry	695,036	816,815
Pulmonary	223,310	220,625
Radiology	443,078	485,727
Research	1,798,045	1,758,167
Surgical specialties	4,774,984	4,451,970
System wide	5,208,426	6,120,710
Women's health	427,161	329,368
Unrestricted promises to give	781,178	526,490
	<u>\$ 27,921,495</u>	<u>\$ 25,690,056</u>

**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. Currently, the Foundation has filed a claim for refund in U.S. District Court, Northern District of Ohio, seeking to recover the unrelated business income taxes it paid. Should the Court rule in the Foundation's favor, it could receive a substantial refund of previously paid tax.

**The MetroHealth Foundation, Inc.**

**Notes to Financial Statements**

---

**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:

	2014	2013
Net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes:		
Capital equipment	\$ 220,517	\$ 406,253
Education	834,118	1,398,387
Fundraising	68,633	36,492
Patient programs	2,454,328	952,710
Research	380,764	395,611
Recruitment	62,965	27,666
Other	111,563	118,063
	<u>\$ 4,132,888</u>	<u>\$ 3,335,182</u>

**Note 12. 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.

**Note 13. Other Accomplishments**

Donors occasionally make their gifts directly to The MetroHealth System. In 2014, the Department of Foundation and System Philanthropy was responsible for securing \$45,000 in support from the Ohio Development Services Agency to pilot Lean Six Sigma- trained resources to assist with a Central Sterile Processing Department service oriented transformation project; and a \$37,000 grant from the AIDS Funding Collaborative to continue our designation as an AIDS United AmeriCorps training site.

In 2013, the department was responsible for support of \$2,759,328 from Caresource Corporation to transform the treatment of obesity in children where participants will learn to make healthy nutritional choices and attend fitness, cooking and gardening classes in the Aamoth Family Pediatric Wellness Center; and a \$360,390 grant from Pfizer, Inc. to increase utilization of the electronic medical record for gynecologic issues in geriatric patients.



**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., which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 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 MetroHealth Foundation, Inc.'s 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.

*McGladrey LLP*

Cleveland, Ohio  
March 18, 2015



# 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  
AUGUST 25, 2015**