

The MetroHealth Foundation, Inc.

Financial Report
December 31, 2015



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 MetroHealth Foundation, Inc., Cuyahoga County, prepared by RSM US LLP, for the audit period January 1, 2015 through December 31, 2015. 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. MetroHealth Foundation, Inc. is responsible for compliance with these laws and regulations.

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Dave Yost
Auditor of State

May 18, 2016

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RSM US LLP

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 statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets and 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.

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 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.

Independent Auditor's Report (Continued)

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, 2015 and 2014 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 reports dated March 14, 2016 and 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, contracts, and grant agreements and other matters. The purpose of these reports 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. These reports are 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.

RSM US LLP

Cleveland, Ohio
March 14, 2016

The MetroHealth Foundation, Inc.

Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 2,739,103	\$ 3,869,018
Promises to give, net	4,178,328	2,476,916
Related party receivable	17,589	-
Investments, at fair value	41,953,205	40,740,883
Equipment, net	-	3,794
Other assets	329,000	227,562
	\$ 49,217,225	\$ 47,318,173
Liabilities and Net Assets		
Accounts payable and other	\$ 27,549	\$ 55,754
Refundable advance	-	204,070
Annuity payment obligations	429,126	423,457
Grants payable to related party	1,261,111	1,884,962
Total liabilities	1,717,786	2,568,243
Net assets:		
Unrestricted:		
Operating	5,013,437	3,441,025
Board designated	1,981,222	1,316,382
Total unrestricted net assets	6,994,659	4,757,407
Temporarily restricted:		
Specific purpose funds	27,771,129	27,921,495
Permanently restricted:		
Endowment	12,733,651	12,071,028
Total net assets	47,499,439	44,749,930
Total liabilities and net assets	\$ 49,217,225	\$ 47,318,173

See notes to financial statements.

The MetroHealth Foundation, Inc.

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 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
Revenue and support:				
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, net	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)	-	-
Total revenue	6,607,802	2,231,437	651,446	9,490,685
Expenses:				
Grants and distributions	3,995,468	-	-	3,995,468
Fundraising	425,325	-	-	425,325
In-kind expenses - related party	1,659,458	-	-	1,659,458
Administrative:				
Purchased services	110,396	-	-	110,396
Other	282,880	-	-	282,880
Total expenses	6,473,527	-	-	6,473,527
Increase in net assets	134,275	2,231,437	651,446	3,017,158
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.

Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 2,749,509	\$ 3,017,158
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	3,794	8,426
Permanently restricted contributions	(439,887)	(651,446)
Loss on uncollectible pledges	250,406	151,704
Change in allowance for uncollectible pledges and present value discount	180,691	54,163
Net realized and unrealized (gains) losses on investments	1,544,771	(825,005)
(Increase) decrease in assets:		
Promises to give, net	(2,132,509)	(680,026)
Related party receivable	(17,589)	950,000
Other assets	(101,438)	(17,275)
Increase (decrease) in liabilities:		
Accounts payable and other	(28,205)	5,155
Refundable advance	(204,070)	204,070
Annuity payment obligations	5,669	8,651
Grants payable to related party	(623,851)	835,800
Net cash provided by operating activities	1,187,291	3,061,375
Cash flows from investing activities:		
Proceeds from sale of investments	7,271,690	11,846,271
Purchase of investments	(10,028,783)	(14,334,464)
Net cash used in investing activities	(2,757,093)	(2,488,193)
Cash flows from financing activities:		
Permanently restricted contributions	439,887	651,446
Increase (decrease) in cash and cash equivalents	(1,129,915)	1,224,628
Cash and cash equivalents:		
Beginning	3,869,018	2,644,390
Ending	\$ 2,739,103	\$ 3,869,018

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 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, 2015 and 2014, the Foundation's Board of Directors had designated \$1,981,222 and \$1,316,382, 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 years ended December 31, 2015 and 2014, 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 2010.

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.

The MetroHealth Foundation, Inc.

Notes to Financial Statements

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

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 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.

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, 2015 and 2014, total assets of \$653,143 and \$674,713, 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, 2015 and 2014, liabilities of \$429,126 and \$423,457, 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.

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 unrestricted net assets. Maintenance and repairs are charged to expense when incurred. Depreciation expense for the years ended December 31, 2015 and 2014 is \$3,794 and \$8,426, 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.

The MetroHealth Foundation, Inc.

Notes to Financial Statements

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

Reclassifications: In 2015, several reclassifications of previously recorded contributions and accumulated unrealized gains were made to unrestricted, temporarily and permanently restricted net assets based upon new information received by management.

In addition, certain other amounts from the 2014 financial statements have been reclassified to conform with the 2015 presentation.

Subsequent events: The Foundation has evaluated subsequent events for potential recognition and/or disclosure through March 14, 2016, the date the financial statements were available to be issued.

Recent accounting pronouncements: 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, 2015, and interim periods within those fiscal years.

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.

Note 2. Promises to Give

Pledge receivables are recorded at net present value using a variable discount rate 2.0% and 1.4% for 2015 and 2014, respectively, less an allowance for uncollectible accounts and are due in future years at December 31 as follows:

	2015	2014
Less than one year	\$ 1,602,299	\$ 1,450,985
One to five years	2,713,815	1,281,026
Six to ten years	300,000	2,000
	4,616,114	2,734,011
Allowance for uncollectible pledges and present value discount	(437,786)	(257,095)
	<u>\$ 4,178,328</u>	<u>\$ 2,476,916</u>

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 organization 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. At December 31, 2015, \$500,000 is included in the pledge receivable balance.

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 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)

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, 2015 and 2014.

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 interests 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:

	2015			Total
	Level 1	Level 2	Level 3	
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 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
Limited partnership interest - global return	-	-	2,000,000	2,000,000
Pooled investment fund	-	-	2,298,153	2,298,153
Limited partnership interest	-	-	683,468	683,468
Total	\$ 36,947,055	\$ -	\$ 5,006,150	\$ 41,953,205

The MetroHealth Foundation, Inc.

Notes to Financial Statements

Note 4. Fair Value Disclosures (Continued)

	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
Total	\$ 37,545,013	\$ -	\$ 3,195,870	\$ 40,740,883

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

	2015	2014
Balance as of January 1,	\$ 3,195,870	\$ 3,065,752
Net purchases of pooled investment fund	500,000	750,060
Net purchases of limited partnership interest	2,000,000	-
Net sale of limited partnership interest	(566,151)	(727,113)
Transfer of limited partnership interest	(78,563)	-
Net change in unrealized and realized gains	(45,006)	107,171
Balance as of December 31,	\$ 5,006,150	\$ 3,195,870

Net unrealized appreciation from investments in limited partnership interests, pooled investment fund and common stock – private, still held as of December 31, 2015 and 2014 was \$158,186 and \$294,457, respectively.

The MetroHealth Foundation, Inc.

Notes to Financial Statements

Note 5. Investments

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 1,181,853	\$ 1,252,227
Net realized and unrealized gains (losses)	(1,544,771)	825,275
Less: investment management fees	(89,700)	(83,216)
	<u>\$ (452,618)</u>	<u>\$ 1,994,286</u>

The Foundation's investments had cumulative unrealized gains of \$5,474,373 and \$6,464,355 and cumulative unrealized losses of \$775,319 and \$130,728 at December 31, 2015 and 2014, respectively.

Note 6. Equipment

Equipment at December 31 consisted of the following:

	<u>2015</u>	<u>2014</u>
Software and office equipment	\$ 25,628	\$ 25,628
Less: accumulated depreciation	(25,628)	(21,834)
Equipment, net of accumulated depreciation	<u>\$ -</u>	<u>\$ 3,794</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 \$1,261,111 and \$1,884,962 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, there were no outstanding grant requests. The MetroHealth System identified in-kind support to the Foundation for 2015 and 2014 representing purchased services, rent and other expenses which are included in these financial statements in the amount of \$1,823,881 and \$1,659,458, respectively.

In addition, the Foundation has a receivable of \$17,589 and \$0 from the System at December 31, 2015 and 2014, respectively.

The MetroHealth Foundation, Inc.

Notes to Financial Statements

Note 8. Permanently Restricted Net Assets

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

	2015	2014
Anesthesiology	\$ 276,885	\$ 102,892
Community health	998,048	986,071
Dentistry	25	25
Dermatology	141,509	96,997
Emergency medicine	21,460	19,909
Heart and vascular	1,169,070	1,050,468
Medical education	513,327	444,117
Medical specialties	178,609	175,047
Nursing	6,000	6,000
Orthopedics	2,239,935	2,268,651
Pastoral care	12,814	11,541
Pathology	1,464	1,464
Pediatrics	487,642	474,159
Physical medicine and rehabilitation	1,131,964	1,131,145
Primary care	56,456	51,667
Psychiatry	26,082	20,582
Radiology	3,550	6,230
Research	1,925,015	1,743,586
Social work	449,390	449,390
Surgical specialties	1,563,961	1,496,849
System wide	345,795	351,720
Women's health	1,184,650	1,182,518
	<u>\$ 12,733,651</u>	<u>\$ 12,071,028</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, 2015 and 2014.

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:

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 5,297,502	\$ 12,733,651	\$ 18,031,153

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, 2014	\$ -	\$ 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)
Endowment net assets, December 31, 2014	-	5,864,943	12,071,028	17,935,971
Investment return:				
Investment income	-	346,363	-	346,363
Net unrealized depreciation	-	(566,116)	-	(566,116)
Contributions	-	-	439,887	439,887
(Appropriations) reclassifications	-	(347,688)	222,736	(124,952)
Endowment net assets, December 31, 2015	\$ -	\$ 5,297,502	\$ 12,733,651	\$ 18,031,153

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:

	<u>2015</u>	<u>2014</u>
Anesthesiology	\$ 304,144	\$ 279,449
Care management and social work	62,474	70,669
Community health	1,292,708	2,083,147
Dentistry	55,936	62,303
Dermatology	102,609	109,282
Emergency medicine	198,083	237,766
Heart and vascular	1,280,730	1,396,015
Medical operations	838,068	874,102
Medical specialties	2,026,844	2,175,152
Nutrition	27,881	39,427
Orthopedics	1,425,456	1,817,874
Pathology	29,087	33,360
Pediatrics	1,316,040	1,499,985
Physical medicine and rehabilitation	1,667,695	1,143,365
Primary care	1,623,854	1,748,381
Psychiatry	438,084	695,036
Pulmonary	212,802	223,310
Radiology	263,339	443,078
Research	1,551,460	1,798,045
Surgical specialties	4,116,522	4,774,984
System wide	7,471,521	5,208,426
Women's health	754,284	427,161
Unrestricted promises to give	711,508	781,178
	<u>\$ 27,771,129</u>	<u>\$ 27,921,495</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. 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.

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:

	2015	2014
Net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes:		
Capital equipment	\$ 294,897	\$ 220,517
Education	1,287,124	834,118
Fundraising	42,865	68,633
Patient programs	1,361,818	2,454,328
Research	880,426	380,764
Recruitment	67,466	62,965
Other	10,857	111,563
	<u>\$ 3,945,453</u>	<u>\$ 4,132,888</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 2015, the Department of Foundation and System Philanthropy (Department) 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.

In 2014, the Department was responsible for securing \$45,000 in support from the Ohio Development Services Agency to deploy Lean Six Sigma-trained resources to assist with a Central Sterile Processing Department transformation project; and a \$37,000 grant from the AIDS Funding Collaborative to continue our designation as an AIDS United AmeriCorps training site.

**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, 2015 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 14, 2016.

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.

RSM US LLP

Cleveland, Ohio
March 14, 2016

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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 31, 2016**