The MetroHealth Foundation, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2018

OHIO AUDITOR OF STATE
KEITH FABER

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

We have reviewed the *Independent Auditor's Report* of The Metrohealth Foundation, Cuyahoga County, prepared by RSM US LLP, for the audit period January 1, 2018 through December 31, 2018. 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 is responsible for compliance with these laws and regulations.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

April 10, 2019

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Independent Auditor's Report

Board of Directors
The MetroHealth Foundation, Inc. and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of The MetroHealth Foundation, Inc. and Subsidiaries (the Organization), a component unit of The MetroHealth System, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, 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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2019 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

RSM US LLP

Cleveland, Ohio
March 12, 2019

The MetroHealth Foundation, Inc.

Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 3,218,325	$ 2,293,922
Promises to give, net	5,895,074	5,584,912
Grants receivable	417,032	-
Investments, at fair value	52,310,554	54,958,616
Prepaid expenses	-	20,000
Other assets	463,301	412,808
Total assets	$ 62,304,286	$ 63,270,258
Liabilities and Net Assets		
Accounts payable	$ 59,201	$ 63,038
Annuity payment obligations	417,089	429,105
Grants payable to related parties	2,380,309	1,592,919
Total liabilities	2,856,599	2,085,062
Net assets:		
Without donor restrictions	12,782,760	14,592,110
With donor restrictions	46,664,927	46,593,086
Total net assets	59,447,687	61,185,196
Total liabilities and net assets	$ 62,304,286	$ 63,270,258

See notes to consolidated financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	**Total**
Revenue and support:			
Gifts and grants	$ 1,847,913	$ 4,936,889	**$ 6,784,802**
In-kind contributions - related party	2,309,991	-	**2,309,991**
Special event revenue, net	968,357	-	**968,357**
Miscellaneous income	843	310,875	**311,718**
Investment loss, net	(2,689,032)	(1,011,420)	**(3,700,452)**
Development operations and service revenue	3,249	-	**3,249**
Loss on uncollectable pledges	-	(94,063)	**(94,063)**
Net assets released from restrictions	4,070,440	(4,070,440)	**-**
Total revenue and support	6,511,761	71,841	**6,583,602**
Expenses:			
Grantmaking program	5,101,796	-	**5,101,796**
Management and general	613,044	-	**613,044**
Fundraising	2,606,271	-	**2,606,271**
Total expenses	8,321,111	-	**8,321,111**
(Decrease) increase in net assets	(1,809,350)	71,841	**(1,737,509)**
Net assets at beginning of year	14,592,110	46,593,086	**61,185,196**
Net assets at ending of year	$ 12,782,760	$ 46,664,927	**$ 59,447,687**

See notes to consolidated financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Gifts and grants	$ 496,595	$ 5,375,435	$ 5,872,030
In-kind contributions - related party	1,880,401	-	1,880,401
Miscellaneous income	59,809	424,970	484,779
Investment income, net	5,335,729	2,441,988	7,777,717
Development operations and service revenue	138,493	-	138,493
Loss on uncollectable pledges	-	(403,713)	(403,713)
Net assets released from restrictions	3,202,400	(3,202,400)	-
Total revenue and support	11,113,427	4,636,280	15,749,707
Expenses:			
Grantmaking program	3,153,297	-	3,153,297
Management and general	829,540	-	829,540
Fundraising	2,129,251	-	2,129,251
Total expenses	6,112,088	-	6,112,088
Increase in net assets	5,001,339	4,636,280	9,637,619
Net assets at beginning of year	9,590,771	41,956,806	51,547,577
Net assets at ending of year	$ 14,592,110	$ 46,593,086	$ 61,185,196

See notes to consolidated financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Grantmaking	Management and General			Fundraising		
	Program	Operations	In-Kind	Total	Operations	In-Kind	Total
Grants and other assistance	$ 5,101,796	$ -	$ -	$ -	$ -	$ -	$ -
Salaries, wages and benefits	-	-	310,464	310,464	-	1,446,549	1,446,549
Catering and food service	-	8,452	1,219	9,671	43,130	5,747	48,877
Community outreach	-	295	-	295	127	-	127
Dues and licenses	-	18,078	177	18,255	24,530	837	25,367
Insurance	-	46,550	-	46,550	400	-	400
Miscellaneous	-	1,563	948	2,511	11,053	-	11,053
Plant operations	-	1,187	1,125	2,312	2,681	9,774	12,455
Postage	-	1	171	172	26,416	807	27,223
Printing services	-	120	-	120	57,509	-	57,509
Purchased services	-	126,158	11,378	137,536	508,310	53,641	561,951
Travel, training and seminars	-	203	1,345	1,548	11,646	6,341	17,987
Supplies	-	2,308	8,219	10,527	17,712	38,748	56,460
Occupancy and related overhead	-	-	72,188	72,188	-	340,313	340,313
Financing costs	-	895	-	895	-	-	-
Total expenses	**$ 5,101,796**	**$ 205,810**	**$ 407,234**	**$ 613,044**	**$ 703,514**	**$ 1,902,757**	**$ 2,606,271**

See notes to consolidated financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Grantmaking	Management and General			Fundraising		
	Program	Operations	In-Kind	Total	Operations	In-Kind	Total
Grants and other assistance	$ 3,153,297	$ -	$ -	$ -	$ -	$ -	$ -
Salaries, wages and benefits	-	-	224,434	224,434	-	1,095,766	1,095,766
Catering and food service	-	8,390	272	8,662	92,749	1,329	94,078
Community outreach	-	75	7,178	7,253	721	35,047	35,768
Dues and license	-	10,118	-	10,118	23,602	-	23,602
Insurance	-	114,531	-	114,531	-	-	-
Miscellaneous	-	1,063	68	1,131	5,535	332	5,867
Plant operations	-	816	11,412	12,228	20,209	3,429	23,638
Postage	-	-	131	131	35,024	635	35,659
Printing services	-	370	-	370	122,002	-	122,002
Purchased services	-	133,311	8,258	141,569	238,731	40,316	279,047
Travel, training and seminars	-	783	135	918	6,125	661	6,786
Supplies	-	121	443	564	23,821	2,164	25,985
Occupancy and related overhead	-	-	67,338	67,338	-	381,053	381,053
Financing costs	-	240,293	-	240,293	-	-	-
Total expenses	$ 3,153,297	$ 509,871	$ 319,669	$ 829,540	$ 568,519	$ 1,560,732	$ 2,129,251

See notes to consolidated financial statements.

The MetroHealth Foundation, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
(Decrease) increase in net assets	**$ (1,737,509)**	$ 9,637,619
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Amortization of debt issuance costs	**-**	119,324
Contributions received for long-term investment	**(361,689)**	(750,613)
Loss on uncollectible pledges	**94,063**	403,713
Change in allowance for uncollectible pledges and present value discount	**(86,508)**	84,787
Actuarial loss on annuity payment obligations	**26,130**	44,274
Net realized and unrealized (losses) gains on investments	**4,667,005**	(6,375,387)
Interest and dividends restricted for reinvestments	**(569,965)**	(735,249)
(Increase) decrease in assets:		
Promises to give	**(913,621)**	(1,915,598)
Grant receivable	**(417,032)**	-
Related party receivable	**-**	315,417
Prepaid expenses	**20,000**	(20,000)
Other assets	**(50,493)**	(82,863)
Increase (decrease) in liabilities:		
Accounts payable and other	**(3,837)**	38,435
Grants payable to related party	**787,390**	(605,706)
Net cash provided by operating activities	**1,453,934**	158,153
Cash flows from investing activities:		
Principal payments on direct financing lease	**-**	8,640,787
Proceeds from sale of investments	**2,737,590**	4,969,084
Purchase of investments	**(4,756,533)**	(7,432,713)
Net cash (used in) provided by investing activities	**(2,018,943)**	6,177,158
Cash flows from financing activities:		
Payment on note payable	**-**	(8,647,960)
Interest and dividends restricted for reinvestment	**569,965**	735,249
Payments of annuity payment obligations	**(38,146)**	(41,773)
Proceeds from contributions restricted for long-term investment	**957,593**	750,613
Net cash provided by (used in) financing activities	**1,489,412**	(7,203,871)
Increase (decrease) in cash and cash equivalents	**924,403**	(868,560)
Cash and cash equivalents:		
Beginning	**2,293,922**	3,162,482
Ending	**$ 3,218,325**	$ 2,293,922
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ -**	$ 86,375

See notes to consolidated financial statements.

Note 1. Summary of Organization and Significant Accounting Policies

The MetroHealth Foundation, Inc. (the Foundation) is a not-for-profit organization. The Foundation's purpose is to raise charitable funds and receive grants for the support of projects and goals of The MetroHealth System (the System or MHS). Certain administrative and philanthropy services are provided to the Foundation by the System and are recorded by the Foundation as an in-kind contribution with a corresponding expense.

The Foundation is the sole member of three limited liability (LLCs) nonprofit companies that were created and incorporated during 2016. The entities were established to acquire certain real property in Cuyahoga County that was subsequently leased to The MetroHealth System as disclosed in Note 5.

A summary of significant accounting policies is presented below:

Basis of consolidation: The consolidated financial statements as of and for the year ended December 31, 2018 include the financial activity of the Foundation and the LLCs (collectively, referred to as the Organization). All intercompany transactions have been eliminated in consolidation.

Basis of presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958: *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Foundation is required to report net assets and revenues, expenses, gains and losses based upon the existence or absence of donor-imposed stipulations. In 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements for Not-for-Profit Entities* and applied to both the December 31, 2018 and 2017 financial statements. Changes include net asset classification requirements and information presented in the financial statements and notes about the Foundation's liquidity, financial performance and cash flows. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

> **Net assets without donor restrictions:** Net assets available for use in general operations and not subject to donor-imposed restrictions..
>
> **Net assets with donor restrictions** – Net assets whose use is limited by donor- imposed time and/or purpose restrictions.

Functional allocation of expenses: The costs of program and supporting service activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy on a square footage basis, as well as salaries, wages and benefits, professional services, office expenses, and other, which are allocated on the basis of estimates of time and effort.

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. The LLCs are organized as limited liability companies in the State of Ohio.

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

Income taxes: The 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, 2018 and 2017, management has determined that there are no uncertain tax positions.

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

Cash and cash equivalents: The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. For purposes of the financial statements, cash held in investment managed accounts is classified as investments. The Foundation maintains cash balances at banks, which are insured by the Federal Deposit Insurance Corporation. The Foundation's cash balance on deposit may exceed the insured amount from time to time.

Allowance for uncollectable pledges: The Foundation provides for an allowance for uncollectable pledges based on an estimate of the collectability of the identified receivables and reserves 100% of the outstanding pledge after twenty-four months without payment in accordance with policy. The allowance is adjusted as information about specific accounts becomes available. The Foundation also compares current allowance amounts to prior collection and write-off experience.

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

Risks and uncertainties: The Foundation invests in a professionally managed portfolio that contains equity and fixed income investments. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

The investments in the pooled investment fund and limited partnership interests involve a high degree of risk, including the risk that the entire amount invested may be lost. The Foundation has allocated a portion of its assets to invest in partnership interests that invest in and actively trade securities and other financial instruments using a variety of strategies and investment techniques with significant risk characteristics, including the risks arising from the volatility of the equity, fixed income, commodity and currency markets, the risks of borrowings and short sales, and the risks arising from leverage associated with trading in equities, currencies and over-the-counter derivative markets, the liquidity of the derivative instruments and the risk of loss from counter-party defaults. No guarantee or representation is made that the investment program will be successful.

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

Annuity payment obligations: The Foundation is the beneficiary of several gift annuity agreements that are managed by third-party trustees. The assets held in trust are recorded at fair value at the date of initial recognition. At December 31, 2018 and 2017, total assets of $634,986 and $699,867, respectively, were held by the Foundation, which are included in investments on the consolidated statements of financial position. Under the terms of the agreements, the Foundation is required to pay periodic fixed payments to beneficiaries during their lifetimes. Upon death of the beneficiaries, the assets are to be retained for the Foundation's use. At December 31, 2018 and 2017, liabilities of $417,089 and $429,105, respectively, are reflected 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. Gifts and grants revenue includes gifts in-kind that are recorded at fair value as of the donation date

Special events: Special event revenue is recorded as revenue when the activities associated with these events are held.

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: Certain amounts from the 2017 financial statements have been reclassified to conform with the 2018 presentation.

Recent accounting pronouncements: The FASB has issued the following pronouncements that have not yet been implemented by the Foundation and the LLCs:

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The objective of this statement is to assist entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and determining whether a contribution is conditional. For transactions in which an entity is the resource recipient, the statement is effective for fiscal years beginning after December 15, 2018. For transactions in which the entity serves as a resource provider, the statement is effective for fiscal years beginning after December 15, 2019. Management is evaluating the effect the standard will have on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Management is evaluating the effect the standard will have on the consolidated financial statements.

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. Management is evaluating the effect the standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurement.* The objective of this statement is to modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement.* The statement is effective for all entities for fiscal years beginning after December 15, 2019. Early adoption is permitted.

Subsequent events: The Foundation has evaluated subsequent events for potential recognition and/or disclosure through March 12, 2019, the date the financial statements were available to be issued.

Note 2. Promises to Give, Net

Pledge receivables are recorded at net present value less an allowance for uncollectable accounts and are due in future years at December 31 as follows:

	2018	2017
Less than one year	$ 2,296,786	$ 1,909,974
One to five years	3,054,712	2,780,057
Six to ten years	1,256,250	1,350,000
More than ten years	250,000	500,000
	6,857,748	6,540,031
Allowance for uncollectable pledges and present value discount	(962,674)	(955,119)
	$ 5,895,074	$ 5,584,912

Note 3. 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 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, 2018 and 2017.

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 Level 3 securities, 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.

Note 3. 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:

	2018			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 2,524,308	$ -	$ -	$ 2,524,308
Common equity securities	21,900	-	-	21,900
Common stock - private	-	-	1,000	1,000
Equity mutual funds:				
Foreign large blend	3,096,842	-	-	3,096,842
Foreign large growth	2,713,948	-	-	2,713,948
Diversified emerging markets	2,222,177	-	-	2,222,177
Large blend	9,764,494	-	-	9,764,494
Large growth	2,390,102	-	-	2,390,102
Large value	2,722,587	-	-	2,722,587
Mid-cap blend	1,968,971	-	-	1,968,971
Foreign small/mid growth	1,205,759	-	-	1,205,759
Small blend	1,111,931	-	-	1,111,931
Small growth	1,175,057	-	-	1,175,057
Global real estate	1,241,702	-	-	1,241,702
Energy funds	1,189,096	-	-	1,189,096
Exchange traded funds:				
Large value	-	-	-	-
Fixed income mutual funds:				
Short-term bonds	2,010,027	-	-	2,010,027
Intermediate-term bonds	7,047,981	-	-	7,047,981
Multi-sector bond	1,807,224	-	-	1,807,224
World allocation	3,381,007	-	-	3,381,007
	$ 47,595,113	$ -	$ 1,000	47,596,113
Investments measured at net asset value:				
Limited partnership interest - global return				2,197,022
Pooled investment fund				2,355,109
Limited partnership interest				162,310
Total				$ 52,310,554

Note 3. Fair Value Disclosures (Continued)

	2017			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 2,883,954	$ -	$ -	$ 2,883,954
Common stock - private	-	-	1,000	1,000
Equity mutual funds:				
Foreign large blend	3,585,378	-	-	3,585,378
Foreign large growth	3,494,277	-	-	3,494,277
Diversified emerging markets	2,375,783	-	-	2,375,783
Large blend	10,251,833	-	-	10,251,833
Large growth	3,129,184	-	-	3,129,184
Mid-cap growth	-	-	-	-
Mid-cap blend	2,169,190	-	-	2,169,190
Foreign small/mid growth	1,467,641	-	-	1,467,641
Small blend	1,322,423	-	-	1,322,423
Small growth	1,169,809	-	-	1,169,809
Global real estate	1,048,650	-	-	1,048,650
Energy funds	1,266,693	-	-	1,266,693
Exchange traded funds:				
Large value	3,048,797	-	-	3,048,797
Fixed income mutual funds:				
Intermediate-term bonds	7,259,511	-	-	7,529,511
Multi-sector bond	1,941,991	-	-	1,941,991
World allocation	3,580,828	-	-	3,580,828
	$ 49,995,942	$ -	$ 1,000	50,266,942
Investments measured at net asset value:				
Limited partnership interest - global return				2,030,704
Pooled investment fund				2,444,475
Limited partnership interest				216,495
Total				$ 54,958,616

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

	2018	2017
Balance as of January 1,	$ 1,000	$ 1,000
Net change in unrealized and realized gains	-	-
Balance as of December 31,	$ 1,000	$ 1,000

Note 3. Fair Value Disclosures (Continued)

The Foundation is required to disclose the nature and risks of the investments recorded at net asset value. The pooled investment fund and limited partnership interests are measured by the net asset value per share practical expedient. The following table summarizes the nature and risk of these investments as of December 31, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partership interest - global return	$ 2,197,022	$ -	Monthly	5 days
Pooled investment fund	2,355,109	-	Quarterly	95 days
Limited partership interest	162,310	-	Quarterly	65 days
	$ 4,714,441	$ -		

The limited partnership interest – global return aims to provide positive investment returns in all market conditions over the medium to long term. The investment uses a combination of traditional assets (such as equities and bonds) and investment strategies based on advanced derivative techniques, resulting in a highly diversified portfolio.

The pooled investment fund seeks to produce attractive returns with relatively low volatility and correlation to traditional equity and fixed income benchmarks through its selection of portfolio managers and its allocations among various investment strategies.

The limited partnership interest provides capital appreciation consistent with the return characteristic of the alternative investment portfolios. The secondary objective is to provide capital appreciation with less volatility than that of the equity markets.

Note 4. Investments

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

	2018	2017
Interest and dividends	$ 1,056,153	$ 1,488,406
Net realized and unrealized (losses) gains	(4,667,005)	6,375,387
Less: investment management fees	(89,600)	(86,076)
	$ (3,700,452)	$ 7,777,717

Note 5. 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. Grant expenses of $5,101,796 and $3,153,297 were incurred for the years ended December 31, 2018 and 2017, respectively. Grants and distributions payable of $1,457,753 and $1,592,919 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2018 and 2017, respectively. As of December 31, 2018, the Foundation also committed to a $922,556 grant to be paid to a related party of the System. The MetroHealth System provided in-kind support to the Foundation for 2018 and 2017 representing purchased services, rent and other expenses which are included in these financial statements in the amount of $2,309,991 and $1,880,401, respectively.

Note 5. Related Party Transactions (Continued)

In 2016, the Foundation's LLCs acquired several properties in Cuyahoga County for approximately $8,700,000. The properties were then leased to The MetroHealth System for an original term of thirty years, with a tenant option to renew for an additional thirty years. In 2017, the System fully paid the debt obligation related to the property to the Foundation and now have the ability to acquire the properties from the Foundation at no additional cost. Based upon the potential transfer of assets and the immaterial remaining base rent, the Foundation has not recorded an asset related to any remaining future payments on this capital lease.

Note 6. Endowment Funds

The Foundation's endowment consists of approximately 75 individual funds established to support the mission of The MetroHealth System. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Foundation is subject to the Ohio Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Foundation has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the Foundation

Underwater endowment funds: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations occurring shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs deemed prudent by the Board of Directors. No deficiencies of this nature exist as of December 31, 2018 and 2017.

Note 6. Endowment Funds (Continued)

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

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

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 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:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 14,171,159	$ 14,171,159
Accumulated investment gains	-	6,615,995	6,615,995
Funds functioning as endowment funds	3,054,143	-	3,054,143
Total endowment funds	$ 3,054,143	$ 20,787,154	$ 23,841,297

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 13,213,566	$ 13,213,566
Accumulated investment gains	-	8,095,028	8,095,028
Funds functioning as endowment funds	1,941,756	-	1,941,756
Total endowment funds	$ 1,941,756	$ 21,308,594	$ 23,250,350

Note 6. Endowment Funds (Continued)

Changes in endowment net assets for the years ended December 31 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	$ 1,680,030	$ 18,320,356	$ 20,000,386
Investment income, net	261,726	2,428,657	2,690,383
Contributions	-	693,074	693,074
Appropriations	-	(133,493)	(133,493)
Endowment net assets, December 31, 2017	1,941,756	21,308,594	23,250,350
Investment loss, net	(50,093)	(1,013,234)	(1,063,327)
Contributions	1,162,480	957,593	2,120,073
Appropriations	-	(465,799)	(465,799)
Endowment net assets, December 31, 2018	$ 3,054,143	$ 20,787,154	$ 23,841,297

Note 7. Net Assets

Net assets without donor restrictions as of December 31, 2018 and 2017 comprise the following:

	2018	2017
Net assets without donor restrictions:		
Operating	$ 5,753,337	$ 10,095,899
Funds functioning as endowment funds	3,054,143	1,941,756
Board designated	3,975,280	2,554,455
	$ 12,782,760	$ 14,592,110

Funds functioning as endowment consists of funds under the direction of the Board of Directors for the long-term benefit of the Foundation. Board designated funds represents unrestricted estate gifts in which the donor did not indicate a time horizon for spending. The board designated funds are available for the future needs of the System and operating expenditures of the Foundation.

Note 7. Net Assets (Continued)

Net assets with donor restrictions are restricted for the following purposes or periods:

	2018	2017
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Supporting Mission of The MetroHealth System	$ 19,764,802	$ 19,428,819
Subject to passage of time:		
Promises to give, restricted by donors, supporting Mission of The MetroHealth System	3,335,837	2,405,630
Split interest agreements	217,897	270,761
	3,553,734	2,676,391
Subject to Foundation's spending policy and appropriation:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	14,171,159	13,213,566
Accumulated investment gains	6,615,995	8,095,028
Promises to give, endowment restricted by donors, supporting Mission of The MetroHealth System	2,559,237	3,179,282
	23,346,391	24,487,876
Total net assets with donor restrictions	$ 46,664,927	$ 46,593,086

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events by the donors totaling $4,070,440 and $3,202,400 for the years ended December 31, 2018 and 2017, respectively.

Grantmaking Program: Grants made by the Foundation to support the mission of the System include payments for capital equipment, education, fundraising, patient programs, research, recruitment and other related activities.

Note 8. Financial Assets and Liquidity

The following table reflects the Foundation's financial assets reduced by amounts not available for general expenditures within one year as of December 31:

	2018	2017
Financial assets:		
Cash and cash equivalents	$ 3,218,325	$ 2,293,922
Promises to give	5,895,074	5,584,912
Grant receivable	417,032	-
Investments	52,310,554	54,958,616
Financial assets, at year-end	$ 61,840,985	$ 62,837,450
Less those not available for general expenditures within one year:		
Promises to give, restricted by donors, supporting the mission of The MetroHealth System	$ (3,598,288)	$ (3,674,938)
Original donor-restricted gift, amounts required to be maintained in perpetuity by donor and accumulated investment gains	(20,218,077)	(20,770,393)
Funds functioning as endowment funds	(3,054,143)	(1,941,756)
Board-designated funds	(3,975,280)	(2,554,455)
Less: board-designated funds expected to be utilized within one year	450,000	-
Subject to expenditure for specified purpose	(13,415,765)	(15,928,818)
Investments held in annuity reserves	(634,986)	(699,867)
	(44,446,539)	(45,570,227)
Financial assets available to meet cash needs for general expenditures within one year	$ 17,394,446	$ 17,267,223

The Foundation receives substantial donor restricted gifts to establish endowments that will exist in perpetuity and contributions with donor time and purpose restrictions. The income generated from donor restricted endowments may be donor- restricted or unrestricted as to use. In addition, the Foundation receives support without donor restrictions, investment income without donor restrictions and appropriated earnings from gifts with donor restrictions to fund its general expenditures.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining a sufficient level of asset liquidity, and
- Monitoring and maintaining reserves to provide reasonable assurance that long term grant commitments and obligations related to endowments with donor restrictions will continue to be met, ensuring the sustainability of the Foundation.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. The Foundation has board designated funds of $3,975,280 and $2,554,455 as of December 31, 2018 and 2017, respectively. Although the Foundation does not intend to spend from its board designated funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available, if necessary.

Note 9. Special Event

In October 2018, the Foundation hosted more than 650 guests at GALA2018 and GALA AFTERDARK (GALA). Proceeds from the GALA were raised to support capital, patient care, education, research, recruitment, and other expenses as directed by the Foundation Board of Directors to support The MetroHealth System's significant transformation.

The GALA activity consisted of the following for the year ended December 31, 2018:

	Revenue	Direct Benefit Expense to Donors	Special Event Revenue, Net	Fundraising Expense	Net Event Income
GALA	$ 1,101,931	133,574	968,357	351,226	$ 617,131

There were no significant special events during the year ended December 31, 2017.

Note 10. Fundraising Campaign

On March 12, 2018, a comprehensive fundraising campaign was publicly announced to raise a minimum of $100 million in philanthropic support for core aspects of The MetroHealth Transformation. The campaign supports capital, endowment and programmatic initiatives and as of December 31, 2018, has raised $43.4 million, including $18.4 million in cash collected and an additional $25 million in current and planned commitments.

Note 11. Other Accomplishments

Donors occasionally make their gifts directly to The MetroHealth System. In 2018, the Department of Foundation and System Philanthropy was responsible for coordinating a five-year $1.95 million grant from the United States Department of Health and Human Services to provide faculty and students from Case Western Reserve University's Physician Assistant program primary care training focused on concepts such as patient centeredness, systems integration, quality improvement, clinical teaching and mentorship, and eliminating health disparities. The Ohio Department of Health provided a grant of $600,000 to support the Nurse-Family Partnership program and a grant of $158,646 to provide care coordination for our Compass program.

In 2017, the Department of Foundation and System Philanthropy (FSP) was responsible for securing a $2 million donation of a 7,000 square-foot, custom-built facility to provide temporary housing for patients undergoing treatment for spinal cord injuries. The department also secured a $600,000 grant from the Ohio Department of Health to support the Nurse-Family Partnership program, a $250,000 grant from the Robert Wood Johnson Foundation to design, develop and test new patient-centered media to promote health in response to their Build Health Challenge and a $159,097 grant from the Ohio Attorney General's Office to support the sexual assault nurse education program.

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*

Independent Auditor's Report

Board of Directors
The MetroHealth Foundation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The MetroHealth Foundation, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of December 31, 2018 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated March 12, 2019.

Internal Control Over Financial Reporting
In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Cleveland, Ohio
March 12, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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
APRIL 23, 2019