

AUDITED FINANCIAL STATEMENTS

The MetroHealth Foundation, Inc.

Years Ended December 31, 2010 and 2009





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of The MetroHealth Foundation, Inc., Cuyahoga County, prepared by Barnes Wendling CPAs, Inc., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The MetroHealth Foundation, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

April 27, 2011

**This Page is Intentionally Left Blank.**

INDEPENDENT AUDITORS' REPORT

April 5, 2011

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

We have audited the accompanying statements of financial position of The MetroHealth Foundation, Inc., a component unit of the MetroHealth System, as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The MetroHealth Foundation, Inc.'s management. 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 of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The MetroHealth Foundation, Inc. at December 31, 2010 and 2009, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2011 on our consideration of The MetroHealth Foundation, Inc.'s internal control over financial reporting and 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* and should be read in conjunction with this report in considering the results of our audits.

*Barnes Wendling CPAs, Inc.*

The MetroHealth Foundation, Inc.

Statements of Financial Position

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,938,495	\$ 1,429,833
Promises to give, net <i>(Note 2)</i>	1,534,754	1,697,949
Investments, at fair value	27,095,398	22,149,443
Other assets	70,553	44,071
Total assets	<u>\$ 31,639,200</u>	<u>\$ 25,321,296</u>
<b>Liabilities</b>		
Accounts payable and other	\$ 81,007	\$ 23,528
Annuity payment obligations	349,417	209,456
Grants payable to The MetroHealth System	2,237,574	1,003,145
Note payable <i>(Note 6)</i>	-	69,671
Accrued interest payable	-	1,058
Income tax payable	192,250	192,215
Total liabilities	<u>2,860,248</u>	<u>1,499,073</u>
<b>Net Assets:</b>		
Unrestricted:		
Operating	3,455,072	1,770,612
Board designated	1,100,556	1,091,866
Total unrestricted net assets	<u>4,555,628</u>	<u>2,862,478</u>
Temporarily restricted:		
Specific purpose funds <i>(Note 8)</i>	15,607,980	12,705,055
Permanently restricted:		
Endowment <i>(Note 7)</i>	8,615,344	8,254,690
Total net assets	<u>28,778,952</u>	<u>23,822,223</u>
Total liabilities and net assets	<u>\$ 31,639,200</u>	<u>\$ 25,321,296</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue</b>				
Gifts and grants	\$ 1,739,847	\$ 7,257,779	\$ 337,910	\$ 9,335,536
Program income	-	11,648	-	11,648
Investment income <i>(Note 4)</i>	1,311,832	1,483,085	836,907	3,631,824
Investment income transfer <i>(Note 4)</i>	-	149,856	(149,856)	-
Net assets released from restrictions	5,658,488	(5,658,488)	-	-
Total revenue	8,710,167	3,243,880	1,024,961	12,979,008
<b>Expenses</b>				
Grants and distributions	6,071,528	-	-	6,071,528
Fundraising expenses	862,355	-	-	862,355
Administrative expenses:				
Purchased services	426,243	-	-	426,243
Provision for bad debts	782	-	-	782
Unrelated business income tax <i>(Note 9)</i>	350,024	-	-	350,024
Other	311,347	-	-	311,347
Total administrative expenses	1,088,396	-	-	1,088,396
Total expenses	8,022,279	-	-	8,022,279
Increase in net assets	687,888	3,243,880	1,024,961	4,956,729
Net assets at beginning of year	2,862,478	12,705,055	8,254,690	23,822,223
Net asset transfer <i>(Note 4 )</i>	1,005,262	(340,955)	(664,307)	-
Net assets at end of year	\$ 4,555,628	\$ 15,607,980	\$ 8,615,344	\$ 28,778,952

*See notes to the financial statements.*

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue</b>				
Gifts and grants	\$ 1,417,030	\$ 3,037,162	\$ 316,416	\$ 4,770,608
Program income	-	15,216	-	15,216
Investment income <i>(Note 4)</i>	1,471,609	1,982,349	1,155,562	4,609,520
Investment income transfer <i>(Note 4)</i>	-	170,954	(170,954)	-
Net assets released from restrictions	3,620,344	(3,620,344)	-	-
Total revenue	<u>6,508,983</u>	<u>1,585,337</u>	<u>1,301,024</u>	<u>9,395,344</u>
<b>Expenses</b>				
Grants and distributions	4,041,477	-	-	4,041,477
Fundraising expenses	851,858	-	-	851,858
Administrative expenses:				
Purchased services	308,765	-	-	308,765
Provision for bad debts	7,467	-	-	7,467
Unrelated business income tax <i>(Note 9)</i>	317,571	-	-	317,571
Other	240,600	-	-	240,600
Total administrative expenses	<u>874,403</u>	<u>-</u>	<u>-</u>	<u>874,403</u>
Total expenses	<u>5,767,738</u>	<u>-</u>	<u>-</u>	<u>5,767,738</u>
Increase in net assets	741,245	1,585,337	1,301,024	3,627,606
Net assets at beginning of year	919,690	11,325,935	7,948,992	20,194,617
Net asset transfer <i>(Note 4)</i>	1,201,543	(206,217)	(995,326)	-
Net assets at end of year	<u>\$ 2,862,478</u>	<u>\$ 12,705,055</u>	<u>\$ 8,254,690</u>	<u>\$ 23,822,223</u>

*See notes to the financial statements.*

The MetroHealth Foundation, Inc.

Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Operating activities</b>		
Increase in net assets	\$ 4,956,729	\$ 3,627,606
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Permanently restricted contributions	(337,910)	(316,416)
Net gain on investments	(3,175,531)	(4,123,225)
(Increase) decrease in assets:		
Promises to give, net	163,195	681,017
Due from The MetroHealth System	-	402
Other assets	(26,482)	(16,671)
Increase (decrease) in liabilities:		
Accounts payable and other	57,479	(49,627)
Annuity payment obligations	139,961	57,817
Grants payable to MetroHealth System	1,234,429	(329,295)
Accrued interest payable	(1,058)	(1,018)
Income tax payable	35	(75,435)
Net cash and cash equivalents provided by (used in) operating activities	<u>3,010,847</u>	<u>(544,845)</u>
<b>Investing activities</b>		
Proceeds from sale of investments	2,119,579	749,587
Purchase of investments	(3,890,003)	(553,909)
Net cash and cash equivalents provided by (used in) investing activities	<u>(1,770,424)</u>	<u>195,678</u>
<b>Financing activities</b>		
Repayment of note payable	(69,671)	(67,000)
Permanently restricted contributions	337,910	316,416
Net cash and cash equivalents provided by financing activities	<u>268,239</u>	<u>249,416</u>
Increase (decrease) in cash and cash equivalents	1,508,662	(99,751)
Cash and cash equivalents at beginning of year	1,429,833	1,529,584
Cash and cash equivalents at end of year	<u>\$ 2,938,495</u>	<u>\$ 1,429,833</u>
Cash paid for interest	<u>\$ 2,533</u>	<u>\$ 4,578</u>
Cash paid for income taxes	<u>\$ 350,000</u>	<u>\$ 393,006</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

## 1. Summary of Organization and Significant Accounting Policies

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

A summary of significant accounting policies is presented below:

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

*Unrestricted Net Assets* — Unrestricted net assets result from public support and revenue not subject to donor imposed restrictions. Gifts and grants revenue includes gifts in-kind that are recorded at fair value as of the donation date. At December 31, 2010 and 2009, the Foundation's Board of Directors had designated \$1,100,556 and \$1,091,866, respectively, for specific future use.

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

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

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

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

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

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

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

*Investments and Investment Income (Loss)* — The Foundation has adopted ASC 958 (formerly Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*). ASC 958 provides that certain investments are stated at fair value based upon quoted market prices and changes in unrealized gains and losses are reflected in the statement of activities. Investment income includes realized gains and losses (the difference between proceeds received and average cost), unrealized gains and losses, interest, dividends and fees.

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

*Contributions* — The Foundation has adopted ASC 958 (formerly Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*). SFAS No. 116 provides that contributions be recognized as revenue in the period in which the pledge (promise to give) is received.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

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

*Donated Services* — Donated services are recognized as contributions in accordance with ASC 958 (formerly SFAS No. 116, *Accounting for Contributions Received and Contributions Made*), if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

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

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

The input or methodology used for valuing securities is not necessarily an indication of the risk associated with maintaining those investments.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

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

*Fair Value of Financial Instruments (Continued)*

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

The following is a summary of the inputs used as of December 31, 2010 in valuing the Foundation's investments carried at fair value:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 2,447,148		\$ 2,447,148	
Common equity securities	7,339	\$ 7,339		
Common stock - private	147,126			\$ 147,126
Equity mutual funds				
Foreign large blend	1,768,073	1,768,073		
Foreign large value	1,868,277	1,868,277		
Diversified emerging markets	649,563	649,563		
Large blend	4,637,219	4,637,219		
Large growth	1,612,312	1,612,312		
Mid-cap growth	596,591	596,591		
Foreign small/mid growth	656,534	656,534		
Small blend	1,050,553	1,050,553		
Small growth	918,262	918,262		
Total equity mutual funds	<u>13,757,384</u>	<u>13,757,384</u>		
Exchange traded funds:				
Large value	1,450,169	1,450,169		
Mid-cap value	484,548	484,548		
Total exchange traded funds	<u>1,934,717</u>	<u>1,934,717</u>		
Fixed income mutual funds:				
Intermediate-term bonds	5,238,067	5,238,067		
Multi-sector bond	1,296,834	1,296,834		
Total fixed income mutual funds	<u>6,534,901</u>	<u>6,534,901</u>		
Limited partnership interest	2,266,783			2,266,783
Total	<u>\$27,095,398</u>	<u>\$22,234,341</u>	<u>\$ 2,447,148</u>	<u>\$ 2,413,909</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

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

The following is a summary of the inputs used as of December 31, 2009 in valuing the Foundation's investments carried at fair value:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 1,594,022		\$ 1,594,022	
Common equity securities	9,857	\$ 9,857		
Common stock - private	136,997			\$ 136,997
Equity mutual funds				
Foreign large blend	1,426,401	1,426,401		
Foreign large value	1,446,734	1,446,734		
Inflation-protected bond	1,137,193	1,137,193		
Large blend	4,379,020	4,379,020		
Large growth	1,378,887	1,378,887		
Mid-cap growth	486,985	486,985		
Mid-cap value	409,698	409,698		
Small blend	1,076,624	1,076,624		
Small growth	<u>801,315</u>	<u>801,315</u>		
Total equity mutual funds	12,542,857	12,542,857		
Exchange traded funds:				
Large value	1,283,177	1,283,177		
Mid-cap value	<u>2,171,292</u>	<u>2,171,292</u>		
Total exchange traded funds	3,454,469	3,454,469		
Fixed income mutual funds:				
Intermediate-term bonds	2,233,681	2,233,681		
Limited partnership interest	<u>2,177,560</u>			<u>2,177,560</u>
Total	<u>\$ 22,149,443</u>	<u>\$ 18,240,864</u>	<u>\$ 1,594,022</u>	<u>\$2,314,557</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

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

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

	<u>2010</u>	<u>2009</u>
Balance as of January 1	\$ 2,314,557	\$ 2,110,712
Net purchase of Investments		25,080
Net purchases of Common Stock-Private		1,000
Net change in unrealized and realized gains	99,352	177,765
Balance as of December 31	<u>\$ 2,413,909</u>	<u>\$ 2,314,557</u>
 Net unrealized depreciation from investments in limited partnerships and common stock – private, still held as of December 31	 <u>\$ (38,908)</u>	 <u>\$ (114,377)</u>

*Subsequent Events* — The Foundation has evaluated subsequent events through April 5, 2011 the date which these financial statements were available to be issued.

*Reclassifications* — Certain amounts from the 2009 financial statements have been reclassified to conform with the 2010 presentation.

**2. Promises to Give**

Pledge receivables are recorded at net present value using a variable discount rate, ranging from 1.8% to 3.4% for 2010 and 2.4% to 3.4% for 2009, less an allowance for uncollectible accounts, and are due in future years at December 31, as follows:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 1,055,805	\$ 910,471
One to five years	594,234	911,668
	<u>1,650,039</u>	<u>1,822,139</u>
 Allowance for uncollectible pledges and present value discount	 <u>(115,285)</u>	 <u>(124,190)</u>
	<u>\$ 1,534,754</u>	<u>\$ 1,697,949</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**3. Conditional Promises to Give**

The Foundation received a conditional pledge of \$10,000,000 commencing in 2005 payable over the next 10 years at \$1,000,000 per year. The outstanding balance of \$4,414,816 at December 31, 2010 is not included in these financial statements in accordance with ASC 958.

The Foundation received a conditional pledge of \$500,000 commencing in 2006 and ending in July 2010. The outstanding balance of \$1,801 at December 31, 2010 is not included in these financial statements in accordance with ASC 958.

The Foundation received a conditional pledge of \$500,000 commencing in 2007 and ending in June 2011. The outstanding balance of \$100,000 at December 31, 2010 is not included in these financial statements in accordance with ASC 958

**4. Investments**

Investment income for the years ending December 31, 2010 and 2009 consisted of the following:

	<b>2010</b>	2009
Interest and dividends	\$ 516,580	\$ 546,295
Net realized gains	731,446	919,581
Net change in unrealized gains (losses)	2,443,798	3,203,644
Less investment management fees	(60,000)	(60,000)
	<b>\$ 3,631,824</b>	\$ 4,609,520

The Foundation's investments had cumulative unrealized gains of \$822,154 and \$625,183 and cumulative unrealized losses of \$918,416 and \$3,158,099 at December 31, 2010 and 2009 respectively.

The investment and spending policies of the Foundation provide for realized gains and losses, interest and dividends from endowed investments to be classified as temporarily restricted in accordance with the donors' intent. Unrealized gains and losses from endowed investments are maintained as permanently restricted unless the market value of permanently restricted net assets falls below the corpus. In that event, the unrestricted fund balance is encumbered to maintain donor restricted endowment funds at the level required by donor stipulation. In 2008, the Foundation transferred \$1,876,905 to maintain the corpus of the endowment. The Foundation transferred \$664,307 and \$995,326 for the years 2010 and 2009 respectively from permanently restricted net assets back to unrestricted net assets because the level required by donor stipulations had been partially recovered. Additionally, due to financial market conditions, the Board may restore temporarily restricted net assets from unrestricted funds to support the commitments of donor-driven gifts or grants. For the year 2008, \$639,715 was transferred for this purpose. The Foundation transferred \$340,955 and \$206,217 for the years 2010 and 2009 respectively back to unrestricted funds due to favorable market conditions.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**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. Grants and distributions payable of \$2,237,574 and \$1,003,145 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, there were no outstanding grant requests. The MetroHealth System identified in-kind support to the Foundation for 2010 and 2009 representing purchased services, rent and other expenses which are included in these financial statements in the amount of \$1,049,800 and \$876,300, respectively.

**6. Note Payable**

The Foundation's obligation under a note payable consists of the following:

	<u>2010</u>	<u>2009</u>
3.96% note payable, due in semi annual installments plus interest, through June 30, 2010, secured by a Collateral Assignment of limited partnership interest in Premier Purchasing Partners, L.P.	\$ -0-	\$ 69,671

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**7. Permanently Restricted Net Assets**

Permanently restricted assets at December 31 are as follows:

	<b>2010</b>	<b>2009</b>
Anesthesiology	\$ 31,704	\$ 523
Community Health	986,071	986,071
Dentistry	25	25
Dermatology	96,397	96,397
Heart and Vascular	529,442	339,449
Medical Education	399,048	381,156
Medical Specialties	141,478	127,022
Nursing	5,700	5,700
Orthopedics	2,222,519	2,206,815
Pastoral Care	9,517	9,017
Pathology	1,464	1,464
Pediatrics	439,940	438,395
Physical Medicine and Rehabilitation	1,015,930	1,015,518
Primary Care	45,102	44,587
Psychiatry	1,632	1,632
Radiology	6,230	6,230
Research	1,458,792	1,450,914
Surgical Specialties	792,632	753,637
System Wide	291,599	273,280
Women's Health	140,122	116,858
	<b>\$ 8,615,344</b>	<b>\$ 8,254,690</b>

**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 \$217,272 and \$881,579 at December 31, 2010 and 2009, respectively. These variances resulted from unfavorable market fluctuations that occurred in 2008.

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**7. Permanently Restricted Net Assets (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 organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to produce results exceeding the price and yield results of the S&P 500 index, for the equity portion of the portfolio, while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Endowment Net Asset Composition by Type of Fund as of December 31, 2010:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	(\$ 217,272)	\$2,138,220	\$8,615,344	\$10,536,292
Total	(\$ 217,272)	\$2,138,220	\$8,615,344	\$10,536,292

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**7. Permanently Restricted Net Assets (continued)**

Changes in Endowment Net Assets for the year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	(\$ 881,579)	\$1,865,881	\$8,254,690	\$9,238,992
Investment return:				
Investment income	-0-	38,078	-0-	38,078
Investment income transfer	-0-	149,856	( 149,856)	-0-
Net unrealized appreciation	<u>-0-</u>	<u>237,067</u>	<u>836,907</u>	<u>1,073,974</u>
Total investment return	-0-	425,001	687,051	1,112,052
Net assets released from restriction	-0-	( 152,662)	-0-	( 152,662)
Contributions	-0-	-0-	337,910	337,910
Net asset transfer (Note 4)	<u>664,307</u>	<u>-0-</u>	<u>( 664,307)</u>	<u>-0-</u>
Endowment net assets, End of year	<u>(\$ 217,272)</u>	<u>\$ 2,138,220</u>	<u>\$8,615,344</u>	<u>\$10,536,292</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**7. Permanently Restricted Net Assets (continued)**

Endowment Net Asset Composition by Type of Fund as of December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	(\$ 881,579)	\$1,865,881	\$8,254,690	\$9,238,992
Total	<u>(\$ 881,579)</u>	<u>\$1,865,881</u>	<u>\$8,254,690</u>	<u>\$9,238,992</u>

Changes in Endowment Net Assets for the year ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	(\$1,876,905)	\$1,673,126	\$7,948,992	\$7,745,213
Investment return:				
Investment income	-0-	77,648	-0-	77,648
Investment income transfer	-0-	170,954	( 170,954)	-0-
Net unrealized appreciation	<u>-0-</u>	<u>101,537</u>	<u>1,155,562</u>	<u>1,257,099</u>
Total investment return	-0-	350,139	984,608	1,334,747
Net assets released from restriction	-0-	( 157,384)	-0-	( 157,384)
Contributions	-0-	-0-	316,416	316,416
Net asset transfer (Note 4)	<u>995,326</u>	<u>-0-</u>	<u>( 995,326)</u>	<u>-0-</u>
Endowment net assets, End of year	<u>(\$ 881,579)</u>	<u>\$ 1,865,881</u>	<u>\$8,254,690</u>	<u>\$9,238,992</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**8. Temporarily Restricted Net Assets**

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

	<u>2010</u>	<u>2009</u>
Anesthesiology	\$ 185,963	\$ 171,385
Care Management and Social Work	15,116	22,178
Community Health	740,596	663,987
Dentistry	32,526	22,376
Dermatology	60,522	55,184
Emergency Medicine	242,034	262,023
Heart and Vascular	1,102,918	939,877
Medical Operations	462,766	335,809
Medical Specialties	1,183,242	1,113,976
Nutrition	18,827	17,338
Orthopedics	1,045,483	1,102,753
Pathology	33,546	24,472
Pediatrics	729,764	804,927
Physical Medicine and Rehabilitation	1,008,085	728,365
Primary Care	881,136	1,635,680
Psychiatry	343,569	321,800
Pulmonary	162,463	162,067
Radiology	253,616	241,165
Research	1,468,374	836,143
Surgical Specialties	1,884,124	1,576,344
System Wide	3,509,732	1,414,885
Women's Health	104,093	75,933
Unrestricted Promises to Give	139,485	176,388
	<u>\$ 15,607,980</u>	<u>\$12,705,055</u>

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**9. Unrelated Business Income Tax**

As discussed in Note 1, the Foundation is exempt from paying income taxes on income related to its general business purpose. The Foundation is required to pay income taxes on unrelated business income, such as the income earned through the Foundation's investment in Premier Purchasing Partners, L.P. During the years ended December 31, 2010 and 2009, the Foundation received income of \$892,127 and \$849,865, respectively, from its investment in Premier Purchasing Partners, L.P. Additionally, the Foundation has estimated it will receive another \$472,913 of income in 2011 that was earned prior to December 31, 2010. As such, the Foundation has paid \$330,397 of estimated taxes and accrued an additional \$192,250 at December 31, 2010 based on this estimate.

**10. Grants Expended from Net Assets Released from Restrictions**

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

	<u>2010</u>	<u>2009</u>
Net assets were released from donor restrictions by incurring expense satisfying the following temporarily restricted purposes:		
Capital Equipment	\$ 1,106,558	\$ 346,715
Education	728,827	812,447
Fundraising	19,333	19,654
Patient Programs	3,058,880	2,027,204
Research	161,105	225,295
Recruitment	48,596	16,428
Other	535,189	172,601
	<u>\$ 5,658,488</u>	<u>\$ 3,620,344</u>

**11. Concentrations**

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

The MetroHealth Foundation, Inc.  
Notes to Financial Statements  
Years Ended December 31, 2010 and 2009

**12. Other Accomplishments**

Donors occasionally make their gifts directly to The MetroHealth System. The Kresge Foundation made a conditional grant to The MetroHealth System of \$1,000,000 in 2007 for the Senior Health & Wellness Center (SHWC) capital campaign. The conditions of the grant were met in 2009 and the grant was received by the System. The Ohio Rehabilitation Services Commission made a grant of \$409,600 in 2009 to the System to support the Work Matters Program in MetroHealth's Department of Physical Medicine and Rehabilitation.

In 2010, The Development Department was responsible for a \$40,000 grant from Cuyahoga County for the Fatherhood Initiative and a grant of \$213,855 from the Cuyahoga County Board of Developmental Disabilities to fund a social work position in Comprehensive Care.

**13. Income Taxes**

The Organization is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) and is classified as an organization that is not a "Private Foundation" as defined in Section 509(a) of the Internal Revenue Code. The Organization is no longer subject to tax examinations for years before 2007 by taxing authorities in jurisdictions where the Organization has filed returns.

The Organization evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Organization's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2010 and 2009, the Organization has no accrued taxes, interest or penalties related to uncertain tax positions. The Organization estimates the unrecognized tax benefit will not change significantly within the next twelve months.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

April 5, 2011  
The Board of Directors  
The MetroHealth Foundation, Inc.  
Cleveland, Ohio

We have audited the financial statements of The MetroHealth Foundation, Inc., a component unit of The MetroHealth System, as of and for the year ended December 31, 2010, and have issued our report thereon dated April 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of The MetroHealth Foundation, Inc., as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered The MetroHealth Foundation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The MetroHealth Foundation's internal control. Accordingly we do not express an opinion on the effectiveness of The MetroHealth Foundation's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Barnes Wendling CPAs, Inc.*



# 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 10, 2011**