

AUDITED FINANCIAL STATEMENTS

The MetroHealth Foundation, Inc.

Years Ended December 31, 2011 and 2010



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, 2011 through December 31, 2011. 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

May 25, 2012

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INDEPENDENT AUDITORS' REPORT

April 11, 2012

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, 2011 and 2010, and the related statements of activities and changes in net assets and statements of 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, 2011 and 2010, 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 11, 2012 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 considered in assessing the results of our audit.

Barnes Wendling CPAs, Inc.

The MetroHealth Foundation, Inc.

Statements of Financial Position

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 3,450,551	\$ 2,938,495
Promises to give, net <i>(Note 2)</i>	1,416,833	1,534,754
Investments, at fair value	27,184,512	27,095,398
Other assets	58,354	70,553
Total assets	<u>\$ 32,110,250</u>	<u>\$ 31,639,200</u>
Liabilities		
Accounts payable and other	\$ 21,691	\$ 81,007
Annuity payment obligations	395,269	349,417
Grants payable to The MetroHealth System	1,705,145	2,237,574
Income tax payable	154,350	192,250
Total liabilities	<u>2,276,455</u>	<u>2,860,248</u>
Net Assets:		
Unrestricted:		
Operating	2,528,687	3,455,072
Board designated	1,185,986	1,100,556
Total unrestricted net assets	<u>3,714,673</u>	<u>4,555,628</u>
Temporarily restricted:		
Specific purpose funds <i>(Note 7)</i>	17,120,925	15,607,980
Permanently restricted:		
Endowment <i>(Note 6)</i>	8,998,197	8,615,344
Total net assets	<u>29,833,795</u>	<u>28,778,952</u>
Total liabilities and net assets	<u>\$ 32,110,250</u>	<u>\$ 31,639,200</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2011

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

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Gifts and grants	\$ 1,739,423	\$ 7,154,806	\$ 337,910	\$ 9,232,139
Miscellaneous income	424	114,621	-	115,045
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	<u>8,710,167</u>	<u>3,243,880</u>	<u>1,024,961</u>	<u>12,979,008</u>
Expenses				
Grants and distributions	5,454,264	-	-	5,454,264
Fundraising expenses	1,479,619	-	-	1,479,619
Administrative expenses:				
Purchased services	426,243	-	-	426,243
Provision for bad debts	782	-	-	782
Unrelated business income tax <i>(Note 8)</i>	350,024	-	-	350,024
Other	311,347	-	-	311,347
Total administrative expenses	<u>1,088,396</u>	<u>-</u>	<u>-</u>	<u>1,088,396</u>
Total expenses	<u>8,022,279</u>	<u>-</u>	<u>-</u>	<u>8,022,279</u>
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	<u>\$ 4,555,628</u>	<u>\$ 15,607,980</u>	<u>\$ 8,615,344</u>	<u>\$ 28,778,952</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating activities		
Increase in net assets	\$ 1,054,843	\$ 4,956,729
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Permanently restricted contributions	(328,442)	(337,910)
Net (gain) loss on investments	266,462	(3,175,531)
(Increase) decrease in assets:		
Promises to give, net	117,921	163,195
Other assets	12,199	(26,482)
Increase (decrease) in liabilities:		
Accounts payable and other	(59,316)	57,479
Annuity payment obligations	45,852	139,961
Grants payable to MetroHealth System	(532,429)	1,234,429
Accrued interest payable	-	(1,058)
Income tax payable	(37,900)	35
Net cash and cash equivalents provided by operating activities	<u>539,190</u>	<u>3,010,847</u>
Investing activities		
Proceeds from sale of investments	8,203,908	2,119,579
Purchase of investments	<u>(8,559,484)</u>	<u>(3,890,003)</u>
Net cash and cash equivalents used in investing activities	(355,576)	(1,770,424)
Financing activities		
Repayment of note payable	-	(69,671)
Permanently restricted contributions	<u>328,442</u>	<u>337,910</u>
Net cash and cash equivalents provided by financing activities	<u>328,442</u>	<u>268,239</u>
Increase in cash and cash equivalents	512,056	1,508,662
Cash and cash equivalents at beginning of year	2,938,495	1,429,833
Cash and cash equivalents at end of year	<u>\$ 3,450,551</u>	<u>\$ 2,938,495</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ 2,533</u>
Cash paid for income taxes	<u>\$ 335,400</u>	<u>\$ 350,000</u>

See notes to the financial statements.

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

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 and corresponding expense.

A summary of significant accounting policies is presented below:

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

Unrestricted Net Assets — Unrestricted net assets result from public support and revenue not subject to donor imposed restrictions. Gifts and grants revenue includes gifts in-kind that are recorded at fair value as of the donation date. At December 31, 2011 and 2010, the Foundation's Board of Directors had designated \$1,185,986 and \$1,100,556, 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, 2011 and 2010

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 8.

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

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

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

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

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

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

Donated Services — Donated services are recognized as contributions in accordance with ASC 958, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Fair Value of Financial Instruments – The Foundation adopted applicable sections of the Financial Accounting Standards Board Accounting Standards Codification (ASC) 820: *Fair Value Measurements and Disclosures* for financial assets and financial liabilities. In accordance with ASC 820, fair value is defined as the price the Foundation would receive to sell an asset 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 asset 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 Foundation (observable inputs) and (2) inputs that reflect the Foundation'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.

There have been no changes to the Foundation's valuation techniques during the years ended December 31, 2011 and 2010.

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

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, 2011 in valuing the Foundation's investments carried at fair value:

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

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

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, 2011 and 2010

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>2011</u>	<u>2010</u>
Balance as of January 1	\$ 2,413,909	\$ 2,314,557
Net purchases of Limited Partnership interest	400,000	-0-
Net change in unrealized and realized gains (losses)	(134,371)	99,352
Balance as of December 31	<u>\$ 2,679,538</u>	<u>\$ 2,413,909</u>
Net unrealized depreciation from investments in limited partnerships and common stock – private, still held as of December 31	<u>\$ (102,458)</u>	<u>\$ (38,908)</u>

Subsequent Events — The Foundation has evaluated subsequent events through April 11, 2012 the date which these financial statements were available to be issued.

Reclassifications — Certain amounts from the 2010 financial statements have been reclassified to conform with the 2011 presentation.

2. Promises to Give

Pledge receivables are recorded at net present value using a variable discount rate, ranging from 1.6% to 3.4% for 2011 and 1.8% to 3.4% for 2010, less an allowance for uncollectible accounts, and are due in future years at December 31, as follows:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 1,012,330	\$ 1,055,805
One to five years	526,230	594,234
	<u>1,538,560</u>	<u>1,650,039</u>
Allowance for uncollectible pledges and present value discount	<u>(121,727)</u>	<u>(115,285)</u>
	<u>\$ 1,416,833</u>	<u>\$ 1,534,754</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

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 \$3,414,816 at December 31, 2011 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 balance has been paid in full as of December 31, 2011.

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

4. Investments

Investment income for the years ending December 31, 2011 and 2010 consisted of the following:

	2011	2010
Interest and dividends	\$ 565,457	\$ 516,293
Net realized gains	813,445	731,446
Net change in unrealized (losses) gains	(1,079,907)	2,444,085
Less investment management fees	(65,356)	(60,000)
	\$ 233,639	\$ 3,631,824

The Foundation's investments had cumulative unrealized gains of \$603,955 and \$822,154 and cumulative unrealized losses of \$1,727,101 and \$918,416 at December 31, 2011 and 2010 respectively.

The investment and spending policies of the Foundation provide for realized gains and losses, interest and dividends from endowed investments to be classified as temporarily restricted in accordance with the donors' intent. Unrealized gains and losses from endowed investments are maintained as permanently restricted unless the market value of permanently restricted net assets falls below the corpus. In that event, the unrestricted fund balance is encumbered to maintain donor restricted endowment funds at the level required by donor stipulation. In 2008 and 2011, the Foundation transferred \$1,876,905 and \$91,621 respectively to maintain the corpus of the endowment. The Foundation transferred funds from the permanently restricted net assets back to unrestricted net assets because the level required by donor stipulations had been partially recovered in 2009 and 2010. The remaining balance of the deficit is \$308,893 and \$217,272, respectively, at December 31, 2011 and 2010. 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 made transfers since 2009 back to the unrestricted funds due to favorable market conditions until the temporarily reserved net assets were fully restored in 2011.

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

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 \$1,705,145 and \$2,237,574 were due to the System for grants approved by the Foundation, but not yet paid, at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, there were no outstanding grant requests. The MetroHealth System identified in-kind support to the Foundation for 2011 and 2010 representing purchased services, rent and other expenses which are included in these financial statements in the amount of \$1,366,873 and \$1,049,800, respectively.

6. Permanently Restricted Net Assets

Permanently restricted assets at December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Anesthesiology	\$ 57,504	\$ 31,704
Community Health	986,071	986,071
Dentistry	25	25
Dermatology	96,397	96,397
Heart and Vascular	555,582	529,442
Medical Education	408,125	399,048
Medical Specialties	147,253	141,478
Nursing	6,000	5,700
Orthopedics	2,272,785	2,222,519
Pastoral Care	9,517	9,517
Pathology	1,464	1,464
Pediatrics	457,800	439,940
Physical Medicine and Rehabilitation	1,111,692	1,015,930
Primary Care	46,113	45,102
Psychiatry	1,632	1,632
Radiology	6,230	6,230
Research	1,512,296	1,458,792
Surgical Specialties	858,996	792,632
System Wide	312,050	291,599
Women's Health	150,665	140,122
	<u>\$ 8,998,197</u>	<u>\$ 8,615,344</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

6. Permanently Restricted Net Assets (continued)

Corpus Restoration

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, variances of this nature are reported as deficits of unrestricted net assets, which were \$308,893 and \$217,272 at December 31, 2011 and 2010, respectively.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

6. Permanently Restricted Net Assets (continued)

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

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

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

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

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

6. Permanently Restricted Net Assets (continued)

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

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

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, 2011 and 2010

7. Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Anesthesiology	\$ 173,595	\$ 185,963
Care Management and Social Work	15,560	15,116
Community Health	837,212	740,596
Dentistry	40,810	32,526
Dermatology	60,499	60,522
Emergency Medicine	206,216	242,034
Heart and Vascular	1,312,090	1,102,918
Medical Operations	414,530	462,766
Medical Specialties	1,389,154	1,183,242
Nutrition	20,624	18,827
Orthopedics	1,091,489	1,045,483
Pathology	28,826	33,546
Pediatrics	839,397	729,764
Physical Medicine and Rehabilitation	903,128	1,008,085
Primary Care	461,384	881,136
Psychiatry	325,857	343,569
Pulmonary	147,844	162,463
Radiology	250,422	253,616
Research	1,206,931	1,468,374
Surgical Specialties	2,235,027	1,884,124
System Wide	4,935,645	3,509,732
Women's Health	37,138	104,093
Unrestricted Promises to Give	187,547	139,485
	<u>\$ 17,120,925</u>	<u>\$15,607,980</u>

The MetroHealth Foundation, Inc.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

8. 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 pays income taxes on unrelated business income. The Foundation currently pays unrelated business income tax on Premier Purchasing Partners, L.P., but has sought a private letter ruling from the Internal Revenue Service to clarify whether this income qualifies as unrelated business income. During the years ended December 31, 2011 and 2010, the Foundation received income of \$896,052 and \$892,127, respectively, from its investment in Premier Purchasing Partners, L.P. Additionally, the Foundation has estimated it will receive another \$420,238 of income in 2012 that was earned prior to December 31, 2011. As such, the Foundation has paid \$335,400 of estimated taxes and accrued an additional \$154,350 at December 31, 2011 based on this estimate.

9. 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>2011</u>	<u>2010</u>
Net assets were released from donor restrictions by incurring expense satisfying the following temporarily restricted purposes:		
Capital Equipment	\$ 810,630	\$ 1,106,558
Education	682,879	728,827
Fundraising	404,247	19,333
Patient Programs	1,980,674	3,058,880
Research	669,266	161,105
Recruitment	46,982	48,596
Other	422,370	535,189
	<u>\$ 5,017,048</u>	<u>\$ 5,658,488</u>

10. 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, 2011 and 2010

11. Other Accomplishments

Donors occasionally make their gifts directly to The MetroHealth System. 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.

In 2011, The Development Department also worked collaboratively to help secure a \$1,080,000 grant from the United States Department of Health and Human Services to support geriatric physician training; a \$60,000 grant from the Cuyahoga County Board of Developmental Disabilities for the mobile dental van; and a \$48,000 grant from Cuyahoga County for the Fatherhood Initiative.

12. Income Taxes

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

The Organization evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Organization's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2011 and 2010, 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.

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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 11, 2012
The Board of Directors
The MetroHealth Foundation, Inc.
Cleveland, Ohio

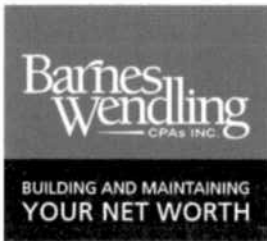
We have audited the financial statements of The MetroHealth Foundation, Inc., a component unit of The MetroHealth System, as of and for the year ended December 31, 2011, and have issued our report thereon dated April 11, 2012. We conducted our audit in accordance with auditing standards generally accepted 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, we considered The MetroHealth Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The MetroHealth Foundation's internal control over financial reporting. 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 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 INC

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
JUNE 7, 2012