SINGLE AUDIT REPORT

The MetroHealth System
December 31, 1999

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees
MetroHealth System
Cleveland, Ohio

We have reviewed the Independent Auditor's Report of the MetroHealth System, Cuyahoga County, prepared by Ernst & Young LLP, for the audit period January 1, 1999 through December 31, 1999. 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 System is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

July 27, 2000

The MetroHealth System

Single Audit Report

December 31, 1999

Contents

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Independent Auditors Report

Board of Trustees
The MetroHealth System

We have audited the accompanying balance sheets of The MetroHealth System as of December 31, 1999 and 1998, and the related statements of revenue and expenses of general funds, changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of The MetroHealth System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 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 System as of December 31, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note A to the financial statements, in 1998 the System changed its method of accounting for investments and deferred compensation plans.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended December 31, 1999, dated March 6, 2000 on our consideration of The MetroHealth System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements of The MetroHealth System taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 1999 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A133, *Audits of States, Local Governments, and Not-Profit Organizations* and is not a required part of the 1999 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 1999 financial statements and, in our opinion, is fairly presented in all material respects in relation to the 1999 financial statements taken as a whole.

March 6, 2000

Ernst + Young LLP

The MetroHealth System

Balance Sheets

(In Thousands)

	December 31 1999	December 31 1998 (Restated - *Note A*)
General funds		
Assets		
Current assets:		
Cash and cash equivalents	$ 8,383	$ 8,640
Investments required for current liabilities	6,212	3,097
Patient accounts receivable	70,963	53,935
Less allowance for uncollectible accounts	9,710	5,248
	61,253	48,687
Due from restricted funds	8,860	13,637
Other receivables	13,764	12,037
Supplies	4,801	4,625
Prepaid expenses	3,175	2,989
Total current assets	106,448	93,712
Investments:		
By Board designation	62,216	97,516
Under bond indenture agreement	129,512	78,592
Self-insurance funds	27,557	35,376
Academic funds	32,813	41,739
	252,098	253,223
Less investments required for current liabilities	6,212	3,097
	245,886	250,126
Property, plant and equipment:		
Land and land improvements	16,127	16,127
Buildings and fixed equipment	308,817	301,483
Equipment	161,930	138,825
	486,874	456,435
Less accumulated depreciation	307,507	285,415
	179,367	171,020
Construction in progress	45,645	22,423
	225,012	193,443
Deferred financing costs	2,602	2,354
	$ 579,948	$ 539,635
Restricted funds		
Cash and cash equivalents	$ 159	$ –
Investments	14,097	19,354
	$ 14,256	$ 19,354

0004-0037264

	December 31	
	1999	1998 (Restated - *Note A*)
General funds		
Liabilities and fund balance		
Current liabilities:		
Accounts payable	$ 17,517	$ 12,619
Accrued payroll and related liabilities	15,071	12,551
Estimated amounts due to third-party payors	9,322	12,000
Accrued vacation and sick leave	14,264	12,688
Accrued interest payable	4,030	2,856
Public Employees Retirement System liability	10,439	9,125
Current installments of long-term debt	6,212	3,097
Other current liabilities	1,958	2,031
Total current liabilities	78,813	66,967
Long-term liabilities:		
Self-insurance liabilities	24,987	32,335
Other liabilities	511	809
Estimated amounts due to third-party payors	22,961	27,007
Long-term debt, less current installments	198,874	141,998
Fund balance	253,802	270,519
	$ 579,948	$ 539,635
Restricted funds		
Other restricted liabilities	$ 191	$ -
Due to general funds	8,860	13,637
	9,051	13,637
Fund balances	5,205	5,717
	$ 14,256	$ 19,354

See accompanying notes to financial statements.

0004-0037264

The MetroHealth System

Statements of Revenue and Expenses of General Funds

(In Thousands)

	Years Ended December 31 1999	Years Ended December 31 1998 (Restated - *Note A*)
Revenue		
Net patient service revenue	**$ 374,921**	$ 327,315
Other revenue	**16,548**	13,734
County appropriation	**25,352**	25,681
Investment income	**17,343**	16,209
Unrealized (losses) gains on investments	**(10,183)**	4,281
Total revenue	**423,981**	387,220
Expenses		
Professional care of patients	**269,430**	234,022
Dietary	**6,156**	6,346
Household and property	**19,557**	18,296
Administrative and general	**57,300**	48,389
Employee benefits	**43,704**	43,967
Provision for bad debts	**10,923**	6,861
Loss on PPC Medicaid HMO	**–**	5,261
Depreciation and amortization	**24,312**	23,104
Interest	**9,316**	8,732
Total expenses	**440,698**	394,978
Deficiency of revenue over expenses	**$ (16,717)**	$ (7,758)

See accompanying notes to financial statements.

0004-0037264

The MetroHealth System

Statements of Changes in Fund Balances

(In Thousands)

	General Funds	Restricted Funds
Balances at January 1, 1998 (Restated - *Note A*)	$ 275,915	$ 5,986
Cumulative effect of change in accounting principle	2,362	–
Deficiency of revenue over expenses	(7,758)	–
Restricted grants and donations	–	7,285
Specific purpose funds expenditures	–	(7,554)
Balances at December 31, 1998 (Restated - *Note A*)	**270,519**	**5,717**
Deficiency of revenue over expenses	**(16,717)**	–
Restricted grants and donations	–	**8,649**
Specific purpose funds expenditures	–	**(9,161)**
Balances at December 31, 1999	**$ 253,802**	**$ 5,205**

See accompanying notes to financial statements.

0004-0037264

The MetroHealth System

Statements of Cash Flows

(In Thousands)

	Years Ended December 31 1999	1998 (Restated - *Note A*)
Operating activities		
Deficiency of revenue over expenses	**$ (16,717)**	$ (7,758)
Adjustments to reconcile deficiency of revenue over expenses to net cash (used in) provided by operating activities:		
Depreciation and amortization	**24,312**	23,104
Unrealized losses (gains) on investments	**10,183**	(1,919)
Amortization of deferred financing costs and bond discounts	**231**	195
Provision for bad debts	**10,923**	12,122
County appropriation	**(25,352)**	(25,681)
Interest expense considered capital financing	**9,316**	8,732
Changes in assets and liabilities:		
Increase in patient accounts receivable	**(23,489)**	(9,087)
Increase in other current assets	**(2,089)**	(478)
Decrease (increase) in self-insurance funds	**7,819**	(3,149)
Increase in accounts payable and other current liabilities	**8,922**	7,727
(Decrease) increase in long-term liabilities	**(11,394)**	10,272
Net cash (used in) provided by operating activities	**(7,335)**	14,080
Noncapital financing activities		
County appropriation	**25,352**	25,681
Restricted grants and donations	**8,649**	7,285
Specific purpose funds expenditures	**(9,161)**	(7,554)
Net cash provided by noncapital financing activities	**24,840**	25,412
Capital and related financing activities		
(Withdrawals) deposits in project funds	**(39,315)**	2,362
Acquisition and construction of capital assets	**(55,881)**	(34,771)
Proceeds from issuance of long-term debt	**63,076**	–
Principal payments on long-term debt	**(3,564)**	(3,778)
Interest paid on long-term debt	**(9,316)**	(8,732)
Net cash used in capital and related financing activities	**(45,000)**	(44,919)
Investing activities		
Change in investments	**27,397**	(217)
Net decrease in cash and cash equivalents	**(98)**	(5,644)
Cash and cash equivalents at beginning of year	**8,640**	14,284
Cash and cash equivalents at end of year	**$ 8,542**	$ 8,640

See accompanying notes to financial statements.

A. Summary of Significant Accounting Policies

Organization

The accompanying financial statements of The MetroHealth System (the System) are prepared on the accrual basis and include MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; MetroHealth Clement Center for Family Care, an outpatient community health facility; MetroHealth Centers for Skilled Nursing Care, Skilled East and Skilled West; Faculty Business Office, a medical specialty group practice; and several primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

In accordance with Government Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, the System's financial statements are included, as a discrete entity, in the Cuyahoga County's Consolidated Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Frank Russo, Cuyahoga County Auditor, County Administration Building, 1219 Ontario Street, Cleveland, Ohio 44113, Attention: Cheryl Arslanian.

The System is the public health care system for Cuyahoga County, Ohio, (County) and was created pursuant to Ohio Revised Code Chapter 339. The System is governed by a board of trustees appointed jointly by the Board of County Commissioners of the Board of County of Cuyahoga, and the senior judges of the Probate Court and Common Pleas Court. In order to support the general operations of the System, the County of Cuyahoga, Ohio Commissioners approved an appropriation of $25,352 and $25,681 in 1999 and 1998, respectively. The County has approved a similar amount of appropriation for 2000. The System is exempt from federal income taxes as a governmental entity.

Effective September 1, 1997, the System assumed responsibility and is operating the former County Nursing Home, a long-term care facility consisting of 177 beds located on the near west side of Cleveland. The County has agreed to subsidize any operating loss of the Skilled West facility over the next several years ($1,352 in 1999 and $1,681 in 1998 included in the statements of revenue and expenses of the general funds) and has retained ownership of the existing facility and equipment which amounts and related depreciation are not reflected in these financial statements.

A. Summary of Significant Accounting Policies—Continued

Accounting Standards

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), statements and interpretations issued after November 30, 1989 which do not conflict or contradict GASB pronouncements.

Use of Estimates

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

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

A. Summary of Significant Accounting Policies—Continued

The System has agreements with third-party payors that provide for payment at amounts different from established rates. A summary of the basis of payment by major third-party payors follows:

Medicare and Medicaid—Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries and Medicare capital costs are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient psychiatric and rehabilitation services, and certain outpatient services related to Medicare beneficiaries and capital costs for Medicaid beneficiaries are reimbursed based on a cost-based methodology subject to certain limitations. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received. The System is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare and Medicaid fiscal intermediaries. The System's classification of patients under the Medicare and Medicaid program and the appropriateness of their admission are subject to an independent review by a peer review organization. Differences between the estimated amounts accrued at interim and final settlements are reported in the statements of revenue and expenses in the year of settlement. The System recorded favorable adjustments of $4,577 and $5,926 in 1999 and 1998, respectively, applicable to prior years.

Net revenue from traditional Medicare and Medicaid programs accounted for approximately 24% and 30%, respectively, of the System's net patient service revenue for the year ended December 31, 1999. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

A. Summary of Significant Accounting Policies—*Continued*

Other Payors—The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively-determined rates-per-discharge, discounts from established charges, and prospectively-determined per diem rates. During 1998, the System recorded a loss on a contact with Personal Physician Care, a State of Ohio Medicaid HMO contractor.

Capitation—The System has contracted with various insurers to provide comprehensive health care services under capitated managed care arrangements. The cost of services provided or contracted for under these capitated arrangements is accrued in the period in which the services are provided to members of the managed care plans based in part on estimates, including an accrual for medical services provided but not reported to the System. The System has entered into a stop-loss insurance agreement to limit its potential losses on claims to $100 per member per year.

Disproportionate Share—As a public health care provider, the System renders services to residents of the County and others regardless of ability to pay. The System is classified as a disproportionate share provider by the Medicare and Medicaid programs due to the volume of low income persons it serves and receives additional payments (including Care Assurance) from these programs as a result of this status which aggregated $45,692 and $37,696 in 1999 and 1998, respectively. The System also provides major trauma services to the region. The ability to continue these levels of service and programs will be contingent upon the various funding sources.

Charity Care

Throughout the admission, billing and collection processes, certain patients are identified by the System as qualifying for charity care. The System provides care to these patients without charge or at amounts less than its established rates. The charges foregone for charity care provided by the System, totaling $86,292 and $72,047 which represents 13.1 and 13.5 percent of gross charges in 1999 and 1998, respectively, are not reported as revenue. The System accepts certain indigent Ohio residents and all residents from the County regardless of their ability to pay.

A. *Summary of Significant Accounting Policies—Continued*

General and Restricted Funds

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restriction or that arise as a result of the operations of the System for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted funds.

Resources restricted by donors for plant replacement and expansion are added to the general fund balance to the extent expended within the period.

Cash and Cash Equivalents

The System considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost which approximates fair value.

Supplies

Supplies are stated at the lower of cost (determined on first-in, first-out method) or net realizable value.

Investments

In 1998, The System adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which established accounting and financial reporting standards for government investments and investment pools, requiring most investments to be recorded at fair value and the recognition of unrealized gains and losses in the financial statements. The implementation of Statement No. 31, recorded as a cumulative effect, increased the 1998 fund balances by an aggregate total of $2,362.

The System pools certain of its investments for investment purposes. Investment income for these pooled investments is allocated to the proper investment classification based on each investments fair value to the total fair value of all pooled investments.

A. Summary of Significant Accounting Policies—Continued

The net realized (losses) gains on investments (($218) in 1999 and $1,900 in 1998) is the difference between the proceeds received and the amortized cost of investments sold.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization (straight-line method) are provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives. Routine maintenance and repairs are expensed as incurred.

Deferred Compensation Plans

The System offers eligible employees a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is available to employees upon termination of employment, retirement, disability, death, or unforeseeable emergency. The System may at any time amend or terminate the plan with or without consent of the participants.

In 1998, the System adopted the provisions of GASB Statement No. 32 *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* which requires all amounts deferred by plan participants be held in a trust for the exclusive benefit of the participants and their beneficiaries. In September 1998, the System created a trust for the assets of the plan for which the System has no fiduciary responsibility. The System has no recorded liability.

Costs of Borrowing

Interest costs on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Deferred financing costs represent debt issuance expenditures on long-term obligations and are amortized over the period the bonds are outstanding on a straight-line basis.

A. Summary of Significant Accounting Policies—Continued

In 1999, the System entered into an interest-rate swap agreement to effectively convert a portion of its fixed rate debt to a variable rate basis. Net amounts periodically receivable or payable as a result of swap agreements are accrued as adjustments to interest expense on the related debt. Other than the net interest receipts or expenses resulting from these agreements, no amounts are recorded in the financial statements.

Concentrations of Credit Risk

Financial instruments which potentially subject the System to concentrations of credit risk consist principally of cash and cash equivalents, patient accounts receivable, and investments.

The System places its cash and cash equivalents with high credit quality financial institutions. The System's investments include money market funds, U.S. Treasury bills and notes, U.S. agency obligations, and repurchase agreements.

Concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the System's patients and payors. Patient accounts receivable consist of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. Excluding governmental programs, no payor source represents more than 10 percent of the System's patient accounts receivable. The System maintains an allowance for losses based on the expected collectibility of patient accounts receivable.

Restatement and Reclassifications

During 1999, the System implemented a new general ledger system which directly interfaced with the accounts payable system. As a result of this interface and additional reconciliations of current and prior year accounts payable activity, management determined that 1998 and 1997 accounts payable and expenses were understated. As a result, there was a charge to expense and an increase to accounts payable for $2,500 for 1998. In addition, an adjustment was recorded at January 1, 1998 decreasing general fund balance by $3,700.

Certain amounts included in the accompanying 1998 financial statements have been reclassified to conform to the 1999 presentation.

B. *Deposits and Investments*

Deposits

All monies are deposited to the System's banks or trust companies designated by the Board of Trustees. Funds not needed for immediate expenditure may be deposited in interest-bearing or non-interest bearing accounts or U.S. government obligations. Banks or trust companies shall furnish security for all such deposits, whether interest bearing or noninterest bearing, except that no such security is required for U.S. government obligations.

At December 31, 1999, the financial statement carrying amount of the System's deposits (overdrafts) was ($6,209). The actual bank balances including accrued interest, totaled $788, the difference represents outstanding checks payable and normal reconciling items. Of the bank balances, approximately $200 was covered by federal depository insurance and are thus a category (1) deposit risk in accordance with the provisions of GASB Statement No. 3. The remainder was secured by collateral pools of U.S. government and municipal securities.

Investments

The System's investment policies are governed by state statutes which authorize the System to invest in U.S. government obligations. Investments are categorized to give an indication of the level of risk assumed by the System at year end. The categorized investments include those which are classified as cash and cash equivalents in accordance with the provisions of GASB Statement No. 9.

B. *Deposits and Investments—Continued*

At December 31, 1999, cash and investments include:

	(1) Insured or Registered, or Securities Held By the System or its Agent in the System's Name	(3) Uninsured and Unregistered, with Securities Held by the Counterparty, or its Trust Department or Agent but Not in the System's Name	Cost	Market Value
U. S. Treasury notes	$ 50,896	$ -	$ 50,896	$ 49,275
U. S. Agency obligations	142,480	-	142,480	138,199
Repurchase agreements	-	12,960	12,960	12,960
	$ 193,376	$ 12,960	206,336	200,434
Money market funds			74,303	74,303
Total cash and investments			$ 280,639	$ 274,737

The amounts invested in money market funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

C. Long-Term Debt

Long-term debt at December 31, 1999 and 1998, is comprised as follows:

	1999	1998
Hospital Improvement and Refunding Revenue Bonds, Series 1997, net of unamortized bond discount, bear interest at rates ranging from 3.90% to 5.80% and mature in varying amounts through 2027	$ 65,593	$ 67,177
Hospital Refunding Revenue Bonds, Series 1997A, net of unamortized bond discount and refunding loss, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	68,078	67,973
Hospital Improvement Revenue Bonds, Series 1999, net of unamortized bond discount, bear interest at rates ranging from 6.125% to 6.150% and mature in varying amounts through 2029	56,775	
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 4.96% and mature in 2007	8,807	9,945
Equipment obligation, Banc One Leasing, as defined in the respective lease agreement at an interest rate of 4.958% and mature in 2004	5,833	-
	205,086	145,095
Less current installments	6,212	3,097
Long-term debt	$ 198,874	$ 141,998

The fair value of Hospital Revenue Bonds ($202,055 at December 31, 1999) is estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

C. Long-Term Debt—Continued

Effective February 1, 1997, the County issued $70,000 of Hospital Improvement and Refunding Revenue Bonds Series 1997 (The MetroHealth System Project). The proceeds of the Series 1997 Bonds were used to refund $20,900 of Series 1989 Bonds scheduled to mature on February 15, 2007; to advance refund $2,410, $2,570, and $2,745 of the Series 1989 Bonds stated to mature on February 15, 1999, February 15, 2000 and February 15, 2001, respectively; to finance the construction of various improvements and additions to the MetroHealth Medical Center; and to pay costs of issuance of the Series 1997 Bonds.

Effective November 1, 1997, the County issued $77,525 of Hospital Refunding Revenue Bonds, Series 1997A. The proceeds of the Series 1997A Bonds were used to refund $73,725 of Series 1989 Bonds scheduled to mature on February 15, 2019. The 1997 refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $9,753. This unamortized difference ($8,982 at December 31, 1999), reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2019 using the effective interest method.

Effective September 1, 1999, the County issued $56,995 of Hospital Improvement Revenue Bonds, Series 1999. The proceeds of the Series 1999 Bonds are being used to finance the construction of a 150-bed long-term care facility and acquiring, constructing, renovating, furnishing, equipping, and improving operating rooms and other hospital facilities.

The Series 1997, 1997A, and 1999 Bonds were issued pursuant to a master trust indenture between the County, acting by and through the System's Board of Trustees, and the bond trustee. The Series 1997, 1997A, and 1999 Bonds are special obligations of the County payable solely from the revenue derived from the operation of the System and other monies available to the System's Board of Trustees. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

C. Long-Term Debt—Continued

In 1999, the System entered into a 15-year interest rate swap agreement for a notional amount of $56 million of its fixed-rate general obligation bonds. Based on the swap agreement, the System makes payments calculated at a variable rate to the couterparty to the swap. In return the couterparty makes payments to the County based on the fixed rate of 5.41%. Only the net difference in payments is exchanged with the counterparty, the $56 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. For 1999, net interest savings was $200. At December 31, 1999, the fair value of the swap agreement based on current settlement price is $1,291 due to the counterparty. No amounts are recorded on the System's balance sheet for the swap agreement.

The terms of the master trust bond indenture agreement provide for the establishment of a depreciation reserve fund and maintenance of certain special funds which are maintained under the control of the bond trustee and are used for payment of principal and interest on the bonds when due. The required payments into these funds and scheduled equipment obligation payments for the years 2000 through 2004 and thereafter are as follows:

	Hospital Revenue Bonds	Equipment Obligation
2000	$ 12,879	$ 3,035
2001	14,774	3,035
2002	14,782	3,035
2003	14,770	3,035
2004	14,769	2,441
Thereafter	321,134	2,338
Total minimum payments	393,108	16,919
Amounts representing interest	(191,299)	(2,279)
Unamortized difference between reacquisition price and the net carrying amount of old debt	(8,982)	–
Unamortized discount	(2,381)	–
Present value of net minimum payments	**$ 190,446**	**$ 14,640**

0004-0037264

D. Commitments

Operating Leases – The System has entered into operating lease agreements for a parking facility which is under construction, medical space, and office space which expire through 2011. Certain leases contain rent escalation clauses and renewal options for additional periods ranging from two to five years.

Minimum rental commitments under operating leases extending beyond one year at December 31, 1999 are as follows (in thousands):

2000	$ 1,254
2001	1,246
2002	1,256
2003	1,263
2004	1,186
Thereafter	12,344
Total	$ 18,549

Rent expense totaled $458 in 1999 and $422 in 1998.

E. Benefit Plans

Pension

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Public Employees Retirement System (PERS). This retirement program is a statewide, cost-sharing, multiple-employer defined benefit plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members.

E. Benefit Plans—Continued

The Public Employees Retirement System's Comprehensive Annual Financial Report for the multi-employee defined benefit plan may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent of covered payroll and the System is required to contribute 13.55 percent of covered payroll. The System's contributions to PERS for the years ending December 31, 1999, 1998 and 1997 were \$28,819, \$26,777 and \$24,920, respectively, equal to the required contributions for each year.

Postretirement Benefits

PERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's total pension contribution (13.55 percent) to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The System's actual contribution for 1999 and 1998 which was used to fund postretirement health care benefits was \$8,933 and \$8,300, respectively.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses on a pay-as-you-go basis. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

As of December 31, 1999, the PERS unaudited estimated net assets available for future OPEB payments were \$9,870,286. Expenditures for PERS' OPEB during 1999 were \$523,599. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

F. Self-Insurance Liabilities

The System is self-insured for the purpose of providing professional and patient care liability and workers' compensation claims. For the professional and patient care liability, professional insurance consultants have been retained to determine funding requirements. Amounts funded for professional and patient care have been placed in an irrevocable self-insurance trust account, which is being administered by a trustee.

Losses from asserted claims and from unasserted claims identified under the System's incident reporting systems are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The reserve for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported discounted at a rate of six percent. The movement of the reserve is as follows:

	1999	1998
Beginning balance	$ 32,335	$ 26,957
Provision for self-insurance	1,643	10,607
Claims paid and other	(8,991)	(5,229)
Ending balance	**$ 24,987**	$ 32,335

The MetroHealth System

Schedule of Expenditures of Federal Awards

Year Ended December 31, 1999

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through Programs From:			
State of Ohio:			
Special Supplemental Food Program for Women, Infants and Children	10.557	18-3-01-F-CL-389	**$4,178,588**
U.S. Department of Health and Human Services			
Direct Programs:			
Interlukin 4 Signalling	93.853		**125,128**
Advanced Education Program in General Dentistry	93.897		**128,601**
Transcriptional Interference & Tumorigenicity	93.396		**111,584**
Subtotal Direct Programs			**365,313**
Pass-Through Programs From:			
HIV Emergency Aid-Cluster:			
Cuyahoga County Board of Commissioners:			
Ryan White Title I—Medical Services	93.914	CE 9476A, 9477A, 8825 A	**344,084**
Ryan White Title I—Dental Services	93.915	CE 9475A, 8827A	**54,632**
			398,716
Federation for Community Planning:			
Immunization Action Plan	93.268		**14,112**
Title X/Family Planning	93.217	05-H-00520-20	**380,315**
Alcohol & Drug Addiction Service Board:			
Federal SAPT Block Grant-Women's Set Aside	93.959	18-18408-01-W-T-97-9704, 18-18408-01-W-T-97-9705	**166,900**
Medicaid Assistance Program	93.778	18408-01, 96-05-02	**314,622**

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)			
Pass-Through Programs From:			
Cleveland State University—Mother's Drug Treatment and Children's Resiliency (NIDA)	93.279	MGN-R4	**7,685**
State of Ohio:			
TB Prevention and Control/Outreach	93.118	533-AH	**224,102**
Perinatal Project	93.994	533-J96	**61,551**
Early Intervention Hospital Based	84.181	533-AI	**62,531**
Subtotal Pass-Through Programs			**1,630,534**
Total U.S. Department of Health and Human Services			**1,995,847**
U.S. Department of Housing and Urban Development			
Pass-Through Programs From:			
Cuyahoga Metropolitan Housing Authority:			
Drug Elimination	86X0197	OH12DEP0030 195	**146,035**
Drug Elimination	86X0197	OH12DEP0030 196	**150,667**
Subtotal Pass-Through Programs			**296,702**
Total Expenditures of Federal Awards			**$6,471,137**

Notes to the Schedule of Expenditures of Federal Awards

Note A. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The MetroHealth System (System) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
The MetroHealth System

We have audited the financial statements of The MetroHealth System as of and for the year ended December 31, 1999, and have issued our report thereon dated March 6, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The MetroHealth System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the System's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 99-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the System in a separate letter dated March 16, 2000.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

March 6, 2000

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Report of Independent Auditors on Compliance with Requirement Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
The MetroHealth System

Compliance

We have audited the compliance of The MetroHealth System with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1999. The MetroHealth System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The MetroHealth System's management. Our responsibility is to express an opinion on The MetroHealth System's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The MetroHealth System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The MetroHealth System's compliance with those requirements.

In our opinion, The MetroHealth System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1999.

Internal Control Over Compliance

The management of The MetroHealth System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The MetroHealth System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

March 6, 2000

The MetroHealth System

Schedule of Findings and Questioned Costs

Year Ended December 31, 1999

Part I—Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued:	Unqualified Opinion			
Internal Control over financial reporting:				
Material weakness(es) identified?		yes	✓	no
Reportable condition(s) identified not considered to be material weaknesses?	✓	yes		none reported
Noncompliance material to financial statement noted?		yes	✓	no

Federal Awards Section

Dollar threshold used to determine Type A programs:	$300,000			
Auditee qualified as low-risk auditee?	✓	yes		no
Type of auditor's report issued on compliance for major programs:	Unqualified Opinion			
Internal Control over major programs:				
Material weakness(es) identified?		yes	✓	no
Reportable condition(s) identified not considered to be material weakness(es)?		yes	✓	none reported
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))?		yes	✓	no

0006-0067848

Part I—Summary of Auditor's Results—Continued

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.557	Special Supplemental Food Program for Women, Infants and Children
93.217	Title X Family Planning
93.914	HIV Emergency Aid Cluster

Part II—Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards.*

Item 99-1

In 1999, and in connection with management implementing procedures to improve account analysis and reconciliations, management determined that the accounts payable and property subledgers did not reconcile to the general ledger. Also, while accounts payable and cash disbursements processes were properly posting activity to the general ledger, manual adjustments were recorded to reduce accounts payable and expenses. When the Lawson general ledger system was implemented in 1999, manual adjustments decreased because the Lawson accounts payable system (implemented in 1997) now interfaces directly with the general ledger. Also, it was determined that in 1998 and 1997, the accounting department was not using the proper Lawson outstanding accounts payable subledger report to reconcile to the general ledger. Based on further analysis, management determined that accounts payable per the general ledger did not reconcile to the detail accounts payable report and was understated for 1998 and 1997. At year end 1999, adjustments were made to current year activity and the 1998 and 1997 financial statements were restated, increasing accounts payable and expenses by $3.7 million in 1997 and $2.5 million in 1998. These amounts represent less than 1% of operating expenses in each year and approximately 1% of fund balances.

Part III—Schedule of Federal Award Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 section __.510.

None.

The MetroHealth System
2500 MetroHealth Drive
Cleveland, Ohio 44109-1998

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March 6, 2000

Corrective Action Plan to Finding 99-1

Item 99-1

Following is The MetroHealth Systems' corrective action plan to finding 99-1:

During 1999, management focused on staff continuity and training in the accounts payable department. All current accounts payable staff attended a one week on-site training course on the integrated accounts payable/purchasing system. Management has continued to focus on training and post implementation review of the accounts payable/purchasing application. In addition, management has implemented procedures to ensure that only automated system entries from the accounts payable system are recorded in the accounts payable general ledger account.

In addition, in 1999 Management continued to take significant steps toward more closely aligning staff, information systems and processes. While significant progress was made during 1999, management has continued to evaluate staffing, systems and processes during 2000 to strengthen internal controls and to further improve business practices. An integrated accounts payable/purchasing and Information Services team has been assigned to review and implement process improvements for the integrated accounts payable/purchasing process. In addition, the System has strengthened the procedures for authorization and approval of manual journal entries.

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METROHEALTH SYSTEM

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
OCTOBER 3, 2000