The MetroHealth System

Financial Statements
for the Years Ended
December 31, 2005 and 2004
and Independent Auditors' Reports

Auditor of State
Betty Montgomery

Board of Trustees
The MetroHealth System
2500 MetroHealth Drive
Cleveland, Ohio 44109-1998

We have reviewed the *Independent Auditor's Report* of The MetroHealth System, Cuyahoga County, prepared by Deloitte & Touche LLP, for the audit period January 1, 2005 through December 31, 2005. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 29, 2006

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THE METROHEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

The Audit Committee of
The MetroHealth System

We have audited the accompanying balance sheets of The MetroHealth System (the "System"), a component unit of Cuyahoga County, Ohio, as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, the MetroHealth Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit for the Foundation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements, 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, and the report of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the System at December 31, 2005 and 2004, and the Foundation at December 31, 2005, and the results of their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the System changed its method of accounting for conditional asset retirement obligations in 2005.

The Management's Discussion and Analysis on pages 4 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2006, on our consideration of the System'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 audits.

Deloitte & Touche, LLP

April 21, 2006

Deloitte.

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

The Audit Committee of
The MetroHealth System
Cleveland, Ohio

We have audited the financial statements of The MetroHealth System (the "System"), as of and for the year ended December 31, 2005 and have issued our report thereon dated April 21, 2006. 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 *Governmental 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the System in a separate letter dated April 21, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 audit committee, management, federal awarding agencies, state funding agencies, pass-through entities, and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche, LLP

April 21, 2006

MANAGEMENT’S DISCUSSION (4-12)

This section of The MetroHealth System’s (the “System”) annual financial report presents management’s discussion and analysis of the System’s financial performance and provides an overall review of the System’s financial position and activities as of and for the years ended December 31, 2005 and 2004. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts. The financial statements, footnotes, and this discussion and analysis are the responsibility of the System’s management.

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 37*, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statement No. 38*, Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities. The implementation of GASB Statement No. 34 affected the presentation of net assets, the inclusion of management’s discussion and analysis, the direct method presentation of the statements of cash flows and expanded footnote disclosures.

The accompanying financial statements of the System include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; MetroHealth Centers for Skilled Nursing Care, consisting of the Skilled Nursing Facility East and The Elisabeth Severance Prentiss Center for Skilled Nursing Care; and several urban and suburban primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

The System is the public health care system for Cuyahoga County, Ohio, (the “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 accordance with GASB Statement No. 14, *The Reporting Entity*, the System’s financial statements are included, as a discrete entity, in the 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.

The System has a discretely presented component unit in the MetroHealth Foundation (the “Foundation”) that is reported in a separate column in the System’s financial statements to emphasize the Foundation is a legally separate entity from the System. The MetroHealth Foundation is a non-for-profit organization supporting the System through fundraising. The Foundation is not included in the amounts below but is included in greater detail in the financial statements and footnotes.

Financial and Operating Highlights for 2005

- The average length of stay decreased slightly from the prior year.
- Outpatient levels of activity increased 3.7 % from the prior year.
- Emergency room levels of activity increased 15.3% from the prior year.
- Total net assets increased by $5.5 million over the prior year.
- The MetroHealth Buckeye Health Center, an outpatient medical facility, opened in April.
- The System completed renovations on the first phase in its South Campus location. The System's back office operations and datacenter began moving to the renovated space in October.

Financial and Operating Highlights for 2004

- Inpatient levels of activity decreased slightly from the prior year.
- Outpatient levels of activity increased 3.3% from the prior year.
- Emergency room levels of activity increased 3.9% from the prior year.
- Surgery cases increased 2.0% from the prior year.
- Total net assets decreased by $6.6 million from the prior year.
- The System opened its new Critical Care Pavilion, which houses perioperative facilities and the emergency department, in mid-year. Total cost of the construction was just under $70.0 million.
- The System purchased the former Deaconess Hospital in a bankruptcy auction. The first phase of renovations of this facility will accommodate the System's datacenter and other back office functions.
- The MetroHealth Broadway Health Center, an outpatient medical facility, opened in July.

Financial Analysis of the System at December 31, 2005 and 2004

Total assets increased by 3.7% to $626.7 million, and total liabilities increased 4.4% to $404.9 million in 2005. The System's total net assets increased from $216.3 million to $221.9 million in 2005, a 2.6% improvement from a year ago. This represented a reversal from the 3.0% decrease in 2004 from 2003. Table 1 summarizes the balance sheet movement for the last two years.

Table 1
The MetroHealth System
Balance Sheets (000's)

	2005	2004	2003
Assets:			
Current assets	$ 85,172	$ 94,406	$ 82,317
Investments	230,598	221,253	233,927
Restricted assets	42,046	33,387	60,309
Capital assets	263,261	251,151	233,652
Other assets	5,652	3,881	6,154
Total assets	$ 626,729	$ 604,078	$ 616,359
Liabilities and net assets:			
Liabilities:			
Current liabilities	$ 112,325	$ 108,142	$ 114,084
Long-term liabilities	292,542	279,608	279,334
Total Liabilities	404,867	387,750	393,418
Net assets:			
Invested in capital assets, net of related debt	68,571	40,588	43,422
Restricted	39,048	30,579	57,230
Unrestricted	114,243	145,161	122,289
Total net assets	221,862	216,328	222,941
Total liabilities and net assets	$ 626,729	$ 604,078	$ 616,359

Current Assets

Total current assets decreased $9.2 million in 2005 or 9.8%. The primary driver for the decrease was the change in Upper Payment Limit (UPL) receivable of $7.6 million. This is the receivable related to the System's participation in the State of Ohio's supplemental Medicaid program that provides access to available funding up to 100% of the Medicare Upper Payment Limit for inpatient hospital services. The System had UPL receivable balances of $6.4 million and $14.0 million at the end of 2005 and 2004, respectively.

In 2004, current assets increased $12.0 million or 14.7% over the prior year. Cash increased $2.0 million in 2004 from the prior year and is due to higher amounts retained in overnight accounts rather than investment accounts at the end of the year. Patient accounts receivable increased by $10.8 million in 2004 which is attributed to increases in the Self-pay portion of the receivable and a Medicaid pharmacy rebilling that increased the receivable (by $4.6 million) until payments on the corrected billings began in early 2005.

Investments

Investments increased $9.3 million from 2004, or 4.2%. The Depreciation reserve fund had a net decrease for the year of $13.2 million which represents the difference between a $20.0 million transfer to Board Designated investments to help meet capital needs and the amount the System was required to deposit into the fund in 2005. The Board Designated investments grew by $22.6 million primarily from Upper Payment Limit and Disproportionate Share receipts in the fourth quarter. Restricted assets increased $8.7 million in 2005 and can be attributed to the Series 2005 bond financing that retired the Series 1999 Bonds and the related bond reserve fund of $6.5 million, a decrease in the interest payment fund on the 1999 bonds of $1.0 million and the new project fund that increased the investments by $16.9 million.

Investments decreased by $12.7 million in 2004 from the prior year. A $5.5 million increase in funding to the Depreciation reserve fund was offset by decreases in the other investments required to accommodate capital expenditures. The restricted asset decrease of $26.9 million in 2004 was driven by the $27.1 million in draws from the Series 1999 and 2003 Project Funds for Critical Care Pavilion construction.

Capital Assets

Capital expenditures for the year totaled $39.3 million. Expenditures for the rehabilitation of the former Deaconess Hospital to back office and data center space totaled $20.1 million in 2005. Other large projects included the Endoscopy suite remodel at $1.5 million, the Buckeye Health Center build out at $0.9 million, the Cancer Care Linear Accelerator project at $0.6 million, the Dentistry remodel and expansion at $0.6 million and the Lab Information System upgrade at $0.8 million. The remaining expenditures were for equipment and technology upgrades. The $1.3 million remaining in the 2003 Project fund at the beginning of the year was used to fund construction at the south campus while the remaining capital expenditures were funded by operations.

Capital expenditures for 2004 were $43.6 million. Significant capital outlays included $22.6 million for the completion on the Critical Care Pavilion; $7.9 million for the Broadway and Buckeye medical office facilities; $2.0 million to refurbish two helicopters; $1.3 million for MetroHealth South Campus renovations; and $0.8 million for power house electrical upgrades. Proceeds from the Series 1999 and 2003 Bond issues were used for the Critical Care Pavilion and the remaining was paid with operating funds.

Detail information regarding the System’s capital assets can be found in Note 4 of the financial statements.

Current Liabilities

Total Current Liabilities increased $4.2 million, or 3.9%, from 2004. Accounts Payable increased $3.7 million. The payroll and related liabilities increased $2.1 million as the liabilities reflect an additional day over last year (14 days versus 13 days). Estimated amounts due third parties increased by $1.3 million. Other current liabilities decreased by $3.5 million due in large part to the $3.6 million decrease in the Upper Payment Limit liability. The UPL liability is the offset to the receivable for required contributions to the program. Accrued interest payable decreased $1.2 million as the retirement of the Series 1999 bonds reduced this payable (the new bonds pay interest monthly, instead of semi-annually).

In 2004, current liabilities declined by $5.9 million from the prior year. Accounts payable declined by $6.0 million. The 2003 accounts payable balance included $7.2 million in accrued invoices and retainage liabilities related to the Critical Care Pavilion construction project where as the similar liability for 2004 amounted to $1.3 million. Accrued payroll increased $2.0 million and is related to the additional day needed to be accrued in 2004 compared to 2003. The current portion of the Self-insurance liability increased from the prior year by $2.0 million due to the results of this year's actuarial study on the medical malpractice reserves indicating increased payouts. Other current liabilities contain the corresponding Upper Payment Limit liability which decreased $1.9 million over the prior year.

Long-Term Liabilities

All of the System's long-term debt relates to acquisition of capital assets. Long-term debt increased $6.5 million in 2005. The System issued variable rate bonds in July totaling $74.5 million. The Series 2005 bonds retired the Series 1999 bonds ($57.0 million) and provided additional funds for construction projects. The refinancing transaction generated a loss of $5.2 million that will be amortized over the original remaining life of the Series 1999 bonds. Concurrent with the issuance of the Series 2005 Bonds, the System executed a variable to fixed interest rate swap agreement.

Pursuant to FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations,* the System assessed its possible obligations and determined the need to record a liability for asbestos abatement in its buildings. The total liability for this asset retirement obligation is $5.4 million as of December 31, 2005. The long-term portion of this liability is $4.2 million. More information regarding this obligation is presented in Note 8 of the financial statements.

In 2004, the System incurred a loan from Ohio Public Utilities Commission in connection with sewer line replacement at its eastside skilled nursing facility. The note is non-interest bearing and payable over 20 years.

The System's bond indenture and capital lease agreements contain various covenants that the System must maintain. The financial covenants include Days Cash on Hand, Debt Service Coverage and Debt to Capitalization ratios. Additional detail regarding the System's long-term debt can be found in Note 6 of the financial statements.

Table 2
The MetroHealth System
Statements of Revenues, Expenses and Changes in Net Assets (000's)

	Years ended December 31, 2005	2004	2003
Operating revenues			
Net patient service revenue	$ 523,950	$ 498,434	$ 468,598
Other revenue	23,462	21,654	21,693
Total operating revenues	547,412	520,088	490,291
Operating expenses			
Professional care of patients	357,964	339,830	318,359
Dietary	7,051	6,950	6,879
Household and property	26,121	23,295	22,720
Administrative and general	70,437	73,945	69,308
Employee benefits	73,441	71,037	66,373
Provision for bad debts	7,015	6,049	7,528
Depreciation and amortization	30,009	28,804	28,285
Total operating expenses	572,038	549,910	519,452
Operating loss	(24,626)	(29,822)	(29,161)
Non-operating revenues-net	35,695	23,142	20,605
Grants for capital acquisitions	712	183	104
Increase (decrease) in net assets	11,781	(6,497)	(8,452)
Total net assets--beginning of the year	216,328	222,941	231,680
Transfer of net assets	(1,086)	(116)	(287)
Cummulative effect of change in accounting principle	(5,161)	-	-
Total net assets--end of the year	$ 221,862	$ 216,328	$ 222,941

The System's total operating and non-operating revenue in 2005 was $598.7 while expenses were $586.9 million. This resulted in net assets increasing $11.8 million for the year. This was an $18.3 million net improvement from 2004 that had $559.6 million in revenue and $566.1 in expenses.

Net Patient Service Revenue

Net patient service revenue increased $25.5 million or 5.1% in 2005. This is reflective of the slight increases in patient and visit volumes in 2005. Although the gross revenue includes a 4.0% price increase effective January 1, 2005 there was a corresponding increase in contractual allowances. This compares similarly to the $29.9 million or 6.4% increase experienced in 2004. Net patient service revenue also includes revenue the System received as a participant in the State of Ohio Care Assurance (HCAP) ($28.2 million in 2005, $26.0 million in 2004 and $28.0 million in 2003) and Upper Payment Limit (UPL) ($16.1 million in 2005, $17.0 million in 2004, $16.0 million in 2003) programs. The level of revenue from HCAP and UPL in future years is uncertain.

Charity care increased $39.0 million to $160.1 million in 2005. This was an increase of 32.3% over the previous year. The System's level of charity care continues to reflect the System's status as a safety net facility in Cuyahoga County.

Operating Expenses

The System's total operating expenses increased by $22.1 million or 4.0% from 2004. This percentage increase is an improvement from the $30.5 million or 5.9% increase experienced between 2003 and 2004. Table 3 summarizes the expenses from the last three years.

Table 3
The MetroHealth System
Expense Detail (000's)

	2005	2004	2003
Operating expenses:			
Salaries and wages	$ 317,209	$ 304,150	$ 289,361
Employee benefits	73,441	71,037	66,373
Medical supplies	33,352	30,591	28,137
Pharmaceuticals	24,933	23,291	21,765
Plant operations	33,574	31,671	28,796
Supplies and other	37,304	37,240	35,472
Liability insurance	15,201	17,077	13,735
Provision for bad debts	7,015	6,049	7,528
Depreciation and amortization	30,009	28,804	28,285
Total operating expenses	$ 572,038	$ 549,910	$ 519,452

Salaries and wages increased $13.1 million from 2004 to 2005, or 4.3%. This is slightly lower than the increase from 2003 to 2004 of $14.8 million. There was a general wage increase of 3.0% in 2005. The remainder of the difference is attributed to a net increase of 85 FTE's, physician incentives and salary recoveries (from resident and research activities).

Employee benefits increased a total of $2.4 million in 2005, or 3.5%. A $2.5 million decrease in Workers Compensation expenses offset a $2.4 million Health Insurance expense increase. The remainder of benefits expense increases (PERS, Medicare) were consistent with salary and wage increases. Employee benefits increased $4.7 million in 2004. The System recorded a $3.2 million adjustment to its Workers Compensation liability based on an actuarial analysis of claim activity completed at year end. The remaining $1.6 million reflects the increased per employee health costs (including pharmaceuticals).

Medical Supplies and Pharmaceuticals increased a combined 8.2%, a similar increase as the previous two years.

Plant Operations increased a total of $1.9 million or 6.0%. Increased utilities, primarily natural gas with a $1.4 million increase, accounted for most of the increase. Building rental increased by $1.0 million from the full year effect of the Broadway Health Center and nine months of the new Buckeye Health Center. Construction and remodeling expenses declined by $0.9 million from 2004.

Plant operation expenses increased $2.9 million or 10.0% in 2004. The primary driver was a $1.2 million increase in construction expenses for the year. The construction expenses are those that were transferred from capital projects that do not meet the criteria for capitalization. Building rental increased $300 thousand (Broadway Health Center opening) and utility costs increased $1.2 million to round out the 2003 to 2004 increase

Liability insurance decreased from the prior year by $1.9 million or 11%. The decrease was based on better than expected claims experience reflected in this year's actuarial study. In 2004, Medical malpractice insurance expense increased $3.3 million from the prior year.

Non-Operating Revenue and Expenses

Net non-operating revenue increased $12.6 million from the prior year. The County increased its subsidy to the System by $8.0 million in 2005. They have committed to the same level of funding in 2006. Interest expense increased by $2.3 million in 2005. In prior years, interest expense had been favorably affected by interest capitalization and interest SWAP agreements on the 1999 Series bonds. The amount of capitalized interest dropped in 2005 by $1.2 million and the SWAP agreements related to the 1999 Series bonds terminated in February 2005. In 2004 the interest rate swap agreements produced a $2.3 reduction in bond interest expense. Investment income and the mark to market adjustment both improved over the prior year by $3.3 million.

In 2004, the Cuyahoga County Commissioners approved an increase in the System appropriation of nearly $6.0 million from 2003 for a total of $26.8 million. Investment income decreased by $1.8 million to $5.3 million in 2004. This decrease reflects the generally low investment rates on investment vehicles in which the System is permitted to participate and a $40.0 million total decrease in investment balances. Interest expense grew from $7.3 million in 2003 to $8.4 million or 15.0% in 2004. The primary driver was a decrease in the amount of interest capitalized in 2004 which was down $0.9 million. This is a direct result of the amount of qualifying interest based on the completion of construction projects.

Economic Factors and Next Year's Budget

Several factors and uncertainties that are contained in the budget are:

- The System budgeted to receive a $35 million appropriation from the County in 2006. This is the same amount received in 2005 which was an increase from 2004 of $8 million. The $35 million annual appropriation represents a two year arrangement with the County for years 2005 and 2006. The System will be in negotiations with the County for Budget year 2007 to obtain an appropriate funding level going forward. The System will continue to explore revenue enhancement and cost reduction (productivity) opportunities.
- At both the Federal and State level proposed Medicare and Medicaid funding cuts continue to harm System revenues and cash flows as it relies on Medicare and Medicaid for 22% and 31% of patient revenues respectively. The System will continue to promote Federal and State policy reforms to provide adequate funding to safety net providers.
- Capital funds needed for replacement of depreciated facilities and equipment, and the addition/expansion of vital programs will require use of existing investments or debt as well as anticipated capital funding from the County. The System intends to use unrestricted Reserves for continued operating and Capital needs in 2006. In addition efforts to obtain appropriate Philanthropy to offset these operational and capital needs will continue in 2006.
- Medical malpractice cost trends will continue to exert upward pressure on related expense and claim payouts.
- In 2005 the federal law as enacted by the Benefits Improvement and Protection Act of 2000 (BIPA), permitted up to a 175% DSH payment limit for public hospitals for a two year period beginning in 2005. Anticipating the 175% DSH limit in 2005 the System budgeted $32.0 million in 2005. However, ODJFS only included a 130% DSH payment limit in the 2005 HCAP model and the System netted $28.2 million. The current status of the 2006 HCAP is unknown at this point in time as the System awaits the final rule from ODJFS (OHA's recommendation proposed a reduction of the DSH payment limit to 110%). At this level it is projected that the System will net $27.0 million in HCAP dollars in 2006.
- In 2005 the System had budgeted $9.8 million in net UPL dollars. This estimate was originally made assuming the 2007 Uncompensated Care levels would be comparable to the 2005 level, however based on the preliminary 2005 logs run there is estimated to actually be an 18% increase over the two years. This allowed the System to actually net $16.1 million after the recent second draw. In 2006 the ODJFS is in the process of making a correction to the UPL formula and this will result in less available UPL funds for public hospitals. In 2006 it is estimated that the System will net $10.6 million in UPL dollars.
- Starting in 2005 and continuing throughout 2006, the Skilled East Nursing facility will be downsized from a 260 bed facility to a 144 bed facility in preparation for the move to the South Campus.
- Due to the significant increase in energy costs anticipated in 2006 the System increased its energy budget by approximately $2 million.

THE METROHEALTH SYSTEM

BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

(Dollars in Thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.
ASSETS	**2005**	**2004**	**2005**
CURRENT ASSETS:			
Cash and cash equivalents	$ 4,176	$ 2,287	$ 205
Accounts receivable	59,141	64,187	1,469
Allowance for uncollectible accounts	(7,161)	(6,146)	(118)
Net accounts receivable	51,980	58,041	1,351
Other receivables	16,181	21,632	101
Supplies	5,876	5,392	15
Prepaid expenses	6,959	7,054	-
Total current assets	85,172	94,406	1,672
INVESTMENTS:			
General	127,960	105,402	2,598
Academic funds	37,575	37,589	-
Depreciation reserve fund	65,063	78,262	-
	230,598	221,253	2,598
RESTRICTED ASSETS:			
Cash and cash equivalents	131	140	479
Special purpose investments	5,556	5,555	15,947
Under bond indenture agreement	36,359	27,692	-
	42,046	33,387	16,426
CAPITAL ASSETS:			
Land and land improvements	17,180	17,463	-
Buildings and fixed equipment	468,331	445,697	-
Equipment	227,720	223,037	-
	713,231	686,197	-
Accumulated depreciation	(463,934)	(446,139)	-
	249,297	240,058	-
Construction in progress	13,964	11,093	-
	263,261	251,151	-
Other assets	5,652	3,881	-
TOTAL	$ 626,729	$ 604,078	$ 20,696
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	$ 24,459	$ 20,744	$ 1,613
Accrued payroll and related liabilities	18,463	16,388	-
Public Employees Retirement System liability	10,308	9,702	-
Accrued interest payable	2,651	3,846	5
Self-insurance liabilities	21,989	21,925	-
Estimated amounts due to third-party payors	8,185	6,872	-
Accrued vacation and sick leave	2,938	2,093	-
Note payable	4,346	4,576	-
Current installments of long-term liabilities	6,774	6,279	80
Other current liabilities	12,212	15,717	179
Total current liabilities	112,325	108,142	1,877
LONG-TERM LIABILITIES—LESS CURRENT INSTALLMENTS:			
Self-insurance liabilities	24,702	23,849	-
Estimated amounts due to third-party payors	35,691	34,563	-
Accrued vacation and sick leave	23,220	23,060	-
Asset retirement obligations	4,277	-	-
Long-term debt	204,652	198,136	301
Total long-term liabilities	292,542	279,608	301
Total liabilities	404,867	387,750	2,178
NET ASSETS			
Invested in capital assets—net of related debt	68,571	40,588	-
Restricted for debt service and projects	36,359	27,692	-
Restricted—nonexpendable	-	-	5,864
Restricted—expendable	2,689	2,887	8,159
Unrestricted	114,243	145,161	4,495
Total net assets	221,862	216,328	18,518
TOTAL	$ 626,729	$ 604,078	$ 20,696

See notes to financial statements.

THE METROHEALTH SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in Thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.
	2005	2004	2005
OPERATING REVENUES:			
Net patient service revenue	$523,950	$498,434	$ -
Other revenue	23,462	21,654	-
Total operating revenues	547,412	520,088	-
OPERATING EXPENSES:			
Professional care of patients	357,964	339,830	-
Dietary	7,051	6,950	-
Household and property	26,121	23,295	-
Administrative and general	70,437	73,945	-
Employee benefits	73,441	71,037	-
Provision for bad debts	7,015	6,049	-
Total operating expenses before depreciation and amortization	542,029	521,106	-
Operating gain (loss) before depreciation and amortization	5,383	(1,018)	-
Depreciation and amortization	30,009	28,804	-
Operating loss	(24,626)	(29,822)	-
NON-OPERATING REVENUES (EXPENSES):			
County appropriation	34,765	26,762	-
Net investment income	8,618	1,323	1,672
Other non-operating revenue	2,884	3,060	-
Grants and donations	4,342	4,269	4,423
Grant expenditures and support	(4,204)	(3,847)	(5,128)
Interest expense	(10,710)	(8,425)	-
Total non-operating revenues—net	35,695	23,142	967
GAIN (LOSS) BEFORE OTHER CHANGES	11,069	(6,680)	967
OTHER CHANGES—			
Grants for capital acquisitions	712	183	-
INCREASE (DECREASE) IN NET ASSETS	11,781	(6,497)	967
TOTAL NET ASSETS—Beginning of year	216,328	222,941	16,465
Transfer of net assets	(1,086)	(116)	1,086
Cumulative effect of change in accounting principle	(5,161)	-	-
TOTAL NET ASSETS—End of year	$221,862	$216,328	$ 18,518

See notes to financial statements.

THE METROHEALTH SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in Thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Patient service revenue	$ 529,486	$ 480,679
Other operating cash receipts	23,462	21,654
Payments to suppliers	(146,593)	(141,472)
Payments for compensation and benefits	(386,748)	(372,670)
Net cash flows provided by (used in) operating activities	19,607	(11,809)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County appropriation	34,765	26,762
Proceeds from notes payable	5,750	4,576
Principal payments on notes payable	(5,980)	(3,400)
Interest payments on note payable	(84)	(59)
Restricted grants and donations	7,938	7,512
Specific purpose funds expenditures	(4,204)	(3,847)
Transfer of net assets	(1,086)	(345)
Restricted receivables/liabilities	(93)	(251)
Net cash flows provided by noncapital financing activities	37,006	30,948
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits in project funds	(16,944)	(40)
Withdrawals from project funds	1,281	27,133
Acquisitions and construction	(39,317)	(43,648)
Proceeds from long-term debt	73,491	171
Retirement of long-term debt	(63,251)	-
Principal payments on long-term debt	(6,326)	(7,474)
Interest payments on long-term debt	(8,974)	(9,181)
Net cash flows used in capital and related financing activities	(60,040)	(33,039)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) sale of investments, net	(3,777)	10,666
Interest received and realized gains and losses	9,084	5,285
Net cash flows provided by investing activities	5,307	15,951
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,880	2,051
CASH AND CASH EQUIVALENTS—Beginning of year	2,427	376
CASH AND CASH EQUIVALENTS—End of year	$ 4,307	$ 2,427
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	$ (24,626)	$ (29,822)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	30,009	28,804
Provision for bad debts	7,015	6,049
Changes in assets and liabilities:		
Increase in patient accounts receivable	(954)	(17,327)
Decrease in other assets	4,724	1,116
Increase in self-insurance liabilities	917	4,039
Increase (decrease) in accounts payable and other liabilities	954	(8,431)
Increase in long-term liabilities	1,568	3,763
Net cash flows provided by (used in) operating activities	$ 19,607	$ (11,809)

See notes to financial statements.

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities. The implementation of GASB Statement No. 34 affected the presentation of net assets, the direct method presentation of the statements of cash flows and expanded footnote disclosures.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements of the MetroHealth System ("System") include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; Broadway Medical Offices, Buckeye Health Center and MetroHealth outpatient community health facilities; MetroHealth Centers for Skilled Nursing Care, consisting of the Skilled Nursing Facility East and The Elisabeth Severance Prentiss Center for Skilled Nursing Care; Faculty Business Office, a medical specialty group practice; and several urban and suburban primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

The System is the public health care system for Cuyahoga County, Ohio, 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 the 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 $34,765 and $26,762 for 2005 and 2004, respectively. The County has approved an appropriation of $34,908 for 2006, an increase of $143 from the 2005 amount. The System is exempt from federal income taxes as a governmental entity.

In accordance with GASB Statement No. 14, *The Reporting Entity*, the System's financial statements are included, as a discrete entity, in the 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.

Furthermore, in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The MetroHealth Foundation ("Foundation") is presented as a discrete entity component unit in a separate column in the System's financial statements to emphasize that they are legally separate from the System. The Foundation is a not-for-profit organization supporting the System. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the System in support of its programs. Although the System does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which they hold and invest, are restricted to support the activities of the System. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the System, it is considered a component unit of the System. Financial statements of the Foundation can be obtained by writing to The MetroHealth Foundation, 2500 MetroHealth Drive, Cleveland, Ohio 44109.

Basis of Accounting

The System's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System follows the "business-type" activities, which provides for the following components of the System's financial statements and management discussion and analysis:

- Management's Discussion and Analysis
- Basic Financial Statements including a Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows, for the System as a whole
- Notes to the Financial Statements

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 prior to November 30, 1989 and all those issued after November 30, 1989 which do not conflict or contradict GASB pronouncements.

The accompanying financial statements of the System are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues and expenses are recognized in the period in which they are earned or incurred. Depreciation of assets, gains, losses, assets and liabilities are also recognized in the period in which the transaction has occurred.

Pursuant to the Ohio Revised Code, the System submits a budget to the County Commissioners for approval by November 1 of each fiscal year. The fundamental purpose of the budget is to plan for an expected level of operations and to provide management with a tool to control deviation from such a plan. The budget is prepared on an accrual basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Statement of Revenues, Expenses, and Changes in Net Assets

The System recognizes as operating revenue those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Non-operating revenues include County appropriation, investment income, specific purpose grants and donations, primarily research, and unrealized gains on investments. Non-operating expenses include interest expense and expenditures from specific purpose funds for research related activities.

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. Net patient service revenue is reduced by contractual and retroactive adjustments of $598,540 and $485,083 in 2005 and 2004, respectively.

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.

Medicare outpatient claims are reimbursed under the Ambulatory Payment Classification based prospective payment system. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received from Medicare and Medicaid. Medicare utilizes a prospective payment system for inpatient rehabilitation services. The payments are based on patient assessment data classifying patients into one of one hundred case mix groups. In 2005, inpatient psychiatric services moved to a prospectively determined per diem rate, phased in over three years. In 2005, inpatient psychiatric services were reimbursed at 75% of reasonable cost plus 25% of the inpatient psychiatric facility prospective payment system federal rate. 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. 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 programs 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 Statement of Revenues, Expenses, and Changes in Net Assets in the year of settlement. The System recorded a favorable adjustments of $4,218 and $5,092 in 2005 and 2004, respectively, due to prior year retroactive adjustments to amounts previously estimated.

Net revenue from the Medicare and Medicaid programs accounted for approximately 25.3% and 32.9%, respectively, of the System’s net patient service revenue for the year ended December 31, 2005 and 24.0% and 32.0%, respectively, of the System’s net patient service revenue for the year ended December 31, 2004.. 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. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

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.

Upper Payment Limit—In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Center for Medicare and Medicaid Services. This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. At December 31, 2005 and 2004, $6,400 and $14,000, respectively, were due to the System and recorded on the balance sheets in other receivables; the System's required match to the State of Ohio of $2,957 and $6,508, respectively, is included in other current liabilities. The net amount recorded in net patient service revenue for UPL by the System was $16,119 and $17,353 in 2005 and 2004, respectively.

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. Accordingly, the System receives additional payments from these programs as a result of this status totaling $41,055 and $37,122 in 2005 and 2004, respectively, (including Care Assurance of $28,215 and $26,248 in 2005 and 2004, respectively) which are included in net patient service revenue. 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 $160,066 and $121,019, which represents 12.8% and 11.4% of gross charges in 2005 and 2004, 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.

Grants

The System receives financial assistance from federal and state agencies in the United States in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Other such audits could be undertaken by federal and state granting agencies and result in the disallowance of claims and expenditures; however, in the opinion of management, any such disallowed claims or expenditures will not have a material effect on the overall financial position of the System.

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 excluding amounts limited as to use or restricted by board designation.

Supplies

Supplies are stated at the lower of average cost or market.

Investments

The System records its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Unrealized gains and losses on investments are recorded as non-operating revenue-net in the statement of revenues, expenses, and changes in net assets.

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.

The net realized loss of $365 in 2005 and net realized gain of $140 in 2004 on investments is the difference between the proceeds received and the amortized cost of investments sold and is included in investment income in the statement of revenues, expenses, and changes in net assets.

Restricted Assets

Restricted assets are cash and investments whose use is limited by legal requirements. Investments under bond indenture agreement represent amounts required by debt instruments to pay bond principal and interest and approved projects. Restricted cash and specific purpose investments represent monies received from donors or grantors to be used for specific purposes, primarily research. The System has elected to use restricted assets before unrestricted assets when an expense is incurred for a purpose for which both resources are available.

Fundraising Revenues

Gifts, grants, and program income result from fundraising activities of the Foundation. Though donations are solicited for the Foundation, donors occasionally make their gifts directly to the System.

Annuity Payment Obligations

The Foundation has entered into gift annuity agreements, which include provisions requiring the Foundation to pay periodic fixed payment to beneficiaries during their lifetimes. 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.

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 form income tax on related income pursuant to Section 501(a) of the Code. The Foundation is required to pay taxes on unrelated business income earned by the Foundation.

Capital Assets

Capital assets are stated at cost. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation and amortization of assets recorded under capital lease (straight-line method) are provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives. The following are the most commonly used estimated useful lives:

Buildings	25-40 years
Building improvements	5-20 years
Equipment	3-15 years
Land improvements	5-15 years
Vehicles	4 years

Half of a year's depreciation is taken the first year the asset is placed in service. The asset and accumulated depreciation are removed from the related accounts when the asset is disposed of. Any gain or loss resulting from this disposal is recorded in the statement of revenues, expenses, and changes in net assets.

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 accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* the System created a trust for the assets of the plan for which the System has no fiduciary responsibility. The System has no recorded assets or liabilities relating to this plan.

Bond Discounts and Bond Issuance Costs

Deferred financing costs represent debt issuance expenditures on long-term debt obligations and are amortized over the period the bonds are outstanding on a straight-line basis. The amortization for deferred bond financing costs was $139 in 2005 and $125 in 2004. Amortization expense related to bond discounts was $112 in 2005 and $127 in 2004. These amounts are included in interest expense in the statement of revenues, expenses, and changes in net assets.

Cost of Borrowing

Interest costs associated with funds borrowed and used to finance the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. The capitalized interest amount is calculated by taking the difference between the interest expense incurred during the construction period that bonds relate to and the interest earned on the invested proceeds of specific purpose tax exempt bonds, which cover the same period of time. Capitalized interest income and interest expense on the Series 1999, 2003 and 2005 Bonds totaled $207 and $267 in 2005, respectively; $188 and $1,321 in 2004, respectively. Amortization of capitalized interest is included in depreciation expense.

The System has entered into various interest-rate swap agreements. These derivative instruments are not designated as hedging instruments, therefore gains and losses are recognized in the statement of revenues, expenses, and changes in net assets during the period of change. Net amounts periodically receivable or payable as a result of swap agreements are recorded as adjustments to interest expense on the related debt (see Note 6).

Concentrations of Credit Risk

Financial instruments that 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 10.0% of the System's patient accounts receivable. The System maintains an allowance for losses based on the expected collectibility of patient accounts receivable.

2. CHANGES IN ACCOUNTING PRINCIPLES

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires governmental units to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally would be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. The provisions of this Statement are effective for financial statements for fiscal periods beginning after December 15, 2004. The System has reviewed its significant capital assets and has determined that there are no impairments related to GASB Statement No. 42.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The System adopted the provisions of FIN 47 as of December 31, 2005 for the Systems obligations related to asbestos abatement. At December 31, 2005, the System recorded approximately $5,424 as an asbestos abatement liability. The amount of the asset and liability at the date the obligation was incurred in 1973 totaled $1,434. The amount of interest accretion and depreciation expense charged to net assets, as the cumulative change in accounting principle, for the years 1974 through 2005 totaled $5,161.

In May 2002, the GASB issued Statement No. 39 *Determining Whether Certain Organizations Are Component Units*, which established criteria to determine if organizations that are legally separate, tax exempt entities should be discretely presented as component units if significant. Application of this standard was required for the period beginning after June 15, 2003. In 2004, the MetroHealth Foundation, Inc. (the "Foundation") was not considered significant under the provisions of Ohio Auditor of State Technical Bulletin 2004-001. However, in 2005, the Foundation is considered significant and, therefore, is discretely presented as a component unit in 2005.

3. 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.

Custodial risk is the risk that, in the event of bank failure, the System's deposits might not be recovered. The System's bank deposits at December 31, 2005 and 2004 totaled $4,198 and $8,066, respectively, and were subject to the following categories of custodial risk:

	2005	2004
Uncollateralized	$ 3,921	$ 7,798
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	77	68
Total amount subject to custodial risk	3,998	7,866
Amount insured	200	200
Total bank balances	$ 4,198	$ 8,066

Investments

The System

As of December 31, 2005 and 2004, the fair value of the System's investments were as follows:

	2005	2004
Cash and cash equivalents	$ 85,686	$ 153,809
U.S. Treasuries	-	727
U.S. Government Agencies	173,580	79,430
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)	7,988	8,810
Collateralized Mortgage Obligations	1,064	1,596
Corporates	4,195	4,189
Total investments	$ 272,513	$ 248,561

The System's carrying amounts of the deposits and investments at December 31, 2005 and 2004 are as follows:

	2005	2004
Deposits	$ 4,307	$ 8,366
Investments	272,513	248,561
Total deposits and investments	$ 276,820	$ 256,927

The difference between bank balances and financial statement carrying amounts represent outstanding checks payable and normal reconciling items.

Interest Rate Risk. The System's investment policies limit investment portfolios to maturities of five years or less. All of the System's investments at December 31, 2005 have effective maturity dates of less than five years.

Credit Risk. All of the System's investments are rated AAA by Standard and Poor's. The System's investment policies are governed by State of Ohio statutes that authorize the System to invest in U. S. government obligations and AAA rated corporate bonds. The Collateralized Mortgage Obligations and Federal Mortgage pools are investments that are grandfathered from previous statutes that allowed such investments. These investments have an effective maturity date of less than one year.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the System's investments, only the repurchase agreements are exposed to custodial risk. Repurchase agreements (included in the U.S. Government Agencies) at December 31, 2005 totaling $23,457 are uninsured, are not registered in the System's name and are held by the financial institution's trust department.

The Foundation

As of December 31, 2005, the fair value of the Foundation's investments were as follows:

	2005
Mutal Funds	$ 5,155
Common Stock	12,667
Premier Purchasing Partners, L.P.	723
Total investments	$ 18,545

The Foundation's investments had cumulative unrealized gains of $1,826 and cumulative unrealized losses of $103 at December 31, 2005.

4. CAPITAL ASSETS

The following summarizes the capital assets of the System for the years ended December 31, 2005 and 2004:

2005	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,634	$ -	$ (257)	$ 9,377
Construction in progress	11,093	34,615	(31,744)	13,964
Total non-depreciated capital assets	20,727	34,615	(32,001)	23,341
Depreciable capital assets:				
Land improvements	7,829	119	(145)	7,803
Buildings and fixed equipment	445,697	27,315	(4,681)	468,331
Equipment	223,037	13,291	(8,608)	227,720
Total depreciable capital assets	676,563	40,725	(13,434)	703,854
Less accumulated depreciation:				
Land improvements	(6,860)	(179)	145	(6,894)
Buildings and fixed equipment	(265,162)	(16,758)	3,511	(278,409)
Equipment	(174,117)	(13,072)	8,558	(178,631)
Total accumulated depreciation	(446,139)	(30,009)	12,214	(463,934)
Total depreciable capital assets, net	230,424	10,716	(1,220)	239,920
Total capital assets—net	$ 251,151	$ 45,331	$ (33,221)	$ 263,261

2004	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,954	$ 680	$ -	$ 9,634
Construction in progress	62,043	37,302	(88,252)	11,093
Total non-depreciated capital assets	70,997	37,982	(88,252)	20,727
Depreciable capital assets:				
Land improvements	7,699	130	-	7,829
Buildings and fixed equipment	374,189	71,508	-	445,697
Equipment	199,198	24,941	(1,102)	223,037
Total depreciable capital assets	581,086	96,579	(1,102)	676,563
Less accumulated depreciation:				
Land improvements	(6,656)	(204)	-	(6,860)
Buildings and fixed equipment	(247,713)	(17,449)	-	(265,162)
Equipment	(164,062)	(11,151)	1,096	(174,117)
Total accumulated depreciation	(418,431)	(28,804)	1,096	(446,139)
Total depreciable capital assets, net	162,655	67,775	(6)	230,424
Total capital assets—net	$ 233,652	$ 105,757	$ (88,258)	$ 251,151

Total depreciation and amortization expense related to capital assets for 2005 and 2004 was $30,009 and $28,804, respectively.

5. LINE OF CREDIT

During 2005, the System entered into an agreement with a bank for a demand line of credit with a maximum amount available of $20,000. For the year ended December 31, 2005, the System did not have an outstanding balance on the line of credit.

6. LONG-TERM DEBT

The System

Changes in long-term debt for 2005 and 2004 are as follows:

	2005				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 47,685	$ -	$ (4,615)	$ 43,070	$ 4,825
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	76,160	-	(265)	75,895	275
Hospital Improvement Revenue Bonds, Series 1999, bear interest at rates ranging from 6.1% to 6.2% and mature in varying amounts through 2029 (retired 7/28/05)	56,995	-	(56,995)	-	-
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	30,010	-	(580)	29,430	600
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	-	74,535	-	74,535	305
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	2,294	-	(812)	1,482	723
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	-	218	(47)	171	40
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	91	-	(7)	84	6
	213,235	74,753	(63,321)	224,667	6,774
Unamortized discount and loss	(8,820)	(5,179)	758	(13,241)	-
	204,415	69,574	(62,563)	211,426	6,774
Current installments	(6,279)	(6,774)	6,279	(6,774)	-
Long-term debt	$ 198,136	$ 62,800	$ (56,284)	$ 204,652	$ 6,774

	2004				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 52,085	$ -	$ (4,400)	$ 47,685	$ 4,615
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	76,415	-	(255)	76,160	265
Hospital Improvement Revenue Bonds, Series 1999, bear interest at rates ranging from 6.1% to 6.2% and mature in varying amounts through 2029	56,995	-	-	56,995	-
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	30,545	-	(535)	30,010	580
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	3,631	-	(1,337)	2,294	812
Equipment obligation, Banc One Leasing, as defined in the respective lease agreement at an interest rate of 4.9% and matures through 2004	818	-	(818)	-	-
Equipment obligation, IBM Credit Corporation as defined in the respective lease agreement at interest rates ranging from 4.0% to 4.9% and matures through 2004	89	-	(89)	-	-
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	-	131	(40)	91	7
	220,578	131	(7,474)	213,235	6,279
Unamortized discount and loss	(9,327)	-	507	(8,820)	-
	211,251	131	(6,967)	204,415	6,279
Current installments	(7,558)	(6,279)	7,558	(6,279)	-
Long-term debt	$ 203,693	$ (6,148)	$ 591	$ 198,136	$ 6,279

Effective February 1, 1997, the County issued $70,000 of Hospital Improvement and Refunding Revenue Bonds Series 1997 (The MetroHealth System Project) (Series 1997). The proceeds of the Series 1997 Bonds were used to refund $20,900 of Series 1989 Bonds; 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 MetroHealth System Project) (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. The unamortized difference ($6,714 at December 31, 2005), reported in the accompanying financial statements, as a reduction from long-term debt, is included as additional interest expense 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 MetroHealth System Project) (Series 1999 Bonds). The proceeds of the Series 1999 Bonds were used to finance the construction of a 150-bed long-term care facility and acquire, construct, renovate, equip, and improve operating rooms and other hospital facilities. On July 28, 2005, a portion of the proceeds from the County's 2005 Series Bond Issue was placed in escrow to advance refund the outstanding Series 1999 Bonds.

Effective March 13, 2003, the County issued $30,545 of Hospital Improvement Variable Rate Demand Revenue Bonds, Series 2003 (The MetroHealth System Project) (Series 2003 Bonds). The proceeds of the Series 2003 Bonds are were used to pay costs of constructing and equipping the Critical Care Pavilion and an administrative building. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2033. The interest rate at December 31, 2005 was 3.57%.

In connection with the issuance of the Series 2003 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit ("Letter of Credit") issued by a local bank that expires on March 22, 2008. Under the terms of the Letter of Credit, the Trustee will be entitled to draw amounts necessary to make principal and interest payments. The Letter of Credit is subject to various financial covenants.

Effective July 28, 2005, the County issued $74,535 of Hospital Improvement and Refunding Variable Rate Demand Revenue Bonds, Series 2005 (The MetroHealth System Project) (Series 2005 Bonds). Proceeds from the 2005 Series Bonds were used to advance refund $56,995 of the outstanding Series 1999 Bonds scheduled to mature on February 15, 2029; to pay costs of constructing, renovating, furnishing, equipping and improving the South Campus long-term care and skilled nursing facility; and to pay certain costs of issuance of the Series 2005 Bonds. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2035. The interest rate at December 31, 2005 was 3.57%.

In connection with the issuance of the Series 2005 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit ("Letter of Credit") issued by a local bank that expires on July 16, 2010. Under the terms of the Letter of Credit, the Trustee will be entitled to draw amounts necessary to make principal and interest payments. The Letter of Credit is subject to various financial covenants.

The July 28, 2005 bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,179. The unamortized difference ($5,087 at December 31, 2005), reported in the accompanying financial statements, as a reduction from long-term debt, is included as an increase to interest expense through the year 2029 using the effective interest method.

The Series 1997, 1997A, 1999, 2003 and 2005 Bonds were issued pursuant to a master trust bond indenture agreement between the County, acting by and through the System's Board of Trustees, and the bond trustee. The Series 1997, 1997A, 1999, 2003 and 2005 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, and are secured by the revenue and real property of the System. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

The terms of the master 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 revenue bonds and lease obligation payment requirements for fiscal years subsequent to December 31, 2005 are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2006	$ 769	$ 63	$ 832	$ 6,005	$ 6,146	$ 12,151
2007	807	25	832	6,300	5,886	12,186
2008	50	3	53	6,600	5,618	12,218
2009	51	2	53	6,920	5,322	12,242
2010	7	-	7	7,280	4,996	12,276
2011-2015	33	-	33	42,435	19,463	61,898
2016-2020	20	-	20	49,680	8,783	58,463
2021-2025	-	-	-	41,520	2,939	44,459
2026-2030	-	-	-	38,355	287	38,642
2031-2035	-	-	-	17,835	-	17,835
	$ 1,737	$ 93	$ 1,830	222,930	$ 59,440	$ 282,370
Unamortized discount				(1,440)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				(11,801)		
Total hospital revenue bonds—net				$ 209,689		

The Bond Reserve Funds, also required under the master trust bond indenture agreement, had balances as of December 31, 2005 and 2004 of $12,014 and $18,526, respectively. The cost value of Hospital Revenue Bonds was $221,490 and $209,122 at December 31, 2005 and 2004, respectively. The fair value of Hospital Revenue Bonds ($226,519 and $218,151 at December 31, 2005 and 2004, respectively) is estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

The Foundation

The Foundation's long-term obligations are comprised of the following notes payable:

	2005				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Non Interest bearing note payable, due in one installment of $75 in May 31, 2005	$ 75	$ -	$ (75)	$ 0	$ 0
3.96% note payble, due in semi annual installments of $22 plus interest, through December 31, 2009 secured by its equity interest in Premier Purchaing Partners, L.P.	221	26	(44)	203	44
3.96% note payble, due in semi annual installments of $18 plus interest, through June 30, 2010 secured by its Collateral Assignment in Premier Purchasing Partners, L.P.		178	-	178	36
	296	204	(119)	381	80
Current installments	(119)	(80)	119	(80)	-
Long-term debt	$ 177	$ 124	$ 0	$ 301	$ 80

The future scheduled maturities of the notes payable are as follows:

Years Ending December, 31	
2006	$ 80
2007	80
2008	80
2009	80
2010	61
	$ 381

7. DERIVATIVE INSTRUMENTS

The System's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management of the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, the System entered into various interest rate swap agreements with a total outstanding notional amount of $103,965 and $142,000 at December 31, 2005 and 2004, respectively.

The fair value of the swap agreements based on current settlement prices at December 31, 2005 and 2004 was $2,385 and $1,424, respectively. Such amounts are due from the counterparties and are included in other assets. In 2005 and 2004, the fair value increase of $961 and $2,148, respectively, are recorded as unrealized gains on investment in the statement of revenues, expenses, and changes in net assets. As a result of the agreements, the System incurred additional interest expense of $149 for 2005 and an interest expense reduction of $1,480 for 2004.

The following table describes the terms of the System's four interest rate swap agreements:

Year End Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 75,535	July 28, 2005	February 1, 2035	The System	Fixed 3.3%	70.0% of LIBOR
$ 56,000	May 14, 2003	February 15, 2005	-	Fixed 1.5 %	BMA SWAP Index
$ 30,010	March 13, 2003	March 1, 2033	The System	Fixed 3.5 %	75.0% of LIBOR
$ 56,000	September 1, 1999	February 15, 2005	Counterparty	BMA SWAP Index	Fixed 5.4%

On July 28, 2005, the System entered into a swap agreement with an amortizing notional amount of $74,535. The notional amount is based on the Series 2005 Bond principal repayment schedule that ends in 2035. Per the agreement, the System pays a fixed rate of 3.3% and the counterparty pays 70% of the 3-month USD LIBOR rate. 2005 LIBOR rates ranged between 2.4% and 4.4%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

On May 14, 2003, the System entered into a twenty-one month swap agreement with a fixed notional amount of $56,000. The agreement ended on February 15, 2005. The System paid a fixed rate of 1.5% and the counterparty paid a floating rate equal to the Bond Market Association Municipal Index (BMA Swap Index), an index of seven-day high-grade tax-exempt variable rate demand obligations. During the agreement, BMA index rates ranged between 0.7% and 2.0%.

On March 13, 2003, the System entered into a swap agreement with an amortizing notional amount of $30,545. The amortizing notional amount is based on the Series 2003 Bond principal repayment schedule ending on March 1, 2033. Per the agreement, the System pays a fixed rate of 3.5% and the counterparty pays 75% of the USD LIBOR rate. Net settlement amounts are exchanged monthly. The System has the option to terminate the agreement prior to the February 2035 expiration date.

On September 1, 1999, The System entered into a swap agreement with a fixed notional amount of $56,000. On February 15, 2005, the agreement ended when the counterparty exercised its early termination option. The agreement was originally scheduled to terminate on February 15, 2014. Per the agreement, the System paid the BMA Swap Index rate and the counterparty paid a fixed interest rate of 5.4%. During the agreement, the BMA index rates ranged between 0.7% and 5.8%

8. OTHER LONG TERM LIABILITIES

Amounts Due to Third-Party Payors

The System has agreements with third-party payors that provide for payment of amounts from established rates. 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. See Note 1 net patient service revenue.

Accrued Vacation and Sick

System employees earn vacation and sick leave at varying rates depending on job classification and years of service. Employees can accumulate up to three years of their earned vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the System. There is no limit on the amount of sick time accrued. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 50% of eligible hours at their current rate of pay. The maximum pay out is 800 hours. As of December 31, 2005 and 2004, the liability for accrued sick and vacation was $26,158 and $25,153, respectively.

Note Payable

The System financed one-year general and professional liability policies with a note payable in 2005 and 2004. The 2005 note payable bears interest at a rate of 4.8%; the 2004 note payable interest rate was 3.6%. In 2005, the System was also advanced $1,000 for patient claims from a health insurance provider. The note was repaid by the System several months later. At December 31, 2005 and 2004, the note payable balance outstanding was $4,346 and $4,576, respectively.

Other long-term liabilities consist of the following at December 31, 2005 and 2004:

2005	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$ 41,435	$ 5,784	$ (3,343)	$ 43,876	$ 8,185
Accrued vacation and sick leave	25,153	3,857	(2,852)	26,158	2,938
Asset retirement obligations	-	5,711	-	5,711	1,434
Note payable	4,576	5,750	(5,980)	4,346	4,346
	$ 71,164	$ 21,102	$ (12,175)	$ 80,091	$ 16,903

2004	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$ 42,544	$ 761	$ (1,870)	$ 41,435	$ 6,872
Accrued vacation and sick leave	22,633	4,552	(2,032)	25,153	2,093
Note payable	3,400	4,576	(3,400)	4,576	4,576
	$ 68,577	$ 9,889	$ (7,302)	$ 71,164	$ 13,541

The current portion of the asset retirement obligations is included in other current liabilities.

Risk Management

The System is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System is self-insured for workers compensation and medical malpractice but maintains commercial insurance policies for property and casualty, automobile, aircraft (helicopter and fixed wing) as well as excess coverage for medical malpractice claims. Settled claims have not exceeded insurance coverage in any of the past three years.

During the normal course of its operations, the System has become a defendant in various legal actions. It is not possible to estimate the outcome of these legal actions; however, in the opinion of legal counsel and the System administration, the disposition of the pending cases will not have a material adverse effect of the financial condition or operations of the System. However, depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the System’s future results of operations or cash flows in a particular year.

The System is self-insured for medical malpractice and workers’ compensation claims. For the professional and patient care liability, professional actuarial 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 undiscounted for 2005 and 2004.

2005	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 8,489	$ 2,842	$ (2,626)	$ 8,705	$ 3,481
Self-insurance	37,285	9,751	(9,050)	37,986	18,508
Employee health insurance	2,793	32,441	(32,191)	3,043	3,043
	$ 48,567	$ 45,034	$ (43,867)	$ 49,734	$ 25,032

2004	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 6,145	$ 5,312	$ (2,968)	$ 8,489	$ 3,316
Self-insurance	35,590	12,747	(11,052)	37,285	18,609
Employee health insurance	2,881	29,430	(29,518)	2,793	2,793
	$ 44,616	$ 47,489	$(43,538)	$ 48,567	$ 24,718

The current portion of employee health insurance liabilities is included in other current liabilities.

9. OPERATING LEASES

The System has entered into operating lease agreements for a parking facility, medical space, and office space, which expire through 2020. Contract terms range between one and fifteen years and contain rent escalation clauses and renewal options for additional periods ranging from one to five years.

Minimum rental commitments under operating leases extending beyond one year at December 31, 2005 are as follows:

2006	$ 1,419
2007	1,453
2008	1,466
2009	1,381
2010	1,252
2011-2015	3,477
2016-2020	1,710
Total	$ 12,158

Rent expense totaled $2,064 in 2005 and $1,516 in 2004. The System leases the Valentine parking garage. The lease had an original five year term with five one-year options to renew. Upon the ultimate expiration of the lease, there are several options available to the System regarding the property which result in different amounts possibly due. One of these is an option to purchase the property. The original term has expired and the System's management has elected to exercise the second one-year option, which expires November 30, 2006. The cost to purchase the property at that time is $11,500. Funds have been allocated within Board Designated investments to make this payment.

10. BENEFIT PLANS

Pension

Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (“OPERS”). The plans are the Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution pension plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and postretirement healthcare benefits, to the Traditional and Combined Plan members however, healthcare benefits are not statutorily guaranteed. Participants in the Member-Directed Plan do not qualify for ancillary benefits.

The Ohio Public Employees Retirement System issues a stand-alone financial report and may be obtained by writing to OPERS, 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% of covered payroll and the System is required to contribute 13.6% of covered payroll. The System’s contributions to OPERS for the years ending December 31, 2005, 2004 and 2003 were $40,046, $38,024 and $36,438, respectively, equal to the required contributions for each year.

Postretirement Benefits

OPERS 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 as described in GASB Statement No. 12. A portion of each employer’s contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The System’s contribution for 2005 and 2004 used to fund postretirement health care benefits was $11,822 and $11,025, respectively, which is included in the System’s pension contribution of $40,046 and $38,024 for the years ending December 31, 2005 and 2004, respectively.

Based on the latest OPERS actuarial review as of December 31, 2004, OPERS had $10,800,000 in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were $29,500,000 and $18,700,000, respectively. The number of active contributing participants used in the 2004 actuarial valuation was 355,287. The active number of contributing participants as of December 31, 2005 was 376,109.

Benefits are advance-funded using the entry-age normal actuarial cost method. Assets are valued using a smoothed market value approach with assets adjusted annually to reflect 25% of the unrealized market appreciation or depreciation. Other significant actuarial assumptions include an investment return of 8.0%; no change in the number of active employees; active employee payroll increases of 4.0% compounded annually with additional annual increases ranging between 0.5% to 6.3%; and health care costs increasing between 5.0% and 10.0% over the next eight years and 4.0% thereafter.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (“HCPP”) to improve financial solvency of the fund by restructuring health care coverage. The Plan has an effective date of January 1, 2007. Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation to use for purchasing from a broad range of health care options. Unspent monthly allocations are deposited into a Retirement Medical Account for subsequent health care expenses. In 2005, OPERS also created a separate investment pool for health care assets. Effective January 1, 2006, member and employer contribution rates increased.

11. RELATED ORGANIZATIONS

The System is the primary beneficiary of The MetroHealth Foundation, Inc. ("Foundation"). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the System has reported the Foundation as a component unit in the System's 2005 financial statements. The System received support from the Foundation in the amount of $2,091 and $1,082 for 2005 and 2004, respectively, and is recorded as grant revenue on the System's statement of revenues, expenses and changes in net assets. The outstanding receivable from the Foundation was $1,472 and $483 at December 31, 2005 and 2004, respectively. The System also provided the Foundation in-kind support totaling $875 in 2005. This support covered the direct expenses of the Development department and indirect expenses for the use of space and support departments such as information services and environmental services.

The System had established restricted funds to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restrictions or that arise as a result of the operations of the System. A review of these restricted funds is performed annually to determine that funds related to completed clinical trials and certain donated money should be transferred to the Foundation. The total amounts transferred in 2005 and 2004 were $1,086 and $116, respectively.

12. CONDITIONAL PROMISES TO GIVE

The Foundation

The Foundation received a conditional pledge of $10,000 commencing in 2005 payable over the next 10 years at $1,000 per year. The outstanding balance of $9,000 at December 31, 2005 is not included in these financial statements in accordance with Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations.

13. COMMITMENTS

As of December 31, 2005, the System has contractual commitments for the construction of various projects totaling approximately $12,705. These projects are being funded with operating funds.

* * * * * *

The MetroHealth System

Financial Statements for the Years Ended December 31, 2005 and 2004, Supplemental Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2005, and Independent Auditors' Reports

THE METROHEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

The Audit Committee of
The MetroHealth System

We have audited the accompanying balance sheets of The MetroHealth System (the "System"), a component unit of Cuyahoga County, Ohio, as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, the MetroHealth Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit for the Foundation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements, 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, and the report of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the System at December 31, 2005 and 2004, and the Foundation at December 31, 2005, and the results of their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the System changed its method of accounting for conditional asset retirement obligations in 2005.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The accompanying supplemental schedule of expenditures of federal awards and related notes is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget ("OMB") Circular A-133 and is not a required part of the basic financial statements. This supplemental information is the responsibility of the management of the System. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2006, on our consideration of the System'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 audits.

Deloitte & Touche, LLP

April 21, 2006

MANAGEMENT’S DISCUSSION (3-11)

This section of The MetroHealth System’s (the “System”) annual financial report presents management’s discussion and analysis of the System’s financial performance and provides an overall review of the System’s financial position and activities as of and for the years ended December 31, 2005 and 2004. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts. The financial statements, footnotes, and this discussion and analysis are the responsibility of the System’s management.

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities. The implementation of GASB Statement No. 34 affected the presentation of net assets, the inclusion of management’s discussion and analysis, the direct method presentation of the statements of cash flows and expanded footnote disclosures.

The accompanying financial statements of the System include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; MetroHealth Centers for Skilled Nursing Care, consisting of the Skilled Nursing Facility East and The Elisabeth Severance Prentiss Center for Skilled Nursing Care; and several urban and suburban primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

The System is the public health care system for Cuyahoga County, Ohio, (the “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 accordance with GASB Statement No. 14, *The Reporting Entity*, the System’s financial statements are included, as a discrete entity, in the 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.

The System has a discretely presented component unit in the MetroHealth Foundation (the “Foundation”) that is reported in a separate column in the System’s financial statements to emphasize the Foundation is a legally separate entity from the System. The MetroHealth Foundation is a non-for-profit organization supporting the System through fundraising. The Foundation is not included in the amounts below but is included in greater detail in the financial statements and footnotes.

Financial and Operating Highlights for 2005

- The average length of stay decreased slightly from the prior year.
- Outpatient levels of activity increased 3.7 % from the prior year.
- Emergency room levels of activity increased 15.3% from the prior year.
- Total net assets increased by $5.5 million over the prior year.
- The MetroHealth Buckeye Health Center, an outpatient medical facility, opened in April.
- The System completed renovations on the first phase in its South Campus location. The System's back office operations and datacenter began moving to the renovated space in October.

Financial and Operating Highlights for 2004

- Inpatient levels of activity decreased slightly from the prior year.
- Outpatient levels of activity increased 3.3% from the prior year.
- Emergency room levels of activity increased 3.9% from the prior year.
- Surgery cases increased 2.0% from the prior year.
- Total net assets decreased by $6.6 million from the prior year.
- The System opened its new Critical Care Pavilion, which houses perioperative facilities and the emergency department, in mid-year. Total cost of the construction was just under $70.0 million.
- The System purchased the former Deaconess Hospital in a bankruptcy auction. The first phase of renovations of this facility will accommodate the System's datacenter and other back office functions.
- The MetroHealth Broadway Health Center, an outpatient medical facility, opened in July.

Financial Analysis of the System at December 31, 2005 and 2004

Total assets increased by 3.7% to $626.7 million, and total liabilities increased 4.4% to $404.9 million in 2005. The System's total net assets increased from $216.3 million to $221.9 million in 2005, a 2.6% improvement from a year ago. This represented a reversal from the 3.0% decrease in 2004 from 2003. Table 1 summarizes the balance sheet movement for the last two years.

Table 1
The MetroHealth System
Balance Sheets (000's)

	2005	2004	2003
Assets:			
Current assets	$ 85,172	$ 94,406	$ 82,317
Investments	230,598	221,253	233,927
Restricted assets	42,046	33,387	60,309
Capital assets	263,261	251,151	233,652
Other assets	5,652	3,881	6,154
Total assets	$ 626,729	$ 604,078	$ 616,359
Liabilities and net assets:			
Liabilities:			
Current liabilities	$ 112,325	$ 108,142	$ 114,084
Long-term liabilities	292,542	279,608	279,334
Total Liabilities	404,867	387,750	393,418
Net assets:			
Invested in capital assets, net of related debt	68,571	40,588	43,422
Restricted	39,048	30,579	57,230
Unrestricted	114,243	145,161	122,289
Total net assets	221,862	216,328	222,941
Total liabilities and net assets	$ 626,729	$ 604,078	$ 616,359

Current Assets

Total current assets decreased $9.2 million in 2005 or 9.8%. The primary driver for the decrease was the change in Upper Payment Limit (UPL) receivable of $7.6 million. This is the receivable related to the System's participation in the State of Ohio's supplemental Medicaid program that provides access to available funding up to 100% of the Medicare Upper Payment Limit for inpatient hospital services. The System had UPL receivable balances of $6.4 million and $14.0 million at the end of 2005 and 2004, respectively.

In 2004, current assets increased $12.0 million or 14.7% over the prior year. Cash increased $2.0 million in 2004 from the prior year and is due to higher amounts retained in overnight accounts rather than investment accounts at the end of the year. Patient accounts receivable increased by $10.8 million in 2004 which is attributed to increases in the Self-pay portion of the receivable and a Medicaid pharmacy rebilling that increased the receivable (by $4.6 million) until payments on the corrected billings began in early 2005.

Investments

Investments increased $9.3 million from 2004, or 4.2%. The Depreciation reserve fund had a net decrease for the year of $13.2 million which represents the difference between a $20.0 million transfer to Board Designated investments to help meet capital needs and the amount the System was required to deposit into the fund in 2005. The Board Designated investments grew by $22.6 million primarily from Upper Payment Limit and Disproportionate Share receipts in the fourth quarter. Restricted assets increased $8.7 million in 2005 and can be attributed to the Series 2005 bond financing that retired the Series 1999 Bonds and the related bond reserve fund of $6.5 million, a decrease in the interest payment fund on the 1999 bonds of $1.0 million and the new project fund that increased the investments by $16.9 million.

Investments decreased by $12.7 million in 2004 from the prior year. A $5.5 million increase in funding to the Depreciation reserve fund was offset by decreases in the other investments required to accommodate capital expenditures. The restricted asset decrease of $26.9 million in 2004 was driven by the $27.1 million in draws from the Series 1999 and 2003 Project Funds for Critical Care Pavilion construction.

Capital Assets

Capital expenditures for the year totaled $39.3 million. Expenditures for the rehabilitation of the former Deaconess Hospital to back office and data center space totaled $20.1 million in 2005. Other large projects included the Endoscopy suite remodel at $1.5 million, the Buckeye Health Center build out at $0.9 million, the Cancer Care Linear Accelerator project at $0.6 million, the Dentistry remodel and expansion at $0.6 million and the Lab Information System upgrade at $0.8 million. The remaining expenditures were for equipment and technology upgrades. The $1.3 million remaining in the 2003 Project fund at the beginning of the year was used to fund construction at the south campus while the remaining capital expenditures were funded by operations.

Capital expenditures for 2004 were $43.6 million. Significant capital outlays included $22.6 million for the completion on the Critical Care Pavilion; $7.9 million for the Broadway and Buckeye medical office facilities; $2.0 million to refurbish two helicopters; $1.3 million for MetroHealth South Campus renovations; and $0.8 million for power house electrical upgrades. Proceeds from the Series 1999 and 2003 Bond issues were used for the Critical Care Pavilion and the remaining was paid with operating funds.

Detail information regarding the System's capital assets can be found in Note 4 of the financial statements.

Current Liabilities

Total Current Liabilities increased $4.2 million, or 3.9%, from 2004. Accounts Payable increased $3.7 million. The payroll and related liabilities increased $2.1 million as the liabilities reflect an additional day over last year (14 days versus 13 days). Estimated amounts due third parties increased by $1.3 million. Other current liabilities decreased by $3.5 million due in large part to the $3.6 million decrease in the Upper Payment Limit liability. The UPL liability is the offset to the receivable for required contributions to the program. Accrued interest payable decreased $1.2 million as the retirement of the Series 1999 bonds reduced this payable (the new bonds pay interest monthly, instead of semi-annually).

In 2004, current liabilities declined by $5.9 million from the prior year. Accounts payable declined by $6.0 million. The 2003 accounts payable balance included $7.2 million in accrued invoices and retainage liabilities related to the Critical Care Pavilion construction project where as the similar liability for 2004 amounted to $1.3 million. Accrued payroll increased $2.0 million and is related to the additional day needed to be accrued in 2004 compared to 2003. The current portion of the Self-insurance liability increased from the prior year by $2.0 million due to the results of this year’s actuarial study on the medical malpractice reserves indicating increased payouts. Other current liabilities contain the corresponding Upper Payment Limit liability which decreased $1.9 million over the prior year.

Long-Term Liabilities

All of the System’s long-term debt relates to acquisition of capital assets. Long-term debt increased $6.5 million in 2005. The System issued variable rate bonds in July totaling $74.5 million. The Series 2005 bonds retired the Series 1999 bonds ($57.0 million) and provided additional funds for construction projects. The refinancing transaction generated a loss of $5.2 million that will be amortized over the original remaining life of the Series 1999 bonds. Concurrent with the issuance of the Series 2005 Bonds, the System executed a variable to fixed interest rate swap agreement.

Pursuant to FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, the System assessed its possible obligations and determined the need to record a liability for asbestos abatement in its buildings. The total liability for this asset retirement obligation is $5.4 million as of December 31, 2005. The long-term portion of this liability is $4.2 million. More information regarding this obligation is presented in Note 8 of the financial statements.

In 2004, the System incurred a loan from Ohio Public Utilities Commission in connection with sewer line replacement at its eastside skilled nursing facility. The note is non-interest bearing and payable over 20 years.

The System’s bond indenture and capital lease agreements contain various covenants that the System must maintain. The financial covenants include Days Cash on Hand, Debt Service Coverage and Debt to Capitalization ratios. Additional detail regarding the System’s long-term debt can be found in Note 6 of the financial statements.

Table 2
The MetroHealth System
Statements of Revenues, Expenses and Changes in Net Assets (000's)

	Years ended December 31, 2005	2004	2003
Operating revenues			
Net patient service revenue	$ 523,950	$ 498,434	$ 468,598
Other revenue	23,462	21,654	21,693
Total operating revenues	547,412	520,088	490,291
Operating expenses			
Professional care of patients	357,964	339,830	318,359
Dietary	7,051	6,950	6,879
Household and property	26,121	23,295	22,720
Administrative and general	70,437	73,945	69,308
Employee benefits	73,441	71,037	66,373
Provision for bad debts	7,015	6,049	7,528
Depreciation and amortization	30,009	28,804	28,285
Total operating expenses	572,038	549,910	519,452
Operating loss	(24,626)	(29,822)	(29,161)
Non-operating revenues-net	35,695	23,142	20,605
Grants for capital acquisitions	712	183	104
Increase (decrease) in net assets	11,781	(6,497)	(8,452)
Total net assets--beginning of the year	216,328	222,941	231,680
Transfer of net assets	(1,086)	(116)	(287)
Cummulative effect of change in accounting principle	(5,161)	-	-
Total net assets--end of the year	$ 221,862	$ 216,328	$ 222,941

The System's total operating and non-operating revenue in 2005 was $598.7 while expenses were $586.9 million. This resulted in net assets increasing $11.8 million for the year. This was an $18.3 million net improvement from 2004 that had $559.6 million in revenue and $566.1 in expenses.

Net Patient Service Revenue

Net patient service revenue increased $25.5 million or 5.1% in 2005. This is reflective of the slight increases in patient and visit volumes in 2005. Although the gross revenue includes a 4.0% price increase effective January 1, 2005 there was a corresponding increase in contractual allowances. This compares similarly to the $29.9 million or 6.4% increase experienced in 2004. Net patient service revenue also includes revenue the System received as a participant in the State of Ohio Care Assurance (HCAP) ($28.2 million in 2005, $26.0 million in 2004 and $28.0 million in 2003) and Upper Payment Limit (UPL) ($16.1 million in 2005, $17.0 million in 2004, $16.0 million in 2003) programs. The level of revenue from HCAP and UPL in future years is uncertain.

Charity care increased $39.0 million to $160.1 million in 2005. This was an increase of 32.3% over the previous year. The System's level of charity care continues to reflect the System's status as a safety net facility in Cuyahoga County.

Operating Expenses

The System's total operating expenses increased by $22.1 million or 4.0% from 2004. This percentage increase is an improvement from the $30.5 million or 5.9% increase experienced between 2003 and 2004. Table 3 summarizes the expenses from the last three years.

Table 3
The MetroHealth System
Expense Detail (000's)

	2005	2004	2003
Operating expenses:			
Salaries and wages	$ 317,209	$ 304,150	$ 289,361
Employee benefits	73,441	71,037	66,373
Medical supplies	33,352	30,591	28,137
Pharmaceuticals	24,933	23,291	21,765
Plant operations	33,574	31,671	28,796
Supplies and other	37,304	37,240	35,472
Liability insurance	15,201	17,077	13,735
Provision for bad debts	7,015	6,049	7,528
Depreciation and amortization	30,009	28,804	28,285
Total operating expenses	$ 572,038	$ 549,910	$ 519,452

Salaries and wages increased $13.1 million from 2004 to 2005, or 4.3%. This is slightly lower than the increase from 2003 to 2004 of $14.8 million. There was a general wage increase of 3.0% in 2005. The remainder of the difference is attributed to a net increase of 85 FTE's, physician incentives and salary recoveries (from resident and research activities).

Employee benefits increased a total of $2.4 million in 2005, or 3.5%. A $2.5 million decrease in Workers Compensation expenses offset a $2.4 million Health Insurance expense increase. The remainder of benefits expense increases (PERS, Medicare) were consistent with salary and wage increases. Employee benefits increased $4.7 million in 2004. The System recorded a $3.2 million adjustment to its Workers Compensation liability based on an actuarial analysis of claim activity completed at year end. The remaining $1.6 million reflects the increased per employee health costs (including pharmaceuticals).

Medical Supplies and Pharmaceuticals increased a combined 8.2%, a similar increase as the previous two years.

Plant Operations increased a total of $1.9 million or 6.0%. Increased utilities, primarily natural gas with a $1.4 million increase, accounted for most of the increase. Building rental increased by $1.0 million from the full year effect of the Broadway Health Center and nine months of the new Buckeye Health Center. Construction and remodeling expenses declined by $0.9 million from 2004.

Plant operation expenses increased $2.9 million or 10.0% in 2004. The primary driver was a $1.2 million increase in construction expenses for the year. The construction expenses are those that were transferred from capital projects that do not meet the criteria for capitalization. Building rental increased $300 thousand (Broadway Health Center opening) and utility costs increased $1.2 million to round out the 2003 to 2004 increase

Liability insurance decreased from the prior year by $1.9 million or 11%. The decrease was based on better than expected claims experience reflected in this year's actuarial study. In 2004, Medical malpractice insurance expense increased $3.3 million from the prior year.

Non-Operating Revenue and Expenses

Net non-operating revenue increased $12.6 million from the prior year. The County increased its subsidy to the System by $8.0 million in 2005. They have committed to the same level of funding in 2006. Interest expense increased by $2.3 million in 2005. In prior years, interest expense had been favorably affected by interest capitalization and interest SWAP agreements on the 1999 Series bonds. The amount of capitalized interest dropped in 2005 by $1.2 million and the SWAP agreements related to the 1999 Series bonds terminated in February 2005. In 2004 the interest rate swap agreements produced a $2.3 reduction in bond interest expense. Investment income and the mark to market adjustment both improved over the prior year by $3.3 million.

In 2004, the Cuyahoga County Commissioners approved an increase in the System appropriation of nearly $6.0 million from 2003 for a total of $26.8 million. Investment income decreased by $1.8 million to $5.3 million in 2004. This decrease reflects the generally low investment rates on investment vehicles in which the System is permitted to participate and a $40.0 million total decrease in investment balances.
Interest expense grew from $7.3 million in 2003 to $8.4 million or 15.0% in 2004. The primary driver was a decrease in the amount of interest capitalized in 2004 which was down $0.9 million. This is a direct result of the amount of qualifying interest based on the completion of construction projects.

Economic Factors and Next Year's Budget

Several factors and uncertainties that are contained in the budget are:

- The System budgeted to receive a $35 million appropriation from the County in 2006. This is the same amount received in 2005 which was an increase from 2004 of $8 million. The $35 million annual appropriation represents a two year arrangement with the County for years 2005 and 2006. The System will be in negotiations with the County for Budget year 2007 to obtain an appropriate funding level going forward. The System will continue to explore revenue enhancement and cost reduction (productivity) opportunities.

- At both the Federal and State level proposed Medicare and Medicaid funding cuts continue to harm System revenues and cash flows as it relies on Medicare and Medicaid for 22% and 31% of patient revenues respectively. The System will continue to promote Federal and State policy reforms to provide adequate funding to safety net providers.

- Capital funds needed for replacement of depreciated facilities and equipment, and the addition/expansion of vital programs will require use of existing investments or debt as well as anticipated capital funding from the County. The System intends to use unrestricted Reserves for continued operating and Capital needs in 2006. In addition efforts to obtain appropriate Philanthropy to offset these operational and capital needs will continue in 2006.

- Medical malpractice cost trends will continue to exert upward pressure on related expense and claim payouts.

- In 2005 the federal law as enacted by the Benefits Improvement and Protection Act of 2000 (BIPA), permitted up to a 175% DSH payment limit for public hospitals for a two year period beginning in 2005. Anticipating the 175% DSH limit in 2005 the System budgeted $32.0 million in 2005. However, ODJFS only included a 130% DSH payment limit in the 2005 HCAP model and the System netted $28.2 million. The current status of the 2006 HCAP is unknown at this point in time as the System awaits the final rule from ODJFS (OHA's recommendation proposed a reduction of the DSH payment limit to 110%). At this level it is projected that the System will net $27.0 million in HCAP dollars in 2006.

- In 2005 the System had budgeted $9.8 million in net UPL dollars. This estimate was originally made assuming the 2007 Uncompensated Care levels would be comparable to the 2005 level, however based on the preliminary 2005 logs run there is estimated to actually be an 18% increase over the two years. This allowed the System to actually net $16.1 million after the recent second draw. In 2006 the ODJFS is in the process of making a correction to the UPL formula and this will result in less available UPL funds for public hospitals. In 2006 it is estimated that the System will net $10.6 million in UPL dollars.

- Starting in 2005 and continuing throughout 2006, the Skilled East Nursing facility will be downsized from a 260 bed facility to a 144 bed facility in preparation for the move to the South Campus.

- Due to the significant increase in energy costs anticipated in 2006 the System increased its energy budget by approximately $2 million.

THE METROHEALTH SYSTEM

BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

(Dollars in Thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.
ASSETS	**2005**	**2004**	**2005**
CURRENT ASSETS:			
Cash and cash equivalents	$ 4,176	$ 2,287	$ 205
Accounts receivable	59,141	64,187	1,469
Allowance for uncollectible accounts	(7,161)	(6,146)	(118)
Net accounts receivable	51,980	58,041	1,351
Other receivables	16,181	21,632	101
Supplies	5,876	5,392	15
Prepaid expenses	6,959	7,054	-
Total current assets	85,172	94,406	1,672
INVESTMENTS:			
General	127,960	105,402	2,598
Academic funds	37,575	37,589	-
Depreciation reserve fund	65,063	78,262	-
	230,598	221,253	2,598
RESTRICTED ASSETS:			
Cash and cash equivalents	131	140	479
Special purpose investments	5,556	5,555	15,947
Under bond indenture agreement	36,359	27,692	-
	42,046	33,387	16,426
CAPITAL ASSETS:			
Land and land improvements	17,180	17,463	-
Buildings and fixed equipment	468,331	445,697	-
Equipment	227,720	223,037	-
	713,231	686,197	-
Accumulated depreciation	(463,934)	(446,139)	-
	249,297	240,058	-
Construction in progress	13,964	11,093	-
	263,261	251,151	-
Other assets	5,652	3,881	-
TOTAL	$ 626,729	$ 604,078	$ 20,696
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	$ 24,459	$ 20,744	$ 1,613
Accrued payroll and related liabilities	18,463	16,388	-
Public Employees Retirement System liability	10,308	9,702	-
Accrued interest payable	2,651	3,846	5
Self-insurance liabilities	21,989	21,925	-
Estimated amounts due to third-party payors	8,185	6,872	-
Accrued vacation and sick leave	2,938	2,093	-
Note payable	4,346	4,576	-
Current installments of long-term liabilities	6,774	6,279	80
Other current liabilities	12,212	15,717	179
Total current liabilities	112,325	108,142	1,877
LONG-TERM LIABILITIES—LESS CURRENT INSTALLMENTS:			
Self-insurance liabilities	24,702	23,849	-
Estimated amounts due to third-party payors	35,691	34,563	-
Accrued vacation and sick leave	23,220	23,060	-
Asset retirement obligations	4,277	-	-
Long-term debt	204,652	198,136	301
Total long-term liabilities	292,542	279,608	301
Total liabilities	404,867	387,750	2,178
NET ASSETS			
Invested in capital assets—net of related debt	68,571	40,588	-
Restricted for debt service and projects	36,359	27,692	-
Restricted—nonexpendable	-	-	5,864
Restricted—expendable	2,689	2,887	8,159
Unrestricted	114,243	145,161	4,495
Total net assets	221,862	216,328	18,518
TOTAL	$ 626,729	$ 604,078	$ 20,696

See notes to financial statements.

THE METROHEALTH SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in Thousands)

	Primary Government The MetroHealth System 2005	Primary Government The MetroHealth System 2004	Component Unit The MetroHealth Foundation, Inc. 2005
OPERATING REVENUES:			
Net patient service revenue	$523,950	$498,434	$ -
Other revenue	23,462	21,654	-
Total operating revenues	547,412	520,088	-
OPERATING EXPENSES:			
Professional care of patients	357,964	339,830	-
Dietary	7,051	6,950	-
Household and property	26,121	23,295	-
Administrative and general	70,437	73,945	-
Employee benefits	73,441	71,037	-
Provision for bad debts	7,015	6,049	-
Total operating expenses before depreciation and amortization	542,029	521,106	-
Operating gain (loss) before depreciation and amortization	5,383	(1,018)	-
Depreciation and amortization	30,009	28,804	-
Operating loss	24,626	(29,822)	-
NON-OPERATING REVENUES (EXPENSES):			
County appropriation	34,765	26,762	-
Net investment income	8,618	1,323	1,672
Other non-operating revenue	2,884	3,060	-
Grants and donations	4,342	4,269	4,423
Grant expenditures and support	(4,204)	(3,847)	(5,128)
Interest expense	(10,710)	(8,425)	-
Total non-operating revenues—net	35,695	23,142	967
GAIN (LOSS) BEFORE OTHER CHANGES	11,069	(6,680)	967
OTHER CHANGES—			
Grants for capital acquisitions	712	183	-
INCREASE (DECREASE) IN NET ASSETS	11,781	(6,497)	967
TOTAL NET ASSETS—Beginning of year	216,328	222,941	16,465
Transfer of net assets	(1,086)	(116)	1,086
Cumulative effect of change in accounting principle	(5,161)	-	-
TOTAL NET ASSETS—End of year	$221,862	$216,328	$ 18,518

See notes to financial statements.

THE METROHEALTH SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in Thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Patient service revenue	$ 529,486	$ 480,679
Other operating cash receipts	23,462	21,654
Payments to suppliers	(146,593)	(141,472)
Payments for compensation and benefits	(386,748)	(372,670)
Net cash flows provided by (used in) operating activities	19,607	(11,809)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County appropriation	34,765	26,762
Proceeds from notes payable	5,750	4,576
Principal payments on notes payable	(5,980)	(3,400)
Interest payments on note payable	(84)	(59)
Restricted grants and donations	7,938	7,512
Specific purpose funds expenditures	(4,204)	(3,847)
Transfer of net assets	(1,086)	(345)
Restricted receivables/liabilities	(93)	(251)
Net cash flows provided by noncapital financing activities	37,006	30,948
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits in project funds	(16,944)	(40)
Withdrawals from project funds	1,281	27,133
Acquisitions and construction	(39,317)	(43,648)
Proceeds from long-term debt	73,491	171
Retirement of long-term debt	(63,251)	-
Principal payments on long-term debt	(6,326)	(7,474)
Interest payments on long-term debt	(8,974)	(9,181)
Net cash flows used in capital and related financing activities	(60,040)	(33,039)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) sale of investments, net	(3,777)	10,666
Interest received and realized gains and losses	9,084	5,285
Net cash flows provided by investing activities	5,307	15,951
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,880	2,051
CASH AND CASH EQUIVALENTS—Beginning of year	2,427	376
CASH AND CASH EQUIVALENTS—End of year	$ 4,307	$ 2,427
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	$ (24,626)	$ (29,822)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	30,009	28,804
Provision for bad debts	7,015	6,049
Changes in assets and liabilities:		
Increase in patient accounts receivable	(954)	(17,327)
Decrease in other assets	4,724	1,116
Increase in self-insurance liabilities	917	4,039
Increase (decrease) in accounts payable and other liabilities	954	(8,431)
Increase in long-term liabilities	1,568	3,763
Net cash flows provided by (used in) operating activities	$ 19,607	$ (11,809)

See notes to financial statements.

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities. The implementation of GASB Statement No. 34 affected the presentation of net assets, the direct method presentation of the statements of cash flows and expanded footnote disclosures.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements of the MetroHealth System ("System") include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; Broadway Medical Offices, Buckeye Health Center and MetroHealth outpatient community health facilities; MetroHealth Centers for Skilled Nursing Care, consisting of the Skilled Nursing Facility East and The Elisabeth Severance Prentiss Center for Skilled Nursing Care; Faculty Business Office, a medical specialty group practice; and several urban and suburban primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

The System is the public health care system for Cuyahoga County, Ohio, 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 the 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 $34,765 and $26,762 for 2005 and 2004, respectively. The County has approved an appropriation of $34,908 for 2006, an increase of $143 from the 2005 amount. The System is exempt from federal income taxes as a governmental entity.

In accordance with GASB Statement No. 14, *The Reporting Entity*, the System's financial statements are included, as a discrete entity, in the 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.

Furthermore, in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The MetroHealth Foundation ("Foundation") is presented as a discrete entity component unit in a separate column in the System's financial statements to emphasize that they are legally separate from the System. The Foundation is a not-for-profit organization supporting the System. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the System in support of its programs. Although the System does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which they hold and invest, are restricted to support the activities of the System. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the System, it is considered a component unit of the System. Financial statements of the Foundation can be obtained by writing to The MetroHealth Foundation, 2500 MetroHealth Drive, Cleveland, Ohio 44109.

Basis of Accounting

The System's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System follows the "business-type" activities, which provides for the following components of the System's financial statements and management discussion and analysis:

- ❖ Management's Discussion and Analysis
- ❖ Basic Financial Statements including a Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows, for the System as a whole
- ❖ Notes to the Financial Statements

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 prior to November 30, 1989 and all those issued after November 30, 1989 which do not conflict or contradict GASB pronouncements.

The accompanying financial statements of the System are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues and expenses are recognized in the period in which they are earned or incurred. Depreciation of assets, gains, losses, assets and liabilities are also recognized in the period in which the transaction has occurred.

Pursuant to the Ohio Revised Code, the System submits a budget to the County Commissioners for approval by November 1 of each fiscal year. The fundamental purpose of the budget is to plan for an expected level of operations and to provide management with a tool to control deviation from such a plan. The budget is prepared on an accrual basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Statement of Revenues, Expenses, and Changes in Net Assets

The System recognizes as operating revenue those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Non-operating revenues include County appropriation, investment income, specific purpose grants and donations, primarily research, and unrealized gains on investments. Non-operating expenses include interest expense and expenditures from specific purpose funds for research related activities.

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. Net patient service revenue is reduced by contractual and retroactive adjustments of $598,540 and $485,083 in 2005 and 2004, respectively.

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.
>
> Medicare outpatient claims are reimbursed under the Ambulatory Payment Classification based prospective payment system. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received from Medicare and Medicaid. Medicare utilizes a prospective payment system for inpatient rehabilitation services. The payments are based on patient assessment data classifying patients into one of one hundred case mix groups. In 2005, inpatient psychiatric services moved to a prospectively determined per diem rate, phased in over three years. In 2005, inpatient psychiatric services were reimbursed at 75% of reasonable cost plus 25% of the inpatient psychiatric facility prospective payment system federal rate. 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. 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 programs 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 Statement of Revenues, Expenses, and Changes in Net Assets in the year of settlement. The System recorded a favorable adjustments of $4,218 and $5,092 in 2005 and 2004, respectively, due to prior year retroactive adjustments to amounts previously estimated.

Net revenue from the Medicare and Medicaid programs accounted for approximately 25.3% and 32.9%, respectively, of the System's net patient service revenue for the year ended December 31, 2005 and 24.0% and 32.0%, respectively, of the System's net patient service revenue for the year ended December 31, 2004.. 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. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

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.

Upper Payment Limit—In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Center for Medicare and Medicaid Services. This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. At December 31, 2005 and 2004, $6,400 and $14,000, respectively, were due to the System and recorded on the balance sheets in other receivables; the System's required match to the State of Ohio of $2,957 and $6,508, respectively, is included in other current liabilities. The net amount recorded in net patient service revenue for UPL by the System was $16,119 and $17,353 in 2005 and 2004, respectively.

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. Accordingly, the System receives additional payments from these programs as a result of this status totaling $41,055 and $37,122 in 2005 and 2004, respectively, (including Care Assurance of $28,215 and $26,248 in 2005 and 2004, respectively) which are included in net patient service revenue. 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 $160,066 and $121,019, which represents 12.8% and 11.4% of gross charges in 2005 and 2004, 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.

Grants

The System receives financial assistance from federal and state agencies in the United States in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Other such audits could be undertaken by federal and state granting agencies and result in the disallowance of claims and expenditures; however, in the opinion of management, any such disallowed claims or expenditures will not have a material effect on the overall financial position of the System.

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 excluding amounts limited as to use or restricted by board designation.

Supplies

Supplies are stated at the lower of average cost or market.

Investments

The System records its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on investments are recorded as non-operating revenue-net in the statement of revenues, expenses, and changes in net assets.

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.

The net realized loss of $365 in 2005 and net realized gain of $140 in 2004 on investments is the difference between the proceeds received and the amortized cost of investments sold and is included in investment income in the statement of revenues, expenses, and changes in net assets.

Restricted Assets

Restricted assets are cash and investments whose use is limited by legal requirements. Investments under bond indenture agreement represent amounts required by debt instruments to pay bond principal and interest and approved projects. Restricted cash and specific purpose investments represent monies received from donors or grantors to be used for specific purposes, primarily research. The System has elected to use restricted assets before unrestricted assets when an expense is incurred for a purpose for which both resources are available.

Fundraising Revenues

Gifts, grants, and program income result from fundraising activities of the Foundation. Though donations are solicited for the Foundation, donors occasionally make their gifts directly to the System.

Annuity Payment Obligations

The Foundation has entered into gift annuity agreements, which include provisions requiring the Foundation to pay periodic fixed payment to beneficiaries during their lifetimes. 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.

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 form income tax on related income pursuant to Section 501(a) of the Code. The Foundation is required to pay taxes on unrelated business income earned by the Foundation.

Capital Assets

Capital assets are stated at cost. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation and amortization of assets recorded under capital lease (straight-line method) are provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives. The following are the most commonly used estimated useful lives:

Buildings	25-40 years
Building improvements	5-20 years
Equipment	3-15 years
Land improvements	5-15 years
Vehicles	4 years

Half of a year's depreciation is taken the first year the asset is placed in service. The asset and accumulated depreciation are removed from the related accounts when the asset is disposed of. Any gain or loss resulting from this disposal is recorded in the statement of revenues, expenses, and changes in net assets.

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 accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* the System created a trust for the assets of the plan for which the System has no fiduciary responsibility. The System has no recorded assets or liabilities relating to this plan.

Bond Discounts and Bond Issuance Costs

Deferred financing costs represent debt issuance expenditures on long-term debt obligations and are amortized over the period the bonds are outstanding on a straight-line basis. The amortization for deferred bond financing costs was $139 in 2005 and $125 in 2004. Amortization expense related to bond discounts was $112 in 2005 and $127 in 2004. These amounts are included in interest expense in the statement of revenues, expenses, and changes in net assets.

Cost of Borrowing

Interest costs associated with funds borrowed and used to finance the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. The capitalized interest amount is calculated by taking the difference between the interest expense incurred during the construction period that bonds relate to and the interest earned on the invested proceeds of specific purpose tax exempt bonds, which cover the same period of time. Capitalized interest income and interest expense on the Series 1999, 2003 and 2005 Bonds totaled $207 and $267 in 2005, respectively; $188 and $1,321 in 2004, respectively. Amortization of capitalized interest is included in depreciation expense.

The System has entered into various interest-rate swap agreements. These derivative instruments are not designated as hedging instruments, therefore gains and losses are recognized in the statement of revenues, expenses, and changes in net assets during the period of change. Net amounts periodically receivable or payable as a result of swap agreements are recorded as adjustments to interest expense on the related debt (see Note 6).

Concentrations of Credit Risk

Financial instruments that 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 10.0% of the System's patient accounts receivable. The System maintains an allowance for losses based on the expected collectibility of patient accounts receivable.

2. CHANGES IN ACCOUNTING PRINCIPLES

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires governmental units to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally would be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. The provisions of this Statement are effective for financial statements for fiscal periods beginning after December 15, 2004. The System has reviewed its significant capital assets and has determined that there are no impairments related to GASB Statement No. 42.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The System adopted the provisions of FIN 47 as of December 31, 2005 for the Systems obligations related to asbestos abatement. At December 31, 2005, the System recorded approximately $5,424 as an asbestos abatement liability. The amount of the asset and liability at the date the obligation was incurred in 1973 totaled $1,434. The amount of interest accretion and depreciation expense charged to net assets, as the cumulative change in accounting principle, for the years 1974 through 2005 totaled $5,161.

In May 2002, the GASB issued Statement No. 39 *Determining Whether Certain Organizations Are Component Units*, which established criteria to determine if organizations that are legally separate, tax exempt entities should be discretely presented as component units if significant. Application of this standard was required for the period beginning after June 15, 2003. In 2004, the MetroHealth Foundation, Inc. (the "Foundation") was not considered significant under the provisions of Ohio Auditor of State Technical Bulletin 2004-001. However, in 2005, the Foundation is considered significant and, therefore, is discretely presented as a component unit in 2005.

3. 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.

Custodial risk is the risk that, in the event of bank failure, the System's deposits might not be recovered. The System's bank deposits at December 31, 2005 and 2004 totaled $4,198 and $8,066, respectively, and were subject to the following categories of custodial risk:

	2005	2004
Uncollateralized	$ 3,921	$ 7,798
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	77	68
Total amount subject to custodial risk	3,998	7,866
Amount insured	200	200
Total bank balances	$ 4,198	$ 8,066

Investments

The System

As of December 31, 2005 and 2004, the fair value of the System's investments were as follows:

	2005	2004
Cash and cash equivalents	$ 85,686	$ 153,809
U.S. Treasuries	-	727
U.S. Government Agencies	173,580	79,430
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)	7,988	8,810
Collateralized Mortgage Obligations	1,064	1,596
Corporates	4,195	4,189
Total investments	$ 272,513	$ 248,561

The System's carrying amounts of the deposits and investments at December 31, 2005 and 2004 are as follows:

	2005	2004
Deposits	$ 4,307	$ 8,366
Investments	272,513	248,561
Total deposits and investments	$ 276,820	$ 256,927

The difference between bank balances and financial statement carrying amounts represent outstanding checks payable and normal reconciling items.

Interest Rate Risk. The System's investment policies limit investment portfolios to maturities of five years or less. All of the System's investments at December 31, 2005 have effective maturity dates of less than five years.

Credit Risk. All of the System's investments are rated AAA by Standard and Poor's. The System's investment policies are governed by State of Ohio statutes that authorize the System to invest in U. S. government obligations and AAA rated corporate bonds. The Collateralized Mortgage Obligations and Federal Mortgage pools are investments that are grandfathered from previous statutes that allowed such investments. These investments have an effective maturity date of less than one year.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the System's investments, only the repurchase agreements are exposed to custodial risk. Repurchase agreements (included in the U.S. Government Agencies) at December 31, 2005 totaling $23,457 are uninsured, are not registered in the System's name and are held by the financial institution's trust department.

The Foundation

As of December 31, 2005, the fair value of the Foundation's investments were as follows:

	2005
Mutal Funds	$ 5,155
Common Stock	12,667
Premier Purchasing Partners, L.P.	723
Total investments	$ 18,545

The Foundation's investments had cumulative unrealized gains of $1,826 and cumulative unrealized losses of $103 at December 31, 2005.

4. CAPITAL ASSETS

The following summarizes the capital assets of the System for the years ended December 31, 2005 and 2004:

2005	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,634	$ -	$ (257)	$ 9,377
Construction in progress	11,093	34,615	(31,744)	13,964
Total non-depreciated capital assets	20,727	34,615	(32,001)	23,341
Depreciable capital assets:				
Land improvements	7,829	119	(145)	7,803
Buildings and fixed equipment	445,697	27,315	(4,681)	468,331
Equipment	223,037	13,291	(8,608)	227,720
Total depreciable capital assets	676,563	40,725	(13,434)	703,854
Less accumulated depreciation:				
Land improvements	(6,860)	(179)	145	(6,894)
Buildings and fixed equipment	(265,162)	(16,758)	3,511	(278,409)
Equipment	(174,117)	(13,072)	8,558	(178,631)
Total accumulated depreciation	(446,139)	(30,009)	12,214	(463,934)
Total depreciable capital assets, net	230,424	10,716	(1,220)	239,920
Total capital assets—net	$ 251,151	$ 45,331	$ (33,221)	$ 263,261

2004	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,954	$ 680	$ -	$ 9,634
Construction in progress	62,043	37,302	(88,252)	11,093
Total non-depreciated capital assets	70,997	37,982	(88,252)	20,727
Depreciable capital assets:				
Land improvements	7,699	130	-	7,829
Buildings and fixed equipment	374,189	71,508	-	445,697
Equipment	199,198	24,941	(1,102)	223,037
Total depreciable capital assets	581,086	96,579	(1,102)	676,563
Less accumulated depreciation:				
Land improvements	(6,656)	(204)	-	(6,860)
Buildings and fixed equipment	(247,713)	(17,449)	-	(265,162)
Equipment	(164,062)	(11,151)	1,096	(174,117)
Total accumulated depreciation	(418,431)	(28,804)	1,096	(446,139)
Total depreciable capital assets, net	162,655	67,775	(6)	230,424
Total capital assets—net	$ 233,652	$ 105,757	$ (88,258)	$ 251,151

Total depreciation and amortization expense related to capital assets for 2005 and 2004 was $30,009 and $28,804, respectively.

5. LINE OF CREDIT

During 2005, the System entered into an agreement with a bank for a demand line of credit with a maximum amount available of $20,000. For the year ended December 31, 2005, the System did not have an outstanding balance on the line of credit.

6. LONG-TERM DEBT

The System

Changes in long-term debt for 2005 and 2004 are as follows:

	2005				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 47,685	$ -	$ (4,615)	$ 43,070	$ 4,825
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	76,160	-	(265)	75,895	275
Hospital Improvement Revenue Bonds, Series 1999, bear interest at rates ranging from 6.1% to 6.2% and mature in varying amounts through 2029 (retired 7/28/05)	56,995	-	(56,995)	-	-
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	30,010	-	(580)	29,430	600
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	-	74,535	-	74,535	305
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	2,294	-	(812)	1,482	723
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	-	218	(47)	171	40
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	91	-	(7)	84	6
	213,235	74,753	(63,321)	224,667	6,774
Unamortized discount and loss	(8,820)	(5,179)	758	(13,241)	-
	204,415	69,574	(62,563)	211,426	6,774
Current installments	(6,279)	(6,774)	6,279	(6,774)	-
Long-term debt	$ 198,136	$ 62,800	$ (56,284)	$ 204,652	$ 6,774

	2004				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 52,085	$ -	$ (4,400)	$ 47,685	$ 4,615
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	76,415	-	(255)	76,160	265
Hospital Improvement Revenue Bonds, Series 1999, bear interest at rates ranging from 6.1% to 6.2% and mature in varying amounts through 2029	56,995	-	-	56,995	-
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	30,545	-	(535)	30,010	580
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	3,631	-	(1,337)	2,294	812
Equipment obligation, Banc One Leasing, as defined in the respective lease agreement at an interest rate of 4.9% and matures through 2004	818	-	(818)	-	-
Equipment obligation, IBM Credit Corporation as defined in the respective lease agreement at interest rates ranging from 4.0% to 4.9% and matures through 2004	89	-	(89)	-	-
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	-	131	(40)	91	7
	220,578	131	(7,474)	213,235	6,279
Unamortized discount and loss	(9,327)	-	507	(8,820)	-
	211,251	131	(6,967)	204,415	6,279
Current installments	(7,558)	(6,279)	7,558	(6,279)	-
Long-term debt	$ 203,693	$ (6,148)	$ 591	$ 198,136	$ 6,279

Effective February 1, 1997, the County issued $70,000 of Hospital Improvement and Refunding Revenue Bonds Series 1997 (The MetroHealth System Project) (Series 1997). The proceeds of the Series 1997 Bonds were used to refund $20,900 of Series 1989 Bonds; 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 MetroHealth System Project) (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. The unamortized difference ($6,714 at December 31, 2005), reported in the accompanying financial statements, as a reduction from long-term debt, is included as additional interest expense 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 MetroHealth System Project) (Series 1999 Bonds). The proceeds of the Series 1999 Bonds were used to finance the construction of a 150-bed long-term care facility and acquire, construct, renovate, equip, and improve operating rooms and other hospital facilities. On July 28, 2005, a portion of the proceeds from the County's 2005 Series Bond Issue was placed in escrow to advance refund the outstanding Series 1999 Bonds.

Effective March 13, 2003, the County issued $30,545 of Hospital Improvement Variable Rate Demand Revenue Bonds, Series 2003 (The MetroHealth System Project) (Series 2003 Bonds). The proceeds of the Series 2003 Bonds are were used to pay costs of constructing and equipping the Critical Care Pavilion and an administrative building. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2033. The interest rate at December 31, 2005 was 3.57%.

In connection with the issuance of the Series 2003 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit ("Letter of Credit") issued by a local bank that expires on March 22, 2008. Under the terms of the Letter of Credit, the Trustee will be entitled to draw amounts necessary to make principal and interest payments. The Letter of Credit is subject to various financial covenants.

Effective July 28, 2005, the County issued $74,535 of Hospital Improvement and Refunding Variable Rate Demand Revenue Bonds, Series 2005 (The MetroHealth System Project) (Series 2005 Bonds). Proceeds from the 2005 Series Bonds were used to advance refund $56,995 of the outstanding Series 1999 Bonds scheduled to mature on February 15, 2029; to pay costs of constructing, renovating, furnishing, equipping and improving the South Campus long-term care and skilled nursing facility; and to pay certain costs of issuance of the Series 2005 Bonds. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2035. The interest rate at December 31, 2005 was 3.57%.

In connection with the issuance of the Series 2005 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit ("Letter of Credit") issued by a local bank that expires on July 16, 2010. Under the terms of the Letter of Credit, the Trustee will be entitled to draw amounts necessary to make principal and interest payments. The Letter of Credit is subject to various financial covenants.

The July 28, 2005 bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,179. The unamortized difference ($5,087 at December 31, 2005), reported in the accompanying financial statements, as a reduction from long-term debt, is included as an increase to interest expense through the year 2029 using the effective interest method.

The Series 1997, 1997A, 1999, 2003 and 2005 Bonds were issued pursuant to a master trust bond indenture agreement between the County, acting by and through the System's Board of Trustees, and the bond trustee. The Series 1997, 1997A, 1999, 2003 and 2005 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, and are secured by the revenue and real property of the System. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

The terms of the master 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 revenue bonds and lease obligation payment requirements for fiscal years subsequent to December 31, 2005 are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	$ 769	$ 63	$ 832	$ 6,005	$ 6,146	$ 12,151
2007	807	25	832	6,300	5,886	12,186
2008	50	3	53	6,600	5,618	12,218
2009	51	2	53	6,920	5,322	12,242
2010	7	-	7	7,280	4,996	12,276
2011-2015	33	-	33	42,435	19,463	61,898
2016-2020	20	-	20	49,680	8,783	58,463
2021-2025	-	-	-	41,520	2,939	44,459
2026-2030	-	-	-	38,355	287	38,642
2031-2035	-	-	-	17,835	-	17,835
	$ 1,737	$ 93	$ 1,830	222,930	$ 59,440	$ 282,370
Unamortized discount				(1,440)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				(11,801)		
Total hospital revenue bonds—net				$ 209,689		

The Bond Reserve Funds, also required under the master trust bond indenture agreement, had balances as of December 31, 2005 and 2004 of $12,014 and $18,526, respectively. The cost value of Hospital Revenue Bonds was $221,490 and $209,122 at December 31, 2005 and 2004, respectively. The fair value of Hospital Revenue Bonds ($226,519 and $218,151 at December 31, 2005 and 2004, respectively) is estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

The Foundation

The Foundation's long-term obligations are comprised of the following notes payable:

	2005				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Non Interest bearing note payable, due in one installment of $75 in May 31, 2005	$ 75	$ -	$ (75)	$ 0	$ 0
3.96% note payble, due in semi annual installments of $22 plus interest, through December 31, 2009 secured by its equity interest in Premier Purchaing Partners, L.P.	221	26	(44)	203	44
3.96% note payble, due in semi annual installments of $18 plus interest, through June 30, 2010 secured by its Collateral Assignment in Premier Purchasing Partners, L.P.		178	-	178	36
	296	204	(119)	381	80
Current installments	(119)	(80)	119	(80)	-
Long-term debt	$ 177	$ 124	$ 0	$ 301	$ 80

The future scheduled maturities of the notes payable are as follows:

Years Ending December, 31	
2006	$ 80
2007	80
2008	80
2009	80
2010	61
	$ 381

7. DERIVATIVE INSTRUMENTS

The System's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management of the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, the System entered into various interest rate swap agreements with a total outstanding notional amount of $103,965 and $142,000 at December 31, 2005 and 2004, respectively.

The fair value of the swap agreements based on current settlement prices at December 31, 2005 and 2004 was $2,385 and $1,424, respectively. Such amounts are due from the counterparties and are included in other assets. In 2005 and 2004, the fair value increase of $961 and $2,148, respectively, are recorded as unrealized gains on investment in the statement of revenues, expenses, and changes in net assets. As a result of the agreements, the System incurred additional interest expense of $149 for 2005 and an interest expense reduction of $1,480 for 2004.

The following table describes the terms of the System's four interest rate swap agreements:

Year End Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 75,535	July 28, 2005	February 1, 2035	The System	Fixed 3.3%	70.0% of LIBOR
$ 56,000	May 14, 2003	February 15, 2005	-	Fixed 1.5 %	BMA SWAP Index
$ 30,010	March 13, 2003	March 1, 2033	The System	Fixed 3.5 %	75.0% of LIBOR
$ 56,000	September 1, 1999	February 15, 2005	Counterparty	BMA SWAP Index	Fixed 5.4%

On July 28, 2005, the System entered into a swap agreement with an amortizing notional amount of $74,535. The notional amount is based on the Series 2005 Bond principal repayment schedule that ends in 2035. Per the agreement, the System pays a fixed rate of 3.3% and the counterparty pays 70% of the 3-month USD LIBOR rate. 2005 LIBOR rates ranged between 2.4% and 4.4%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

On May 14, 2003, the System entered into a twenty-one month swap agreement with a fixed notional amount of $56,000. The agreement ended on February 15, 2005. The System paid a fixed rate of 1.5% and the counterparty paid a floating rate equal to the Bond Market Association Municipal Index (BMA Swap Index), an index of seven-day high-grade tax-exempt variable rate demand obligations. During the agreement, BMA index rates ranged between 0.7% and 2.0%.

On March 13, 2003, the System entered into a swap agreement with an amortizing notional amount of $30,545. The amortizing notional amount is based on the Series 2003 Bond principal repayment schedule ending on March 1, 2033. Per the agreement, the System pays a fixed rate of 3.5% and the counterparty pays 75% of the USD LIBOR rate. Net settlement amounts are exchanged monthly. The System has the option to terminate the agreement prior to the February 2035 expiration date.

On September 1, 1999, The System entered into a swap agreement with a fixed notional amount of $56,000. On February 15, 2005, the agreement ended when the counterparty exercised its early termination option. The agreement was originally scheduled to terminate on February 15, 2014. Per the agreement, the System paid the BMA Swap Index rate and the counterparty paid a fixed interest rate of 5.4%. During the agreement, the BMA index rates ranged between 0.7% and 5.8%

8. OTHER LONG TERM LIABILITIES

Amounts Due to Third-Party Payors

The System has agreements with third-party payors that provide for payment of amounts from established rates. 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. See Note 1 net patient service revenue.

Accrued Vacation and Sick

System employees earn vacation and sick leave at varying rates depending on job classification and years of service. Employees can accumulate up to three years of their earned vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the System. There is no limit on the amount of sick time accrued. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 50% of eligible hours at their current rate of pay. The maximum pay out is 800 hours. As of December 31, 2005 and 2004, the liability for accrued sick and vacation was $26,158 and $25,153, respectively.

Note Payable

The System financed one-year general and professional liability policies with a note payable in 2005 and 2004. The 2005 note payable bears interest at a rate of 4.8%; the 2004 note payable interest rate was 3.6%. In 2005, the System was also advanced $1,000 for patient claims from a health insurance provider. The note was repaid by the System several months later. At December 31, 2005 and 2004, the note payable balance outstanding was $4,346 and $4,576, respectively.

Other long-term liabilities consist of the following at December 31, 2005 and 2004:

2005	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$ 41,435	$ 5,784	$ (3,343)	$ 43,876	$ 8,185
Accrued vacation and sick leave	25,153	3,857	(2,852)	26,158	2,938
Asset retirement obligations	-	5,711	-	5,711	1,434
Note payable	4,576	5,750	(5,980)	4,346	4,346
	$ 71,164	$ 21,102	$ (12,175)	$ 80,091	$ 16,903

2004	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$ 42,544	$ 761	$ (1,870)	$ 41,435	$ 6,872
Accrued vacation and sick leave	22,633	4,552	(2,032)	25,153	2,093
Note payable	3,400	4,576	(3,400)	4,576	4,576
	$ 68,577	$ 9,889	$ (7,302)	$ 71,164	$ 13,541

The current portion of the asset retirement obligations is included in other current liabilities.

Risk Management

The System is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System is self-insured for workers compensation and medical malpractice but maintains commercial insurance policies for property and casualty, automobile, aircraft (helicopter and fixed wing) as well as excess coverage for medical malpractice claims. Settled claims have not exceeded insurance coverage in any of the past three years.

During the normal course of its operations, the System has become a defendant in various legal actions. It is not possible to estimate the outcome of these legal actions; however, in the opinion of legal counsel and the System administration, the disposition of the pending cases will not have a material adverse effect of the financial condition or operations of the System. However, depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the System’s future results of operations or cash flows in a particular year.

The System is self-insured for medical malpractice and workers’ compensation claims. For the professional and patient care liability, professional actuarial 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 undiscounted for 2005 and 2004.

2005	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 8,489	$ 2,842	$ (2,626)	$ 8,705	$ 3,481
Self-insurance	37,285	9,751	(9,050)	37,986	18,508
Employee health insurance	2,793	32,441	(32,191)	3,043	3,043
	$ 48,567	$ 45,034	$ (43,867)	$ 49,734	$ 25,032

2004	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 6,145	$ 5,312	$ (2,968)	$ 8,489	$ 3,316
Self-insurance	35,590	12,747	(11,052)	37,285	18,609
Employee health insurance	2,881	29,430	(29,518)	2,793	2,793
	$ 44,616	$ 47,489	$(43,538)	$ 48,567	$ 24,718

The current portion of employee health insurance liabilities is included in other current liabilities.

9. OPERATING LEASES

The System has entered into operating lease agreements for a parking facility, medical space, and office space, which expire through 2020. Contract terms range between one and fifteen years and contain rent escalation clauses and renewal options for additional periods ranging from one to five years.

Minimum rental commitments under operating leases extending beyond one year at December 31, 2005 are as follows:

2006	$ 1,419
2007	1,453
2008	1,466
2009	1,381
2010	1,252
2011-2015	3,477
2016-2020	1,710
Total	$ 12,158

Rent expense totaled $2,064 in 2005 and $1,516 in 2004. The System leases the Valentine parking garage. The lease had an original five year term with five one-year options to renew. Upon the ultimate expiration of the lease, there are several options available to the System regarding the property which result in different amounts possibly due. One of these is an option to purchase the property. The original term has expired and the System's management has elected to exercise the second one-year option, which expires November 30, 2006. The cost to purchase the property at that time is $11,500. Funds have been allocated within Board Designated investments to make this payment.

10. BENEFIT PLANS

Pension

Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System ("OPERS"). The plans are the Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution pension plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and postretirement healthcare benefits, to the Traditional and Combined Plan members however, healthcare benefits are not statutorily guaranteed. Participants in the Member-Directed Plan do not qualify for ancillary benefits.

The Ohio Public Employees Retirement System issues a stand-alone financial report and may be obtained by writing to OPERS, 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% of covered payroll and the System is required to contribute 13.6% of covered payroll. The System's contributions to OPERS for the years ending December 31, 2005, 2004 and 2003 were $40,046, $38,024 and $36,438, respectively, equal to the required contributions for each year.

Postretirement Benefits

OPERS 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 as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The System's contribution for 2005 and 2004 used to fund postretirement health care benefits was $11,822 and $11,025, respectively, which is included in the System's pension contribution of $40,046 and $38,024 for the years ending December 31, 2005 and 2004, respectively.

Based on the latest OPERS actuarial review as of December 31, 2004, OPERS had $10,800,000 in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were $29,500,000 and $18,700,000, respectively. The number of active contributing participants used in the 2004 actuarial valuation was 355,287. The active number of contributing participants as of December 31, 2005 was 376,109.

Benefits are advance-funded using the entry-age normal actuarial cost method. Assets are valued using a smoothed market value approach with assets adjusted annually to reflect 25% of the unrealized market appreciation or depreciation. Other significant actuarial assumptions include an investment return of 8.0%; no change in the number of active employees; active employee payroll increases of 4.0% compounded annually with additional annual increases ranging between 0.5% to 6.3%; and health care costs increasing between 5.0% and 10.0% over the next eight years and 4.0% thereafter.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan ("HCPP") to improve financial solvency of the fund by restructuring health care coverage. The Plan has an effective date of January 1, 2007. Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation to use for purchasing from a broad range of health care options. Unspent monthly allocations are deposited into a Retirement Medical Account for subsequent health care expenses. In 2005, OPERS also created a separate investment pool for health care assets. Effective January 1, 2006, member and employer contribution rates increased.

11. RELATED ORGANIZATIONS

The System is the primary beneficiary of The MetroHealth Foundation, Inc. ("Foundation"). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the System has reported the Foundation as a component unit in the System's 2005 financial statements. The System received support from the Foundation in the amount of $2,091 and $1,082 for 2005 and 2004, respectively, and is recorded as grant revenue on the System's statement of revenues, expenses and changes in net assets. The outstanding receivable from the Foundation was $1,472 and $483 at December 31, 2005 and 2004, respectively. The System also provided the Foundation in-kind support totaling $875 in 2005. This support covered the direct expenses of the Development department and indirect expenses for the use of space and support departments such as information services and environmental services.

The System had established restricted funds to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restrictions or that arise as a result of the operations of the System. A review of these restricted funds is performed annually to determine that funds related to completed clinical trials and certain donated money should be transferred to the Foundation. The total amounts transferred in 2005 and 2004 were $1,086 and $116, respectively.

12. CONDITIONAL PROMISES TO GIVE

The Foundation

The Foundation received a conditional pledge of $10,000 commencing in 2005 payable over the next 10 years at $1,000 per year. The outstanding balance of $9,000 at December 31, 2005 is not included in these financial statements in accordance with Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations.

13. COMMITMENTS

As of December 31, 2005, the System has contractual commitments for the construction of various projects totaling approximately $12,705. These projects are being funded with operating funds.

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THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2005

Federal Grantor/ Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Pass-Through Program From:				
State of Ohio	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	18-3-001-1-CL-05; 18-3-001-1-CL-06	$ 4,297,520
			TOTAL - U.S. Department of Agriculture	**4,297,520**
U.S. Department of Health & Human Services				
Direct Program:	Pediatric Intensive Care Unit New Construction & Renovation	93.887		25,599
			Subtotal DHHS Direct	25,599
Pass-Through Programs From:				
Medicaid Assistance Program	Cuyahoga County Community Mental Health Board	93.778	129000	774,117
	Alcohol & Drug Addiction Services Board of Cuyahoga County	93.778	18311-01	32,853
			Subtotal CFDA No. 93.778	806,970
State of Ohio	Maternal & Child Health Services Block Grant - *Division of Family: Bureau of Child & Family Services*	93.994	18-3-001-1-MC-05	621,997
	CFHS Fetal Death FY06	93.994	18-1-001-1-MC-06	10,300
	Maternal & Child Health Services Block Grant - *Genetics*	93.994	18-3-01-F-AU-05	23,185
	Maternal & Child Health Services Block Grant - *Cleveland Regional Perinatal Network*	93.994	18-3-002-1-BM-04; 18-3-002-1-BM-06	22,965
			Subtotal CFDA No. 93.994	678,447
	Acquired Immunodeficiency Syndrome Activity - *TB Prevention and Control/Outreach*	93.118	18-3-001-2-CK-05	245,888
	HIV Care Formula Grants- Federal HIV Care	93.917	18-3-001-1-AT-04; 18-3-001-1-AT-05	99,991
	Ryan White Emergency Assistance Funding - Title II	93.917	None Available	53,385
Family Planning Services / Center for Community Solutions	Title X/Family Planning	93.217	Public Law 106-113; 5FPHPA050520-28-00	405,701

See notes to supplemental schedule of expenditures of federal awards. (Continued)

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2005

Federal Grantor/ Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Health & Human Services				
Pass-Through Program From:				
Grants / Cuyahoga County	Ryan White Title I	93.914	CE0400386-01	$ 1,040,400
Civil Rights and Privacy Rule Compliance / Center for Health Affairs	HRSA Emergency Preparedness / Bioterrorism Grant (FY03 Funding) & (FY 04 Funding)	93.001	None Available	35,396
Wright State University	CCOE-MH-ODMH-FY06P	93.630	CCOE-MH-ODMH	5,236
	Total - U.S. Department of Health & Human Services			**3,397,013**
U.S. Department of Education				
Pass-Through Programs From:				
State of Ohio	Special Education Grant for Infants & Families with Disabilities - *Early Intervention: Hospital Based Child Find*	84.181	18-3-001-1-HB-05; 18-3-001-1-HB-06	101,729
	Total - U.S. Department of Education			**101,729**
Research & Development Cluster:				
U.S. Department of Health & Human Services				
Direct Programs:				
	Extramural Research Programs in Neuroscience - *Neuronal Migration*	93.853	DHHS/NIH	99
	Grants for Residency Training in Primary Care - *Residency Training in General and Pediatric Dentistry*	93.884	1 D59HP103538-01-11; 1 D59HP03538-02	218,631
	Research - *Chaperones HERG*	93.837		294,447
	Subtotal Research & Development Cluster - Direct			513,177
Pass-Through Programs From:				
Allied Health Geriatric	CSU	93.191	HP03155	5,099
University of Maryland	Patients' and Families' Psychological Response to HAT	93.361	SO1633	300
Cleveland Clinic Foundation	P-GOG Trials	93.395	CA-27469	10,715

See notes to supplemental schedule of expenditures of federal awards.

(Continued)

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2005

Federal Grantor/ Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number		Federal Expenditures
University of Rochester	LOTS Population Study	93.837	2R01HL033843-16	$	4,752
Biomec/EBIR Program NIH-HL	LL Epicardial Stimulation	93.837	1R43HL076967-01		52,189
NHLBI/Duke University	Research - *SCD-Heft*	93.837	R01HL64862		4,520
			Subtotal CFDA No. 93.837		61,461
University of Minnesota	Sprint	93.846	AR048529		16,700
University of Wisconsin	Find Study	93.849	05-8388		357
NIH=NINDS	WARCEF	93.853	NS39143		6,667
University of Wisconsin	P-SWISS Single Rising Dose Study of FK 505 Lipid Comples	93.853	NS39987		2,265
University of Texas Health Center	P-SPS-3 Prevention of Small Subcorcital Strokes	93.853	NS38529		58,643
Rhode Island Hospital	Sonia Study	93.853	R01NS39131		500
Wake Forest	Extramural Research Programs in Neuroscience - *VISP*	93.853	R01NS34447		32,814
NINDA/Emory University	Neuroscience - *Wasid Study*	93.853	R01NS036643-05		28,422
Columbia University	Minocycine in ALS	93.853	NS045294		2,388
			Subtotal CFDA No. 93.853		131,699
DHHS/Rush Presbytarian	Physical Restraints	93.866	AG019715-01A2		33,855
Customkynetics, Inc.	P-FNS WITH STIM GYM II	93.865	HD039013		1,330
Louis Stokes Cleve DVA Med	P-VA Model Pilot - (VA does not assign CFDA numbers)	N/A	M0501216401		13,159
SSA-LEAP	Y5P-LEAP (Fed contract no CFDA number per research)	N/A	16-T-10077-05-01		25,123
			Subtotal Research Cluster: Pass Through Programs		299,768
			TOTAL - Research & Development Cluster		**812,945**
			TOTAL EXPENDITURES OF FEDERAL AWARDS	**$**	**8,609,237**

See notes to supplemental schedule of expenditures of federal awards. (Concluded)

THE METROHEALTH SYSTEM

NOTES TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2005

Note A—Summary of Significant Accounting Policies

Basis of Presentation

The supplemental schedule of expenditures of federal awards includes the federal grant activity of The MetroHealth System (the "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 basic financial statements.

For the purposes of this schedule, federal awards include direct federal awards and pass-through funds received from nonfederal organizations made under federally sponsored programs conducted by those organizations.

All programs are classified under the federal department that sponsors the program. Pass-through programs are also presented by the entity through which the System received the federal award. Catalog of Federal Domestic Assistance ("CFDA") numbers are presented when such numbers are available.

Note B—Medicaid Assistance Program

The amount received from Medicaid in 2005 represents only a portion of the total amount billed by the System. The federal expenditure amount reported represents the actual and accrued receipts times the Federal Financial Participation reimbursement rate for service rendered in 2005.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
The MetroHealth System
Cleveland, Ohio

We have audited the financial statements of The MetroHealth System (the "System"), as of and for the year ended December 31, 2005, and have issued our report thereon dated April 21, 2006. 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 *Governmental 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 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the System in a separate letter dated April 21, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, state funding agencies, pass-through entities, and the Ohio Auditor of State and is not intended to be, and should not be, used by anyone other than these specified parties.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

Board of Trustees
The MetroHealth System
Cleveland, Ohio

Compliance

We have audited the compliance of The MetroHealth System (the "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, 2005. The 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 System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance 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; 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 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 System's compliance with those requirements.

In our opinion, the 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, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 05-1 and 05-2.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract, and grants applicable to federal programs. In planning and performing our audit, we considered the 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 System's 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 audit committee, management, federal awarding agencies, state funding agencies, pass-through entities and the Ohio Auditor of State and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche, LLP

April 21, 2006

THE METROHEALTH SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005

Part I—Summary of Auditor's Results

1. The independent auditors' report on the financial statements expressed an unqualified opinion.

2. There were no reportable conditions in internal control over financial reporting.

3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.

4. There were no reportable conditions in internal control over compliance with requirements applicable to major federal awards programs disclosed by the audit of the financial statements.

5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.

6. The audit disclosed two findings required to be reported by OMB Circular A-133.

7. The System's major programs were:

   U.S. Department of Health and Human Services—Medicaid Assistance Program (CFDA No. 93.778)

   U.S. Department of Agricultural—Special Supplemental Nutrition Program for Women, Infants and Children (CFDA No. 10.557)

   U.S. Department of Health and Human Services—Title X/Family Planning (CFDA No. 93.217)

   U.S. Department of Health and Human Services—Ryan White (CFDA No. 93.914)

8. A threshold of $300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II—Financial Statement Findings Section

No matters are reportable.

Part III—Federal Award findings and Questioned Cost Section

Finding Number: 05-1

Program Name: Medicaid Assistance Program

CFDA: 93.778

Compliance Area: Allowable Costs

Condition: The System overbilled the Cuyahoga County Community Mental Health Board for one service provided to a selected patient.

Criteria: According to the Office of Management and Budget A133 Compliance Supplement for Medicaid, to be allowable, Medicaid costs for medical services must be paid at the rate allowed by the State plan.

Cause and Effect: The error is the result of the manual nature of recording the units of service. Management records the number of units of service provided to each patient in the Epic system. A chart is utilized by the service providers which indicates the number of units to be recorded, based on the time spent with each patient and the type of service being provided. In one instance, the amount recorded was one unit greater than what was rendered. Failure to record an accurate number of units of service results in an overbilling or underbilling to Cuyahoga County Community Mental Health Board, which results in the receipt of an improper reimbursement amount.

Questioned Costs: None

Context: The System requests reimbursement based on units of service provided by the System multiplied by the Medicaid contract rate for the type of service rendered. One instance was identified whereby the System overbilled the Cuyahoga County Community Mental Health Board.

Recommendation: The System should consider changing the manual nature of this process to one that would reduce the potential for human error. For example, the chart utilized by service providers to determine the number of units provided could be embedded within the Epic system so that the only thing the service provider has to enter is the number of minutes spent with each patient. In this manner, the number of units would be automatically calculated based on their input of time. The potential for a service provider to erroneously enter the amount of minutes spent with a patient is significantly lower than the potential for a service provider to misinterpret the chart.

Finding Number: 05-2

Program Name: Family Planning - Services

CFDA: 93.217

Compliance Area: Allowable Costs

Condition: The System overbilled the program by not removing patients from the database that ultimately were determined to have other insurance coverage.

Criteria: According to the Title X Project Delegate Agreement, "If third party is authorized or legally obligated to pay for services, all reasonable efforts must be made to obtain the third-party payment without application of any discounts.

Cause and Effect: The underlying cause is due to the fact that initially, these visits appear to be allowable under Title X. However, because an adjustment occurs after the case is billed, this creates an error. The appropriate personnel were alerted to the matter, and they confirmed that there is no formal process in place to track these adjustments.

Questioned Costs: None

Context: Four patients were identified out of a sample of twenty five that had insurance other than self-pay/family planning.

Recommendation: A process should be implemented that tracks adjustments made and the appropriate correction should be made when billing Family Planning. In addition, controls should be implemented at the point of patient access to determine whether or not they have other insurance.

THE METROHEALTH SYSTEM

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2005

Prior Year Finding Number	Summary of Prior Year Finding	Status
04-1: Medicaid Assistance Program CFDA 93.778	On the Medicaid Assistance Program, three (3) instances of unallowable costs were documented whereby the personnel costs charged to the program exceeded their applicable allocation percentage. The error resulted in questioned costs of $50,000. A revised methodology should be implemented to reduce the potential for human error when allocating salary costs.	Completed—Accounting implemented additional controls to ensure that the FTE costs allocated to the program do not exceed the specific FTE budgeted for each individual. To ensure its effectiveness on a consistent basis, Accounting also developed review schedules to compare the budgeted FTE by individual to the actual FTE charged to the program.
04-2: Medicaid Assistance Program CFDA 93.778	On the Medicaid Assistance Program, two (2) instances of unallowed activities were documented, resulting from inaccurate billings to Medicaid (one overbilling, one underbilling). In both cases, the number of service units billed did not equal to the documented service length (minutes). No questioned costs applied. However, changes to the billing process should be implemented to reduce the potential for human error in calculating the number of units provided, such as implementing an automated conversion of minutes to service units within the billing system.	Completed/ongoing—The Department of Psychiatry's administration implemented a monthly audit process where 25 records per month are randomly selected to ensure the billing increments properly equate to the service length documented. In addition, Psychiatry’s administration developed an education and re-education program for all service providers. New providers to MetroHealth are given a one-on-one orientation. Re-education is given to a provider when discrepancies are identified in the monthly audit process.

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THE 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
JULY 18, 2006