The MetroHealth System

Financial Statements for the Years Ended
December 31, 2007 and 2006, and
Independent Auditors' Reports

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of The MetroHealth System, Cuyahoga County, prepared by Deloitte & Touche LLP, for the audit period January 1, 2007 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 17, 2008

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THE METROHEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The MetroHealth System
Cleveland, Ohio

We have audited the accompanying balance sheets of The MetroHealth System (the "System"), a component unit of Cuyahoga County, Ohio, as of December 31, 2007 and 2006, 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 thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included 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 the audit to obtain reasonable assurance about whether the respective 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 respective 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 and the Foundation at December 31, 2007 and 2006, 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.

The Management's Discussion and Analysis on pages 5 through 13 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. Te 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 28, 2008, 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 28, 2008

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

To the Board of Trustees 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, 2007, and have issued our report thereon dated April 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the separate letter dated April 28, 2008, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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*.

We noted certain matters that we reported to management of the System in a separate letter dated April 28, 2008.

This report is intended solely for the information and use of the audit committee, board of trustees, 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 28, 2008

Management’s Discussion and Analysis (5-13)

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, 2007 and 2006. 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 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 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 2007

- Outpatient visits increased 4.3% from the prior year.

- Patient days increased 3.1% from the prior year.

- The System opened the Senior Health and Wellness Center at its Old Brooklyn Campus (the South Campus was renamed in 2007 to “Old Brooklyn” in recognition of the Cleveland neighborhood in which it is located) in the fall.

- Surgical volumes increased 4.5% for the year.

- The Upper Payment Limit (UPL) and Hospital Care Assurance program revenues decreased $10.7 million from the prior year.

- Total net assets decreased $2.8 million from the prior year.

- Charity care reached record levels increasing 19.5 % to $230 million.

Financial and Operating Highlights for 2006

- The average length of stay decreased 2.5% from the prior year.

- Outpatient levels of activity increased 4.0% from the prior year.

- Emergency room levels of activity increased 7.6% from the prior year.

- Surgical cases increased 6.2% from the prior year.

- Total net assets increased by $22.3 million over the prior year.

- The System received a one-time $10.0 million County appropriation to assist with the renovation and remodeling costs at the new South Campus Senior Health and Wellness Center.

- Upper Payment Limit (UPL) and Hospital Care assurance program revenues decreased by $8.7 million from the prior year.

- The System began phases two and three of the Old Brooklyn (South) Campus project. Completion of the project will enable the System to relocate its east side skilled nursing care facility (phase two) and geriatric clinical services (phase three) to a single campus.

Financial Analysis of the System at December 31, 2007 and 2006

Total assets increased by 0.8% to $645.7 million, and total liabilities increased 2.0% to $404.3 million in 2007. The System's total net assets decreased from $244.2 million to $241.4 million in 2007, a 1.1% decrease from a year ago. Table 1 summarizes the balance sheet movement for the last three years.

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

	2007	2006	2005
Assets:			
Current assets	$ 110,755	$ 96,443	$ 85,172
Investments	222,518	247,061	230,598
Restricted assets	24,634	31,175	42,046
Capital assets	282,230	259,585	263,261
Other assets	5,556	6,478	5,652
Total assets	$ 645,693	$ 640,742	$ 626,729
Liabilities and net assets:			
Liabilities:			
Current liabilities	$ 115,697	$ 104,739	$ 112,325
Long-term liabilities	288,637	291,850	292,542
Total liabilities	404,334	396,589	404,867
Net assets:			
Invested in capital assets — net of related debt	83,551	60,012	68,571
Restricted	21,097	28,195	39,048
Unrestricted	136,711	155,946	114,243
Total net assets	241,359	244,153	221,862
Total liabilities and net assets	$ 645,693	$ 640,742	$ 626,729

Current Assets

Total current assets increased $14.3 million in 2007 or 14.8% from 2006. The large increase is primarily related to a higher patient accounts receivable balance. The patient accounts receivable balance increased $11.7 million or 16.3% from 2006. Overnight cash balances increased $1.5 million and the receivable related to the Upper Payment Limit Program increased $1.4 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 UPL for inpatient hospital services. The System had UPL receivable balances of $7.4 million and $6.0 million at the end of 2007 and 2006, respectively.

In 2006, total current assets increased $11.3 million or 13.2% from 2005. The large increase was primarily related to higher patient accounts receivable balance. The patient accounts receivable balance increased $12.9 million or 21.8% from 2005. One asset category experiencing a decrease from 2005 was the cash and cash equivalents. Cash decreased $3.1 million from the prior year and is due to higher amounts held in the investment accounts rather than overnight investment accounts.

Investments

Investments decreased $24.5 million or 9.9% from 2006. Board Designated investments decreased $33.8 million. The decrease was due largely to the need to fund capital expenditures for the year. Major projects requiring funding are phases II (long-term care facility) and III (geriatric clinic) at the System's Old Brooklyn Campus (see Capital Assets section below). The Depreciation Reserve fund increased $11.1 million from transfers for the annual funding requirement and investment returns. Restricted investments decreased $6.5 million for the year and represents withdrawals from the 2005 project fund.

Investments increased $16.5 million from 2005, or 7.1%. The increase is primarily related to a one-time $10.0 million appropriation to assist with renovation costs at the new Old Brooklyn Campus skilled nursing facility, and from investment income. In 2006, the Depreciation Reserve fund increase by $8.7 million and represents the amount the System is required to deposit into the fund and net investment returns. The Board Designated investments grew by $7.7 million in 2006. Restricted assets decreased $10.9 million in 2006 and can be attributed to $11.0 million in Series 2005 bond project fund withdrawals to pay for Old Brooklyn Campus renovation and remodeling costs.

Capital Assets

Capital expenditures for the year totaled $54.5 million, a $25.7 million increase compared to the prior year. Major project expenditures in 2007 included $20.9 million for construction at the Senior Health and Wellness Center (Phases II and III at the Old Brooklyn Campus), $2.1 million for inpatient medical record software (initial payment), $1.6 million for MRI equipment, $1.5 million deposit for helicopter replacements, $1.3 million for the elevator modernization project, and $1.1 million for employee parking lots. The remaining expenditures were for facility infrastructure upgrades, clinic renovations, technology updates, and medical equipment purchases. The 2005 Project fund, $6.6 million, was used for construction at the Old Brooklyn Campus and the remaining capital expenditures were paid from operating funds.

Capital expenditures for 2006 were $28.8 million. Significant capital outlays included $4.0 million to complete the conversion of the former Deaconess Hospital to a support services facility (Old Brooklyn Campus phase I); $3.6 million for phase II and III project costs at the Old Brooklyn Campus; $2.6 million for the Electrophysiology Lab; $2.3 million for the Cancer Care Linear Accelerator project; $2.1 million for the Air Handling Unit renovation; and $1.9 million for the Endoscopy suite remodel. Other capital expenditures were for space, equipment, and technology upgrades. Proceeds from the Series 2005 Bond issue were used for Old Brooklyn Campus project costs and the remaining expenditures were paid with operating funds.

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

Current Liabilities

For 2007, total Current Liabilities increased $11.0 million or 10.5 % from the prior year. Accounts Payable increased $7.8 million or 35.4% from the prior year. The major driver for the increase was $6.4 million increase in capital equipment and construction liabilities from 2006. Year-end accounts payable accruals also increased $2.5 million. Increase in accrued salaries and wages payable of $1.2 million and health care liabilities of $1.2 million rounded out the current liability increases for 2007.

Total Current Liabilities for 2006 declined by $7.6 million from the prior year. Accounts Payable declined by $2.5 million and is related to a $1.6 million decrease in construction project and retainer liabilities. Accrued payroll increased $2.1 million and is related to the additional accrual day needed in 2006 compared to 2005 and higher 2006 salary and wage costs. The current portion of the self-insurance liability decreased from the prior year by $4.3 million due to improved claim experience and decreased payouts. The current portion of the third-party liability decreased $2.2 million and is related to a smaller overall liability and revised current and long-term estimates. Other current liabilities contain the Upper Payment Limit liability which decreased $0.5 million from the prior year.

Long-Term Liabilities

All of the System's long-term debt relates to the acquisition of capital assets. For 2007, long-term debt decreased $5.8 million or 2.9%. Principal payments on outstanding bond issues were $5.8 million, lease and other principal payments totaled $0.8 million, and amortized bond discounts and deferred losses were $0.8 million. For other long-term liabilities, an increase of $1.5 million in self insurance liabilities and a $3.4 million increase in accrued sick and vacation was offset by a decrease in amounts due third-party payors of $2.3 million. In total, long-tem liabilities decreased 1.1% from the prior year.

In 2006, long-term debt decreased by $6.4 million from the previous year. During the year the System made bond principal payments totaling $6.0 million; capital lease and loan principal payments totaling $0.8 million; and amortized bond discounts and deferred losses totaling $0.7 million.

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 was $5.4 million as of December 31, 2005. In 2006, demolition costs of the Quadrangle building and adjustments to estimates reduced the liability by $1.0 million while normal accretion expenses added $0.2 million. The result is a net asset retirement obligation at December 31, 2006, of $4.6 million, of which $4.3 million is considered to be long-term. More information regarding this obligation is presented in Note 8 of the financial statements.

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,		
	2007	2006	2005
Operating revenues:			
Net patient service revenue	$ 562,018	$ 554,797	$ 523,950
Other revenue	24,064	22,807	23,462
Total operating revenues	586,082	577,604	547,412
Operating expenses:			
Professional care of patients	406,289	385,909	357,964
Dietary	8,111	7,398	7,051
Household and property	28,491	27,197	26,121
Administrative and general	69,254	68,010	70,437
Employee benefits	83,799	79,503	73,441
Provision for bad debts	10,158	7,457	7,015
Depreciation and amortization	31,497	30,666	30,009
Total operating expenses	637,599	606,140	572,038
Operating loss	(51,517)	(28,536)	(24,626)
Nonoperating revenues — net	47,661	50,100	35,695
Grants for capital acquisitions	1,564	1,087	712
(Decrease) increase in net assets	(2,292)	22,651	11,781
Total net assets — Beginning of year	244,153	221,862	216,328
Transfer of net assets	(502)	(360)	(1,086)
Cummulative effect of change in accounting principle			(5,161)
Total net assets — End of year	$ 241,359	$ 244,153	$ 221,862

The System's total operating and nonoperating revenues in 2007 were $646.6 million while expenses were $648.9 million. This resulted in net assets decreasing $2.3 million for the year. This compared to a net asset increase between 2006 and 2005 of $22.3 million that had $642.1 million in revenue and $619.4 in expenses.

Net Patient Service Revenue

Net patient service revenue increased $7.2 million or 1.3% in 2007. Positive gains in inpatient days of 3.1% and outpatient visits of 4.3% coupled with a 5% price increase accounted for increased gross revenues of $111.2 million or 7.8%. Other major changes to net patient revenue that off-set gross revenue included a contractual allowance increase of $54.7 million, Hospital Care Assurance Program payments decrease of $9.2 million, and charity care write-offs increase of $37.4 million. This compares to the $30.8 million or 5.9% increase in 2006.

As mentioned above, net patient service revenue also includes revenue the System received as a participant in the State of Ohio Hospital Care Assurance Program (HCAP) ($15.3 million in 2007, $24.5 million in 2006, and $28.2 million in 2005) and Upper Payment Limit (UPL) ($9.6 million in 2007, $11.1 million in 2006, and $16.1 million in 2005) programs. The decrease in HCAP revenue is due to the Ohio Department of Job and Family Services (ODJFS) reverting back to the 100% Omnibus Budget Reconciliation Act of 1990 (OBRA) Cap for Public Hospitals. Additionally, the UPL decrease reflects that in 2007 there was a mandatory movement of Medicaid Aged Blind and Disabled (ABD) patients from fee-for-service to managed care. Managed care patients do not qualify for the UPL program.

Charity care increased $37.4 million to $229.5 million in 2007. This was an increase of 19.5% 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 $31.5 million or 5.2% from 2006. This percentage is a little lower than the 6.0% or $34.1 million increase experienced between 2005 and 2006. Table 3 summarizes the expenses from the last three years.

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

	2007	**2006**	**2005**
Operating expenses:			
Salaries and wages	$ 357,613	$ 337,756	$ 317,209
Employee benefits	83,799	79,503	73,441
Medical supplies	34,862	35,852	33,352
Pharmaceuticals	30,556	28,184	24,933
Plant operations	36,264	37,126	33,574
Supplies and other	42,161	38,873	37,304
Liability insurance	10,689	10,723	15,201
Provision for bad debts	10,158	7,457	7,015
Depreciation and amortization	31,497	30,666	30,009
Total operating expenses	$ 637,599	$ 606,140	$ 572,038

Salaries and wages increased $19.9 million from 2006 to 2007, or 5.9%. This is lower than the 6.5% increase from 2005 to 2006 of $20.5 million. There was a general wage increase of 3.0% in 2007 and 2006. The remainder of the difference is attributed to a net increase of 130 FTE's and physician incentives.

Employee benefits increased a total of $4.3 million in 2007, or 5.4% from 2006 expense levels. Health insurance costs increased $1.8 million or 6.2%. PERS ($3.0 million) and Medicare ($0.3 million) expense increases were consistent with the general salary and wage increase, FTE growth and the PERS contribution rate increase of 0.15%.

Employee benefits increased a total of $6.1 million in 2006, or 8.3% from 2005 expense levels. Higher health care costs, workers' compensation claims, and FTE growth pushed benefit expenses upward. Health insurance costs increased $1.6 million or 5.8%, while workers' compensation costs grew by $0.4

million or 15.4%. PERS and Medicare expense increases were consistent with the general salary and wage increase, FTE growth and the PERS contribution rate increase of 0.15%.

Medical Supplies and Pharmaceuticals increased a combined 2.2% from 2006 to 2007. The increase between 2005 and 2006 was 9.9%.

Plant Operations decreased a total of $0.9 million or 2.3% in 2007.

Plant Operations increased a total of $3.5 million or 10.5 % in 2006. Service contracts, remodeling, and natural gas comprise the majority of the increase. Service contracts on equipment and software increased $1.3 million. Construction and remodeling costs increased $0.7 million and is related to main campus demolition expenses. Natural gas supply costs increased $0.7 million

Liability insurance remained about the same in 2007 with only a slight decrease ($34 thousand) from 2006. In 2005, Medical malpractice insurance expense decreased by $1.9 million or 11.0% from the prior year.

Nonoperating Revenue and Expenses

Net nonoperating revenue decreased $2.4 million from the prior year. The County's overall subsidy, including the general subsidy, for 2007 was a net decrease of $5.1 million when taken into account that in 2006, the County provided a one-time $10 million contribution to assist the System with the costs associated with relocating the east side skilled nursing facility to the Old Brooklyn Campus. The County's 2007 general subsidy to the System was $40.0 million which is a $5.0 million increase from 2006. Offsetting a portion of the County decrease was higher investment income of $0.7 million; unrealized gains from changes in investment and interest rate Swap agreement market values of $2.6 million; and flat interest expense.

In 2006, net nonoperating revenue increased $14.4 million from the prior year. The bulk of the increase is from the County's one-time contribution of $10.0 million for the skilled nursing facility at the Old Brooklyn Campus. The County's 2006 general subsidy to the System was $35.1 million. Also favorably affecting the nonoperating revenue increase was higher investment income of $1.9 million; unrealized gains from changes in investment and interest SWAP agreement market values of $1.2 million and lower interest expense of $0.7 million. Interest expense decreased from $10.7 million in 2005 to $10.0 million in 2006. The decline in interest expense is related to the favorable effects of the 1999 Series Bond refunding and 2005 Series Bond issuance that occurred midyear in 2005.

Economic Factors and Next Year's Budget

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

- The System budgeted to receive a $40.0 million appropriation from the County in 2008 and has a memorandum of understanding for the same amount in 2009. This is exactly the same amount the System received from general appropriation in 2007. The System will continue to explore revenue enhancement and cost reduction (productivity) opportunities.

- At both the federal and state level, proposed Medicare and Medicaid freezes and funding cuts continue to harm System revenues and cash flows as it relies on Medicare and Medicaid for 28% and 32% of net patient revenues, respectively. The System will continue to promote federal and state policy reforms to prevent these reductions and provide adequate funding to safety net providers.

- In 2007 a congressional moratorium delayed, until May 25, 2008, significant Medicaid cuts per the "Medicaid Program Cost Limit for Providers Operated by Units of Government and Provisions to Ensure the Integrity of Federal State Financial Partnership" regulation. The Medicaid moratorium legislation is currently in the House Energy & Commerce Committee and would extend the Medicaid moratorium until March 31, 2009.

- 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. The System intends to use unrestricted Reserves for continued operating and Capital needs in 2008. In addition, efforts to obtain appropriate Philanthropy to offset these operational and capital needs will continue in 2008.

- The System is estimating net HCAP dollars of $27.3 million in 2008. This is a sharp increase in HCAP dollars from 2007 ($15.4 million). It is estimated that the 2008 OBRA Cap (which is based on 2006 data) will increase for a number of reasons. The growth of Uncompensated Care, as well as the significant decrease in UPL dollars due to an ODJFS correction to the formula used in calculating available supplemental Medicaid payments (UPL) in 2006. This is projected to result in a greater Medicaid shortfall and thus a higher OBRA Cap in 2008.

- In 2007, the System received $9.6 million in net UPL dollars. This was a reduction to prior year amounts due to an ODJFS correction to the formula used in calculating available supplemental funds and the 2007 mandatory movement of the Medicaid ABD population to Managed Care. The Managed Care patients do not qualify for UPL monies. In 2008, with the continued movement of the Medicaid ABD population to managed care, it is estimated the System will net $8.1 million in UPL dollars.

- During 2007, the Skilled East Nursing facility decreased the occupancy level from 201 patients to 144 patients for the successful move to the Old Brooklyn Campus (144 beds) in the first quarter of 2008.

THE METROHEALTH SYSTEM

BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2007	2006	2007	2006
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 2,915	$ 1,120	$ 673	$ 243
Accounts receivable	83,802	72,062	2,231	2,717
Allowance for uncollectible accounts	(7,635)	(6,897)	(202)	(280)
Net accounts receivable	76,167	65,165	2,029	2,437
Other receivables	18,205	16,643	70	97
Supplies	6,367	6,013	49	19
Prepaid expenses	7,101	7,502		
Total current assets	110,755	96,443	2,821	2,796
INVESTMENTS:				
General	101,870	135,678	3,622	3,227
Academic funds	35,760	37,635		
Depreciation reserve fund	84,888	73,748		
	222,518	247,061	3,622	3,227
RESTRICTED ASSETS:				
Cash and cash equivalents	141	163	505	1,035
Special purpose investments	5,556	5,556	19,507	17,151
Under bond indenture agreement	18,937	25,456		
	24,634	31,175	20,012	18,186
CAPITAL ASSETS:				
Land and land improvements	21,924	17,130		
Buildings and fixed equipment	497,541	480,702		
Equipment	250,340	238,885		
	769,805	736,717		
Accumulated depreciation	(516,408)	(485,897)		
	253,397	250,820		
Construction in progress	28,833	8,765		
	282,230	259,585		
OTHER ASSETS	5,556	6,478		
TOTAL	$ 645,693	$ 640,742	$26,455	$24,209

(Continued)

THE METROHEALTH SYSTEM

BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2007	2006	2007	2006
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	$ 29,755	$ 21,980	$ 1,182	$ 1,023
Accrued payroll and related liabilities	23,781	20,537		
Public Employees Retirement System liability	12,212	11,363		
Accrued interest payable	2,490	2,602	3	4
Self-insurance liabilities	17,094	17,702		
Estimated amounts due to third-party payors	6,364	5,986		
Accrued vacation and sick leave	2,575	2,641		
Note payable	3,707	4,500		
Current installments of long-term liabilities	6,648	7,105	64	62
Other current liabilities	11,071	10,323	262	380
Total current liabilities	115,697	104,739	1,511	1,469
LONG-TERM LIABILITIES — Less current installments:				
Self-insurance liabilities	30,263	28,745		
Estimated amounts due to third-party payors	32,220	34,476		
Accrued vacation and sick leave	29,437	26,032		
Asset retirement obligations	4,319	4,369		
Long-term debt	192,398	198,228	137	201
Total long-term liabilities	288,637	291,850	137	201
Total liabilities	404,334	396,589	1,648	1,670
NET ASSETS:				
Invested in capital assets — net of related debt	83,551	60,012		
Restricted for debt service and projects	18,937	25,456		
Restricted — nonexpendable			6,179	5,706
Restricted — expendable	2,160	2,739	14,152	12,465
Unrestricted	136,711	155,946	4,476	4,368
Total net assets	241,359	244,153	24,807	22,539
TOTAL	$ 645,693	$ 640,742	$26,455	$24,209

See notes to financial statements. (Concluded)

THE METROHEALTH SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2007	**2006**	**2007**	**2006**
OPERATING REVENUES:				
Net patient service revenue	$562,018	$554,797	$	$
Other revenue	24,064	22,807		
Total operating revenues	586,082	577,604		
OPERATING EXPENSES:				
Professional care of patients	406,289	385,909		
Dietary	8,111	7,398		
Household and property	28,491	27,197		
Administrative and general	69,254	68,010		
Employee benefits	83,799	79,503		
Provision for bad debts	10,158	7,457		
Total operating expenses before depreciation and amortization	606,102	575,474		
Operating (loss) gain before depreciation and amortization	(20,020)	2,130		
Depreciation and amortization	31,497	30,666		
Operating loss	(51,517)	(28,536)		
NONOPERATING REVENUES (EXPENSES):				
County appropriation	40,000	45,098		
Net investment income	15,060	11,730	2,107	2,653
Other nonoperating revenue	2,803	2,918		
Grants and donations	4,480	4,474	7,068	6,014
Grant expenditures and support	(4,558)	(4,084)	(7,409)	(4,986)
Interest expense	(10,124)	(10,036)		
Total nonoperating revenues — net	47,661	50,100	1,766	3,681
(LOSS) GAIN BEFORE OTHER CHANGES	(3,856)	21,564	1,766	3,681
OTHER CHANGES — Grants for capital acquisitions	1,564	1,087		
(DECREASE) INCREASE IN NET ASSETS	(2,292)	22,651	1,766	3,681
TOTAL NET ASSETS — Beginning of year	244,153	221,862	22,539	18,518
Transfer of net assets	(502)	(360)	502	340
TOTAL NET ASSETS — End of year	$241,359	$244,153	$ 24,807	$ 22,539

See notes to financial statements.

THE METROHEALTH SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Patient service revenue	$ 537,968	$ 530,544
Other operating cash receipts	24,064	22,807
Payments to suppliers	(151,352)	(155,047)
Payments for compensation and benefits	(433,417)	(411,053)
Net cash flows used in operating activities	(22,737)	(12,749)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County appropriation	40,000	45,098
Proceeds from notes payable	3,707	4,500
Principal payments on notes payable	(4,500)	(4,346)
Interest payments on notes payable	(107)	(104)
Restricted grants and donations	8,847	8,479
Specific-purpose funds expenditures	(4,558)	(4,084)
Transfer of net assets	(502)	(360)
Restricted receivables/liabilities	28	(59)
Net cash flows provided by noncapital financing activities	42,915	49,124
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits in project funds	(277)	(452)
Withdrawals from project funds	6,639	11,030
Acquisitions and construction	(49,392)	(28,836)
Principal payments on long-term debt	(7,105)	(6,772)
Interest payments on long-term debt	(9,463)	(9,644)
Net cash flows used in capital and related financing activities	(59,598)	(34,674)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) investments, net	29,515	(15,677)
Interest received and realized gains and losses	11,678	10,952
Net cash flows provided by (used in) investing activities	41,193	(4,725)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,773	(3,024)
CASH AND CASH EQUIVALENTS — Beginning of year	1,283	4,307
CASH AND CASH EQUIVALENTS — End of year	$ 3,056	$ 1,283
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (51,517)	$ (28,536)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	31,497	30,666
Provision for bad debts	10,158	7,457
Changes in assets and liabilities:		
Increase in patient accounts receivable	(21,160)	(20,642)
Increase in other assets	(2,380)	(1,751)
Increase (decrease) in self-insurance liabilities	910	(244)
Increase (decrease) in accounts payable and other liabilities	8,773	(1,129)
Increase in long-term liabilities	982	1,430
Net cash flows used in operating activities	$ (22,737)	$ (12,749)

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.

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 $40,000 and $35,098 for 2007 and 2006, respectively. The County also approved for 2006, a one-time appropriation of $10,000, to assist with the renovation and remodeling costs at the Old Brooklyn Campus Senior Health and Wellness Center. The County has approved an appropriation of $40,000 for 2008. 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 it is 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 with 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 revenues 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. Nonoperating revenues include County appropriation, investment income, specific purpose grants and donations, primarily research, and unrealized gains on investments. Nonoperating 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 $757,476 and $702,783 in 2007 and 2006, respectively.

The System has agreements with third-party payors that provide for payment at amounts different from established charge 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. 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.

Medicare outpatient claims are reimbursed under the Ambulatory Payment Classification based prospective payment system. 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 2007, inpatient psychiatric services were reimbursed at 25% of reasonable cost plus 75% 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 favorable adjustments of $3,907 and $5,299 in 2007 and 2006, respectively, due to prior year retroactive adjustments to amounts previously estimated.

Net revenue from the Medicare and Medicaid programs accounted for approximately 28% and 32%, respectively, of the System’s net patient service revenue for the year ended December 31, 2007, and 26% and 32%, respectively, of the System’s net patient service revenue for the year ended December 31, 2006. 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, 2007 and 2006, $7,395 and $6,000, 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 $2,942 and $2,414, respectively, is included in other current liabilities. The net amount recorded in net patient service revenue for UPL by the System was $9,584 and $11,106 in 2007 and 2006, 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 $28,700 and $36,731 in 2007 and 2006, respectively, (including Care Assurance of $15,319 and $24,481 in 2007 and 2006, 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 $229,504 and $192,115, which represents 15.0% and 13.5% of gross charges in 2007 and 2006, 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 nonoperating 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 investment's fair value to the total fair value of all pooled investments.

The net realized gain of $255 and $470 in 2007 and 2006, respectively, 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 cash equivalents 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 cash equivalents 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 payments 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 from 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. Accordingly, the System does not record in its financial statements the assets and liabilities of 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 $154 in 2007 and $153 in 2006. Amortization expense related to bond discounts was $92 in 2007 and $101 in 2006. 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 2003 and 2005 Bonds totaled $106 and $565 in 2007, respectively, and $400 and $540 in 2006, 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 July 2005, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*. This Statement establishes standards for the measurement, recognition, and display of Other Post Employment Benefits expense and related liabilities, note disclosures in the financial reports of state and local governmental employers. The System adopted GASB Statement No. 45 effective January 1, 2007. This statement has no effect on the System's financial statements, except additional footnote disclosures as noted at Note 10.

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, 2007 and 2006, totaled $2,981 and $1,173, respectively, and were subject to the following categories of custodial risk:

	2007	2006
Uncollateralized	$ 2,821	$ 998
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	60	75
Total amount subject to custodial risk	2,881	1,073
Amount insured	100	100
Total bank balances	$ 2,981	$ 1,173

Investments

The System — As of December 31, 2007 and 2006, the fair values of the System's investments were as follows:

	2007	2006
Cash and cash equivalents	$ 71,089	$ 98,021
U.S. Government Agencies	166,269	162,166
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)	308	3,268
Collateralized Mortgage Obligations	497	741
Corporate Bonds	8,848	13,877
Total investments	$ 247,011	$ 278,073

The System's carrying amounts of the deposits and investments at December 31, 2007 and 2006, are as follows:

	2007	2006
Deposits	$ 3,056	$ 1,283
Investments	247,011	278,073
Total deposits and investments	$ 250,067	$ 279,356

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, 2007, 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.

The Foundation — As of December 31, 2007, the fair values of the Foundation's investments were as follows:

	2007	2006
Mutual funds	$ 22,207	$ 19,574
Common stock	107	104
Premier Purchasing Partners, L.P.	815	700
Total deposits and investments	$ 23,129	$ 20,378

The Foundation's investments had cumulative unrealized gains of $1,722 and $1,221 and cumulative unrealized losses of $259 and $164 at December 31, 2007 and 2006, respectively.

4. CAPITAL ASSETS

The following summarizes the capital assets of the System for the years ended December 31, 2007 and 2006:

2007	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$	$	$ 9,377
Construction in progress	8,765	47,170	(27,102)	28,833
Total nondepreciated capital assets	18,142	47,170	(27,102)	38,210
Depreciable capital assets:				
Land improvements	7,753	4,794		12,547
Buildings and fixed equipment	480,702	16,872	(33)	497,541
Equipment	238,885	12,431	(976)	250,340
Total depreciable capital assets	727,340	34,097	(1,009)	760,428
Less accumulated depreciation:				
Land improvements	(7,025)	(251)		(7,276)
Buildings and fixed equipment	(290,768)	(17,696)	33	(308,431)
Equipment	(188,104)	(13,550)	953	(200,701)
Total accumulated depreciation	(485,897)	(31,497)	986	(516,408)
Total depreciable capital assets — net	241,443	2,600	(23)	244,020
Total capital assets — net	$ 259,585	$ 49,770	$ (27,125)	$ 282,230

2006	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$	$	$ 9,377
Construction in progress	13,964	22,074	(27,273)	8,765
Total nondepreciated capital assets	23,341	22,074	(27,273)	18,142
Depreciable capital assets:				
Land improvements	7,803		(50)	7,753
Buildings and fixed equipment	468,331	17,590	(5,219)	480,702
Equipment	227,720	14,905	(3,740)	238,885
Total depreciable capital assets	703,854	32,495	(9,009)	727,340
Less accumulated depreciation:				
Land improvements	(6,894)	(135)	4	(7,025)
Buildings and fixed equipment	(278,409)	(17,434)	5,075	(290,768)
Equipment	(178,631)	(13,097)	3,624	(188,104)
Total accumulated depreciation	(463,934)	(30,666)	8,703	(485,897)
Total depreciable capital assets — net	239,920	1,829	(306)	241,443
Total capital assets — net	$ 263,261	$ 23,903	$ (27,579)	$ 259,585

Total depreciation and amortization expense related to capital assets for 2007 and 2006 was $31,497 and $30,666, 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 years ended December 31, 2007 and 2006, 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 2007 and 2006 are as follows:

	2007				
	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	$ 38,245	$	$ (5,070)	$ 33,175	$ 955
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,620		(290)	75,330	4,670
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	28,830		(625)	28,205	645
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	74,230		(315)	73,915	330
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	759		(759)		
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	131		(42)	89	44
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	60		(4)	56	4
	217,875		(7,105)	210,770	6,648
Unamortized discount and loss	(12,542)		818	(11,724)	
	205,333		(6,287)	199,046	6,648
Current installments	(7,105)	(6,648)	7,105	(6,648)	
Long-term debt	$198,228	$ (6,648)	$ 818	$192,398	$ 6,648

	2006 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	$ 43,070	$	$ (4,825)	$ 38,245	$ 5,070
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,895		(275)	75,620	290
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	29,430		(600)	28,830	625
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	74,535		(305)	74,230	315
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	1,482		(723)	759	759
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	171		(40)	131	42
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	84		(24)	60	4
	224,667		(6,792)	217,875	7,105
Unamortized discount and loss	(13,241)		699	(12,542)	
	211,426		(6,093)	205,333	7,105
Current installments	(6,774)	(7,105)	6,774	(7,105)	
Long-term debt	$204,652	$ (7,105)	$ 681	$198,228	$ 7,105

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 ($5,831 and $6,336 at December 31, 2007 and 2006, respectively), 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. The defeased series 1999 bonds remain outstanding at December 31, 2007.

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, 2007 and 2006 was 3.48% and 3.93%, respectively.

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, but has been extended to March 22, 2010, under terms of an extension signed in December of 2007. 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 Old Brooklyn 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, 2007 and 2006, was 3.48% and 3.93%, respectively.

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 expired 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 ($4,646 and $4,866 at December 31, 2007 and 2006, respectively), 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, 20033, 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, 2007, are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	$ 48	$ 6	$ 54	$ 6,600	$ 9,185	$ 15,785
2009	49	4	53	6,920	8,813	15,733
2010	4	2	6	7,280	8,452	15,732
2011	5	2	7	7,650	8,070	15,720
2012	5	2	7	8,045	7,663	15,708
2013–2017	28	5	33	46,890	31,662	78,552
2018–2022	6		6	45,075	19,629	64,704
2023–2027				45,280	10,752	56,032
2028–2032				27,095	3,303	30,398
2033–2035				9,790	352	10,142
	$ 145	$ 21	$ 166	210,625	$ 107,881	$318,506
Unamortized discount				(1,247)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				(10,477)		
Total hospital revenue bonds — net				$ 198,901		

The Bond Reserve Funds, also required under the master trust bond indenture agreement, had balances as of December 31, 2007 and 20063, of $11,662 and $11,869, respectively. The cost value of Hospital Revenue Bonds was $209,377 and $215,586 at December 31, 2007 and 2006, respectively. The fair value of Hospital Revenue Bonds ($212,475 and $219,599 at December 31, 2007 and 2006, 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:

2007	Beginning Balance	Additions/ Reductions	Payments	Ending Balance	Long-term Debt	Due Within One Year
3.96% note payable, due in semi-annual installments plus interest, through June 30, 2010, secure by its equity interest in Premier Purchaing Partners, L.P.	$ 263	$	$ (62)	$ 201	$ 137	$ 64
2006						
3.96% note payable, due in semi-annual installments plus interest, through June 30, 2010, secure by its equity interest in Premier Purchaing Partners, L.P.	$ 381	$ (53)	$ (65)	$ 263	$ 201	$ 62

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

Years Ending December 31	
2008	$ 64
2009	67
2010	70
	$ 201

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 $102,120 and $103,060 at December 31, 2007 and 2006, respectively.

The fair value of the swap agreements based on current settlement prices at December 31, 2007 and 2006, was $1,778 and $2,702, respectively. Such amounts are due from the counterparties and are included in other assets. In 2007 the fair value decrease of $924 and the 2006 increase of $317 are recorded as net investment income in the statement of revenues, expenses, and changes in net assets. As a result of the agreements, the System's interest expense was increased by $44 and $105 in 2007 and 2006, respectively.

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

Year-End Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 73,915	July 28, 2005	February 1, 2035	The System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 28,205	March 13, 2003	March 1, 2033	The System	Fixed 3.5 %	68.9% of ISDA 5 Yr. Swap Rate

On July 28, 2005, the System entered into a swap agreement (the "Original 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 terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.3% and the counterparty pays 64.2% of the International Swaps and Derivatives Association, Inc. (ISDA) USD five year swap rate. The original agreement previously required the counterparty to pay 70% of the 3-month USD LIBOR. In 2007, ISDA five year interest rates ranged between 4.2% and 5.7%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

On March 13, 2003, the System entered into a swap agreement (the "Original 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 terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.5% and the counterparty pays 68.9% of the ISDA USD five year swap rate. The original agreement required the counterparty to pay 75% of the 3-month USD LIBOR rate. Net settlement amounts are exchanged monthly. The System has an early termination option.

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 different 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, 2007 and 2006, the liability for accrued sick and vacation was $32,012 and $28,673, respectively.

Note Payable — The System financed one-year general and professional liability policies with a note payable in 2007 and 2006. The 2007 note payable bears interest at a rate of 4.8%; the 2006 note payable interest rate was 5.2%. At December 31, 2007 and 2006, the note payable balance outstanding was $3,707 and $4,500, respectively.

Asset Retirement Obligations — The System adopted the provisions of FIN No.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. The December 31, 2007 and 2006, total balance for asset retirement obligations totals $4,519 and $4,645, respectively, and reflects liability reductions for retired assets of $128 and $457, changes in estimates of $208 and $558, and an increase for interest accretion expense of $210 and $236, respectively. The current portion of the asset retirement obligations is included in other current liabilities.

Other Long-Term Liabilities — Other long-term liabilities consist of the following at December 31, 2007 and 2006:

2007	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$40,462	$ 600	$ (2,478)	$38,584	$ 6,364
Accrued vacation and sick leave	28,673	5,839	(2,500)	32,012	2,575
Asset retirement obligations	4,758	2	(241)	4,519	200
Note payable	4,500	3,707	(4,500)	3,707	3,707
	$78,393	$10,148	$ (9,719)	$78,822	$12,846

2006	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$43,876	$ (424)	$ (2,990)	$40,462	$ 5,986
Accrued vacation and sick leave	26,158	5,079	(2,564)	28,673	2,641
Asset retirement obligations	5,711	(322)	(631)	4,758	389
Note payable	4,346	4,500	(4,346)	4,500	4,500
	$80,091	$ 8,833	$(10,531)	$78,393	$13,516

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 2007 and 2006.

2007	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 9,267	$ 2,361	$ (2,476)	$ 9,152	$ 3,097
Self-insurance	37,180	6,400	(5,375)	38,205	13,997
Employee health insurance	1,619	18,552	(17,369)	2,802	2,802
	$48,066	$27,313	$(25,220)	$50,159	$19,896

2006	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 8,705	$ 3,279	$ (2,717)	$ 9,267	$ 3,123
Self-insurance	37,986	5,825	(6,631)	37,180	14,579
Employee health insurance	3,043	16,128	(17,552)	1,619	1,619
	$49,734	$25,232	$(26,900)	$48,066	$19,321

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, 2007, are as follows:

2008	$ 1,560
2009	1,479
2010	1,355
2011	996
2012	750
2013–2016	2,554
2017–2020	905
Total	$ 9,599

Rent expense totaled $2,101 in 2007 and $2,102 in 2006. 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 fourth one-year option, which expires November 30, 2008. 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 9.5% of covered payroll and the System is required to contribute 13.9% of covered payroll. The System's contributions to OPERS for the years ending December 31, 2007, 2006, and 2005, were $45,977, $42,897, and $40,046, respectively, equal to the required contributions for each year.

Postretirement Benefits — OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits including post-employment healthcare coverage.

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provided the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

The employer contribution rate is expressed as a percentage of the covered payroll of active members. In 2007, the employer contribution was 13.85% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment healthcare benefits. For 2007, the employer contribution allocated to the healthcare plan from January 1 through June 30, 2007 and July 1 through December 31, 2007, was 5.0% and 6.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The System's contribution for 2007, 2006, and 2005 used to fund postretirement health care benefits was $18,200, $14,090, and $11,822, respectively, which is included in the System's pension contribution of $45,977, $42,897, and $40,046 for the years ending December 31, 2007, 2006, and 2005, respectively.

Based on the latest OPERS actuarial review as of December 31, 2006, OPERS had $12,000,000 in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were $30,700,000 and $18,700,000, respectively. The number of active contributing participants used in the 2006 actuarial valuation was 362,130. The active number of contributing participants as of December 31, 2007, was 374,979.

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, not exceeding a 12.0% corridor. Other significant actuarial assumptions include an investment return of 6.5%; 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 0.5% and 5.0% over the next eight years and 4.0% thereafter.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP), effective on January 1, 2007. In 2005, OPERS also took additional measures to improve the solvency of the Health Care Fund by establishing a separate investment pool for health care assets. Effective as of January 1, 2006, 2007, and 2008, member and employer contribution rates increased, allowing additional funds to be allocated to the health care plan.

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 2007 and 2006 financial statements. The System received support from the Foundation in the amount of $4,452 and $3,032 in 2007 and 2006, respectively, which 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 $977 and $927 at December 31, 2007 and 2006, respectively. The System also provided the Foundation in-kind support totaling $920 and $738 in 2007 and 2006, respectively. 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 2007 and 2006 were $507 and $340, 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 $7,000 and $8,000 at December 31, 2007 and 2006, respectively, is not included in these financial statements in accordance with FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations.

13. COMMITMENTS

As of December 31, 2007, the System has contractual commitments for the construction of various projects totaling approximately $50,224. The helicopter replacement project has commitments of $18,786 to be paid through 2009. The Old Brooklyn Campus renovation project, funded with bond project funds ($6,362 at December 31, 2007), and operating funds, had commitments totaling $9,406. Other projects with large contractual commitments include the inpatient electronic medical record project for $4,642, Cooling tower upgrades for $2,942, CT Scanner reconfiguration for $2,135, Bell Greve electric substation replacement for $1,319, Parking lot additions for $1,105, and Enterprise PACS (digital radiology) $1,099. These projects are being funded with operating funds.

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The MetroHealth System

Financial Statements as of and for the Years Ended December 31, 2007 and 2006, Supplemental Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2007, and Independent Auditors' Reports

THE METROHEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The MetroHealth System
Cleveland, Ohio

We have audited the accompanying balance sheets of The MetroHealth System (the "System"), a component unit of Cuyahoga County, Ohio, as of December 31, 2007 and 2006, 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 thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included 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 the audit to obtain reasonable assurance about whether the respective 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 respective 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 and the Foundation at December 31, 2007 and 2006, 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.

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 28, 2008 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 28, 2008

Management's Discussion and Analysis (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, 2007 and 2006. 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 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 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 2007

- Outpatient visits increased 4.3% from the prior year
- Patient days increased 3.1% from the prior year
- The System opened the Senior Health and Wellness Center at its Old Brooklyn Campus (the South Campus was renamed in 2007 to "Old Brooklyn" in recognition of the Cleveland neighborhood in which it is located) in the fall.

- Surgical volumes increased 4.5% for the year.

- The Upper Payment Limit (UPL) and Hospital Care Assurance program revenues decreased $10.7 million from the prior year.

- Total net assets decreased $2.8 million from the prior year.

- Charity care reached record levels increasing 19.5 % to $230 million.

Financial and Operating Highlights for 2006

- The average length of stay decreased 2.5% from the prior year.

- Outpatient levels of activity increased 4.0% from the prior year.

- Emergency room levels of activity increased 7.6% from the prior year.

- Surgical cases increased 6.2% from the prior year.

- Total net assets increased by $22.3 million over the prior year.

- The System received a one-time $10.0 million County appropriation to assist with the renovation and remodeling costs at the new South Campus Senior Health and Wellness Center.

- Upper Payment Limit (UPL) and Hospital Care assurance program revenues decreased by $8.7 million from the prior year.

- The System began phases two and three of the Old Brooklyn (South) Campus project. Completion of the project will enable the System to relocate its east side skilled nursing care facility (phase two) and geriatric clinical services (phase three) to a single campus.

Financial Analysis of the System at December 31, 2007 and 2006

Total assets increased by 0.8% to $645.7 million, and total liabilities increased 2.0% to $404.3 million in 2007. The System's total net assets decreased from $244.2 million to $241.4 million in 2007, a 1.1% decrease from a year ago. Table 1 summarizes the balance sheet movement for the last three years.

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

	2007	2006	2005
Assets:			
Current assets	$ 110,755	$ 96,443	$ 85,172
Investments	222,518	247,061	230,598
Restricted assets	24,634	31,175	42,046
Capital assets	282,230	259,585	263,261
Other assets	5,556	6,478	5,652
Total assets	$ 645,693	$ 640,742	$ 626,729
Liabilities and net assets:			
Liabilities:			
Current liabilities	$ 115,697	$ 104,739	$ 112,325
Long-term liabilities	288,637	291,850	292,542
Total liabilities	404,334	396,589	404,867
Net assets:			
Invested in capital assets — net of related debt	83,551	60,012	68,571
Restricted	21,097	28,195	39,048
Unrestricted	136,711	155,946	114,243
Total net assets	241,359	244,153	221,862
Total liabilities and net assets	$ 645,693	$ 640,742	$ 626,729

Current Assets

Total current assets increased $14.3 million in 2007 or 14.8% from 2006. The large increase is primarily related to a higher patient accounts receivable balance. The patient accounts receivable balance increased $11.7 million or 16.3% from 2006. Overnight cash balances increased $1.5 million and the receivable related to the Upper Payment Limit Program increased $1.4 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 UPL for inpatient hospital services. The System had UPL receivable balances of $7.4 million and $6.0 million at the end of 2007 and 2006, respectively.

In 2006, total current assets increased $11.3 million or 13.2% from 2005. The large increase was primarily related to higher patient accounts receivable balance. The patient accounts receivable balance increased $12.9 million or 21.8% from 2005. One asset category experiencing a decrease from 2005 was the cash and cash equivalents. Cash decreased $3.1 million from the prior year and is due to higher amounts held in the investment accounts rather than overnight investment accounts.

Investments

Investments decreased $24.5 million or 9.9% from 2006. Board Designated investments decreased $33.8 million. The decrease was due largely to the need to fund capital expenditures for the year. Major projects requiring funding are phases II (long-term care facility) and III (geriatric clinic) at the System's Old Brooklyn Campus (see Capital Assets section below). The Depreciation Reserve fund increased $11.1 million from transfers for the annual funding requirement and investment returns. Restricted investments decreased $6.5 million for the year and represents withdrawals from the 2005 project fund.

Investments increased $16.5 million from 2005, or 7.1%. The increase is primarily related to a one-time $10.0 million appropriation to assist with renovation costs at the new Old Brooklyn Campus skilled nursing facility, and from investment income. In 2006, the Depreciation Reserve fund increase by $8.7 million and represents the amount the System is required to deposit into the fund and net investment returns. The Board Designated investments grew by $7.7 million in 2006. Restricted assets decreased $10.9 million in 2006 and can be attributed to $11.0 million in Series 2005 bond project fund withdrawals to pay for Old Brooklyn Campus renovation and remodeling costs.

Capital Assets

Capital expenditures for the year totaled $54.5 million, a $25.7 million increase compared to the prior year. Major project expenditures in 2007 included $20.9 million for construction at the Senior Health and Wellness Center (Phases II and III at the Old Brooklyn Campus), $2.1 million for inpatient medical record software (initial payment), $1.6 million for MRI equipment, $1.5 million deposit for helicopter replacements, $1.3 million for the elevator modernization project, and $1.1 million for employee parking lots. The remaining expenditures were for facility infrastructure upgrades, clinic renovations, technology updates and medical equipment purchases. The 2005 Project fund, $6.6 million, was used for construction at the Old Brooklyn Campus and the remaining capital expenditures were paid from operating funds.

Capital expenditures for 2006 were $28.8 million. Significant capital outlays included $4.0 million to complete the conversion of the former Deaconess Hospital to a support services facility (Old Brooklyn Campus phase I); $3.6 million for phases II and III project costs at the Old Brooklyn Campus; $2.6 million for the Electrophysiology Lab; $2.3 million for the Cancer Care Linear Accelerator project; $2.1 million for the Air Handling Unit renovation; and $1.9 million for the Endoscopy suite remodel. Other capital expenditures were for space, equipment and technology upgrades. Proceeds from the Series 2005 Bond issue were used for Old Brooklyn Campus project costs and the remaining expenditures were paid with operating funds.

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

Current Liabilities

For 2007, total Current Liabilities increased $11.0 million or 10.5 % from the prior year. Accounts Payable increased $7.8 million or 35.4% from the prior year. The major driver for the increase was $6.4 million increase in capital equipment and construction liabilities from 2006. Year-end expense accruals also increased $2.5 million. Increase in accrued salaries and wages payable of $1.2 million and health care liabilities of $1.2 million rounded out the current liability increases for 2007.

Total Current Liabilities for 2006 declined by $7.6 million from the prior year. Accounts Payable declined by $2.5 million and is related to a $1.6 million decrease in construction project and retainer liabilities. Accrued payroll increased $2.1 million and is related to the additional accrual day needed in 2006 compared to 2005 and higher 2006 salary and wage costs. The current portion of the self-insurance liability decreased from the prior year by $4.3 million due to improved claim experience and decreased payouts. The current portion of the third-party liability decreased $2.2 million and is related to a smaller overall liability and revised current and long-term estimates. Other current liabilities contain the Upper Payment Limit liability which decreased $0.5 million from the prior year.

Long-Term Liabilities

All of the System's long-term debt relates to the acquisition of capital assets. For 2007, long-term debt decreased $5.8 million or 2.9%. Principal payments on outstanding bond issues were $5.8 million, lease and other principal payments totaled $0.8 million and amortized bond discounts and deferred losses were $0.8 million. For other long-term liabilities, an increase of $1.5 million in self insurance liabilities and a $3.4 million increase in accrued sick and vacation was offset by a decrease in amounts due third-party payors of $2.3 million. In total, long-tem liabilities decreased 1.1% from the prior year.

In 2006, long-term debt decreased by $6.4 million from the previous year. During the year the System made bond principal payments totaling $6.0 million; capital lease and loan principal payments totaling $0.8 million; and amortized bond discounts and deferred losses totaling $0.7 million.

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 was $5.4 million as of December 31, 2005. In 2006, demolition costs of the Quadrangle building and adjustments to estimates reduced the liability by $1.0 million while normal accretion expenses added $0.2 million. The result is a net asset retirement obligation at December 31, 2006 of $4.6 million, of which $4.3 million is considered to be long-term. More information regarding this obligation is presented in Note 8 of the financial statements.

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,		
	2007	**2006**	**2005**
Operating revenues:			
Net patient service revenue	$ 562,018	$ 554,797	$ 523,950
Other revenue	24,064	22,807	23,462
Total operating revenues	586,082	577,604	547,412
Operating expenses:			
Professional care of patients	406,289	385,909	357,964
Dietary	8,111	7,398	7,051
Household and property	28,491	27,197	26,121
Administrative and general	69,254	68,010	70,437
Employee benefits	83,799	79,503	73,441
Provision for bad debts	10,158	7,457	7,015
Depreciation and amortization	31,497	30,666	30,009
Total operating expenses	637,599	606,140	572,038
Operating loss	(51,517)	(28,536)	(24,626)
Nonoperating revenues — net	47,661	50,100	35,695
Grants for capital acquisitions	1,564	1,087	712
(Decrease) increase in net assets	(2,292)	22,651	11,781
Total net assets — Beginning of year	244,153	221,862	216,328
Transfer of net assets	(502)	(360)	(1,086)
Cummulative effect of change in accounting principle			(5,161)
Total net assets — End of year	$ 241,359	$ 244,153	$ 221,862

The System's total operating and nonoperating revenues in 2007 were $646.6 million while expenses were $648.9 million. This resulted in net assets decreasing $2.3 million for the year. This compared to a net asset increase between 2006 and 2005 of $22.3 million that had $642.1 million in revenue and $619.5 in expenses.

Net Patient Service Revenue

Net patient service revenue increased $7.2 million or 1.3% in 2007. Positive gains in inpatient days of 3.1% and outpatient visits of 4.3% coupled with a 5% price increase accounted for increased gross revenues of $111.2 million or 7.8%. Other major changes to net patient revenue that off-set gross revenue included a contractual allowance increase of $54.7 million, Hospital Care Assurance Program payments decrease of $9.2 million and charity care write-offs increase of $37.4 million. This compares to the $30.8 million or 5.9% increase in 2006.

As mentioned above, net patient service revenue also includes revenue the System received as a participant in the State of Ohio Hospital Care Assurance Program (HCAP) ($15.3 million in 2007, $24.5 million in 2006, and $28.2 million in 2005) and Upper Payment Limit (UPL) ($9.6 million in 2007, $11.1 million in 2006, and $16.1 million in 2005) programs. The decrease in HCAP revenue is due to the Ohio Department of Job and Family Services (ODJFS) reverting back to the 100% Omnibus Budget Reconciliation Act of 1990 (OBRA) Cap for Public Hospitals. Additionally, the UPL decrease reflects that in 2007 there was a mandatory movement of Medicaid Aged Blind and Disabled (ABD) patients from free-for-service to managed care. Managed care patients do not qualify for the UPL program.

Charity care increased $37.4 million to $229.5 million in 2007. This was an increase of 19.5% 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 $31.5 million or 5.2% from 2006. This percentage is a little lower than the 6.0% or $34.1 million increase experienced between 2005 and 2006. Table 3 summarizes the expenses from the last three years.

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

	2007	2006	2005
Operating expenses:			
Salaries and wages	$ 357,613	$ 337,756	$ 317,209
Employee benefits	83,799	79,503	73,441
Medical supplies	34,862	35,852	33,352
Pharmaceuticals	30,556	28,184	24,933
Plant operations	36,264	37,126	33,574
Supplies and other	42,161	38,873	37,304
Liability insurance	10,689	10,723	15,201
Provision for bad debts	10,158	7,457	7,015
Depreciation and amortization	31,497	30,666	30,009
Total operating expenses	$ 637,599	$ 606,140	$ 572,038

Salaries and wages increased $19.9 million from 2006 to 2007, or 5.9%. This is lower than the 6.5% increase from 2005 to 2006 of $20.5 million. There was a general wage increase of 3.0% in 2007 and 2006. The remainder of the difference is attributed to a net increase of 130 FTE's and physician incentives.

Employee benefits increased a total of $4.3 million in 2007, or 5.4% from 2006 expense levels. Health insurance costs increased $1.8 million or 6.2%. PERS ($3.0 million) and Medicare ($0.3 million) expense increases were consistent with the general salary and wage increase, FTE growth and the PERS contribution rate increase of 0.15%.

Employee benefits increased a total of $6.1 million in 2006, or 8.3%. Higher health care costs, workers' compensation claims, and FTE growth pushed benefit expenses upward. Health insurance costs increased $1.6 million or 5.8%, while workers' compensation costs grew by $0.4 million or 15.4%. PERS and

Medicare expense increases were consistent with the general salary and wage increase, FTE growth and the PERS contribution rate increase of 0.15%.

Medical Supplies and Pharmaceuticals increased a combined 2.2% from 2006 to 2007. The increase between 2005 and 2006 was 9.9%.

Plant Operations decreased a total of $0.9 million or 2.3% in 2007.

Plant Operations increased a total of $3.5 million or 10.5 % in 2006. Service contracts, remodeling and natural gas comprise the majority of the increase. Service contracts on equipment and software increased $1.3 million. Construction and remodeling costs increased $0.7 million and is related to main campus demolition expenses. Natural gas supply costs increased $0.7 million

Liability insurance remained about the same in 2007 with only a slight increase ($34 thousand) from 2006. In 2005, Medical malpractice insurance expense decreased by $1.9 million or 11.0% from the prior year.

Non-Operating Revenue and Expenses

Net nonoperating revenue decreased $2.4 million from the prior year. The County's subsidy for 2007 was a net decrease of $5.1 million. In 2006, the County provided a one-time $10 million contribution to assist the System with the costs associated with relocating the east side skilled nursing facility to the Old Brooklyn Campus. The County's 2007 general subsidy to the System was $40.0 million which is a $5.0 million increase from 2006. Offsetting a portion of the County decrease was higher investment income of $0.7 million; unrealized gains from changes in investment and interest rate Swap agreement market values of $2.6 million; and flat interest expense.

In 2006, net nonoperating revenue increased $14.4 million from the prior year. The bulk of the increase is from the County's one-time contribution of $10.0 million for the skilled nursing facility at the Old Brooklyn Campus. The County's 2006 general subsidy to the System was $35.1 million. Also favorably affecting the nonoperating revenue increase was higher investment income of $1.9 million; unrealized gains from changes in investment and interest SWAP agreement market values of $1.2 million and lower interest expense of $0.7 million. Interest expense decreased from $10.7 million in 2005 to $10.0 million in 2006. The decline in interest expense is related to the favorable effects of the 1999 Series Bond refunding and 2005 Series Bond issuance that occurred midyear 2005.

Economic Factors and Next Year's Budget

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

- The System budgeted to receive a $40.0 million appropriation from the County in 2008 and has a memorandum of understanding for the same amount in 2009. This is exactly the same amount the System received from general appropriation in 2007. The System will continue to explore revenue enhancement and cost reduction (productivity) opportunities.

- At both the federal and state level, proposed Medicare and Medicaid freezes and funding cuts continue to harm System revenues and cash flows as it relies on Medicare and Medicaid for 28% and 32% of net patient revenues respectively. The System will continue to promote Federal and State policy reforms to prevent these reductions and provide adequate funding to safety net providers.

- In 2007 a congressional moratorium delayed, until May 25, 2008, significant Medicaid cuts per the "Medicaid Program Cost Limit for Providers Operated by Units of Government and Provisions to Ensure the Integrity of Federal State Financial Partnership" regulation. The Medicaid moratorium legislation is currently in the House Energy & Commerce Committee and would extend the Medicaid moratorium until March, 31, 2009.

- 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. The System intends to use unrestricted Reserves for continued operating and Capital needs in 2008. In addition, efforts to obtain appropriate Philanthropy to offset these operational and capital needs will continue in 2008.

- The System is estimating net HCAP dollars of $27.3 million in 2008. This is a sharp increase in HCAP dollars from 2007 ($15.4 million). It is estimated that the 2008 OBRA Cap (which is based on 2006 data) will increase for a number of reasons. The growth of Uncompensated Care, as well as the significant decrease in UPL dollars due to an ODJFS correction to the formula used in calculating available supplemental Medicaid payments (UPL) in 2006. This is projected to result in a greater Medicaid shortfall and thus a higher OBRA Cap in 2008.

- In 2007, the System received $9.6 million in net UPL dollars. This was a reduction to prior year amounts due to an ODJFS correction to the formula used in calculating available supplemental funds and the 2007 mandatory movement of the Medicaid ABD population to Managed Care. The Managed Care patients do not qualify for UPL monies. In 2008, with the continued movement of the Medicaid ABD population to managed care, it is estimated the System will net $8.1 million in UPL dollars.

- During 2007, the Skilled East Nursing facility decreased the occupancy level from 201 patients to 144 patients for the successful move to the Old Brooklyn Campus (144 beds) in the first quarter of 2008.

THE METROHEALTH SYSTEM

BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	Primary Government The MetroHealth System 2007	Primary Government The MetroHealth System 2006	Component Unit The MetroHealth Foundation, Inc. 2007	Component Unit The MetroHealth Foundation, Inc. 2006
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 2,915	$ 1,120	$ 673	$ 243
Accounts receivable	83,802	72,062	2,231	2,717
Allowance for uncollectible accounts	(7,635)	(6,897)	(202)	(280)
Net accounts receivable	76,167	65,165	2,029	2,437
Other receivables	18,205	16,643	70	97
Supplies	6,367	6,013	49	19
Prepaid expenses	7,101	7,502		
Total current assets	110,755	96,443	2,821	2,796
INVESTMENTS:				
General	101,870	135,678	3,622	3,227
Academic funds	35,760	37,635		
Depreciation reserve fund	84,888	73,748		
	222,518	247,061	3,622	3,227
RESTRICTED ASSETS:				
Cash and cash equivalents	141	163	505	1,035
Special purpose investments	5,556	5,556	19,507	17,151
Under bond indenture agreement	18,937	25,456		
	24,634	31,175	20,012	18,186
CAPITAL ASSETS:				
Land and land improvements	21,924	17,130		
Buildings and fixed equipment	497,541	480,702		
Equipment	250,340	238,885		
	769,805	736,717		
Accumulated depreciation	(516,408)	(485,897)		
	253,397	250,820		
Construction in progress	28,833	8,765		
	282,230	259,585		
OTHER ASSETS	5,556	6,478		
TOTAL	$ 645,693	$ 640,742	$26,455	$24,209

(Continued)

THE METROHEALTH SYSTEM

BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2007	2006	2007	2006
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	$ 29,755	$ 21,980	$ 1,182	$ 1,023
Accrued payroll and related liabilities	23,781	20,537		
Public Employees Retirement System liability	12,212	11,363		
Accrued interest payable	2,490	2,602	3	4
Self-insurance liabilities	17,094	17,702		
Estimated amounts due to third-party payors	6,364	5,986		
Accrued vacation and sick leave	2,575	2,641		
Note payable	3,707	4,500		
Current installments of long-term liabilities	6,648	7,105	64	62
Other current liabilities	11,071	10,323	262	380
Total current liabilities	115,697	104,739	1,511	1,469
LONG-TERM LIABILITIES — Less current installments:				
Self-insurance liabilities	30,263	28,745		
Estimated amounts due to third-party payors	32,220	34,476		
Accrued vacation and sick leave	29,437	26,032		
Asset retirement obligations	4,319	4,369		
Long-term debt	192,398	198,228	137	201
Total long-term liabilities	288,637	291,850	137	201
Total liabilities	404,334	396,589	1,648	1,670
NET ASSETS:				
Invested in capital assets — net of related debt	83,551	60,012		
Restricted for debt service and projects	18,937	25,456		
Restricted — nonexpendable			6,179	5,706
Restricted — expendable	2,160	2,739	14,152	12,465
Unrestricted	136,711	155,946	4,476	4,368
Total net assets	241,359	244,153	24,807	22,539
TOTAL	$ 645,693	$ 640,742	$26,455	$24,209

See notes to financial statements. (Concluded)

THE METROHEALTH SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2007	2006	2007	2006
OPERATING REVENUES:				
Net patient service revenue	$562,018	$554,797	$	$
Other revenue	24,064	22,807		
Total operating revenues	586,082	577,604		
OPERATING EXPENSES:				
Professional care of patients	406,289	385,909		
Dietary	8,111	7,398		
Household and property	28,491	27,197		
Administrative and general	69,254	68,010		
Employee benefits	83,799	79,503		
Provision for bad debts	10,158	7,457		
Total operating expenses before depreciation and amortization	606,102	575,474		
Operating (loss)/gain before depreciation and amortization	(20,020)	2,130		
Depreciation and amortization	31,497	30,666		
Operating loss	(51,517)	(28,536)		
NONOPERATING REVENUES (EXPENSES):				
County appropriation	40,000	45,098		
Net investment income	15,060	11,730	2,107	2,653
Other nonoperating revenue	2,803	2,918		
Grants and donations	4,480	4,474	7,068	6,014
Grant expenditures and support	(4,558)	(4,084)	(7,409)	(4,986)
Interest expense	(10,124)	(10,036)		
Total nonoperating revenues — net	47,661	50,100	1,766	3,681
(LOSS) GAIN BEFORE OTHER CHANGES	(3,856)	21,564	1,766	3,681
OTHER CHANGES — Grants for capital acquisitions	1,564	1,087		
(DECREASE) INCREASE IN NET ASSETS	(2,292)	22,651	1,766	3,681
TOTAL NET ASSETS — Beginning of year	244,153	221,862	22,539	18,518
Transfer of net assets	(502)	(360)	502	340
TOTAL NET ASSETS — End of year	$241,359	$244,153	$ 24,807	$ 22,539

See notes to financial statements.

THE METROHEALTH SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Patient service revenue	$ 537,968	$ 530,544
Other operating cash receipts	24,064	22,807
Payments to suppliers	(151,352)	(155,047)
Payments for compensation and benefits	(433,417)	(411,053)
Net cash flows used in operating activities	(22,737)	(12,749)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County appropriation	40,000	45,098
Proceeds from notes payable	3,707	4,500
Principal payments on notes payable	(4,500)	(4,346)
Interest payments on notes payable	(107)	(104)
Restricted grants and donations	8,847	8,479
Specific-purpose funds expenditures	(4,558)	(4,084)
Transfer of net assets	(502)	(360)
Restricted receivables/liabilities	28	(59)
Net cash flows provided by noncapital financing activities	42,915	49,124
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits in project funds	(277)	(452)
Withdrawals from project funds	6,639	11,030
Acquisitions and construction	(49,392)	(28,836)
Principal payments on long-term debt	(7,105)	(6,772)
Interest payments on long-term debt	(9,463)	(9,644)
Net cash flows used in capital and related financing activities	(59,598)	(34,674)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) investments, net	29,515	(15,677)
Interest received and realized gains and losses	11,678	10,952
Net cash flows provided by (used in) investing activities	41,193	(4,725)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,773	(3,024)
CASH AND CASH EQUIVALENTS — Beginning of year	1,283	4,307
CASH AND CASH EQUIVALENTS — End of year	$ 3,056	$ 1,283
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (51,517)	$ (28,536)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	31,497	30,666
Provision for bad debts	10,158	7,457
Changes in assets and liabilities:		
Increase in patient accounts receivable	(21,160)	(20,642)
Increase in other assets	(2,380)	(1,751)
Increase (decrease) in self-insurance liabilities	910	(244)
Increase (decrease) in accounts payable and other liabilities	8,773	(1,129)
Increase in long-term liabilities	982	1,430
Net cash flows used in operating activities	$ (22,737)	$ (12,749)

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.

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 $40,000 and $35,098 for 2007 and 2006, respectively. The County also approved for 2006, a one-time appropriation of $10,000, to assist with the renovation and remodeling costs at the Old Brooklyn Campus Senior Health and Wellness Center. The County has approved an appropriation of $40,000 for 2008. 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 it is 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 with 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 revenues 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. Nonoperating revenues include County appropriation, investment income, specific purpose grants and donations, primarily research, and unrealized gains on investments. Nonoperating 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 $757,476 and $702,783 in 2007 and 2006, respectively.

The System has agreements with third-party payors that provide for payment at amounts different from established charge 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. 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.

Medicare outpatient claims are reimbursed under the Ambulatory Payment Classification based prospective payment system. 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 2007, inpatient psychiatric services were reimbursed at 25% of reasonable cost plus 75% 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 favorable adjustments of $3,907 and $5,299 in 2007 and 2006, respectively, due to prior year retroactive adjustments to amounts previously estimated.

Net revenue from the Medicare and Medicaid programs accounted for approximately 28% and 32%, respectively, of the System's net patient service revenue for the year ended December 31, 2007 and 26% and 32%, respectively, of the System's net patient service revenue for the year ended December 31, 2006. 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, 2007 and 2006, $7,395 and $6,000, 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 $2,942 and $2,414, respectively, is included in other current liabilities. The net amount recorded in net patient service revenue for UPL by the System was $9,584 and $11,106 in 2007 and 2006, 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 $28,700 and $36,731 in 2007 and 2006, respectively, (including Care Assurance of $15,319 and $24,481 in 2007 and 2006, 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 $229,504 and $192,115, which represents 15.0% and 13.5% of gross charges in 2007 and 2006, 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 nonoperating 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 investment's fair value to the total fair value of all pooled investments.

The net realized gain of $255 and $470 in 2007 and 2006, respectively, 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 cash equivalents 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 cash equivalents 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 payments 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 from 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. Accordingly, the System does not record in its financial statements the assets and liabilities of 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 $154 in 2007 and $153 in 2006. Amortization expense related to bond discounts was $92 in 2007 and $101 in 2006. 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 2003 and 2005 Bonds totaled $106 and $565 in 2007, respectively, and $400 and $540 in 2006, 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 July 2005, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*. This Statement establishes standards for the measurement, recognition, and display of Other Post Employment Benefits expense and related liabilities, note disclosures in the financial reports of state and local governmental employers. The System adopted GASB Statement No. 45 effective January 1, 2007. This statement has no effect on the System's financial statements, except additional footnote disclosures as noted at Note 10.

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, 2007 and 2006, totaled $2,981 and $1,173, respectively, and were subject to the following categories of custodial risk:

	2007	2006
Uncollateralized	$ 2,821	$ 998
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	60	75
Total amount subject to custodial risk	2,881	1,073
Amount insured	100	100
Total bank balances	$ 2,981	$ 1,173

Investments

The System — As of December 31, 2007 and 2006, the fair values of the System's investments were as follows:

	2007	2006
Cash and cash equivalents	$ 71,089	$ 98,021
U.S. Government Agencies	166,269	162,166
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)	308	3,268
Collateralized Mortgage Obligations	497	741
Corporate Bonds	8,848	13,877
Total investments	$ 247,011	$ 278,073

The System's carrying amounts of the deposits and investments at December 31, 2007 and 2006, are as follows:

	2007	2006
Deposits	$ 3,056	$ 1,283
Investments	247,011	278,073
Total deposits and investments	$ 250,067	$ 279,356

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, 2007 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.

The Foundation — As of December 31, 2007, the fair values of the Foundation's investments were as follows:

	2007	2006
Mutual funds	$ 22,207	$ 19,574
Common stock	107	104
Premier Purchasing Partners, L.P.	815	700
Total deposits and investments	$ 23,129	$ 20,378

The Foundation's investments had cumulative unrealized gains of $1,722 and $1,221 and cumulative unrealized losses of $259 and $164 at December 31, 2007 and 2006, respectively.

4. CAPITAL ASSETS

The following summarizes the capital assets of the System for the years ended December 31, 2007 and 2006:

2007	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$	$	$ 9,377
Construction in progress	8,765	47,170	(27,102)	28,833
Total nondepreciated capital assets	18,142	47,170	(27,102)	38,210
Depreciable capital assets:				
Land improvements	7,753	4,794		12,547
Buildings and fixed equipment	480,702	16,872	(33)	497,541
Equipment	238,885	12,431	(976)	250,340
Total depreciable capital assets	727,340	34,097	(1,009)	760,428
Less accumulated depreciation:				
Land improvements	(7,025)	(251)		(7,276)
Buildings and fixed equipment	(290,768)	(17,696)	33	(308,431)
Equipment	(188,104)	(13,550)	953	(200,701)
Total accumulated depreciation	(485,897)	(31,497)	986	(516,408)
Total depreciable capital assets — net	241,443	2,600	(23)	244,020
Total capital assets — net	$ 259,585	$ 49,770	$ (27,125)	$ 282,230

2006	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$	$	$ 9,377
Construction in progress	13,964	22,074	(27,273)	8,765
Total nondepreciated capital assets	23,341	22,074	(27,273)	18,142
Depreciable capital assets:				
Land improvements	7,803		(50)	7,753
Buildings and fixed equipment	468,331	17,590	(5,219)	480,702
Equipment	227,720	14,905	(3,740)	238,885
Total depreciable capital assets	703,854	32,495	(9,009)	727,340
Less accumulated depreciation:				
Land improvements	(6,894)	(135)	4	(7,025)
Buildings and fixed equipment	(278,409)	(17,434)	5,075	(290,768)
Equipment	(178,631)	(13,097)	3,624	(188,104)
Total accumulated depreciation	(463,934)	(30,666)	8,703	(485,897)
Total depreciable capital assets — net	239,920	1,829	(306)	241,443
Total capital assets — net	$ 263,261	$ 23,903	$ (27,579)	$ 259,585

Total depreciation and amortization expense related to capital assets for 2007 and 2006 was $31,497 and $30,666, 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 years ended December 31, 2007 and 2006, 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 2007 and 2006 are as follows:

	2007				
	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	$ 38,245	$	$ (5,070)	$ 33,175	$ 955
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,620		(290)	75,330	4,670
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	28,830		(625)	28,205	645
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	74,230		(315)	73,915	330
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	759		(759)		
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	131		(42)	89	44
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	60		(4)	56	4
	217,875		(7,105)	210,770	6,648
Unamortized discount and loss	(12,542)		818	(11,724)	
	205,333		(6,287)	199,046	6,648
Current installments	(7,105)	(6,648)	7,105	(6,648)	
Long-term debt	$198,228	$ (6,648)	$ 818	$192,398	$ 6,648

	2006 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	$ 43,070	$	$ (4,825)	$ 38,245	$ 5,070
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,895		(275)	75,620	290
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	29,430		(600)	28,830	625
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	74,535		(305)	74,230	315
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	1,482		(723)	759	759
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	171		(40)	131	42
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	84		(24)	60	4
	224,667		(6,792)	217,875	7,105
Unamortized discount and loss	(13,241)		699	(12,542)	
	211,426		(6,093)	205,333	7,105
Current installments	(6,774)	(7,105)	6,774	(7,105)	
Long-term debt	$204,652	$ (7,105)	$ 681	$198,228	$ 7,105

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 ($5,831 and $6,336 at December 31, 2007 and 2006, respectively), 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. The defeased series 1999 bonds remain outstanding at December 31, 2007.

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, 2007 and 2006 was 3.48% and 3.93%, respectively.

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 expired on March 22, 2008 but has been extended to March 22, 2010 under terms of an extension signed in December of 2007. 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 Old Brooklyn 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, 2007 and 2006 was 3.48% and 3.93%, respectively.

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 ($4,646 and $4,866 at December 31, 2007 and 2006, respectively), 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, 2007, are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	$ 48	$ 6	$ 54	$ 6,600	$ 9,185	$ 15,785
2009	49	4	53	6,920	8,813	15,733
2010	4	2	6	7,280	8,452	15,732
2011	5	2	7	7,650	8,070	15,720
2012	5	2	7	8,045	7,663	15,708
2013–2017	28	5	33	46,890	31,662	78,552
2018–2022	6		6	45,075	19,629	64,704
2023–2027				45,280	10,752	56,032
2028–2032				27,095	3,303	30,398
2033–2035				9,790	352	10,142
	$ 145	$ 21	$ 166	210,625	$ 107,881	$318,506
Unamortized discount				(1,247)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				(10,477)		
Total hospital revenue bonds — net				$ 198,901		

The Bond Reserve Funds, also required under the master trust bond indenture agreement, had balances as of December 31, 2007 and 2006 of $11,662 and $11,869, respectively. The cost value of Hospital Revenue Bonds was $209,377 and $215,586 at December 31, 2007 and 2006, respectively. The fair value of Hospital Revenue Bonds ($212,475 and $219,599 at December 31, 2007 and 2006, 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:

2007	Beginning Balance	Additions/ Reductions	Payments	Ending Balance	Long-term Debt	Due Within One Year
3.96% note payable, due in semi-annual installments plus interest, through June 30,2010, secure by its equity interest in Premier Purchaing Partners, L.P.	$ 263	$	$ (62)	$ 201	$ 137	$ 64
2006						
3.96% note payable, due in semi-annual installments plus interest, through June 30, 2010, secure by its equity interest in Premier Purchaing Partners, L.P.	$ 381	$ (53)	$ (65)	$ 263	$ 201	$ 62

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

Years Ending December 31	
2008	$ 64
2009	67
2010	70
	$ 201

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 $102,120 and $103,060 at December 31, 2007 and 2006, respectively.

The fair value of the swap agreements based on current settlement prices at December 31, 2007 and 2006, was $1,778 and $2,702, respectively. Such amounts are due from the counterparties and are included in other assets. In 2007 the fair value decrease of $924 and the 2006 increase of $317 are recorded as net investment income in the statement of revenues, expenses, and changes in net assets. As a result of the agreements, the System's interest expense was increased by $44 and $105 in 2007 and 2006, respectively.

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

Year-End Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 73,915	July 28, 2005	February 1, 2035	The System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 28,205	March 13, 2003	March 1, 2033	The System	Fixed 3.5 %	68.9% of ISDA 5 Yr. Swap Rate

On July 28, 2005, the System entered into a swap agreement (the "Original 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 terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.3% and the counterparty pays 64.2% of the International Swaps and Derivatives Association, Inc. (ISDA) USD five year swap rate. The original agreement previously required the counterparty to pay 70% of the 3-month USD LIBOR. In 2007, ISDA five year interest rates ranged between 4.2% and 5.7%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

On March 13, 2003, the System entered into a swap agreement (the "Original 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 terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.5% and the counterparty pays 68.9% of the ISDA USD five year swap rate. The original agreement required the counterparty to pay 75% of the 3-month USD LIBOR rate. Net settlement amounts are exchanged monthly. The System has an early termination option.

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 different 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, 2007 and 2006, the liability for accrued sick and vacation was $32,012 and $28,673, respectively.

Note Payable — The System financed one-year general and professional liability policies with a note payable in 2007 and 2006. The 2007 note payable bears interest at a rate of 4.8%; the 2006 note payable interest rate was 5.2%. At December 31, 2007 and 2006, the note payable balance outstanding was $3,707 and $4,500, respectively.

Asset Retirement Obligations — 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. The December 31, 2007 and 2006 total balance for asset retirement obligations totals $4,519 and $4,645, respectively, and reflects liability reductions for retired assets of $128 and $457, changes in estimates of $208 and $558, and an increase for interest accretion expense of $210 and $236, respectively. The current portion of the asset retirement obligations is included in other current liabilities.

Other Long-Term Liabilities — Other long-term liabilities consist of the following at December 31, 2007 and 2006:

2007	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$40,462	$ 600	$ (2,478)	$38,584	$ 6,364
Accrued vacation and sick leave	28,673	5,839	(2,500)	32,012	2,575
Asset retirement obligations	4,758	2	(241)	4,519	200
Note payable	4,500	3,707	(4,500)	3,707	3,707
	$78,393	$10,148	$ (9,719)	$78,822	$12,846

2006	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$43,876	$ (424)	$ (2,990)	$40,462	$ 5,986
Accrued vacation and sick leave	26,158	5,079	(2,564)	28,673	2,641
Asset retirement obligations	5,711	(322)	(631)	4,758	389
Note payable	4,346	4,500	(4,346)	4,500	4,500
	$80,091	$ 8,833	$(10,531)	$78,393	$13,516

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 2007 and 2006.

2007	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 9,267	$ 2,361	$ (2,476)	$ 9,152	$ 3,097
Self-insurance	37,180	6,400	(5,375)	38,205	13,997
Employee health insurance	1,619	18,552	(17,369)	2,802	2,802
	$48,066	$27,313	$(25,220)	$50,159	$19,896

2006	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 8,705	$ 3,279	$ (2,717)	$ 9,267	$ 3,123
Self-insurance	37,986	5,825	(6,631)	37,180	14,579
Employee health insurance	3,043	16,128	(17,552)	1,619	1,619
	$49,734	$25,232	$(26,900)	$48,066	$19,321

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, 2007, are as follows:

2008	$ 1,560
2009	1,479
2010	1,355
2011	996
2012	750
2013–2016	2,554
2017–2020	905
Total	$ 9,599

Rent expense totaled $2,101 in 2007 and $2,102 in 2006. 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 fourth one-year option, which expires November 30, 2008. 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 9.5% of covered payroll and the System is required to contribute 13.9% of covered payroll. The System's contributions to OPERS for the years ending December 31, 2007, 2006, and 2005, were $45,977, $42,897, and $40,046, respectively, equal to the required contributions for each year.

Postretirement Benefits — OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits including post-employment healthcare coverage.

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provided the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

The employer contribution rate is expressed as a percentage of the covered payroll of active members. In 2007, the employer contribution was 13.85% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment healthcare benefits. For 2007, the employer contribution allocated to the healthcare plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The System's contribution for 2007, 2006 and 2005 used to fund postretirement health care benefits was $18,200 and $14,090, $11,822, respectively, which is included in the System's pension contribution of $45,977, $42,897 and $40,046 for the years ending December 31, 2007, 2006 and 2005, respectively.

Based on the latest OPERS actuarial review as of December 31, 2006, OPERS had $12,000,000 in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were $30,700,000 and $18,700,000, respectively. The number of active contributing participants used in the 2006 actuarial valuation was 362,130. The active number of contributing participants as of December 31, 2007, was 374,979.

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, not exceeding a 12.0% corridor. Other significant actuarial assumptions include an investment return of 6.5%; 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 0.5% and 5.0% over the next eight years and 4.0% thereafter.

On September 9, 2004 the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP), effective on January 1, 2007. In 2005, OPERS also took additional measures to improve the solvency of the Health Care Fund by establishing a separate investment pool for health care assets. Effective as of January 1, 2006, 2007 and 2008, member and employer contribution rates increased, allowing additional funds to be allocated to the health care plan.

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 2007 and 2006 financial statements. The System received support from the Foundation in the amount of $4,452 and $3,032 in 2007 and 2006, respectively, which 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 $977 and $927 at December 31, 2007 and 2006, respectively. The System also provided the Foundation in-kind support totaling $920 and $738 in 2007 and 2006, respectively. 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 2007 and 2006 were $507 and $340, 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 $7,000 and $8,000 at December 31, 2007 and 2006, respectively, is not included in these financial statements in accordance with FASB No. 117, Financial Statements of Not-for-Profit Organizations.

13. COMMITMENTS

As of December 31, 2007, the System has contractual commitments for the construction of various projects totaling approximately $50,224. The helicopter replacement project has commitments of $18,786 to be paid through 2009. The Old Brooklyn Campus renovation project, funded with bond project funds ($6,362 at December 31, 2007), and operating funds, had commitments totaling $9,406. Other projects with large contractual commitments include the inpatient electronic medical record project for $4,642, Cooling tower upgrades for $2,942, CT Scanner reconfiguration for $2,135, Bell Greve electric substation replacement for $1,319, Parking lot additions for $1,105, and Enterprise PACS (digital radiology) $1,099. These projects are being funded with operating funds.

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SUPPLEMENTAL SCHEDULE

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

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:				
Ohio Department of Health	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	18-3-001-1-CL-07; 018-3-001-1-WA018	$ 4,425,802
		TOTAL — U.S. Department of Agriculture		**4,425,802**
U.S. Department of Education				
Pass-Through Program From:				
Ohio Department of Health	HMG Hospital Based Regional Child Fund	84.181	18-3-001-1-HB-07; 18-3-001-1-HB-0108	86,476
		TOTAL — U.S. Department of Education		**86,476**
U.S. Department of Health & Human Services				
Direct Program:	Pediatric Intensive Care Unit New Construction & Renovation	93.887	C76HF05977AO	145,968
Direct Program:	Residency Training in General Pediatric Dentistry	93.884	D59HP03538-03	33,484
			Subtotal DHHS Direct	179,452
Pass-Through Programs From:				
Cuyahoga County Mental Health Board	Medicaid Assistance Program	93.778	129000	912,132
			Subtotal CFDA No. 93.778	912,132

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

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

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:				
University Hospital	CFHS Fetal Death FY07 & FY08	93.994	18-1-001-1-MC-07; 18-1-001-1-MC-08	$ 27,002
	Cleveland Regional Perinatal Network	93.994	18-3-002-1-BM-06; 18-3-002-1-BM-07	23,978
			Subtotal CFDA No. 93.994	50,980
Ohio Department of Health	TB Prevention and Control/Outreach	93.118	18-3-001-2-CK-07; 18-3-001-2-CK-08	202,084
	Federal HIV Care (Title II)	93.917	18-3-001-1-AT-06; 018-3-001-1-HC0107	120,386
	Ryan White Emergency Assistance Funding - Title II	93.917	N/A	12,744
Center for Community Solutions	Title X - Family Planning	93.217	5FPHPA050520-32-04; 5FPHPA050520-32-00; 5FPHPA050520-31-00	334,164
Cuyahoga County	Ryan White Title I	93.914	CE0700706-01	1,279,500
Center for Health Affairs	HRSA Emergency Preparedness/Bioterrorism Grant	93.889	N/A	20,237
Cuyahoga County Board of Health	Immunization Action Plan	93.268	N/A	70,000
Wright State University	CCOE: Dual Diagnostics:MMR	93.958	CCOEBG00070426/FY07	3,316
			Total — U.S. Department of Health & Human Services	3,184,995
Cuyahoga County	Urban Area Security Initiative	97.008	0600746-01; 0700529-01	18,414
			Total — Department of Homeland Security	18,414
Research & Development Cluster:				
U.S. Department of Education:				
Direct Programs:				
	P-NORSCIS	84.133	H133N060017	318,854
			Subtotal U.S. Dept of Education - Direct	318,854

See notes to supplemental schedule of expenditures of federal awards.

(Continued)

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
Research & Development Cluster:				
U.S. Department of Health & Human Services				
Direct Programs				
	Role of Molecular Chaperones	93.837	1R01HL71789	$ 380,761
	Homogeneous Transfer of Connexin 43 to Prevent Attrial	93.837	F32HC090218	16,721
	Subtotal U.S. Dept. of Health & Human Services - Direct			397,482
	Subtotal Research & Development Cluster - Direct			*716,336*
Pass-Through Programs From:				
University of Maryland	Patients' and Families' Psychological Response to HAT	93.361	NR08550	60
Cleveland Clinic Foundation	P-GOG Trials	93.395	CA-27469	4,828
Duke Clinical Research Institute	American College of Surgeons Onocology Group	93.395	CA-76001	10,096
University of Rochester	LOTS Population Study	93.837	2R01HL033843-16	7,000
University of Rochester	Risk Stratification in Madit II Patients	93.837	R01HL77478	991
NIH-NIAMS/University of Minnesota	Study to Prospectively Evaluated Reamed Intramedullary Nails	93.846	AR048529	3,000
University of Wisconsin	P-Find Study Family Investigations in Nephropathy in Diabetes	93.849	05-8388	2,994
NIH-NINDS/UMDNJ	WARCEF	93.853	NS39143	5,561
NIH-NINDS/Mayo	P-SWISS Single Rising Dose Study of FK 506 Lipid Comples	93.853	NS39987	1,179
University of Texas Health Center	P-SPS-3 Prevention of Small Subcorcital Strokes	93.853	NS38529	193,855
University of Miami/NIH NINDS	Alias Phase III Trial Albium in Acute ischemic stroke	93.853	NS040406	4,419
NIH-NINDS/Columbia University	Minocycline in ALS	93.853	NS045294	9,975
CPMCRI/NIH-NINDS	ALS DNA Banking, NINDS Administrative Supplement	93.853	NOT-NS-03-016	1,200
NIH-NINDS/Yale	Insulin Resistance Intervention after Stroke Trial	93.853	NS044876-02	25,727
Cleveland State University	Engaging the African-American Community in Reducing Obesity	93.307	1R24MDOO1794	5,332
AEHN/NIH-NICHD	P-Physician Scientist Award	93.929	K12 HD001097-10	118,319
AEHN/NIH-NICHD	Development Program	93.865	K12 HD001097-11	86,083

See notes to supplemental schedule of expenditures of federal awards.

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
NIH-NIAID/UAB	CMV Monocolonal Antibody	N/A	AI30025	$ 2,370
Research Triangle Insitute	Post Acute Care Tool Project	N/A	N/A	7,905
University of Cincinnati	Effect of Improved Hospital Reimbursements for RT-PA use	93.283	SRS #20834	3,000
	Subtotal Research & Development Cluster: Pass Through Programs			493,894
	TOTAL — Research & Development Cluster			**1,210,230**
	TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 8,925,917**

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

NOTES TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The 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 U.S. Office of Management and Budget (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.

2. MEDICAID ASSISTANCE PROGRAM

The amount received from Medicaid Assistance Program in 2007 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 2007.

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

To the Board of Trustees 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, 2007, and have issued our report thereon dated June 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as item 07-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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*.

We noted certain matters that we reported to management of the System in a separate letter dated April 28, 2008.

This report is intended solely for the information and use of the audit committee of the board of trustees, 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 28, 2008

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
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, 2007. 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; 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 of 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which 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 07-02 to 07-05.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

The System's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the System's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee of the board of trustees, 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 28, 2008

THE METROHEALTH SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

Part I — Summary of Auditors' Results

Financial Statements

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

2. Internal control over financial reporting:

    a. Material weakness(es) identified? No

    b. Significant deficiency(ies) identified that are considered to be material weaknesses? Yes

    c. Noncompliance material to financial statements noted? No

Federal Awards

1. Internal control over major program:

    a. Material weakness(es) identified? No

    b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? None noted

    c. Any audit findings reported disclosed that are required to be reported in accordance with section 501(a) of OMB Circular A-133? No

    d. The System's major programs were:

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

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

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

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

2. 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.

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

Part II — Financial Statement Findings

Finding Number: **07 -01**

Compliance Area: Internal control over financial reporting

Condition: Understatement of the System's professional liability accrual at year-end.

Criteria: Government Auditing Standards requires that in addition to the providing an opinion on the financial statements, auditors should report on the scope of and results of testing of the auditee's internal control over financial reporting.

Cause: Final actuary report information was not recorded by the System's accounting department.

Effect: Understatement of the System's professional liability accrual at year-end.

Context: During our testing of the System's professional liability accrual, we noted that there was a $2.8 M difference between the recorded amount and the actuary's report at December 31, 2007.

Recommendation: D&T recommends that management implement procedures that would ensure the receipt of the completed and signed actuary evaluation report on the Self-Insured Trust Fund is utilized to adjust the System's self-insurance liability and expense at year-end.

View of Responsible Official and Planned Corrective Actions: Management acknowledges that an isolated incident occurred whereby the final actuary report information was not recorded by the System's accounting department. Management has implemented controls that would mitigate the reoccurrence of the above observation in the future.

Part III — Federal Awards Findings and Questioned Costs

Finding Number: **07-02**

Program Name: Family Planning - Services

CFDA: 93.217

Compliance Area: Activities Allowed or Unallowed

Condition: Two individual visits of our sample of twenty-five visits reviewed were classified by the System as being related to Family Planning Title X even though they did not meet the qualifications of an allowable billable service under the grant agreement.

Criteria: According to the *U.S. Office of Management and Budget Circular A133 Compliance Supplement*, for Family Planning Services, services that may be funded for a particular project are identified in the grant agreement and may include medical, social, information, and education services, related to family planning. Adherence to the grant agreement is required.

Cause and Effect: Incorrect classification of visits as being related to Family Planning results in a request for reimbursements for activities unallowable under the grant agreement. The System bills maximum allowed amount under the Family Planning Grant. The billing of unallowable activities prevented the System from obtaining reimbursement for allowable visits. As such, there is no impact on total reimbursements to System.

Questioned Costs: None

Context: The incorrect classification of patient visits as being related to family planning.

Recommendation: To prevent the charging of unallowable activities to the Family Planning Grant we recommend that the Center for Community Health clinics initiate a re-education plan with staff providing family planning services.

Views of responsible officials and planned corrective actions: Management has established a corrective action plan for the finding. Please see details in the attachment titled “Correction Action Plan for the Year Ended 12/31/2007.”

Part III — Federal Awards Findings and Questioned Costs

Finding Number: **07-03**

Program Name: Family Planning - Services

CFDA: 93.217

Compliance Area: Allowable Costs and Eligibility

Condition: Four individual visits of our sample of twenty-five visits reviewed were classified by the System as being related to Family Planning Title X even though they did not meet the qualifications of an allowable billable visit under the grant agreement. The patients were insured by a third-party.

Criteria: According to the grant agreement, services are to be provided to uninsured/underinsured women and adolescents. Adherence to the grant agreement is required.

Cause and Effect: Incorrect classification of patients as being Family Planning eligible results in a request for reimbursement that is greater than what is actually allowable. The System bills maximum allowed amount under the Family Planning Grant. The billing of unallowable patient visits prevented the System from obtaining reimbursement for allowable visits. As such, there is no impact on total reimbursements to the System.

Questioned Costs: None

Context: The incorrect classification of patient visits as being eligible under family planning.

Recommendation: To prevent the charging of unallowable visits we recommend that the Center for Community Health and the System's OB/GYN Family Planning clinics utilize the on-line Clinic Visit Record within the Epic System for family planning patients as the interface will allow the Epic Clinic Visit Record to be sent directly to Ahlers for processing. This process will eliminate the potential for human error in manually entering the data from the Clinic Visit Record and will identify third-party payments posting against Title X family planning patients.

Views of responsible officials and planned corrective actions: Management has established a corrective action plan for the finding. Please see details in the attachment titled "Correction Action Plan for the Year Ended 12/31/2007."

Part III — Federal Awards Findings and Questioned Costs

Finding Number: **07-04**

Program Name: Medicaid Assistance Program

CFDA: 93.778

Compliance Area: Allowable Costs

Condition: Two individual visits of our sample of twenty-five visits reviewed were inaccurately billed to the Cuyahoga County Community Mental Health Board (one overbilling and one underbilling, which resulted in a net underbilling) for the following service: Medication/Somatic.

Criteria: According to the Office of Management and Budget A-133 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 six units of Medication/Somatic nature recording the units' services; instead of five units being requested for reimbursement in the Epic system. A chart is utilized by the service providers, which indicate the number of units to be recorded, based on the time spent with each patient and the type of service being provided. 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.

Known Questioned Costs: $21.09 — Net Amount Underbilled

Likely Questioned Costs: $7,677 — Best Estimate of Total Amount Underbilled Based on Medication/Somatic Services Rendered During the Fiscal Year ($520,046 Billed minus $8,266, the known questioned cost at finding 07-04, times our sample error rate of 1.5%)

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.

Recommendation: To prevent the billing of incorrect units we recommend that MetroHealth re-educate plan its staff providing services and emphasize the importance of reporting accurate units.

Views of responsible officials and planned corrective actions: Management has established a corrective action plan for the finding. Please see details in the attachment titled "Correction Action Plan for the Year Ended 12/31/2007."

Part III — Federal Award Findings and Questioned Cost Sections

Finding Number: **07-05**

Program Name: Medicaid Assistance Program

CFDA: 93.778

Compliance Area: Unallowable Costs

Condition: One of the Cuyahoga Community Mental Health Board providers incorrectly calculated the units for Medication/Somatic services provided to 658 patient visits during 2007 resulting in a net overbilled amount of $8,266.

Criteria: According to the Office of Management and Budget A-133 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 6 units instead of 5 units of Medication/Somatic services for 30 minute appointments being requested for reimbursement for services allowable under the grant agreement. The System records the number of units of service provided to a patient in the Epic system. A chart is utilized by the service providers, which indicate the number of units to be recorded, based on the time spent with each patient and the type of service being provided. 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.

Known Questioned Costs: A net amount of $8,266 after taken into account the Medicaid match paid by the System

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.

Recommendation: To prevent the billing of incorrect units we recommend that the System re-educate its staff and emphasize the importance of reporting accurate units.

Views of responsible officials and planned corrective actions: Management has established a corrective action plan for the finding. Please see details in the attachment titled "Correction Action Plan for the Year Ended 12/31/2007."

THE METROHEALTH SYSTEM

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
FOR THE YEAR ENDED DECEMBER 31, 2007

Prior Year Finding Number	Summary of Prior Year Finding	Status
06-1: Family Planning Services CFDA 93.217	The System incorrectly classified four individual visits as being related to Family Planning Title X, which did not meet the qualifications of an allowable billable service under the grant agreement. There were no questioned costs. However, the Center for Community Health and the System's OB/GYN Family Planning clinics should initiate a re-education plan with the staff providing family planning services.	Completed/Ongoing: MetroHealth OB/GYN Family Planning Clinic and MetroHealth Center for Community Health initiated a re-education program and audit program during 2007. In April 2007, the granting agency provided clarification of allowable activities under the Family Planning grant to the appropriate clinical staff. In addition, MetroHealth implemented a periodic, random chart review performed by the Clinical Coordinator and/or Medical Director. The Clinical Coordinators also review all Clinic Visit Records prior to submission to the granting agency. Both the re-education program and audit program will continue going forward.

MetroHealth

CASE
SCHOOL OF MEDICINE

THE METROHEALTH SYSTEM – A133
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED 12/31/07

Finding 07-01 – Activities Allowed or Unallowed
(Family Planning Services CFDA 93.217)

Corrective Action Planned:
To alleviate charging unallowable activities to the Family Planning Grant as documented against MetroHealth's Center for Community Health (CCH), the CCH clinics as well as the OB/GYN Family Planning clinic will continue its re-education plan with the staff providing family planning services, including the following:

- The Grant Coordinators will request presentations from the granting agency to designated clinical staff, clarifying allowable activities under the Family Planning grant.
- The Grant Coordinators will reissue the guidelines for allowable activities to the appropriate clinical staff. The guidelines will be readily available to all providers when the Clinic Visit Records are prepared.

Said clinics will continue to perform random chart reviews, including the following:

- The Clinical Coordinator and/or Medical Director will perform random periodic chart reviews on a monthly basis to ensure compliance with allowable activities.
- The Clinical Coordinators will review all Clinic Visit Records prior to submission to the granting agency.
- The Grant Coordinator will randomly review an additional 5 charts and Clinic Visit Records per quarter.

Anticipated Completion Date: May 2008

Contact Persons Responsible for Corrective Action:
Pamela J. Carouse, MEd, LPC – Coordinator, Family Planning,OB/GYN
Barbara Riley – General Manager, Public Health

Finding 07-02 – Allowable Costs and Eligibility
(Family Planning Services CFDA 93.217)

Corrective Action Planned:
To alleviate the erroneous submission of insured patients as Title X eligible under the Family Planning grant (unallowable costs), MetroHealth's senior management will require that

MetroHealth Medical Center
2500 MetroHealth Drive, Cleveland, Ohio 44109-1998
216 - 778 - 7800

MetroHealth's Center for Community Health (CCH) clinics utilize the on-line Clinic Visit Record (CVR) maintained within the System's Epic database versus using manual hard copy CVRs. The on-line system was available for use throughout 2007. MetroHealth's OB/GYN Family Planning clinic went 'live' with the system in November 2007; CCH does not currently utilize the system. Using the on-line CVR provides the ability to:

- Report on 3rd party payments posted to accounts that were flagged as Title X eligible, providing MetroHealth with the opportunity to correct erroneous submissions prior to the end of the grant year.
- Automatically submit the CVR data to the granting agency's computer system without manual entry, thus alleviating the potential for human keying errors.

In addition, the Accounting Department will perform audits throughout the year to ensure the automated CVR is being utilized.

Anticipated Completion Date: April 2008 and ongoing

Contact Persons Responsible for Corrective Action:
Barbara Riley – General Manager, Public Health
Cyndi O'Dor – Associate Director, Accounting & Grants

Finding 07-03 – Allowable Costs
(Medicaid Assistance Program CFDA 93.778)

Corrective Action Planned:
To alleviate the potential of billing errors resulting from the manual nature of calculating service units, the Department of Psychiatry's administration will revisit the feasibility of automating the service unit calculation within MetroHealth's billing system. In addition, the Department of Psychiatry will continue its new provider education program and existing provider re-education program, including:

- Educating all providers of the importance of billing accuracy.
- Educating all providers on utilizing the conversion chart to correctly calculate service units.

Psychiatry Administration will continue to randomly audit the service units billed against the provider's documentation in the patient charts on a monthly basis.

Anticipated Completion Date: April 2008

Contact Persons Responsible for Corrective Action:
Linda Stekelenburg, Administrator – Psychiatry
Evan Langholt, Business Manager - Psychiatry

MetroHealth

CASE
SCHOOL OF MEDICINE

Finding 07-04 – Unallowable Costs
(Medicaid Assistance Program CFDA 93.778)

Corrective Action Planned:
To alleviate the provider from future billing errors resulting from miscalculating billable service units, the Department of Psychiatry's administration immediately re-educated the provider to utilize the conversion chart to correctly calculate service units. In addition, Psychiatry is working with Patient Financial Services to correct the billable service units in MetroHealth's billing system. Such corrections will generate the appropriate payment adjustments with the third party payer. Detailed chart audits for the provider in question were performed within the Department of Psychiatry to ensure that all erroneous charges are captured and corrected.

Anticipated Completion Date: June 2008

Contact Persons Responsible for Corrective Action:
Linda Stekelenburg, Administrator – Psychiatry
Evan Langholt, Business Manager - Psychiatry

Nancy Fisher Crum

Nancy Fisher Crum, Vice President and Chief Financial Officer

MetroHealth Medical Center
2500 MetroHealth Drive, Cleveland, Ohio 44109-1998
216 - 778 - 7800

Mary Taylor, CPA
Auditor of State

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 1, 2008

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