

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Financial Report  
12.31.10**





# Dave Yost • Auditor of State

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

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

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

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

Dave Yost  
Auditor of State

May 31, 2011

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of The MetroHealth System (the System), a component unit of Cuyahoga County, Ohio, as of and for the years ended December 31, 2010 and 2009, which collectively comprise the System's basic financial statements as listed in the table of contents. 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 audit. 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 reports thereon, have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports 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 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 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 reports of the other auditors, provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the System as of December 31, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 26, 2011 and April 28, 2010 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 2 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we express no opinion on it.

*McGladrey & Pullen, LLP*

Cleveland, Ohio  
April 26, 2011

# The MetroHealth System (A Component Unit of Cuyahoga County)

## Management's Discussion and Analysis December 31, 2010

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### Management's Discussion and Analysis

This section of The MetroHealth System's (the System) annual financial report presents management's discussion and analysis (MD&A) 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, 2010 and 2009. 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 System's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the GASB. The System is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and are depreciated (except land and construction in progress) over their useful lives. See the *Notes to Financial Statements* for a summary of the System's significant accounting policies.

Following this MD&A are the basic financial statements of the System together with the notes, which are essential to a complete understanding of the data. The System's basic financial statements are designed to provide readers with a broad overview of the System's finances.

The *Balance Sheets* present information on all the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of the System's financial position.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the System's net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future periods.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the System's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the *Statement of Cash Flows* to assist in the understanding of the difference between cash flows from operating activities and operating income or loss.

The accompanying financial statements of the 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 Old Brooklyn Nursing Facility 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 MetroHealth System (A Component Unit of Cuyahoga County)**

### **Management's Discussion and Analysis December 31, 2010**

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The System is the public health care system for Cuyahoga County, Ohio, (the County). It is organized and operated by its board of county hospital trustees (the Board) pursuant to Chapter 339 of the Ohio Revised Code. Until 2010, members of the Board were jointly appointed by the Board of County Commissioners of the County, and the senior judges of the Probate and Common Pleas Courts of the County. Effective January 2011, the County voters have established a new form of government by charter (the Charter). Under the Charter, future members of the Board will be appointed by the senior judges of the Probate and Common Pleas Courts of the County and the County Executive, as provided by law.

In accordance with GASB Statement No. 14, *The Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, 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 Mark A. Parks, Jr., Acting Fiscal Officer, County Administration Building, 1219 Ontario Street, Cleveland, Ohio 44113.

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 non-for-profit organization supporting the System through fundraising. The Foundation is not included in the following Management's Discussion and Analysis section, but is included in greater detail in the financial statements and footnotes.

#### **Financial and Operating Highlights for 2010**

- Outpatient visits slightly exceeded prior year levels.
- Hospital patient days decreased 1.9% from the prior year.
- Surgical volumes increased 1.8% from 2009 levels.
- Total net assets increased \$26.6 million from the prior year.
- Total employee full-time equivalents (FTE's) decreased by 41 or 0.8% from the prior year.
- The Upper Payment Limit (UPL) and Hospital Care Assurance program revenues increased \$4.5 million from the prior year to \$56.3 million.
- Charity care, measured as charges foregone, increased 1.9% to \$257.6 million.

#### **Financial and Operating Highlights for 2009**

- Outpatient visits decreased 0.4% from the prior year.
- Hospital patient days decreased 6.1% from the prior year.
- Surgical volumes increased 1.3% from 2008 levels.
- Total net assets increased \$58.3 million from the prior year.
- Total employee FTE's decreased by 203 or 3.6% from the prior year.
- The Upper Payment Limit (UPL) and Hospital Care Assurance program revenues increased \$11.9 million from the prior year.
- Charity care reached record levels, increasing 5.3% to \$252.8 million.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Management's Discussion and Analysis  
December 31, 2010**

**Financial Analysis of the System at December 31, 2010 and 2009**

The System's total assets increased by 13.7% to \$762.4 million and total liabilities increased 17.7% to \$435.3 million in 2010. The System's total net assets increased \$26.6 million in 2010 or 8.9% from the prior year. Table 1 summarizes the System's balance sheets on December 31, 2010, 2009 and 2008.

**TABLE 1  
THE METROHEALTH SYSTEM  
BALANCE SHEETS  
(DOLLARS IN THOUSANDS)**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Assets:</b>			
Current assets	\$ 147,832	\$ 99,124	\$ 96,897
Investments	256,084	260,048	228,329
Restricted assets	87,256	23,968	25,183
Capital assets	266,457	284,425	283,327
Other assets	4,807	2,772	3,071
<b>Total assets</b>	<b>\$ 762,436</b>	<b>\$ 670,337</b>	<b>\$ 636,807</b>
<b>Liabilities and net assets:</b>			
<b>Liabilities:</b>			
Current liabilities	\$ 111,176	\$ 109,704	\$ 97,359
Long-term liabilities	324,124	260,130	297,247
<b>Total liabilities</b>	<b>435,300</b>	<b>369,834</b>	<b>394,606</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	55,731	88,827	90,059
Restricted net assets, expendable	33,917	24,310	21,863
Unrestricted net assets	237,488	187,366	130,279
<b>Total net assets</b>	<b>327,136</b>	<b>300,503</b>	<b>242,201</b>
<b>Total liabilities and net assets</b>	<b>\$ 762,436</b>	<b>\$ 670,337</b>	<b>\$ 636,807</b>

# **The MetroHealth System (A Component Unit of Cuyahoga County)**

## **Management's Discussion and Analysis December 31, 2010**

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### **Current Assets**

Fiscal year 2010 ended with an increase in total current assets of \$48.7 million or 49.1% compared to 2009. Cash and cash equivalents increased 1.1% from normal business activity. Net patient accounts receivable increased \$2.1 million or 3.3% from the prior year. Other non-patient receivables increased by \$42.7 million to \$61.6 million in 2010. The increase is primarily attributed to a \$35.2 million amount payable to the System in 2011 for participation in the State of Ohio's Hospital Care Assurance Program (HCAP), and higher carrying amounts for invoiced and accrued receivables. Historically, current year HCAP dollars have been paid prior to year end. Also included in other receivables is \$11.1 million due to the System for participation in the State of Ohio's supplemental Medicaid program that provides access to available funding up to 100% of the Medicare upper payment limit for inpatient hospital services (UPL Program). The outstanding balance represents an increase of \$1.1 million or 10.7% from the prior year.

In 2010, medical and non-medical supplies inventories increased \$3.0 million or 48.6% and is primarily related to increased operating room inventory of \$2.6 million. Prepaid expenses increased \$0.8 million to \$5.8 million.

Fiscal year 2009 ended with an increase in total current assets of \$2.2 million or 2.3% compared to 2008. Cash and cash equivalents decreased \$2.3 million from normal business activity. Net patient accounts receivable increased \$3.9 million or 5.9% from the prior year and is largely related to favorable contractual and bad debt allowance changes in estimates. Both are a result of management's improved receivable valuation methodologies initiated in 2009. Other non-patient receivables increased slightly from \$18.7 million to \$18.8 million in 2009, and includes \$10.0 million at December 31, 2009 for an amount due to the System for participation in the UPL Program.

In 2009, medical and non-medical supplies inventories declined \$0.5 million or 7.1% primarily from a smaller pharmacy inventory. Prepaid expenses declined \$1.7 million or 25.5% in 2009 and is related to large information services invoices which are now paid monthly instead of annually.

### **Investments**

In 2010, total investments decreased by \$4.0 million or 1.5% from the prior year. General Board designated investments decreased by \$12.6 million or 9.8%, Academic fund balances decreased by \$1.0 million or 3.3% and the Depreciation Reserve fund increased \$9.7 million or 9.6%. The Board designated general investments decrease of \$12.6 million is attributed to a \$35.2 million HCAP amount due to the System, payable in the first quarter of 2011. HCAP Program funds have historically been paid prior to year end. The Depreciation Reserve fund increase results from higher annual funding requirements of \$6.2 million, investment returns of \$3.3 million and a mark to market adjustment increase of \$0.2 million.

In 2009, total investments increased by \$31.7 million or 13.9% from the prior year. Board designated investments increased \$25.3 million, Academic fund balances decreased by \$1.1 million and the Depreciation Reserve fund increased \$7.5 million. The Board designated general investments increase of \$25.3 million or 24.6% is related to strong operating cash flows. The Academic funds decrease of \$1.1 million, or 3.4% is primarily due to a large radiology capital expenditure of \$0.6 million. The Depreciation Reserve fund increase is attributed to transfers of \$5.9 million for annual funding requirements, realized investment returns of \$2.7 million and a mark to market adjustment decrease of \$1.1 million. The Depreciation Reserve fund grew 8.1% in 2009.

# **The MetroHealth System (A Component Unit of Cuyahoga County)**

## **Management's Discussion and Analysis December 31, 2010**

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### **Restricted Assets**

Restricted Assets includes restricted cash and cash equivalents, special purpose investments, and restricted assets under bond indenture agreements. In 2010, restricted assets increased by \$63.3 million to \$87.3 million and is related to the January 2010 bond issue of \$75.0 million, project fund spending of \$13.1 million and debt service funding activity. In 2009, restricted assets declined by 4.8% or \$1.2 million. In both years, the restricted assets under bond indenture agreements category comprised the majority of the increase or decrease.

### **Capital Assets**

In 2010, capital expenditures totaled \$15.1 million, a \$20.7 million decrease from 2009. Expenditures on two of the larger projects include \$6.9 million for one Life Flight helicopter and \$2.2 Biplane Inter Angio Replacement. The System's 2010 capital expenditures were from operating funds and Series 2009B Project Funds. Additional detailed information can be found in the Capital Assets section of the Notes to Financial Statements.

In 2009, capital expenditures totaled \$35.8 million, a \$2.6 million increase from 2008. Expenditures on some of the larger projects include \$13.6 million for the replacement of the Life Flight Program helicopters and other equipment, \$8.5 million for the purchase of the Valentine Street parking garage (previously leased), \$3.9 million for the inpatient electronic medical records project, \$1.3 million for the replacement of air handling units, and \$1.0 million for the Interventional CT reconfiguration in radiology. The parking garage was purchased with the issuance of Series 2009A bonds. All of the System's other 2009 capital expenditures were from operating funds

### **Current Liabilities**

In 2010, total current liabilities increased \$1.5 million or 1.3% from the prior year. Current liabilities accounts that increased include \$3.7 million or 14.0% in accrued payroll and related liabilities, \$1.2 million or 28.2% in accrued vacation and sick leave and \$2.3 million or 107.1% for accrued interest payable. The increase in accrued interest payable is attributed to the \$75 million bond issuance in January 2010. Current liabilities accounts that decreased in 2010 include \$2.7 million in accounts payable, \$2.7 million in the contribution payable to the public employees retirement system and \$1.2 million in self-insurance liabilities.

In 2009, total current liabilities increased \$12.3 million or 12.6% from the prior year. Current liabilities accounts that increased include \$9.0 million or 40.8% in accounts payable, \$2.0 million or 8.2% in accrued payroll and related liabilities, \$1.2 million or 39.9% in accrued vacation and sick leave and \$1.1 million or 15.9% for current installments of long-term liabilities. Current liabilities accounts that decreased in 2009 include \$1.3 million in self-insurance liabilities and \$2.6 million for the payment of the Note payable.

### **Long-Term Liabilities**

In 2010, long-term liabilities, less current installments, increased \$64.0 million or 24.6% from the prior year. Long-term debt increased by \$68.0 million or 36.3%, other long-term liabilities increased by \$3.4 million, and the accrued vacation and sick leave liability grew by \$2.3 million or 7.2% from the prior year. Estimated amounts due to third party payors declined by \$9.8 million or 63.9% for the prior year.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Management's Discussion and Analysis  
December 31, 2010**

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The increase in long-term debt is related to the System's \$75.0 million Series 2009B bond issuance and an IBM capital lease of \$1.1 million. Additional detail regarding the System's long-term debt can be found in Note 6 of the Financial Statements. Growth in other long-term liabilities of \$3.4 million resulted from unfavorable market adjustments on the System's two interest SWAP agreements that are linked to its long term debt. The decline in the liability for estimated amounts due to third party payors is primarily the result of updated allowance estimates, and favorable cost report settlements from prior years.

In 2009, long-term liabilities, less current installments, decreased \$37.1 million or 12.5% from the prior year. Self-insurance liabilities declined \$8.6 million or 25.4%, estimated amounts due to third party payors declined \$7.9 million or 34.2% and other long-term liabilities decreased \$22.0 million. The accrued vacation and sick leave liability grew slightly and long-term debt increased \$1.3 million or 0.7%.

The 2009 decline in self-insurance liabilities is related to favorable settlements and the resulting effect on the actuarial valuation report for malpractice claims/lawsuits against the System. The decline in the liability for estimated amounts due to third party payors is primarily the result of updated allowance estimates and secondarily favorable reimbursement cost report settlements.

Other long-term liabilities, which experienced a sharp decline in 2009, is related to favorable mark to market adjustments of \$17.6 million on the System's two interest SWAP agreements that are linked to its long-term debt, and reclassification of the remaining pollution remediation obligation to Other current liabilities. The \$1.3 million increase in long-term debt is primarily attributed to the issuance of the Series 2009A bonds totaling \$8.5 million, deferred bond refunding loss amortization of \$0.7 million and principal payments of \$7.0 million.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Management's Discussion and Analysis  
December 31, 2010**

**TABLE 2  
THE METROHEALTH SYSTEM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
(DOLLARS IN THOUSANDS)**

	2010	2009	2008
<b>Revenues:</b>			
Operating revenues			
Net patient service revenue	\$ 681,868	\$ 645,037	\$ 617,178
Other revenue	37,063	28,497	25,140
	<u>718,931</u>	<u>673,534</u>	<u>642,318</u>
Non-operating revenues			
County appropriation	39,907	39,662	39,773
Investment income	6,202	6,134	8,668
Unrealized income (loss) on investments	(2,948)	14,594	(16,706)
Other revenue	3,839	3,267	2,612
Noncapital grants and donations	4,087	5,010	5,548
Grants for capital acquisitions	700	1,048	1,685
	<u>51,787</u>	<u>69,715</u>	<u>41,580</u>
<b>Total revenues</b>	<u>770,718</u>	<u>743,249</u>	<u>683,898</u>
<b>Expenses:</b>			
Operating expenses			
Professional care of patients	432,687	415,867	417,974
Dietary	7,239	7,401	7,759
Household and property	32,721	33,638	31,432
Administrative and general	106,688	84,442	82,738
Employee benefits	89,153	86,897	85,913
Provision for bad debts	27,699	9,120	9,917
Depreciation and amortization	32,098	34,465	31,865
	<u>728,285</u>	<u>671,830</u>	<u>667,598</u>
Non-operating expenses			
Specific purpose fund expenses	4,551	5,166	5,347
Interest expense	11,249	7,951	10,111
	<u>15,800</u>	<u>13,117</u>	<u>15,458</u>
<b>Total expenses</b>	<u>744,085</u>	<u>684,947</u>	<u>683,056</u>
<b>Increase in net assets</b>	26,633	58,302	842
Total net assets - beginning of year	300,503	242,201	241,359
<b>Total net assets - end of year</b>	<u>\$ 327,136</u>	<u>\$ 300,503</u>	<u>\$ 242,201</u>

The System's total operating and non-operating revenues in 2010 were \$770.7 million while operating and non-operating expenses totaled \$744.1 million. This resulted in net assets increasing \$26.6 million for the year. This compares to the 2009 net asset increase of \$58.3 million from total revenues of \$743.2 million and total expenses of \$684.9 million.

# The MetroHealth System (A Component Unit of Cuyahoga County)

## Management's Discussion and Analysis December 31, 2010

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### Operating Revenues

#### 2010 Activity

In 2010, operating revenues increased \$45.4 million or 6.7% from the prior year. Net patient service revenues increased \$36.8 million or 5.7% and other operating revenues increased \$8.6 million or 30.1% from 2009 levels.

The System's patient volumes were mixed when compared to 2009 levels. Hospital patient days decreased 1.9%, discharges were down 2.6%, inpatient surgeries declined 1.4% and deliveries were down 2.3%. Outpatient visits were flat from 2009 results. Emergency room visits increased 9.8% and outpatient surgical volumes increased 3.1% from the prior year.

The net patient revenue increase of \$36.8 million between 2009 and 2010 is mostly attributed to revenue cycle initiatives centered around strategic pricing and optimized charge capture, higher UPL Program revenues, an improved classification process between charity care deductions and bad debt expense and refined accounts receivable valuation methods.

Gross patient revenues increased \$85.2 million or 4.8% from the prior year but were partially offset with higher contractual adjustments of \$49.1 million, additional charity care of \$4.8 million, and increased denial and write-off adjustments of \$1.3 million. The System's level of charity care, \$257.6 million in 2010, or 13.8% of gross patient charges, continues to reflect the System's status as a safety net facility in Cuyahoga County. Charity care as a percentage of gross revenue declined from the 2009 level of 14.2%. Hospital Care Assurance (HCAP) and Upper Payment Limit (UPL) program revenues, also components of net patient revenue, increased by \$4.5 million or 8.8% from 2009 levels. HCAP and UPL programs are discussed in further detail in the System's financial statement's notes. Prior year settlement adjustments, also affecting net patient revenue, totaled \$13.6 million, an increase of \$2.4 million from the prior year.

In 2010, other operating revenues were \$37.1 million, an increase of \$8.6 million or 30.1% from 2009 levels. The \$8.6 million increase is related to \$9.9 million in cash distributions from a renal care joint venture, and \$1.2 million from a new grant to support and enhance Northeast Ohio trauma services.

#### 2009 Activity

In 2009, operating revenues increased \$31.2 million or 4.9% from the prior year. Net patient service revenues increased \$27.9 million or 4.5% and other operating revenues increased \$3.4 million or 13.4% from 2008 levels.

The System's patient volumes were generally down from 2008 levels with some exceptions. Hospital patient days decreased 6.1%, with discharges down 3.3%, inpatient surgeries down 0.6%, deliveries down 15.0%, and outpatient visits down slightly. Emergency room visits increased 9.3% and outpatient surgical volumes increased 2.1% from the prior year.

The net patient revenue increase of \$27.9 million is mostly attributed to strategic first quarter price increases, full year impacts of revenue cycle initiatives centered around optimizing coding, documentation and charge capture, higher current year HCAP and UPL Program revenues and the implementation of improved patient receivable valuation methods.

## **The MetroHealth System (A Component Unit of Cuyahoga County)**

### **Management's Discussion and Analysis December 31, 2010**

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Gross patient revenues increased \$76.2 million or 4.5% from the prior year but were partially offset with higher contractual adjustments of \$45.2 million, additional charity care of \$12.6 million, and increased denial and write-off adjustments of \$1.2 million. The System's level of charity care, \$252.8 million in 2009, or 14.2% of gross patient charges, continues to reflect the System's status as a safety net facility in Cuyahoga County. Hospital Care Assurance (HCAP) and Upper Payment Limit (UPL) program revenues, also components of net patient revenue, increased by \$11.9 million or 29.9% from 2008 levels. HCAP and UPL programs are discussed in further detail in the System's financial statements notes. Prior year settlement adjustments, also affecting net patient revenue, totaled \$11.2 million, a decrease of \$1.2 million from the prior year.

In 2009, other operating revenues were \$28.5 million, an increase of \$3.4 million or 13.4% from 2008 levels. Higher other operating revenues relate to skilled nursing bed sales revenue totaling \$2.6 million. The one-time bed sales transaction is related to the 2008 relocation of the System's eastside skilled nursing facility to the newly renovated, smaller capacity Old Brooklyn campus facility.

#### **Non-Operating Revenues**

##### 2010 Activity

In 2010, non-operating revenues totaled \$51.8 million, a decrease of \$17.9 million or 25.7% from the prior year. Non-operating revenues include county appropriation revenue of \$39.9 million, investment income of \$6.2 million, unrealized investments losses of \$2.9 million, other non-operating revenue of \$3.8 million, and grants and donations of \$4.8 million.

County appropriation revenue increased slightly from \$39.7 million in 2009 and has remained near the \$40.0 million level over the past four years. Investment income was flat compared to the prior year with interest rates remaining historically low. Unrealized income on investments decreased \$17.5 million, which relates to the market value changes of the System's two interest rate SWAP agreements.

During 2010, the SWAP agreements generated unrealized losses of \$3.4 million from normal interest rate fluctuations. The previous year was an unusual year for SWAP agreement market values, recovering \$17.6 million of the \$19.4 million in losses experienced during the global economic downturn of 2008.

##### 2009 Activity

In 2009, non-operating revenues totaled \$69.7 million, an increase of \$28.1 million or 67.7% from the prior year. Non-operating revenues include county appropriation revenue of \$39.7 million, investment income of \$6.1 million, unrealized income on investments of \$14.6 million, other non-operating revenue of \$3.3 million, and grants and donations of \$6.1 million.

County appropriation revenue decreased slightly from \$39.8 million in 2008 but has remained near the \$40.0 million level. Investment income decreased \$2.5 million or 29.2% from the prior year as interest rates remained historically low. Unrealized income on investments increased \$31.3 million which relates to the market value changes of the System's interest rate SWAP agreements.

During 2008, the SWAP agreements generated unrealized losses of \$19.4 million, and in 2009 created unrealized income of \$17.6 million. These significant fluctuations between years are the result of valuation volatility related to rapid interest rate declines during the global economic downturn of 2008.



**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Management's Discussion and Analysis  
December 31, 2010**

**Operating Expenses**

The following table summarizes the System's operating expenses from the last three years. The System's total operating expenses increased by \$56.5 million or 8.4% from 2009 and increased by \$4.2 million or 0.6% from 2008.

**TABLE 3  
THE METROHEALTH SYSTEM  
OPERATING EXPENSE DETAIL  
(DOLLARS IN THOUSANDS)**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Operating expenses:			
Salaries and wages	\$ 390,206	\$ 371,340	\$ 370,127
Employee benefits	89,154	86,898	85,914
Medical supplies	39,081	39,476	38,881
Pharmaceuticals	31,033	31,439	31,507
Plant operations	44,597	41,278	38,452
Supplies and other	61,177	51,026	51,487
Liability insurance	13,240	6,788	9,448
Provision for bad debts	27,699	9,120	9,917
Depreciation and amortization	32,098	34,465	31,865
<b>Total operating expenses</b>	<b>\$ 728,285</b>	<b>\$ 671,830</b>	<b>\$ 667,598</b>

**2010 Activity**

In 2010, salaries and wages were \$390.2 million, an increase of \$18.9 million or 5.1% from the prior year. The increase is primarily attributed to a general wage increase of 3.0%, restructuring of physician productivity-based incentive programs, and strategic physician hires.

Employee benefits expense in 2010 was \$89.2 million, an increase of \$2.3 million or 2.6% from 2009. Health care benefits increased \$0.8 million, workers' compensation expenses increased \$0.2 million and unemployment compensation decreased \$0.5 million. System contributions to the Ohio Public Employee Retirement System (OPERS) increased \$1.6 million on higher salaries and wages.

Medical supplies expenses were \$39.1 million in 2010, a decrease of \$0.4 million or 1.0% from the prior year. Pharmaceutical expenses were \$31.0 million, a decrease of 1.3% or \$0.4 million from 2009. Medical supplies and pharmaceuticals decreased a combined \$0.8 million or 1.1%, consistent with soft patient volumes.

Plant Operations expenses were \$44.6 million, an increase of \$3.3 million or 8.0% from 2009 levels, due to a full year of franchise fees, higher service contracts, equipment and building rentals, and partially offset by lower natural gas costs. State of Ohio franchise fees began in the third quarter of 2009 with expenses totaling \$5.9 million in 2010 and \$3.3 million in 2009. Supplies and other expenses were \$61.2 million, an increase of \$10.2 million or 19.9%. Consulting costs increased by \$6.8 million from 2009 levels. Liability insurance expenses were \$13.2 million, an increase of \$6.5 million from the prior year. Provision for bad debts totaled \$27.7 million, an increase of \$18.6 million from 2009 and relates to the System's improved classification process between bad debt and charity care deductions. Depreciation expenses were \$32.1 million, a decrease of \$2.4 million, or 6.9% from the prior year.

## **The MetroHealth System (A Component Unit of Cuyahoga County)**

### **Management's Discussion and Analysis December 31, 2010**

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#### 2009 Activity

In 2009, salaries and wages were \$371.3 million, an increase of \$1.2 million or 0.3% from the prior year. The general wage increase in 2009 was 3.0%. The flat salaries and wages expense is a result of the System's organizational restructure and workforce downsizing in April 2009. With the mid-year workforce reductions, FTE's declined by 203, or 3.6% from the prior year.

Employee benefits expense in 2009 was \$86.9 million, an increase of \$1.0 million or 1.1% from 2008. Health care benefits decreased \$1.3 million, workers' compensation expenses increased \$1.1 million and unemployment compensation increased \$0.7 million. System contributions to the Ohio Public Employee Retirement System (OPERS) increased \$0.4 million on slightly higher salaries and wages.

Medical supplies expenses were \$39.5 million in 2009, an increase of \$0.6 million or 1.5% from the prior year. Pharmaceutical expenses were \$31.4 million, a slight decrease of 0.2% from 2008. Medical supplies and pharmaceuticals increased a combined \$0.5 million or 0.7%, consistent with lower patient volumes.

Plant Operations expenses were \$41.3 million, an increase of \$2.8 million or 7.3% from 2008 levels. The increase is attributed to the State of Ohio's new hospital franchise fee, which totaled \$3.3 million for the second half of 2009. Supplies and other expenses were \$51.0 million, a decrease of \$0.5 million or 0.9%. Liability insurance expenses were \$6.8 million, a decrease of \$2.7 million or 28.1% from the prior year. Bad debt expense was \$9.1 million, a decrease of \$0.8 million, or 8.0% from 2008. Depreciation expenses were \$34.5 million, an increase of \$2.6 million, or 8.2% from the prior year.

#### **Non-Operating Expenses**

Non-operating expenses, which include specific purpose fund expenses (grant expenses) and interest expense, increased \$2.7 million from 2009 levels, to \$15.8 million. Non-operating expenses were \$13.1 million and \$15.5 million in 2009 and 2008, respectively.

Interest expense in 2010 increased \$3.3 million or 41.5% from 2009 and is primarily related to the January issuance of bonds totaling \$75.0 million. Interest expense in 2009 decreased \$2.2 million or 21.4% from 2008. The decrease in 2009 relates to lower interest rates on the System's variable-rate bonds and higher capitalized interest. Capitalized interest increased from \$0.1 million in 2008 to \$0.6 million in 2009.

Specific purpose fund expenses totaled \$4.6 million, \$5.2 million and \$5.3 million in years 2010, 2009 and 2008, respectively.

## The MetroHealth System (A Component Unit of Cuyahoga County)

### Management's Discussion and Analysis December 31, 2010

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#### Economic Factors and Next Year's Budget

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

- The System has budgeted to receive an appropriation of approximately \$36.0 million from the County in 2011. This funding level approximates 90% of the amounts received in each of the past three years.
- The System will continue to explore revenue enhancements, cost reductions and productivity improvements.
- Capital funds needed for replacement of depreciated equipment and facilities, and vital service-line growth and expansion, will require the use of the remaining Series 2009B project funds and unrestricted investments. In addition, efforts to obtain appropriate philanthropy to offset operational and capital needs will continue in 2011.
- Former Governor Strickland's SFY 2010/2011 State budget contained a new franchise tax on Ohio hospitals total facility costs to fund Medicaid and provider payments. The franchise tax was used to increase system inpatient and outpatient Medicaid hospital payments by 5%. The State claimed that without this assessment, Medicaid payments to hospitals would need to be reduced by 15% to offset the State shortfall. In addition to the increased Medicaid payments, the SFY 2010/2011 budget reserves 9.16% and 10.29% respectively, of total hospital franchise fee/tax funds to fund the Upper Payment Limit program (UPL) which was expanded to private hospitals in 2010. During 2011, the hospital franchise fee was modified to exclude Medicare costs from the basis which reduced the Systems 2011 franchise fee by approximately \$2.0 million dollars from what was anticipated to \$5.2 million. The UPL program covers inpatient and outpatient services for private hospitals as well as public hospitals. The methodology used to distribute the public hospital UPL funds will remain unchanged in SFY 2011 and will be slightly different from the new private hospital UPL program. The expansion of the UPL program affected the existing public hospital UPL program by eliminating the inter-governmental transfer payment program and replacing it with the state-wide hospital franchise fee and expanding the public hospital UPL to include outpatient services. At this time, there are no proposals related to the hospital franchise fee or the UPL program.
- In 2010, the System earned \$24.6 million in gross UPL dollars. Medicaid managed care patients do not qualify for UPL monies, only Medicaid FFS patients qualify. 2010 was the first year that an outpatient UPL was available and the System did participate in the outpatient UPL. The outpatient UPL was approximately \$2.1 million dollars of the aforementioned UPL amount. UPL plans for SFY 2012 have not yet been finalized.
- The System is estimating net Hospital Care Assurance Program (HCAP) dollars of \$29.5 million in 2011. As a result of the American Recovery and Reinvestment Act signed in February of 2009, MetroHealth received an additional \$2.1 million in net HCAP dollars for 2009 and 2010, but this increase is set to sunset for 2011 and thus the anticipated decrease in federal funding. It is estimated, the 2011 OBRA Cap (based on 2009 data) will decrease to \$53.9 million, from \$64.9 million in 2010, as a result of enhanced systems and procedures designed to get patients qualified for Medicaid.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Balance Sheets  
December 31, 2010 and 2009  
(Dollars in Thousands)**

<b>Assets</b>	<b>The MetroHealth System</b>		<b>Component Unit The MetroHealth Foundation, Inc.</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 2,476	\$ 2,450	\$ 470	\$ 392
Accounts receivable	81,555	71,182	1,650	1,822
Allowance for uncollectible accounts	(12,731)	(4,527)	(115)	(124)
	68,824	66,655	1,535	1,698
Other receivables	61,552	18,845	32	-
Supplies	9,145	6,153	-	44
Prepaid expenses	5,835	5,021	39	-
<b>Total current assets</b>	<b>147,832</b>	<b>99,124</b>	<b>2,076</b>	<b>2,134</b>
<b>Noncurrent Assets:</b>				
<b>Investments:</b>				
General	115,611	128,233	6,760	3,500
Academic funds	30,134	31,171	-	-
Depreciation reserve fund	110,339	100,644	-	-
	256,084	260,048	6,760	3,500
<b>Restricted Assets:</b>				
Cash and cash equivalents	94	97	2,468	1,038
Special purpose investments	5,556	5,556	20,335	18,649
Under bond indenture agreements	81,606	18,315	-	-
	87,256	23,968	22,803	19,687
<b>Capital Assets:</b>				
Land and construction in progress	13,700	18,853	-	-
Land improvements	11,574	11,571	-	-
Buildings and fixed equipment	530,980	529,380	-	-
Equipment	291,186	275,044	-	-
	847,440	834,848	-	-
Accumulated depreciation	(580,983)	(550,423)	-	-
	266,457	284,425	-	-
Other assets	4,807	2,772	-	-
<b>Total assets</b>	<b>\$ 762,436</b>	<b>\$ 670,337</b>	<b>\$ 31,639</b>	<b>\$ 25,321</b>

See Notes to Financial Statements.

Liabilities	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2010	2009	2010	2009
Current Liabilities:				
Accounts payable	\$ 28,442	\$ 31,145	\$ 2,319	\$ 1,027
Accrued payroll and related liabilities	30,154	26,445	-	-
Contribution payable to the Public Employees Retirement System	4,677	7,352	-	-
Accrued interest payable	4,357	2,104	-	1
Self-insurance liabilities	11,954	13,152	-	-
Estimated amounts due to third-party payors	5,262	4,273	-	-
Accrued vacation and sick leave	5,591	4,360	-	-
Current installments of long-term debt	8,723	8,075	-	70
Other current liabilities	12,016	12,798	541	401
<b>Total current liabilities</b>	<b>111,176</b>	<b>109,704</b>	<b>2,860</b>	<b>1,499</b>
Long-Term Liabilities, less current installments:				
Self-insurance liabilities	25,366	25,324	-	-
Estimated amounts due to third-party payors	5,507	15,261	-	-
Accrued vacation and sick leave	34,309	32,017	-	-
Derivative instruments - rate swaps	3,421	5	-	-
Long-term debt	255,521	187,523	-	-
<b>Total long-term liabilities</b>	<b>324,124</b>	<b>260,130</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>435,300</b>	<b>369,834</b>	<b>2,860</b>	<b>1,499</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	55,731	88,827	-	-
Restricted net assets, expendable	33,917	24,310	15,608	12,705
Restricted net assets, nonexpendable	-	-	8,615	8,255
Unrestricted net assets	237,488	187,366	4,556	2,862
<b>Total net assets</b>	<b>327,136</b>	<b>300,503</b>	<b>28,779</b>	<b>23,822</b>
<b>Total liabilities and net assets</b>	<b>\$ 762,436</b>	<b>\$ 670,337</b>	<b>\$ 31,639</b>	<b>\$ 25,321</b>

See Notes to Financial Statements.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2010	2009	2010	2009
Operating Revenues				
Net patient service revenue	\$ 681,868	\$ 645,037	\$ -	\$ -
Other revenue	37,063	28,497	-	-
<b>Total operating revenues</b>	<b>718,931</b>	<b>673,534</b>	-	-
Operating Expenses				
Professional care of patients	432,687	415,867	-	-
Dietary	7,239	7,401	-	-
Household and property	32,721	33,638	-	-
Administrative and general	106,688	84,442	-	-
Employee benefits	89,153	86,897	-	-
Provision for bad debts	27,699	9,120	-	-
<b>Total operating expenses before depreciation and amortization</b>	<b>696,187</b>	<b>637,365</b>	-	-
<b>Operating income before depreciation and amortization</b>	<b>22,744</b>	<b>36,169</b>	-	-
Depreciation and amortization	32,098	34,465	-	-
<b>Operating income (loss)</b>	<b>(9,354)</b>	<b>1,704</b>	-	-
Non-Operating Revenues (Expenses)				
County appropriation	39,907	39,662	-	-
Net investment income	3,254	20,728	3,632	4,609
Other non-operating revenue	3,839	3,267	-	-
Noncapital grants and donations	4,087	5,010	9,347	4,786
Grant expenses and support	(4,551)	(5,166)	(8,022)	(5,768)
Interest expense	(11,249)	(7,951)	-	-
<b>Total non-operating revenues (expenses)</b>	<b>35,287</b>	<b>55,550</b>	<b>4,957</b>	<b>3,627</b>
<b>Income before capital contributions</b>	<b>25,933</b>	<b>57,254</b>	<b>4,957</b>	<b>3,627</b>
Other changes, grants for capital acquisitions	700	1,048	-	-
<b>Change in net assets</b>	<b>26,633</b>	<b>58,302</b>	<b>4,957</b>	<b>3,627</b>
Total net assets - beginning of year	300,503	242,201	23,822	20,195
<b>Total net assets - end of year</b>	<b>\$ 327,136</b>	<b>\$ 300,503</b>	<b>\$ 28,779</b>	<b>\$ 23,822</b>

See Notes to Financial Statements.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Statements of Cash Flows  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Patient service revenue	\$ 609,009	\$ 619,240
Other operating cash receipts	37,063	28,497
Payments to suppliers	(200,110)	(173,558)
Payments for compensation and benefits	(474,552)	(453,872)
<b>Net cash flows (used in) provided by operating activities</b>	<b>(28,590)</b>	<b>20,307</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
County appropriation	39,907	39,662
Principal payments on notes payable	-	(2,599)
Interest payments on notes payable	-	(41)
Restricted grants and donations	8,069	8,592
Specific purpose funds expenses	(5,405)	(5,215)
<b>Net cash flows provided by noncapital financing activities</b>	<b>42,571</b>	<b>40,399</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Grants for capital acquisition	700	1,048
Acquisitions and construction	(19,040)	(30,431)
Proceeds from sale of assets and insurance	967	-
Proceeds from long-term debt	75,000	8,504
Principal payments on long-term debt	(8,293)	(6,970)
Interest payments on long-term debt	(9,661)	(7,751)
Payments of financing fees on long-term debt	(972)	-
<b>Net cash flows provided by (used in) capital and related financing activities</b>	<b>38,701</b>	<b>(35,600)</b>
<b>Cash Flows from Investing Activities</b>		
Payments for investment purchases and reinvestments	(887,298)	(498,811)
Proceeds from investment sales and maturities	828,439	465,251
Interest received	6,200	6,134
<b>Net cash flows (used in) investing activities</b>	<b>(52,659)</b>	<b>(27,426)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>23</b>	<b>(2,320)</b>
<b>Cash and cash equivalents</b>		
Beginning	2,547	4,867
Ending	<b>\$ 2,570</b>	<b>\$ 2,547</b>

(continued)

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Statements of Cash Flows (Continued)  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

	<b>2010</b>	<b>2009</b>
Reconciliation of Operating Income (Loss) to Net Cash Flows		
(Used In) Provided by Operating Activities:		
Operating income (loss)	\$ (9,354)	\$ 1,704
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities		
Depreciation and amortization	32,098	34,465
Provision for bad debts	27,699	9,120
Changes in assets and liabilities:		
(Increase) in patient accounts receivable	(29,868)	(15,707)
(Increase) decrease in other assets	(47,074)	1,897
(Decrease) in self-insurance liabilities	(1,156)	(9,865)
Increase in accounts payable and other liabilities	6,527	6,468
(Decrease) in long-term liabilities	(7,462)	(7,775)
<b>Net cash flows (used in) provided by operating activities</b>	<b>\$ (28,590)</b>	<b>\$ 20,307</b>

Noncash Investing, Capital and Financing Activities:

The System held investments at December 31, 2010 and 2009, with a fair value of \$343,246 and \$283,919, respectively. During 2010 and 2009, the net change in the fair value of these investments was an increase of \$468 and a decrease of \$3,028, respectively.

The System held interest rate swap obligations at December 31, 2010 and 2009, with a fair value of \$3,421 and \$5, respectively. During 2010 and 2009, the net change in the fair value of these swap obligations was an increase of \$3,416 and a decrease of \$17,622, respectively.

During 2010, the System acquired \$1,092 in capital assets by entering into a capital lease.

See Notes to Financial Statements.



# The MetroHealth System (A Component Unit of Cuyahoga County)

## Notes to Financial Statements Years Ended December 31, 2010 and 2009 (Dollars in Thousands)

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### 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.

### Note 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 Old Brooklyn Nursing Facility 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). It is organized and operated by its board of county hospital trustees (the Board) pursuant to Chapter 339 of the Ohio Revised Code. Until 2010, members of the Board were jointly appointed by the Board of County Commissioners of the County, and the senior judges of the Probate and Common Pleas Courts of the County. Effective January 2011, the County voters have established a new form of government by charter (the Charter). Under the Charter, future members of the Board will be appointed by the senior judges of the Probate and Common Pleas Courts of the County and the County Executive, as provided by law. In order to support the general operations of the System, the County of Cuyahoga, Ohio Commissioners approved an appropriation of \$39,907 and \$39,662 for 2010 and 2009, respectively. The County has also approved an appropriation of approximately \$36,000 for 2011. 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 Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Mark A. Parks, Jr., Acting Fiscal Officer, 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, Inc. (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, is 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. Complete financial statements of the Foundation can be obtained by writing to The MetroHealth Foundation, 2500 MetroHealth Drive, Cleveland, Ohio 44109.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Basis of accounting:** The System reports only “business-type” activities, which requires the following 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 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, now referred to as the FASB Standards Codification, which do not conflict with or contradict GASB pronouncements.

The System is accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the System’s operations are included in the Balance Sheet. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The System's fiscal year is the calendar year. Pursuant to Ohio law, the System submits a budget to the County for approval by November 1 of each 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 appropriations, investment income and special purpose grants and donations, primarily research. Nonoperating expenses include interest expense and expenses from special 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 and charity care allowances. 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 was reduced by contractual and retroactive adjustments of \$958,963 and \$912,214 in 2010 and 2009, respectively.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

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 and psychiatric services. Effective October 1, 2010, the System no longer participates in the Medicare Periodic Interim Payment (PIP) system.

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 the Medicare Ambulatory Payment Classifications. Inpatient rehabilitation and psychiatric and services are reimbursed at a prospectively determined per diem 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. 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 \$13,615 and \$11,228 in 2010 and 2009, respectively, due to prior year retroactive adjustments to amounts previously estimated and changes in estimates.

Net revenue from the Medicare and Medicaid programs accounted for approximately 29% and 28%, respectively, of the System's net patient service revenue for the year ended December 31, 2010, and 30% and 26%, respectively, of the System's net patient service revenue for the year ended December 31, 2009. 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.

**CMS Recovery Audit Contractor Program:** Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. CMS is in the process of rolling out this program nationally. Management cannot reliably predict the impact of future RAC audits on the System's results of operations or cash flows.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Other payors:** The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively-determined rates-per-discharge, discounts from established charges, and prospectively-determined per diem rates

**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. The State of Ohio FY 2010/2011 budget also included an expansion of the UPL program to outpatient services for the first time. In 2010 the System received \$2.1 million dollars in outpatient UPL payments. At December 31, 2010 and 2009, \$11,090 and \$10,022, respectively, were due to the System and recorded on the balance sheets in other receivables. The net amount recorded in net patient service revenue for UPL by the System was \$24,556 and \$19,096 in 2010 and 2009, respectively. The State of Ohio discontinued the Program's required contributing match for participants as of June 30, 2009. Effective July 1, 2009, the State began assessing a franchise fee to hospitals to fund healthcare programs, including the UPL program. The System incurred a franchise fee expense of \$5,856 and \$3,251 in 2010 and 2009, respectively and recorded the amount as an operating expense in the administrative and general expense category of the System's financial statements. The System's franchise fee liability payable to the State of Ohio at December 31, 2010 and 2009 was \$1,146 and \$1,430, respectively, and is recorded on the balance sheets in other current liabilities.

**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 patients it serves. Accordingly, the System receives additional payments from these programs as a result of this status totaling \$47,128 and \$47,832 in 2010 and 2009, respectively, (including Hospital Care Assurance (HCAP) of \$31,728 and \$32,642 in 2010 and 2009, 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 is contingent upon the various continued 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 \$257,586 and \$252,761, which represents 13.8% and 14.2% of gross charges in 2010 and 2009, 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.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Cash and cash equivalents:** The System considers only the cash in its commercial checking accounts as cash and cash equivalents. Funds in the System's savings / money market accounts are considered Investments. Cash and cash equivalents are stated at cost which is equivalent to fair value.

**Supplies:** Medical supplies are stated at the lower of cost or market value on a first-in first-out basis. Pharmaceutical supplies are stated at the lower of cost or market value on a first-in first-out basis.

**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 is included in net investment income 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 on investments of \$111 and \$420 in 2010 and 2009, respectively, is the difference between the proceeds received and the amortized cost of investments sold and is included in net 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 agreements represent amounts required by debt instruments to pay bond principal and interest and approved projects. Restricted cash and cash equivalents and special 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.

**Contributions:** The Foundation recognizes contributions as revenue in the period in which the pledge (promise to give) is received. The Foundation recognizes donated services as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

**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.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Capital assets:** Capital assets are stated at cost and contributed capital assets are stated at their fair value at the date of contribution. Expenditures for equipment must exceed \$1 per unit and expenditures for renovations must exceed \$10 in order for them to be capitalized. 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 income or loss resulting from this disposal is recorded in the Statement of Revenues, Expenses and Changes in Net Assets.

**Net assets:** The System classifies its net assets into three categories as follows:

Invested in Capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets – result when constraints placed on the net asset use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – consist of all other net assets that do not meet the criteria above.

**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 \$166 in 2010 and \$154 in 2009. Amortization expense related to bond discounts was \$103 in 2010 and \$96 in 2009. These amounts are included in interest expense in the Statement of Revenues, Expenses and Changes in Net Assets.

**Cost of borrowing:** Interest costs incurred on debt during the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. Capitalized interest of \$869 and \$587 was recorded in construction in progress as opposed to interest expense for 2010 and 2009, respectively. Construction in progress is transferred to capital assets when assets are substantially completed and amortization of capitalized interest is accounted for in the same manner as other components of asset cost and included in depreciation expense.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

The System has entered into various interest-rate swap agreements. The interest-rate swap agreements are carried at fair value in the Balance Sheets. These derivative instruments are not effective hedging instruments; therefore, gains and losses are recognized in the Statement of Revenues, Expenses and Changes in Net Assets during the period of change as adjustments to investment income on the related debt (see Note 7).

**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, commercial paper, and corporate bonds.

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 collectability of patient accounts receivable.

**Reclassifications:** Certain reclassifications of 2009 amounts have been made to conform to the 2010 presentation.

**Note 2. Changes in Accounting Principles and Recent Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following statements that have been recently implemented by the System:

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets. All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to these intangible assets, as applicable. The System implemented this Statement for the year ending December 31, 2010.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The System implemented this Statement for the year ending December 31, 2010. Derivative disclosure can be found in Note 7.

There was no material impact to the financial statements as a result of the implementation of Statement No. 51 and Statement No. 53.

The Governmental Accounting Standards Board (GASB) has recently issued the following statements:

Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The System is required to implement the provisions of this Statement for the year ending December 31, 2011.

## The MetroHealth System (A Component Unit of Cuyahoga County)

### Notes to Financial Statements Years Ended December 31, 2010 and 2009 (Dollars in Thousands)

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#### Note 2. Changes in Accounting Principles and Recent Accounting Pronouncements (Continued)

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements provides guidance for reporting service concession arrangements (SCA)*. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The System is required to implement the provisions of this Statement for the year ending December 31, 2012.

Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The System is required to implement the provisions of this Statement for the year ending December 31, 2013.

Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance contained in pre-November 1989 FASB and AICPA Pronouncements*, was established to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The System is required to implement this Statement for the year ending December 31, 2012.

The Financial Accounting Standards Board (FASB) has recently issued the following standards updates:

In August 2010, the FASB issued Accounting Standards Update (ASU) 2010-23, *Health Care Entities (Topic 954) – Measuring Charity Care for Disclosure*. ASU 2010-23 requires disclosure of charity care based on the health care provider's direct and indirect costs of providing charity care services, the method used to identify or estimate such costs, and funds received to offset or subsidize charity services provided. The disclosures required by ASU 2010-23 are effective for fiscal years beginning after December 15, 2010, and must be applied retrospectively. The System is assessing the impact of the implementation of ASU 2010-23 on the disclosures in its financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954) – Presentation of Insurance Claims and Related Insurance Recoveries*. ASU 2010-24 clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, ASU 2010-24 provides that the amount of the claims liability should be determined without consideration of insurance recoveries. The provisions of ASU 2010-24 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Entities must apply the provisions of ASU 2010-24 by recording a cumulative-effect adjustment to opening retained earnings (or unrestricted net assets) as of the beginning of the period of adoption. Retrospective application of the provisions ASU 2010-24 is permitted. The System is assessing the impact of the implementation of ASU 2010-24 on its financial statements.



**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

**Note 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.

*Custodial Credit Risk:* Custodial credit risk is the risk that, in the event of bank failure, the System's deposits might not be recovered. The FDIC increased insurance through December 31, 2013 for funds held in interest bearing accounts from \$100 to \$250 per depositor per category of legal ownership. In addition, the System's bank participated in the FDIC Transaction Account Guarantee Program (TAGP) where funds held in non-interest bearing transaction accounts were insured in full through December 31, 2009. However, the System's bank did not participate in the extension of the TAGP through December 31, 2010. Therefore, the System's deposits were not covered in full through December 31, 2010 and were only covered up to standard FDIC insurance limits. The System's investment policy does not address custodial credit risk. The System's bank deposits at December 31, 2010 and 2009, totaled \$47,572 and \$108,927, respectively, and were subject to the following categories of custodial credit risk:

	2010	2009
Uncollateralized	\$ 47,302	\$ 107,336
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	20	49
<b>Total amount subject to custodial risk</b>	<b>47,322</b>	<b>107,385</b>
Amount insured	250	1,542
<b>Total bank balances</b>	<b>\$ 47,572</b>	<b>\$ 108,927</b>

**Investments**

**The System:** The System's investment policy authorizes the System to invest in the following investments:

- Securities and obligations of the US Treasury and other federal agencies or instrumentalities.
- Time certificates of deposit or savings accounts and deposit accounts.
- Municipal and state bonds.
- No-load money market mutual funds investing in items listed above.
- Commercial paper that constitutes unsecured short-term debt on an entity defined in Division (D) of Section 1705.01 of the Ohio Revised Code and matures 270 days from purchase date, the aggregate value of the commercial paper does not exceed 2% of the aggregate value of the outstanding paper of the entity, the paper is rated by a least two nationally recognized standard rating services (NRSRS) and is rated in the highest classification and the entity has assets exceeding five hundred million dollars.
- Bankers Acceptances that mature no later than 180 days from purchase, the obligations are eligible for purchase by the Federal Reserve System, the issuer has a minimum "AA" long-term debt rating by a majority of NRSRS agencies and any single obligation will not exceed 5% of the System's total average portfolio.

**The MetroHealth System  
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**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

**Note 3. Deposits and Investments (Continued)**

- Notes issued by corporations incorporated in the United States and operating in the United States and the notes are rated in the second highest or higher category by at least two NRSRS at the time of purchase, mature in two years or less from the date of purchase and cannot exceed 15% of the System's total average portfolio.
- No load money market mutual funds rated in the highest category at the time of purchase by at least one NRSRS and consisting exclusively of obligations in the US Treasury and other federal agencies or instrumentalities and commercial paper listed above.

*Derivative instruments:* In previous periods, the System entered into two separate and distinct interest rate swap agreements ("Swaps") with two counter-parties. The Swaps have notional amounts, maturity schedules, and other features that match the System's two series of underlying variable rate demand bonds. The Swaps obligate the System to make fixed rate payments to the counter-parties, and obligate the counter-parties to make variable-rate payments to the System. The Swaps are accounted for as "investments" on the System's financial statements pursuant to GASB 53. However, the Swaps were intended, and in fact function, as risk management instruments for current obligations of the System. Consequently, the System does not consider them to be subject to the requirements of the System's investment policy.

As of December 31, 2010 and 2009, the fair values of the System's investments and their ratings by Standard & Poors were as follows:

	2010	Investment Maturities	
		Less than 1 year	1-5 years
U.S. Government Agencies			
AAA	\$ 193,698	\$ 28,703	\$ 164,995
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)			
AAA	160	10	150
Commercial Paper			
A1	71,577	71,577	-
Corporate Bonds:			
AAA	30,266	9,157	21,109
AA+	2,519	-	2,519
<b>Total investments</b>	<b>\$ 298,220</b>	<b>\$ 109,447</b>	<b>\$ 188,773</b>

Deposits totaling \$45,026 are included in investments on the Balance Sheets at December 31, 2010.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

**Note 3. Deposits and Investments (Continued)**

	2009	Investment Maturities	
		Less than 1 year	1-5 years
U.S. Government Agencies:			
AAA	\$ 144,740	\$ 38,337	\$ 106,403
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)			
AAA	148	-	148
Collateralized Mortgage Obligations (not rated)	157	-	157
Corporate Bonds:			
AAA	32,445	-	32,445
<b>Total investments</b>	<b>\$ 177,490</b>	<b>\$ 38,337</b>	<b>\$ 139,153</b>

Deposits totaling \$106,429 were included in investments on the Balance Sheets at December 31, 2009.

The System's carrying amounts of the deposits and investments at December 31, 2010 and 2009 are as follows:

	2010	2009
Deposits	\$ 47,596	\$ 108,976
Investments	298,220	177,490
<b>Total deposits and investments</b>	<b>\$ 345,816</b>	<b>\$ 286,466</b>

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, 2010 and 2009, have effective maturity dates of less than five years.

*Credit Risk:* The collateralized mortgage obligations and federal mortgage pools are investments that were made according to policy at the time. In the wake of the financial crisis, the nature of these investments changed and no longer conforms to policy. However, these investments are currently illiquid and cannot be exited at this time.

*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. The System's investment policy does not address custodial credit risk.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

**Note 3. Deposits and Investments (Continued)**

**The Foundation:** As of December 31, 2010, the fair values of the Foundation's investments were as follows:

	2010	2009
Mutual funds	\$ 24,674	\$ 19,825
Common stock	154	147
Limited Partnership Interest	1,361	1,285
Premier Purchasing Partners, L.P.	906	892
<b>Total investments</b>	<b>\$ 27,095</b>	<b>\$ 22,149</b>

The Foundation's investments had cumulative unrealized gains of \$822 and \$625 and cumulative unrealized losses of \$918 and \$3,159 at December 31, 2010 and 2009, respectively.

**Note 4. Capital Assets**

The following summarizes the capital assets of the System for the years ended December 31, 2010 and 2009:

2010	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	\$ 9,314	\$ -	\$ -	\$ 9,314
Construction in progress	9,539	11,497	(16,650)	4,386
<b>Total nondepreciated capital assets</b>	<b>18,853</b>	<b>11,497</b>	<b>(16,650)</b>	<b>13,700</b>
Depreciable capital assets:				
Land improvements	11,571	3	-	11,574
Buildings and fixed equipment	529,380	1,602	(2)	530,980
Equipment	275,044	18,636	(2,494)	291,186
<b>Total depreciable capital assets</b>	<b>815,995</b>	<b>20,241</b>	<b>(2,496)</b>	<b>833,740</b>
Less accumulated depreciation:				
Land improvements	(6,498)	(423)	-	(6,921)
Buildings and fixed equipment	(326,863)	(17,249)	2	(344,110)
Equipment	(217,062)	(14,426)	1,536	(229,952)
<b>Total accumulated depreciation</b>	<b>(550,423)</b>	<b>(32,098)</b>	<b>1,538</b>	<b>(580,983)</b>
<b>Total depreciable capital assets - net</b>	<b>265,572</b>	<b>(11,857)</b>	<b>(958)</b>	<b>252,757</b>
<b>Total capital assets - net</b>	<b>\$ 284,425</b>	<b>\$ (360)</b>	<b>\$ (17,608)</b>	<b>\$ 266,457</b>

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

**Note 4. Capital Assets (Continued)**

2009	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	\$ 9,314	\$ -	\$ -	\$ 9,314
Construction in progress	17,077	22,818	(30,356)	9,539
<b>Total nondepreciated capital assets</b>	<b>26,391</b>	<b>22,818</b>	<b>(30,356)</b>	<b>18,853</b>
Depreciable capital assets:				
Land improvements	11,279	292	-	11,571
Buildings and fixed equipment	511,069	19,607	(1,296)	529,380
Equipment	252,433	23,404	(793)	275,044
<b>Total depreciable capital assets</b>	<b>774,781</b>	<b>43,303</b>	<b>(2,089)</b>	<b>815,995</b>
Less accumulated depreciation:				
Land improvements	(5,931)	(567)	-	(6,498)
Buildings and fixed equipment	(308,704)	(19,261)	1,102	(326,863)
Equipment	(203,210)	(14,637)	785	(217,062)
<b>Total accumulated depreciation</b>	<b>(517,845)</b>	<b>(34,465)</b>	<b>1,887</b>	<b>(550,423)</b>
<b>Total depreciable capital assets - net</b>	<b>256,936</b>	<b>8,838</b>	<b>(202)</b>	<b>265,572</b>
<b>Total capital assets - net</b>	<b>\$ 283,327</b>	<b>\$ 31,656</b>	<b>\$ (30,558)</b>	<b>\$ 284,425</b>

Total depreciation and amortization expense related to capital assets for 2010 and 2009 was \$32,098 and \$34,465, respectively.

**Note 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. The System terminated the line of credit during 2009.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

**Note 6. Long-Term Debt**

Information regarding the System's long-term debt activity and balances as of and for the years ended December 31, 2010 and 2009 is as follows:

	2010				
	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.	\$ 31,215	\$ -	\$ (1,060)	\$ 30,155	\$ 1,115
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019.	65,765	-	(5,160)	60,605	5,435
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and maturing in varying amounts through 2033.	26,885	-	(700)	26,185	725
Hospital Improvement and Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035.	73,240	-	(360)	72,880	375
Hospital Facilities Revenue Bonds, Series 2009A, bear interest at 3.9% and matures through 2014.	8,466	-	(783)	7,683	814
Hospital Facilities Revenue Bonds, Series 2009B, bear interest at 8.2% and matures through 2040.	-	75,000	-	75,000	-
Equipment obligation, GE Leasing, as defined in the respective lease agreement, bears interest at 6.0% and matures through 2014.	37	-	(8)	29	8
Equipment obligation, IBM Leasing, as defined in the respective lease agreement, bears interest at 2.7% and matures through 2014.	-	1,092	(218)	874	246
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018.	48	-	(4)	44	5
	205,656	76,092	(8,293)	273,455	8,723
Unamortized discount and loss on refunding	(10,058)	-	847	(9,211)	-
<b>Long-term debt</b>	<b>\$ 195,598</b>	<b>\$ 76,092</b>	<b>\$ (7,446)</b>	<b>\$ 264,244</b>	<b>\$ 8,723</b>

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

**Note 6. Long-Term Debt (Continued)**

	2009				
	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.	\$ 32,220	\$ -	\$ (1,005)	\$ 31,215	\$ 1,060
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019.	70,660	-	(4,895)	65,765	5,160
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and maturing in varying amounts through 2033.	27,560	-	(675)	26,885	700
Hospital Improvement and Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035.	73,585	-	(345)	73,240	360
Hospital Facilities Revenue Bonds, Series 2009A, bear interest at 3.9% and matures through 2014.	-	8,466	-	8,466	783
Equipment obligation, GE Leasing, as defined in the respective lease agreement, bears interest at 6.0% and matures through 2014.	-	38	(1)	37	8
Equipment obligation, Simplex Grinnell, paid in 2009.	45	-	(45)	-	-
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018.	52	-	(4)	48	4
	204,122	8,504	(6,970)	205,656	8,075
Unamortized discount and loss on refunding	(10,898)	-	840	(10,058)	-
<b>Long-term debt</b>	<b>\$ 193,224</b>	<b>\$ 8,504</b>	<b>\$ (6,130)</b>	<b>\$ 195,598</b>	<b>\$ 8,075</b>

Effective February 1, 1997, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, 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.

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**Note 6. Long-Term Debt (Continued)**

Effective November 1, 1997, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued \$77,525 of Hospital Refunding Revenue Bonds, Series 1997A (The MetroHealth System Project) (Series 1997A). On February 15, 1998, the proceeds of the Series 1997A Bonds were used to refund the entire \$73,725 remaining outstanding balance of the Series 1989 Bonds. 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 \$4,259 and \$4,783 at December 31, 2010 and 2009, 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 straight-line method.

Effective March 13, 2003, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, 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 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, 2010 and 2009, was 0.32% and 0.65%, 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 issued by a local bank that expired on March 22, 2010. Effective March 1, 2010, the System entered into a new letter of credit reimbursement agreement "Letter of Credit" that expires on March 16, 2013.

In the event there is a remarketing drawing on the letter of credit and the tendered bonds have not been remarketed by the 367th day from the Remarketing Drawing, the System has the option to convert the obligation to a term loan in the amount of the unpaid portion of the remarketing drawing. The term loan is payable in twelve equal quarterly installments accruing interest at the base rate plus 1%. The base rate is defined as the highest of the Prime Rate, the sum of the Federal Funds rate plus .50% or the sum of the daily Libor Rate plus 1%. In the event of default, the term loan will be due immediately upon demand by the Bank.

Commencing June 16, 2010, the System is required to pay the Bank a letter of credit fee payable in quarterly installments at variable rates ranging from 95 basis points to 175 basis points depending on the debt rating in effect as of the date the rating report is released. As of December 31, 2010, the letter of credit fee was 115 basis points. In addition, the System paid to the Bank a closing fee of 20 basis points and to the Remarketing Agent an advisory fee of 7.5 basis points.

The Letter of Credit is subject to various financial covenants.

Effective July 1, 2005, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, 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 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, 2010 and 2009 was 0.32% and 0.21%, respectively.



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**Note 6. Long-Term Debt (Continued)**

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 issued by a local bank that expires on July 16, 2010. Effective June 1, 2010, the System entered into a new letter of credit reimbursement agreement ("Letter of Credit") that expires on July 16, 2013 with PNC Bank (as Administrative Agent) and JPMorgan Chase Bank (collectively referred to as the banks), and PNC Capital Markets as Lead Arranger and Book Runner.

In the event there is a remarketing drawing on the letter of credit and the tendered bonds have not been remarketed by the 367th day from the Remarketing Drawing, the System has the option to convert the obligation to a term loan in the amount of the unpaid portion of the remarketing drawing. The term loan is payable in twelve equal quarterly installments accruing interest at the base rate plus 2%. The base rate is defined as the highest of the Prime Rate, the sum of the Federal Funds Open rate plus .50%, the sum of the daily Libor Rate plus 1%, or 5% per annum. In the event of default, the term loan will be due immediately upon demand by the Banks.

Commencing July 16, 2010, the System is required to pay the Banks a letter of credit fee payable in quarterly installments at variable rates ranging from 105 basis points to 185 basis points depending on the debt rating in effect as of the date the rating report is released. As of December 31, 2010, the letter of credit fee was 125 basis points. In addition, the System paid to the Banks a closing fee of 15 basis points (and an additional \$10,000 to the Agent Bank), and to the Lead Arranger an arrangement fee of \$75,000.

The Letter of Credit is subject to various financial covenants.

There are no amounts outstanding on the letters of credit as of December 31, 2010 and 2009.

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 (\$3,985 and \$4,205 at December 31, 2010 and 2009, 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 straight line method.

Effective December 1, 2009, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued \$8,466 of Hospital Facilities Revenue Bonds, Series 2009A. The proceeds of the Series 2009A Bonds were used to purchase the Valentine parking garage on the System's main campus. The Bonds bear an interest rate of 3.9% and mature through 2014.

Effective January 28, 2010, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued \$75,000 of Hospital Revenue Bonds, Taxable Series 2009B, (The MetroHealth System), (Build America Bonds – Direct Payment). Proceeds from the Series 2009B will be used to pay for costs of hospital facilities, including three medical helicopters, the acquisition, construction and equipping of additional multi-specialty ambulatory centers in strategic locations, and additional scheduled equipment purchases and facilities renovations; funding the Bond Reserve Fund for the Series 2009B Bonds; and certain bond issuance costs. The Bonds bear interest at a fixed rate of 8.223% per annum and mature at various dates through 2040. As a qualified Build America Bond Issue, per terms of the federal government's American Recovery and Reinvestment Act of 2009, the System will apply to receive direct payments semiannually from the Secretary of the United States Treasury in the amount of 35% of the corresponding bond interest paid.

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**Note 6. Long-Term Debt (Continued)**

The Series 1997, 1997A, 1999, 2003, 2005, 2009A and 2009B 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, 2005, 2009A and 2009B Bonds are special obligations issued by the County payable solely from the revenue derived from the operation of the System and other monies available to the System's Board of Trustees. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

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, 2010, are as follows:

	<u>Total Lease and Loan Obligations</u>			<u>Total Hospital Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 259	\$ 22	\$ 281	\$ 8,464	\$ 9,258	\$ 17,722
2012	288	16	304	8,890	8,857	17,747
2013	297	8	305	9,363	8,441	17,804
2014	79	2	81	14,051	8,012	22,063
2015	6	1	7	9,350	7,413	16,763
2016–2020	18	1	19	49,680	30,243	79,923
2021–2025	-	-	-	41,520	24,023	65,543
2026–2030	-	-	-	42,965	25,222	68,187
2031–2035	-	-	-	38,820	37,481	76,301
2036–2040	-	-	-	49,405	56,287	105,692
	<u>\$ 947</u>	<u>\$ 50</u>	<u>\$ 997</u>	<u>272,508</u>	<u>\$ 215,237</u>	<u>\$ 487,745</u>
Unamortized discount				(968)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				<u>(8,243)</u>		
Total hospital revenue bonds — net				<u>\$ 263,297</u>		

The Bond Reserve Funds, also required under the master trust bond indenture agreement, had balances as of December 31, 2010 and 2009, of \$18,064 and \$10,540, respectively. The cost value of Hospital Revenue Bonds was \$271,541 and \$204,501 at December 31, 2010 and 2009, respectively. The fair value of Hospital Revenue Bonds (\$279,343 and \$196,694 at December 31, 2010 and 2009, respectively) is estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

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**Note 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 \$99,065 and \$100,125 at December 31, 2010 and 2009, respectively.

The System's swap agreements do not meet the criteria for hedging and are reported as investment derivative instruments. The fair value of the swap agreements based on current settlement prices at December 31, 2010 and 2009, was (\$3,421) and (\$5), respectively. The amounts due to the counterparties are included within other long-term liabilities. In 2010, the fair value decrease of \$3,416 and the 2009 fair value increase of \$17,622 are included in net investment income in the Statement of Revenues, Expenses and Changes in Net Assets. As a result of the agreements, net settlements increased the System's interest expense by \$1,929 and \$1,606 in 2010 and 2009, respectively.

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

<b>12/31/2010 Notional Amount</b>	<b>12/31/2009 Notional Amount</b>	<b>Effective Date</b>	<b>Termination Date</b>	<b>Early Termination Option</b>	<b>The System Pays</b>	<b>Counterparty Pays</b>
\$ 72,880	\$ 73,240	July 28, 2005	February 1, 2035	the System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
\$ 26,185	\$ 26,885	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 the 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 2010, ISDA five year interest rates ranged between 1.3% and 2.9%. 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.

*Interest Rate Risk:* The System is exposed to interest rate risk on its interest rate swaps. On the pay-fixed receive variable swaps, as the ISDA Swap index decreases, the System's net payment on the swaps increase.

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**Note 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, for additional information. As of December 31, 2010 and 2009, the liability for amounts due to third-party payors was \$10,769 and \$19,534, respectively.

**Accrued Vacation and Sick Leave:** 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 payout is 800 hours. As of December 31, 2010 and 2009, the liability for accrued vacation and sick was \$39,900 and \$36,377, respectively.

**Pollution Remediation:** The System is required by federal and state environmental laws to abate asbestos when it becomes friable. As of December 31, 2010, the System is not engaged in any remodeling projects on its main campus that will require the abatement of asbestos as part of the work. As of December 31, 2010 and 2009, the System's liability for pollution remediation was \$0 and \$2,383, respectively.

**Other Long-Term Liabilities:** Other long-term liabilities consist of the following at December 31, 2010 and 2009:

<b>2010</b>	<b>Beginning</b>			<b>Ending</b>	<b>Due Within</b>
	<b>Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance</b>	<b>One Year</b>
Amounts due third-party payors	\$ 19,534	\$ 255	\$ (9,020)	\$ 10,769	\$ 5,262
Accrued vacation and sick leave	36,377	8,951	(5,428)	39,900	5,591
Pollution remediation	2,383	-	(2,383)	-	-
Derivative instruments - rate swaps	5	3,416	-	3,421	-
	<u>\$ 58,299</u>	<u>\$ 12,622</u>	<u>\$ (16,831)</u>	<u>\$ 54,090</u>	<u>\$ 10,853</u>

<b>2009</b>	<b>Beginning</b>			<b>Ending</b>	<b>Due Within</b>
	<b>Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance</b>	<b>One Year</b>
Amounts due third-party payors	\$ 27,056	\$ 1,613	\$ (9,135)	\$ 19,534	\$ 4,273
Accrued vacation and sick leave	34,971	5,636	(4,230)	36,377	4,360
Pollution remediation	4,387	199	(2,203)	2,383	2,383
Derivative instruments - rate swaps	17,627	-	(17,622)	5	-
Note payable	2,599	-	(2,599)	-	-
	<u>\$ 86,640</u>	<u>\$ 7,448</u>	<u>\$ (35,789)</u>	<u>\$ 58,299</u>	<u>\$ 11,016</u>

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**Note 8. Other Long-Term Liabilities (Continued)**

**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. 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 liability for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, undiscounted for 2010, 2009 and 2008 as follows:

	<b>Beginning Balance</b>	<b>Claims Incurred</b>	<b>Claims Paid</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>2010</b>					
Worker's compensation	\$ 8,473	\$ 3,285	\$ (3,034)	\$ 8,724	\$ 3,348
Self-insurance	30,003	10,310	(11,717)	28,596	8,606
Employee health insurance	1,513	15,837	(15,833)	1,517	1,517
	<u>\$ 39,989</u>	<u>\$ 29,432</u>	<u>\$ (30,584)</u>	<u>\$ 38,837</u>	<u>\$ 13,471</u>

	<b>Beginning Balance</b>	<b>Claims Incurred</b>	<b>Claims Paid</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>2009</b>					
Worker's compensation	\$ 8,117	\$ 2,338	\$ (1,982)	\$ 8,473	\$ 3,061
Self-insurance	40,224	2,359	(12,580)	30,003	10,091
Employee health insurance	1,349	18,064	(17,900)	1,513	1,513
	<u>\$ 49,690</u>	<u>\$ 22,761</u>	<u>\$ (32,462)</u>	<u>\$ 39,989</u>	<u>\$ 14,665</u>

	<b>Beginning Balance</b>	<b>Claims Incurred</b>	<b>Claims Paid</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>2008</b>					
Worker's compensation	\$ 9,152	\$ 1,156	\$ (2,191)	\$ 8,117	\$ 2,996
Self-insurance	38,205	5,418	(3,399)	40,224	11,420
Employee health insurance	2,802	19,060	(20,513)	1,349	1,349
	<u>\$ 50,159</u>	<u>\$ 25,634</u>	<u>\$ (26,103)</u>	<u>\$ 49,690</u>	<u>\$ 15,765</u>

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

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**Note 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, 2010, are as follows:

2011	\$	1,260
2012		1,232
2013		1,209
2014		900
2015		587
2016-2020		2,366
<b>Total</b>	<b>\$</b>	<b>7,554</b>

Rent expense totaled \$1,906 in 2010 and \$2,092 in 2009. The System was leasing the Valentine parking garage on the main campus. The lease had an original term of five years with five one-year renewal options. The renewal options expired in 2009 and the System purchased the garage on December 1, 2009 for \$8,466 with proceeds from the Series 2009A bonds.

**Note 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 post retirement 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, or by calling 614-222-5601 or 800-222-7377. The Ohio Revised Code provides statutory authority for employee and employer contributions. For the years ending December 31, 2010, 2009, and 2008, the employee contribution rate was 10.0% of covered payroll and the System was required to contribute 14.0% of covered payroll. For 2010, member and employer contribution rates were consistent across all three plans. Employee contributions to OPERS for the years ending December 31, 2010, 2009, and 2008, were \$35,705, \$34,572, and \$34,243, respectively, equal to the required contributions for each year. The System's contributions to OPERS for the years ending December 31, 2010, 2009, and 2008, were \$49,988, \$48,406, and \$48,009, respectively, equal to the required contributions for each year.

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**Note 10. Benefit Plans (Continued)**

**Post Retirement 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. Healthcare 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 healthcare benefits.

The employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, the employer contribution was 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment HealthCare 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. The portion of employer contributions allocated to healthcare for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010, and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to healthcare in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. 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 2010, 2009, and 2008 used to fund post retirement healthcare benefits was \$18,149, \$20,313, and \$24,005, respectively, which is included in the System's contractually required contribution of \$49,988, \$48,406, and \$48,009 for the years ending December 31, 2010, 2009, and 2008, respectively.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP), effective on January 1, 2007. Effective as of January 1, 2006, 2007, and 2008, member and employer contribution rates increased, allowing additional funds to be allocated to the healthcare plan.

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**Note 11. Restricted Net Assets, Expendable and Nonexpendable**

The Foundation has expendable restricted net assets which have been restricted by the donors or grantors to a specific time or purpose. These net assets are designated for the following purposes at December 31:

	2010	2009
Programmatic activities of The MetroHealth System	\$ 15,468	\$ 12,529
Time restrictions	140	176
Total	<u>\$ 15,608</u>	<u>\$ 12,705</u>

The Foundation has restricted net assets, nonexpendable, in the amounts of \$8,615 and \$8,255 at December 31, 2010 and 2009, that are restricted in perpetuity, the income from which is expendable to support the programmatic activities of The MetroHealth System.

**Note 12. 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 2010 and 2009 financial statements. The System received support from the Foundation in the amount of \$4,725 and \$4,052 in 2010 and 2009, 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 \$2,137 and \$846 at December 31, 2010 and 2009, respectively. The System provided the Foundation in-kind support totaling \$1,101 and \$876 in 2010 and 2009, 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 2010 and 2009 were \$0 and \$11, respectively.

The System was a partner in the joint venture, Concordia Care. The System and another area healthcare provider specializing in senior care, provide services to the elderly. The System did not receive any income or distribution from the joint venture except for receipts from regular patient billings for services rendered. Management had not reflected on its financial statements a value for its equity interest in the net assets of this joint venture because it is immaterial to the overall financial statements. In 2010, the System sold their interest in this joint venture.



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**Note 12. Related Organizations (Continued)**

The System is a partner in the joint venture, CCF/MHS Renal Care Company, LTD. In connection with the preparation of these financial statements, management re-evaluated the System's on-going financial interest in CCF/MHS Renal Care Company, LTD., a joint venture with The Cleveland Clinic Foundation, which provides renal care (dialysis). Management has determined that it had a 40% equity interest in the joint venture as of December 31, 2010 and 2009, respectively. Accounting principles generally accepted in the United States require that a material equity interest in such a joint venture be reported as an asset in the financial statement of a reporting entity, and that certain other information, including operating activity, be disclosed. Because CCF/MHS Renal Care Company, LTD. does not prepare and has not made complete financial statements available since its inception in 1996, management is not able to accurately determine its equity interest in CCF/MHS Renal Care Company, LTD. or report its activities. However, management believes it has obtained sufficient information to conclude that the financial statements of the System are not materially misstated without such information. For the years ended December 31, 2010 and 2009, the System has reflected in the Statement of Revenues, Expenses and Changes in Net Assets distributions from CCF/MHS Renal Care Company, LTD of \$9,949 and \$935, respectively. Of this amount, \$4,069 and \$0 was included in other receivables in the Balance Sheets at December 31, 2010 and 2009, respectively.

The Board of Trustees approved a decision to sell the System's stake in CCF/MHS Renal Care Company, LTD. Accordingly, internal management has been aggressively working with the existing partners to complete a sale of the interest. If a sale to an existing partner is successful, the transaction should be consummated by June 30, 2011. If the System requires a sale outside of CCF/MHS Renal Care Company, LTD partners the transaction may not be completed until late 2011.

**Note 13. 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 \$4,415 and \$5,415 at December 31, 2010 and 2009, respectively, is not included in these financial statements in accordance with the Accounting Standards Codifications (ASC) 958, *Not for Profit Entities* due to the fact that the conditions of the grant have not been met.

**Note 14. Commitments and Contingencies**

As of December 31, 2010, the System had contractual commitments for the construction of various projects totaling approximately \$6,571. Projects with large contractual commitments include the \$2,500 IV pump replacements project, the \$1,500 Retherm System and the \$1,200 Radiation Oncology Facility Upgrade. These projects are being funded with operating funds and bond project funds.

**Regulatory environment including fraud and abuse matters:** The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or asserted at this time.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2010 and 2009  
(Dollars in Thousands)**

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**Note 14. Commitments and Contingencies (Continued)**

**Patient Protection and Affordable Care Reconciliation Act:** On March 23, 2010, the most sweeping health care legislation since the advent of Medicare was signed into law. The law promises to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the trend toward value-based payment. The Reconciliation Act amends various provisions of the Patient Protection and Affordable Care Reconciliation Act and adds some new provisions that were not included originally. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the health care delivery system. Potential impacts of health care reform include uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation, and significant required investments in health care information technology.

**Note 15. Subsequent Events**

The System has evaluated subsequent events for potential recognition and/or disclosure through April 26, 2011, the date the financial statements were available to be issued.

**The MetroHealth System  
(A Component of Cuyahoga County)**

**OMB Circular A-133 Requirements**

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2010**

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture:</b>				
<i>Pass-Through Program from:</i>				
Ohio Department of Health	Special Supplement Nutrition Program for Women, Infants and Children	10.557	1830011WA0310; 1830011WA0411	\$ 4,870,772
<b>TOTAL --- U.S. Department of Agriculture . . . . .</b>				<b>\$ 4,870,772</b>
<b>U.S. Department of Education:</b>				
<i>Pass-Through Program from:</i>				
Ohio Department of Health	Special Education - Grants for Infants and Families -HMG Hospital Based Regional Child Find	84.181	1830011HB0310; 1830011HB0411	\$ 33,411
Ohio Rehabilitation Svcs Commission	Rehabilitation Services _Vocational Rehabilitation Grants to States, Recovery Act - Work Matters	84.390	n/a	342,182
Ohio Rehabilitation Svcs Commission	Rehabilitation Services - Service Projects - VRP3	84.126	n/a	14,145
<b>TOTAL --- U.S. Department of Education . . . . .</b>				<b>\$ 389,738</b>
<b>U.S. Department of Health &amp; Human Services:</b>				
<i>Direct Programs:</i>				
	Healthcare and Other Facilities - Pediatric Intensive Care Unit New Construction & Renovation	93.887	C76HF05977	\$ 34,200
<b>Subtotal --- U.S. Department of Health &amp; Human Services - Direct . . . . .</b>				<b>\$ 34,200</b>
<i>Pass-Through Program from:</i>				
Western Reserve Area Agency on Aging	Centers for Medicare and Medicaid Services (CMS) Research Demonstrations and Evaluations - Access Your Benefits Enrollment Program	93.779	n/a	\$ 43,227
University Hospital	Maternal and Child Health Services Block Grants to the States - CFHS Cleveland Regional Perinatal Network Grant	93.994	1810011MC	19,625
	Maternal and Child Health Services Block Grants to the States - Cleveland Regional Perinatal Network	93.994	1830021BM07	21,700
Ohio Department of Health	Acquired Immunodeficiency Syndrome (AIDS) Activity - Tuberculosis Prevention & Control	93.118	1830012TB0210	3,475
	HIV Care Formula Grants - Title II	93.917	01830011HC0309; 01830011HC0410	38,692
	Centers for Disease Control and Prevention - Investigations and Technical Assistance - Coverdell Registry for Heart Disease & Stroke Prevention	93.283	01830014HD0310; 01830014HD0411	354,394
	HIV Care Formula Grants - Ryan White Emergency Assistance Funding - Title II	93.917	n/a	5,125
Cuyahoga County	Acquired Immunodeficiency Syndrome (AIDS) Activity - Tuberculosis Prevention & Control	93.118	01810022TB0111	163,979
Cuyahoga County Board of Commissioners	HIV Emergency Relief Project Grants - Ryan White Title I	93.914	CE0900731-01	1,467,873
Center for Health Affairs	National Bioterrorism Hospital Preparedness Program - HRSA Emergency Preparedness/ASPR Grant	93.889	n/a	96,537
Cuyahoga County Board of Health	Immunization Grants - Immunization Action Plan	93.268	n/a	65,084
<b>TOTAL --- U.S. Department of Health &amp; Human Services . . . . .</b>				<b>\$ 2,313,911</b>
<b>U.S. Department of Labor:</b>				
<i>Pass-Through Program from:</i>				
NEO Health Science & Innovation Coalition	WIA Dislocated Workers, Recovery Act - Paths to Advancement for Entry Level Employees	17.260	001B-2008	\$ 5,789
<b>TOTAL --- U.S. Department of Labor . . . . .</b>				<b>\$ 5,789</b>

See Note to Schedule of Expenditures of Federal Awards.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Schedule of Expenditures of Federal Awards (Continued)  
Year Ended December 31, 2010**

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<b>Research and Development Cluster</b>				
<b>U.S. Department of Education:</b>				
<i>Direct Programs:</i>	National Institute on Disability and Rehabilitation Research - NORSCIS - Collaborative Project	84.133	H133N060017	\$ 419,213
<b>Subtotal - U.S. Department of Education - Direct . . . .</b>				<b>\$ 419,213</b>
<b>U.S. Department of Health &amp; Human Services:</b>				
<i>Direct Programs:</i>	Cancer Cause and Prevention Research - Molecular Mechanism of Chemoprevention by Benzylisothiocyan	93.393	1R03CA137476	\$ 55,779
<b>Subtotal - U.S. Department of Health &amp; Human Services - Direct . . . .</b>				<b>\$ 55,779</b>
<b>U.S. Environmental Protection Agency:</b>				
<i>Direct Programs:</i>	Investigation of Air Quality Impacts on Respiratory Vascular Outcomes	66.unknown	EP09D000599	\$ 93,252
<b>Subtotal - U.S. Environmental Protection Agency - Direct . . . .</b>				<b>\$ 93,252</b>
<b>Subtotal - Research &amp; Development Cluster - Direct . . . .</b>				<b>\$ 568,244</b>
<b>U.S. Department of Defense:</b>				
<i>Pass-Through Program from:</i>	Massachusetts General Hospital/US Army Medical Research	Military Medical Research & Development - A Novel IVC Filter Allowing for Triggered Resorption	12.420 W81XWH-09-2-001	\$ 22,800
<b>Subtotal - U.S. Department of Defense - Pass Through . . . .</b>				<b>\$ 22,800</b>
<b>U.S. Department of Health &amp; Human Services:</b>				
<i>Pass-Through Program from:</i>	Harvard Pilgrim Healthcare/CDC	Innovations in Applied Public Health Research - Electronic Medical Record Support for Public Health	93.061 PO1HK000016-04	2,274
Case Western Reserve University School of Medicine	National Center for Research Resources - CTSC Pilot Study	93.389	U01RR024989	6,530
Cleveland Clinic Foundation	Cancer Treatment Research - GOG Trials Gynecologic Oncology Group	93.395	CA027469	11,212
University of Rochester	Cardiovascular Disease Research - Risk Stratification in Madit II Type Patients	93.837	R01HL077478	5,954
Yale University	Cardiovascular Disease Research - Telemonitoring to Improve Heart Failure	93.837	HL080228	1,193
Duke Clinical Research Institute	Blood Diseases and Resources Research - Bridging Anticoagulation In Patients Who Require Temporary Interruption of Warfarin Therapy	93.839	U01HL087229	800
Cleveland Medical Devices/NIH-NCI	Extramural Research Programs in the Neurosciences and Neurological Disorders - Multivariate Parkinson's Disease Predictions	93.853	R43-NS052020	19,333
UMDNJ / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders-Warfarin Versus Aspirin in Reduced Cardiac Ejection Fraction	93.853	NS039143	2,009
Mayo / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders-SWISS A Single Rising Dose Study of FK506 Lipid Complex	93.853	NS039987	2,160
University of Texas Health Center / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders-SPS-3 Prevention of Small Subcortical Strokes	93.853	NS038529	106,240
Yale / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders-Insulin Resistance Intervention After Stroke Trial	93.853	NS044876-02	26,213
University of Miami / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders-ALIAS Phase III Trial Albumin in Acute Ischemic Stroke	93.853	NS040406	1,945
University of Virginia / NIH-NCI	Biomedical Research and Research Training - Multicenter Study of Duration of Antibiotics	93.859	GC11617-130374; GC11617-134415	11,063
University of Alabama	Clinical Trials for Antiviral Therapies	93.unknown	000189671-242	597
New England Research Instit, NIH-NHLBI	Treatment of Preserved Cardiac Function Heart Failure	93.unknown	N01HC045207	453
<b>Subtotal --- U.S. Department of Health &amp; Human Services - Pass Through . . . .</b>				<b>\$ 197,976</b>
<b>Subtotal - Research &amp; Development Cluster - Pass Through . . . .</b>				<b>\$ 220,776</b>
<b>TOTAL - Research &amp; Development Cluster . . . .</b>				<b>\$ 789,020</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS . . . .</b>				<b>\$ 8,369,230</b>

See Note to Schedule of Expenditures of Federal Awards.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Note to Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2010**

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**Note 1. Basis of Presentation**

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

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

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



**Independent Auditor's 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 business-type activities and the discretely presented component unit of The MetroHealth System (the System) as of and for the year ended December 31, 2010, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of The MetroHealth Foundation, Inc. (the Foundation), as described in our report on the System's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements, will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as findings 2010-01 and 2010-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the System in a separate letter dated April 26, 2011.

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

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

*McGladrey & Pullen, LLP*

Cleveland, Ohio  
April 26, 2011





**Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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 MetroHealth System's (the System) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2010. 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. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as finding 2010-03. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The System's response to the finding 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 the response.

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

*McGladrey & Pullen, LLP*

Cleveland, Ohio  
April 26, 2011

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2010**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

                     yes            X       no

Significant deficiency(ies) identified ?

      X       yes                           none reported

Noncompliance material to financial statements noted?

                     yes            X       no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

                     yes            X       no

Significant deficiency(ies) identified ?

      X       yes                           none reported

Type of auditor's report issued on compliance for major programs:

Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?

      X       yes                           no

CFDA Number(s)

Name of Federal Program or Cluster

10.557

Special Supplemental Nutrition Program for Women, Infants, and Children

84.390, 84.126

Vocational Rehabilitation Cluster

93.283

Centers for Disease Control and Prevention\_ Investigations and Technical Assistance

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as a low risk auditee?

      X       yes                           no

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2010**

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Section II - Financial Statement Findings

<b>Finding Number:</b>	2010-01
<b>Finding Description:</b>	Information Technology
<b>Criteria:</b>	A strong internal control environment should include processes that are designed to provide reasonable assurance about the achievement of an entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
<b>Condition:</b>	<p>The System does not have a process in place to periodically review logical access for all applications.</p> <p>The System's disaster recovery plan and facilities have not been assessed for adequacy and sufficiency or reviewed periodically for continued viability.</p> <p>These conditions were also noted in the prior year. See summary schedule of prior year findings and questioned costs, finding number 2009-3.</p>
<b>Context:</b>	These conditions were identified during our review of the Information Technology General Controls as it relates to the financial statement audit of the System.
<b>Effect:</b>	<p>Inappropriate logical access could cause security over data to be compromised and/or a disruption in operations.</p> <p>An inadequate disaster recovery plan puts the System's resources at risk for data loss and financial services disruptions in the event of a disaster.</p>
<b>Cause:</b>	The findings, while generally understood, were not able to be prioritized for immediate resolution but were planned for future disposition when additional time and resources became available.
<b>Recommendation:</b>	<p>During 2010, we acknowledge that the System did review the propriety of user access for certain applications. We recommend that management continue to develop a comprehensive user access review process. We also recommend performing an IT risk assessment and based on the result of the risk assessment, establishing an ongoing IT audit program to better understand and manage the risk to the System.</p> <p>We recommend the System develop a detailed disaster recovery plan and regularly review for adequacy and viability.</p>

**Views of responsible officials and planned corrective actions:**

Logical Access Controls: The MetroHealth System has implemented access control based upon control rights assigned by Active Directory and application Access Control systems in accordance with the Electronic Identification, Authentication, and Access Control Policy (VI-12). There is an established security request process whereby all access requests are required to be reviewed and approved by the appropriate management prior to implementation. All system security access is administered through identified individuals and is based upon the capabilities of individual applications. The MetroHealth System is actively planning to implement the latest access control upgrades for key applications, such as EPIC and Lawson and is working with vendors of other systems to ensure that systems are compliant with all of the appropriate regulation, policies, and processes.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2010**

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Section II - Financial Statement Findings (Continued)

Separation of Duties: The MetroHealth Change Management policy (IS-24) specifically calls for the identities of individuals performing Coding / Testing, Promotion to Production, and Process Peer Review to be indicated on all change request submissions. These submissions are reviewed during weekly Change Advisory Boards (CAB) which are conducted with the specific objective of ensuring that all changes made to production systems are validated, reviewed, and approved prior to activation and is structured to align with the CobiT A16 (Manage Changes) framework.

Disaster Recovery: The MetroHealth System has hired Mr. Michael Higgins as the IT Business Continuity Planner for the organization. He is in the process of developing detailed plans for Business Continuity / Disaster Recovery based on the CobiT DS4 (Ensure Continuous Service) framework. These plans are also being integrated in to The MetroHealth Hospital Incident Command System (HICS) planning structures to ensure coordination within the overall incident command framework.

<b>Finding Number:</b>	2010-02
<b>Finding Description:</b>	Internal Controls Surrounding Payroll
<b>Criteria:</b>	A strong internal control environment should include processes that are designed to provide reasonable assurance about the achievement of an entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
<b>Condition:</b>	We noted an instance in which an employee's salary was not appropriately calculated and therefore, the employee was compensated at an incorrect amount.
<b>Context:</b>	This condition was identified during internal control testing.
<b>Effect:</b>	Utilization of incorrect pay rates will cause incorrect charges to the financial statements.
<b>Cause:</b>	Management of the System indicated that the error was the result of a key-punch error made by Human Resource Department staff. It should be noted that in the third quarter of 2010, the System implemented additional controls to ensure that pay rates are correctly entered into the payroll system in order to mitigate risk.
<b>Recommendation:</b>	Policies and procedures should be implemented to ensure that hourly rates and payroll charges are correctly made in the payroll system and that charges made to the federal program are appropriate.

**Views of responsible officials and planned corrective actions:**

A work-flow has been established in Onbase for all manual pay entry changes. This includes any employment action (hire, transfer, promotion, simple rate change, etc.) where the pay rate has been manually changed.

When a manual change is initiated by the HRIS Coordinator the related documentation is sent to a queue for the Senior Compensation Specialist for review. The documentation is compared against the employee's pay rate in the Lawson system. If the rates match, the review is complete and closed in Onbase. If the rate does not match, the action is returned to the HRIS Coordinator for correction. Once corrected, the process is repeated to verify accuracy of the rate.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2010**

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Section III - Findings and Questioned Costs for Federal Awards

**Finding Number:** 2010-03  
**Program description:** All federal programs with payroll and related benefit charges  
**Questioned cost:** None  
**Condition and Context:** See finding 2010-02 for complete details regarding the criteria, condition, context, effect, cause and recommendation.

**Views of responsible officials and planned corrective actions:**

A work-flow has been established in Onbase for all manual pay entry changes. This includes any employment action (hire, transfer, promotion, simple rate change, etc.) where the pay rate has been manually changed.

When a manual change is initiated by the HRIS Coordinator the related documentation is sent to a queue for the Senior Compensation Specialist for review. The documentation is compared against the employee's pay rate in the Lawson system. If the rates match, the review is complete and closed in Onbase. If the rate does not match, the action is returned to the HRIS Coordinator for correction. Once corrected, the process is repeated to verify accuracy of the rate.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Summary Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended December 31, 2010**

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Section II – Financial Statement Findings

**Finding Number:** 2009-1

**Finding Description:** Fiscal Management

**Summary of Prior Year Finding**

The obligation associated with asset retirements was not adjusted in a timely manner resulting in an overstatement of liabilities at December 31, 2008 of approximately \$4 million dollars.

**Status**

The implications of GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, were considered in a timely manner in 2010. In 2010, the Controller put a process in place to contact the Manager-Construction Projects, on a monthly basis to discuss the status of build outs and the potential impacts to the environment. In 2011, the System will implement a monthly written communication to better enhance its comfort surrounding the build out status and any environmental impacts.

**Finding Number:** 2009-2

**Finding Description:** Internal controls surrounding payroll

**Summary of Prior Year Finding**

There was an inadequate segregation of duties with respect to the payroll system. Specifically, payroll clerks have the ability to override employee pay rates and hours within the payroll module and current procedures do not include controls to monitor the frequency, nature and authorization for items overridden. In addition, timekeepers have the ability to update employee timekeeping data after the manager has approved the timecard.

We noted that user access to the payroll module security classes is not periodically reviewed to ensure that edit/update access is appropriate for the employee's current level and position.

We noted that time cards are not consistently approved as required by the payroll policy.

We noted that employee termination documentation may not be completed and provided to Human Resources timely by departments or entered into the system timely by Human Resources.

**Status**

Policies and procedures were implemented to enhance segregation of duties. Specifically, a review of all temporary overrides is performed each pay cycle by the payroll manager and payroll system configurations were changed to disallow timekeeper changes to hours subsequent to manager approval.

Payroll staff access to human resource modules has been restricted. In addition, policies and procedures were implemented to review personnel access after staffing changes or system upgrades have occurred.

The System has also enhanced processes to improve the sign off and management approval of leave.

A monitoring report is being generated each pay cycle to track all employees missing manager approval. The report is being distributed to the Internal Audit Director and the Assistant Controller for review.

The employee termination checklist and Human Resource policy was revised to require departments to notify Human Resources directly upon termination.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Summary Schedule of Prior Year Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2010**

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Section II – Financial Statement Findings (Continued)

**Finding Number:** 2009-3  
**Finding Description:** Information Technology

**Summary of Prior Year Finding**

Management should review and evaluate:

The segregation of duties in the Information Technology department as it relates to the individuals responsible for building new servers and upgrading systems and applications software and placing the tested versions in production.

The logical access controls surrounding system software and applications.

The policies, procedures and processes surrounding the testing of applications prior to their placement into production.

The adequacy and sufficiency of the System's disaster recovery plan.

**Status**

Separation of Duties/Testing of Applications: The MetroHealth Change Management policy (IS-24) specifically calls for the identities of individuals performing Coding / Testing, Promotion to Production, and Process Peer Review to be indicated on all change request submissions. These submissions are reviewed during weekly Change Advisory Boards (CAB) which are conducted with the specific objective of ensuring that all changes made to production systems are validated, reviewed, and approved prior to activation and is structured to align with the CobiT AI6 (Manage Changes) framework.

Logical Access Controls: The MetroHealth System has implemented access control based upon control rights assigned by Active Directory and application Access Control systems in accordance with the Electronic Identification, Authentication, and Access Control Policy (VI-12). There is an established security request process whereby all access requests are required to be reviewed and approved by the appropriate management prior to implementation. All system security access is administered through identified individuals and is based upon the capabilities of individual applications. The MetroHealth System is actively planning to implement the latest access control upgrades for key applications, such as EPIC and Lawson and is working with vendors of other systems to ensure that systems are compliant with all of the appropriate regulation, policies, and processes. This portion of the finding has been repeated in finding 2010-01.

Disaster Recovery: The MetroHealth System has hired Mr. Michael Higgins as the IT Business Continuity Planner for the organization. He is in the process of developing detailed plans for Business Continuity / Disaster Recovery based on the CobiT DS4 (Ensure Continuous Service) framework. These plans are also being integrated in to The MetroHealth Hospital Incident Command System (HICS) planning structures to ensure coordination within the overall incident command framework. This portion of the finding has been repeated in finding 2010-01.



**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Summary Schedule of Prior Year Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2010**

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Section II – Financial Statement Findings (Continued)

**Finding Number:** 2009-4

**Finding Description:** Treasury

**Summary of Prior Year Finding**

The System lacks a policy that requires a secondary approval of wire transfers and ACH payments.

**Status**

Policies and procedures were implemented by the System to require secondary approval of wire transfers and ACH payments.

**Finding Number:** 2009-5

**Finding Description:** Accounts payable

**Summary of Prior Year Finding**

We noted a lack of segregation of duties in the accounts payable department. Specifically, certain individuals were given access to certain components of the purchasing/accounts payable module. There was no formal review of the individuals' activity to monitor potential unauthorized changes. Access rights to the purchasing/accounts payable module were not periodically reviewed and monitored to ensure that these rights were appropriate. Changes to the vendor master file were not reviewed.

**Status**

System access was updated. Policies and procedures were implemented to require that employee access to the purchasing/accounts payable module is reviewed after any staffing changes or system upgrades. In addition, secondary reviews of all edits made to vendor master file are required.

Semi-annually the A/P Manager runs a report of all vendors and sorts the data by unique field (tax ID number, address and name) to identify any potential duplicate vendors. Any potential duplicates identified are researched and if a duplicate exists a review of the accuracy of the vendor data is conducted and a query of any current year payment activity is made. If no payments have been made to the duplicate record it is inactivated and follows the same process as vendors with no payments in greater than two years.

**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Summary Schedule of Prior Year Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2010**

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Section II – Financial Statement Findings (Continued)

**Finding Number:** 2009-6

**Finding Description:** Joint Ventures

**Summary of Prior Year Finding**

The System's internal controls surrounding the accounting for equity interests in joint ventures in accordance with GASB 14, *Financial Reporting Entity*, should be enhanced.

**Status**

Policies and procedures surrounding the accounting for joint ventures were evaluated by management to ensure that the System is correctly accounting for its equity interests in joint ventures in accordance with GASB 14, *Financial Reporting Entity*.

It should be noted that during the year December 31, 2010, the System sold its equity interest in one joint venture and is evaluating the feasibility of disposing of its equity interest in the second.

The Board of Trustees approved a decision to sell the System's stake in CCF/MHS Renal Care Company, LTD. Accordingly, internal management has been aggressively working with the existing partners to complete a sale of the interest. If a sale to an existing partner is successful the transaction should be consummated by June 30, 2011. If the System requires a sale outside of CCF/MHS Renal Care Company, LTD partners the transaction may not be completed until late 2011.

Section III – Findings and Questioned Costs for Federal Awards

No findings noted.



# Dave Yost • 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  
JUNE 14, 2011