The MetroHealth System
(A Component Unit of Cuyahoga County)

Financial Report
December 31, 2011 and 2010

Dave Yost • Auditor of State

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

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, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

May 30, 2012

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McGladrey

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, 2011 and 2010, 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 audits. We did not audit the financial statements of the discretely presented component unit, The MetroHealth Foundation Inc. (the Foundation). Those financial statements were audited by other auditors whose 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 opinion.

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, 2011 and 2010, 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 24, 2012 and April 26, 2011 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 those 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. Those 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.

Independent Auditor's Report

Our audit was performed for the purpose of forming opinions on the financial statements that comprise the System's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 2 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey & Pullen, LLP

Cleveland, Ohio
April 24, 2012

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, 2011 and 2010. 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,* 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.

During 2011, the System elected early implementation of GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance contained in pre-November 1989 FASB and AICPA Pronouncements*. The Statement incorporates 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. GASB Statement No. 62 also eliminates the election made by the System under GASB Statement No. 20 – *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to apply the provisions of all relevant pronouncements of the FASB Standards Codification, which did not conflict with or contradict GASB pronouncements.

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 Old Brooklyn Nursing Facility was closed effective December 14, 2011. The bed licenses are still held by the System and the building will be converted for use as a rehabilitation facility.

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, 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 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. In addition, MHS Holding LLC is presented as a blended entity component unit whose financial activity is included with the activities of the System.

Financial and Operating Highlights for 2011

- Outpatient visits increased 6.9% over prior year levels.
- Hospital patient days increased 0.6% from the prior year.
- Inpatient and outpatient surgical volumes increased 4.5% from 2010 levels.
- Total net assets decreased by $2.5 million for the year.
- Emergency room visits increased 6.0% from the prior year to 105,609 annual visits.
- The Old Brooklyn Nursing Facility was closed December 14, 2011.

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.

Financial Analysis of the System at December 31, 2011 and 2010

The System's total assets increased by 1.7% to $775.6 million and total liabilities increased 3.6% to $451.0 million in 2011. The System's total net assets decreased $2.5 million in 2011 or 0.8% from the prior year. Table 1 summarizes the System's balance sheets on December 31, 2011, 2010 and 2009.

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

	2011	2010	2009
Assets:			
Current assets	$ 117,403	$ 143,763	$ 99,124
Investments	306,954	256,084	260,048
Restricted assets	79,110	87,256	23,968
Capital assets	261,662	266,457	284,425
Other assets	10,504	8,876	2,772
Total assets	$ 775,633	$ 762,436	$ 670,337
Liabilities and net assets:			
Liabilities:			
Current liabilities	$ 127,286	$ 111,176	$ 109,704
Long-term liabilities	323,719	324,124	260,130
Total Liabilities	451,005	435,300	369,834
Net assets:			
Invested in capital assets, net of related debt	54,306	55,731	88,827
Restricted net assets, expendable	31,396	33,917	24,310
Unrestricted net assets	238,926	237,488	187,366
Total net assets	324,628	327,136	300,503
Total liabilities and net assets	$ 775,633	$ 762,436	$ 670,337

Current Assets

Fiscal year 2011 ended with a decrease in total current assets of $26.4 million or 18.3% compared to 2010. Cash and cash equivalents increased $0.8 million from normal business activity. Net patient accounts receivable increased $9.3 million or 13.5% from the prior year. Other non-patient receivables decreased by $34.4 million to $23.1 million in 2011. A receivable related to the Hospital Care Assurance Program (HCAP) totaling $35.2 million was outstanding at the end of 2010 and was paid in the first quarter of 2011. The balance has been historically paid by the end of the fourth quarter. Also included in other receivables is $12.5 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 UPL balance represents an increase of $1.4 million or 12.7% from the prior year.

In 2011, medical and non-medical supplies inventories were up 1.7% and prepaid expenses decreased $2.2 million to $3.6 million. Annual prepaid insurance policies were processed in January 2012 instead of the normal December payment cycle.

Fiscal year 2010 ended with an increase in total current assets of $44.6 million or 45.0% 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 $38.6 million to $57.5 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, 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 UPL Program. The outstanding balance represents an increase of $1.1 million or 10.7% from 2009.

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.

Investments

In 2011, total investments increased $50.9 million or 19.9% from the prior year. General Board designated investments increased by $42.1 million or 36.4%, Academic fund balances decreased by $0.7 million or 2.3% and the Depreciation Reserve fund increased $9.4 million or 8.6%. The Board designated general investments increase of $42.1 million is mostly attributed to a $35.2 million HCAP payment received in the first quarter of 2011 for the 2010 program. The Depreciation Reserve fund increase results from higher annual funding requirements of $5.9 million, investment returns of $3.2 million and a mark to market adjustment increase of $0.3 million.

In 2010, total investments decreased by $4.0 million or 1.5% from 2009. 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.

Restricted Assets

Restricted Assets includes restricted cash and cash equivalents, special purpose investments, and restricted assets under bond indenture agreements. In 2011, restricted assets decreased by $8.1 million to $79.1 million and is related to bond project fund draws of $5.8 million and debt service funding activity. 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.

Capital Assets

In 2011, capital expenditures totaled $26.7 million, a $7.7 million increase from 2010. Expenditures on the larger projects include $2.2 million for Retherm Systems, $2.4 million for IV pump replacements, $1.7 million for radiology oncology facility upgrades and $1.2 million for HVAC equipment upgrades. The System's 2011 capital expenditures were from operating funds and Series 2009B Project Funds.

In 2010, capital expenditures totaled $19.0 million, an $11.4 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.

Current Liabilities

In 2011, total current liabilities increased $16.1 million or 14.5% from the prior year. Current liabilities accounts that experienced large increases include $4.3 million in additional accrued payroll and related liabilities, $3.8 million in the contribution payable to the public employees retirement system (PERS), $3.3 million in self-insurance liabilities, and a $7.0 million increase in current installments of long-term debt. The higher payroll accrual is related to normal payroll processing cycles. The 2011 PERS liability includes two months instead of the normal one month payment lag. The current installments of long-term debt increase is related to a fourth quarter Bond refunding and issue where higher principal payments are due resulting from the debt restructure. Liability categories that experienced decreases include other current liabilities, $3.6 million, and the accrued interest payable, $1.0 million. The other current liabilities category decrease of $3.6 million is related to an HCAP Program assessment that was outstanding at the end of 2010 that is generally paid prior to each year end.

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.

Long-Term Liabilities

In 2011, total long-term liabilities, less current installments, decreased $0.4 million or 0.1% from the prior year. Long-term debt decreased by $16.0 million or 6.3%, estimated amounts due to third-party payors declined by $1.7 million or 30.3%, and the accrued vacation and sick leave liability decreased by $1.3 million or 3.8% from the prior year. The derivative instruments – rate swaps increased by $11.9 million, and the self-insurance liabilities increased by $6.6 million or 26.2% from the prior year.

The large decrease in long-term debt is related to a revised debt service payment schedule resulting from the System’s fourth quarter Series 2011 Refunding Bond issue where higher principal payments are due in 2012 thus classified in current liabilities. Additional information regarding the System's long-term debt can be found in Note 5 of the Financial Statements. Growth in other long-term liabilities of $11.9 million resulted from unfavorable market adjustments on the System’s two interest SWAP agreements that are linked to its long-term debt. The increase in self-insurance liabilities is related to higher expected malpractice and workers’ compensation claims per the current independent actuarial reports.

In 2010, long-term liabilities, less current installments, increased $64.0 million or 24.6% from 2009. 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 2009. Estimated amounts due to third party payors declined by $9.8 million or 63.9% from 2009.

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 5 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.

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

	Years ended December 31,		
	2011	**2010**	**2009**
Revenues:			
Operating revenues			
Net patient service revenue	$ 676,785	$ 654,169	$ 635,917
Other revenue	40,232	37,063	28,497
	717,017	691,232	664,414
Nonoperating revenues			
County appropriation	36,031	39,907	39,662
Investment income	5,611	6,202	6,134
Unrealized income (loss) on investments	(11,664)	(2,948)	14,594
Other revenue	5,972	5,830	3,267
Grants and donations	3,995	4,087	5,010
Grants for capital acquisitions	680	700	1,048
	40,625	53,778	69,715
Total revenues	757,642	745,010	734,129
Expenses:			
Operating expenses			
Salaries and Wages	410,710	390,206	371,340
Employee Benefits	97,928	89,822	87,314
Medical Supplies	48,273	39,081	39,476
Pharmaceuticals	32,859	31,033	31,439
Plant Operations	34,301	31,045	28,610
Supplies and other	68,420	74,062	63,278
Insurance	18,510	13,239	6,788
Depreciation and amortization	31,528	32,098	34,465
	742,529	700,586	662,710
Non-operating expenses			
Grant expenses and support	3,890	4,551	5,166
Interest expense	13,731	13,240	7,951
	17,621	17,791	13,117
Total expenses	760,150	718,377	675,827
Increase in net assets	(2,508)	26,633	58,302
Total net assets--beginning of the year	327,136	300,503	242,201
Total net assets--end of the year	$ 324,628	$ 327,136	$ 300,503

The System's total operating and non-operating revenues in 2011 were $757.6 million while operating and non-operating expenses totaled $760.1 million. This resulted in net assets decreasing $2.5 million for the year. This compares to the 2010 net asset increase of $26.6 million from total revenues of $745.0 million and total expenses of $718.4 million.

Operating Revenues

2011 Activity
In 2011, operating revenues increased $25.8 million or 3.7% from the prior year. Net patient service revenue increased $22.6 million or 3.5% and other operating revenues increased $3.2 million or 8.6% from 2010 levels. The net patient revenue increase between 2010 and 2011 is mostly attributed to volume growth, strategic pricing and optimized charge capture.

The System's patient volumes were generally higher when compared to 2010 levels. Hospital patient days increased 0.6%, discharges were down 0.6%, inpatient surgeries increased 4.5% and deliveries declined 1.9%. Outpatient visits were up 6.9% from 2010 results. Emergency room visits increased 6.0% and outpatient surgical volumes increased 4.5% from the prior year.

Gross patient revenues increased $169.5 million or 9.1% from the prior year but were mostly offset with higher contractual adjustments of $98.7 million, additional uncompensated care of $41.8 million, and lower denial and write-off adjustments of $5.7 million. The System’s level of uncompensated care 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, decreased by $2.4 million or 4.3% from 2010 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 $4.0 million, a decrease of $9.6 million from the prior year.

2010 Activity
In 2010, operating revenues increased $26.8 million or 4.0% from the prior year. Net patient service revenue increased $18.3 million or 2.9% 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 2009.

The net patient revenue increase of $18.3 million between 2009 and 2010 is mostly attributed to revenue cycle initiatives centered around strategic pricing and optimized charge capture, higher UPL Program revenues and refined accounts receivable valuation methods.

Gross patient revenues increased $85.2 million or 4.8% from the prior year but were mostly offset with higher contractual adjustments of $49.1 million and additional uncompensated care of $23.4 million. The System's level of uncompensated care 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 $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 2009.

In 2010, other operating revenues were $37.1 million, an increase of $8.6 million or 30.1% from 2009 levels. The increase is related to $9.9 million in cash distributions from a renal care joint venture, and $1.1 million from a new grant to support and enhance Northeast Ohio trauma services.

Non-Operating Revenues

<u>2011 Activity</u>
In 2011, non-operating revenues totaled $40.6 million, a decrease of $13.2 million or 24.5% from the prior year. Non-operating revenues include county appropriation revenue of $36.0 million, investment income of $5.6 million, unrealized investment losses of $11.7 million, other non-operating revenue of $6.0 million, and grants and donations of $4.7 million.

County appropriation revenue decreased 9.7% from $39.9 million in 2010. Investment income was lower by $0.6 million from the prior year due to interest rates remaining historically low. Unrealized income on investments decreased $8.7 million, which relates to the market value changes of the System's two interest rate SWAP agreements. Grant revenues and other non-operating revenues were up slightly from 2010.

<u>2010 Activity</u>
In 2010, non-operating revenues totaled $53.8 million, a decrease of $15.9 million or 22.9% 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 $5.8 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 2009 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 2009 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.

Operating Expenses

The following table summarizes the System's operating expenses from the last three years. The System's total operating expenses increased in 2011 by $41.9 million or 6.0% from 2010 and increased in 2010 by $37.9 million or 5.7% from 2009.

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

	2011	2010	2009
Operating expenses:			
Salaries and wages	$ 410,710	$ 390,206	$ 371,340
Employee benefits	97,928	89,822	87,314
Medical supplies	48,273	39,081	39,476
Pharmaceuticals	32,859	31,033	31,439
Plant operations	34,301	31,045	28,610
Supplies and other	68,420	74,062	63,278
Insurance expense	18,510	13,239	6,788
Depreciation and amortization	31,528	32,098	34,465
Total operating expenses	$ 742,529	$ 700,586	$ 662,710

2011 Activity
In 2011, salaries and wages were $410.7 million, an increase of $20.5 million or 5.3% from the prior year. The increase is primarily attributed to restructuring of physician productivity-based incentive programs, and strategic physician hires and FTE growth.

Employee benefits expense in 2011 was $97.9 million, an increase of $8.1 million or 9.0% from 2010. Health care benefits increased $4.6 million, unemployment compensation increased $0.8 million and workers' compensation expenses decreased $0.5 million. System contributions to the Ohio Public Employee Retirement System (OPERS) increased $2.4 million on higher salaries and wages.

Medical supplies expenses were $48.3 million in 2011, an increase of $9.2 million or 23.5% from the prior year. Pharmaceutical expenses were $32.9 million, an increase of 5.9% or $1.8 million from 2010.

Plant Operations expenses were $34.3 million, an increase of $3.3 million or 10.5% from 2010 levels. The large increase is due to an increase in franchise fees of $1.5 million, a one-time 2010 asbestos abatement credit of $2.3 million that was unavailable in 2011, and lower electrical utility costs of $1.1 million.

Supplies and other expenses were $68.4 million, a decrease of $5.6 million or 7.6%. Consulting costs decreased $9.0 million after a robust expense year in 2010 and department purchased services increased $2.8 million from 2010. Insurance expenses were $18.5 million, an increase of $5.3 million or 39.8% from the prior year. Depreciation and amortization expenses were $31.5 million, a decrease of $0.6 million, or 1.8% from the prior year.

<u>2010 Activity</u>
In 2010, salaries and wages were $390.2 million, an increase of $18.9 million or 5.1% from 2009. 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 $89.8 million, an increase of $2.5 million or 2.9% 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 2009. 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 $31.0 million, an increase of $2.4 million or 8.5% from 2009 levels, due to a full year of franchise fees, 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 $74.0 million, an increase of $10.7 million or 17.0%. Consulting costs increased by $6.3 million and service contracts were $1.0 million higher than 2009 spending levels. Insurance expenses were $13.2 million, an increase of $6.5 million from 2009. Depreciation and amortization expenses were $32.1 million, a decrease of $2.4 million, or 6.9% from 2009.

Non-Operating Expenses

Non-operating expenses, which include specific purpose fund expenses (grant expenses) and interest expense, decreased $0.2 million from 2010 levels, to $17.6 million. Non-operating expenses were $17.8 million and $13.1 million in 2010 and 2009, respectively.

Interest expense in 2011 increased $0.5 million or 3.7% from 2010 and is related to lower capitalized interest from reduced capital spending. Interest expense in 2010 increased $5.3 million or 66.5% from 2009. The increase in 2010 is primarily related to the January issuance of bonds totaling $75.0 million.

Specific purpose fund expenses totaled $3.9 million, $4.6 million and $5.2 million in 2011, 2010 and 2009, respectively.

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 2012. This funding level approximates the 2011 appropriation but is a 10% reduction from amounts received in years 2008, 2009 and 2010.

- 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 2012.

- The SFY 2012/2013 State budget carries forward the existing 2010/2011 Hospital Franchise Fee (HFF) and Upper Payment Limit (UPL) programs into the new biennium and further expands the supplemental payment program funded by the HFF for 2012 to include Enhanced Medicaid Managed Care Organization (EMMCO) payments.

- In 2011, the System earned $27.1 million in gross inpatient and outpatient UPL dollars. The 2012 State Plan Amendment received CMS approval in late March of 2012. MetroHealth estimates the second half 2011 inpatient UPL payment to be approximately $11.3 million dollars. The 2012 inpatient and outpatient UPL programs are expected to remain consistent with the program in 2011 as it relates to the methodologies used to determine the distribution of funds.

- Net Hospital Care Assurance Program (HCAP) dollars were $26.7 million in 2011. There are neither major changes planned for the 2012 HCAP program distribution model nor anticipated regulatory changes affecting HCAP funding for 2012. As a result, the 2012 HCAP program is expected to closely mirror the 2011 program except for the addition of a closed hospital Pot for Cuyahoga County which will potentially bring additional HCAP funds to Cuyahoga County hospitals.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Balance Sheets
December 31, 2011 and 2010
(Dollars in Thousands)

	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
Assets	**2011**	**2010**	**2011**	**2010**
Current Assets:				
Cash and cash equivalents	$ 3,298	$ 2,476	$ -	$ 470
Accounts receivable	93,296	81,555	1,530	1,650
Allowance for uncollectible accounts	(15,173)	(12,731)	(113)	(115)
	78,123	68,824	1,417	1,535
Other receivables	23,091	57,483	58	32
Supplies	9,297	9,145	-	-
Prepaid expenses	3,594	5,835	-	39
Total current assets	117,403	143,763	1,475	2,076
Noncurrent Assets:				
Investments:				
General	157,668	115,611	3,870	6,760
Academic funds	29,448	30,134	-	-
Depreciation reserve fund	119,838	110,339	-	-
	306,954	256,084	3,870	6,760
Restricted Assets:				
Cash and cash equivalents	88	94	3,778	2,468
Special purpose investments	5,556	5,556	23,315	20,335
Under bond indenture agreements	73,466	81,606	-	-
	79,110	87,256	27,093	22,803
Capital Assets:				
Land and construction in progress	16,401	13,700	-	-
Land improvements	11,619	11,574	-	-
Buildings and fixed equipment	536,007	530,980	-	-
Equipment	299,919	291,186	-	-
	863,946	847,440	-	-
Accumulated depreciation	(602,284)	(580,983)	-	-
	261,662	266,457	-	-
Other assets	10,504	8,876	-	-
Total assets	$ 775,633	$ 762,436	$ 32,438	$ 31,639

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Balance Sheets
December 31, 2011 and 2010
(Dollars in Thousands)

	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
Liabilities	**2011**	**2010**	**2011**	**2010**
Current Liabilities:				
Accounts payable	$ 29,062	$ 28,442	$ 2,054	$ 2,319
Accrued payroll and related liabilities	34,493	30,154	-	-
Contribution payable to the Public Employees Retirement System	8,504	4,677	-	-
Accrued interest payable	3,315	4,357	-	-
Self-insurance liabilities	15,255	11,954	-	-
Estimated amounts due to third-party payors	5,029	5,262	-	-
Accrued vacation and sick leave	7,419	5,591	-	-
Current installments of long-term debt	15,772	8,723	-	-
Other current liabilities	8,437	12,016	550	541
Total current liabilities	127,286	111,176	2,604	2,860
Long-Term Liabilities, less current installments:				
Self-insurance liabilities	32,000	25,366	-	-
Estimated amounts due to third-party payors	3,839	5,507	-	-
Accrued vacation and sick leave	33,019	34,309	-	-
Derivative instruments - rate swaps	15,353	3,421	-	-
Long-term debt	239,508	255,521	-	-
Total long-term liabilities	323,719	324,124	-	-
Total liabilities	451,005	435,300	2,604	2,860
Net Assets				
Invested in capital assets, net of related debt	54,306	55,731	-	-
Restricted net assets, expendable	31,396	33,917	17,121	15,608
Restricted net assets, nonexpendable	-	-	8,998	8,615
Unrestricted net assets	238,926	237,488	3,715	4,556
Total net assets	324,628	327,136	29,834	28,779
Total liabilities and net assets	$ 775,633	$ 762,436	$ 32,438	$ 31,639

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, 2011 and 2010
(Dollars in Thousands)

	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Net patient service revenue	$ 676,785	$ 654,169	$ -	$ -
Other revenue	40,232	37,063	-	-
Total operating revenues	717,017	691,232	-	-
Operating Expenses				
Salaries and wages	410,710	390,206	-	-
Employee benefits	97,928	89,822	-	-
Medical supplies	48,273	39,081	-	-
Pharmaceuticals	32,859	31,033	-	-
Plant operations	34,301	31,045	-	-
Supplies and other	68,420	74,062	-	-
Insurance	18,510	13,239	-	-
Total operating expenses before depreciation and amortization	711,001	668,488	-	-
Operating income before depreciation and amortization	6,016	22,744	-	-
Depreciation and amortization	31,528	32,098	-	-
Operating loss	(25,512)	(9,354)	-	-
Non-Operating Revenues (Expenses)				
County appropriation	36,031	39,907	-	-
Net investment income (loss)	(6,053)	3,254	234	3,632
Other non-operating revenue	5,972	5,830	-	-
Noncapital grants and donations	3,995	4,087	9,243	9,347
Grant expenses and support	(3,890)	(4,551)	(8,422)	(8,022)
Interest expense	(13,731)	(13,240)	-	-
Total non-operating revenues (expenses)	22,324	35,287	1,055	4,957
(Loss) income before capital contributions	(3,188)	25,933	1,055	4,957
Grants for capital acquisitions	680	700	-	-
Change in net assets	(2,508)	26,633	1,055	4,957
Total net assets - beginning of year	327,136	300,503	28,779	23,822
Total net assets - end of year	$ 324,628	$ 327,136	$ 29,834	$ 28,779

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Cash Flows
Years Ended December 31, 2011 and 2010
(Dollars in Thousands)

	2011	2010
Cash Flows from Operating Activities		
Patient service revenue	$ 695,908	$ 609,009
Other operating cash receipts	37,668	32,994
Payments to suppliers	(189,204)	(195,372)
Payments for compensation and benefits	(499,782)	(475,221)
Net cash flows provided by (used in) operating activities	44,590	(28,590)
Cash Flows from Noncapital Financing Activities		
County appropriation	36,031	39,907
Restricted grants and donations	7,817	8,069
Specific purpose funds expenses	(3,931)	(5,405)
Build America Bond receipts	2,158	1,181
Net cash flows provided by noncapital financing activities	42,075	43,752
Cash Flows from Capital and Related Financing Activities		
Grants for capital acquisition	680	700
Acquisitions and construction	(26,704)	(19,040)
Proceeds from sale of assets and insurance	894	967
Proceeds from long-term debt	67,455	75,000
Retirement of long-term debt	(67,956)	-
Principal payments on long-term debt	(8,535)	(8,293)
Interest payments on long-term debt	(14,225)	(10,842)
Payments of financing fees on long-term debt	(621)	(972)
Net cash flows (used in) provided by capital and related financing activities	(49,012)	37,520
Cash Flows from Investing Activities		
Payments for investment purchases and reinvestments	(872,660)	(887,298)
Proceeds from investment sales and maturities	830,199	828,439
Interest received	5,624	6,200
Net cash flows (used in) investing activities	(36,837)	(52,659)
Net increase in cash and cash equivalents	816	23
Cash and cash equivalents		
Beginning	2,570	2,547
Ending	$ 3,386	$ 2,570

(Continued)

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010
(Dollars in Thousands)

	2011	2010
Reconciliation of Operating Loss to Net Cash Flows Provided by (Used in) Operating Activities:		
Operating loss	$ (25,512)	$ (9,354)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	31,528	32,098
Provision for bad debts	84,269	91,656
Changes in assets and liabilities:		
Increase in patient accounts receivable	(93,568)	(93,825)
Decrease (increase) in other assets	34,459	(47,074)
Increase (decrease) in self-insurance liabilities	9,935	(1,156)
Increase in accounts payable and other liabilities	6,437	6,527
Decrease in long-term liabilities	(2,958)	(7,462)
Net cash flows provided by (used in) operating activities	$ 44,590	$ (28,590)

Noncash Investing, Capital and Financing Activities:

The System held investments at December 31, 2011 and 2010, with a fair value of $385,976 and $343,246, respectively. During 2011 and 2010, the net change in the fair value of these investments was an increase of $269 and $468, respectively.

The System held interest rate swap obligations at December 31, 2011 and 2010, with a fair value of $15,353 and $3,421, respectively. During 2011 and 2010, the net change in the fair value of these swap obligations was an increase of $11,932 and $3,416, respectively.

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

See Notes to Financial Statements.

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37*, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus,* 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 Old Brooklyn Nursing Facility was closed effective December 14, 2011. The bed licenses are still held by the System and the building will be converted for use as a rehabilitation facility.

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 $36,031 and $39,907 for 2011 and 2010, respectively. The County has also approved an appropriation of approximately $36,000 for 2012. 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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 the Foundation holds and invests, 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. In addition, MHS Holdings LLC is presented as a blended entity component unit whose financial activity is included with the activities of the System.

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

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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, estimated allowances for uncollectible accounts and uncompensated 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 is reported net of contractual and retroactive adjustments of $1,067,316 and $958,963 and provisions for uncollectible accounts of $84,269 and $91,656 in 2011 and 2010, respectively.

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

Medicare and Medicaid: Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries and Medicare capital costs are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received from Medicare and Medicaid. Medicare utilizes a prospective payment system for inpatient rehabilitation services 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 $3,991 and $13,615 in 2011 and 2010, 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 26% and 28%, respectively, of the System's net patient service revenue for the year ended December 31, 2011, and 30% and 29%, respectively, of the System's net patient service revenue for the year ended December 31, 2010. 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Centers for Medicare and Medicaid Services 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. The Centers for Medicare and Medicaid Services (CMS) is in the process of rolling out this program nationally.

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 CMS. 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. The System received $2,367 and $2,141 in outpatient UPL payments in 2011 and 2010, respectively. At December 31, 2011 and 2010, $12,496 and $11,090, respectively, was 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 $27,130 and $24,556 in 2011 and 2010, 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 $7,363 and $5,856 in 2011 and 2010, respectively and recorded the amounts as operating expenses in the plant operations expense category in the statements of revenues, expenses, and changes in net assets. The System's franchise fee liability payable to the State of Ohio at December 31, 2011 and 2010 was $2,379 and $1,146, 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 $42,203 and $47,128 in 2011 and 2010, respectively, (including Hospital Care Assurance (HCAP) of $26,747 and $31,728 in 2011 and 2010, respectively) which are included in net patient service revenue. HCAP amounts are presented net of amounts received and assessments paid by the System. The system received $30,206 and $35,219 in 2011 and 2010, respectively and paid $3,459 and $3,491 in 2011 and 2010, respectively. 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 $242,823 and $193,629, which represents 12.0% and 10.4% of gross charges in 2011 and 2010, 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Cash and cash equivalents: The System considers 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 are included in net investment income in the statements 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 (loss) gain on investments of ($172) and $111 in 2011 and 2010, respectively, is the difference between the proceeds received and the amortized cost of investments sold and is included in net investment income (loss) in the statements 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.

(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Income taxes: The Foundation is an Ohio nonprofit corporation and was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is exempt from income tax on related income pursuant to Section 501(a) of the Code. The Foundation is required to pay taxes on unrelated business income earned by the Foundation.

Capital assets: Capital assets are stated at cost 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

The asset and accumulated depreciation are removed from the related accounts when the asset is disposed. Any income or loss resulting from this disposal is recorded in the statements 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 $169 in 2011 and $166 in 2010. Amortization expense related to bond discounts was $104 in 2011 and $103 in 2010. These amounts are included in interest expense in the statements of revenues, expenses and changes in net assets. Accounting guidance requires amounts to be amortized utilizing the effective interest method. The difference between the two amortization methods is immaterial to the financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

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 $515 and $869 was recorded in construction in progress as opposed to interest expense for 2011 and 2010, 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 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 statements of revenues, expenses and changes in net assets during the period of change as adjustments to investment income on the related debt (see Note 6).

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

The System places its cash and cash equivalents with high credit quality financial institutions. The System's investments include money market funds, U.S. Treasury bills and notes, U.S. agency obligations, 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 2010 amounts have been made to conform to the 2011 presentation. Among other reclassifications in 2011, the provision for uncollectible accounts is presented as a component of net patient service revenue in the statements of revenues, expenses, and changes in net assets rather than presented as an operating expense, as was done in 2010. Refer to Note 12 for a description of a reclassification relating to the System's blended component unit, MHS Holdings LLC, and its equity interest in CCF/MHS Renal Care Company, LTD., a joint venture with The Cleveland Clinic Foundation.

Note 2. Changes in Accounting Principles and Recent Accounting Pronouncements

GASB has issued the following statements that have been recently implemented by the System:

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 implemented this Statement for the year ended December 31, 2011.

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

Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance contained in pre-November 1989 FASB and AICPA Pronouncements*. The Statement incorporates 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. GASB Statement No. 62 also eliminates the election made by the System under GASB Statement No. 20 – *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to apply the provisions of all relevant pronouncements of the FASB Standards Codification, which did not conflict with or contradict GASB pronouncements.

There was no material impact to the financial statements as a result of the implementation of Statement No. 59 and Statement No. 62.

GASB has recently issued the following statements not yet implemented by the System:

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. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* was established to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This Statement also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The System is required to implement this Statement for the year ending December 31, 2012.

Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions, Amendment of GASB 53,* was established to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The Commission is required to implement this Statement for the year ending December 31, 2012.

(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. The System's investment policy does not address custodial credit risk. The System's bank deposits at December 31, 2011 and 2010, totaled $72,326 and $47,572, respectively, and were subject to the following categories of custodial credit risk:

	2011	2010
Uncollateralized	$ 72,029	$ 47,302
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	47	20
Total amount subject to custodial risk	72,076	47,322
Amount insured	250	250
Total bank balances	$ 72,326	$ 47,572

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 no later than 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.

(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, 2011 and 2010, the fair values of the System’s investments and their ratings by Standard & Poor’s were as follows:

		Investment Maturities	
	2011	Less than 1 year	1-5 years
U.S. Government Agencies			
AAA	$ 237,323	$ 40,277	$ 197,046
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)			
AAA	62	1	61
Commercial Paper			
A1	58,177	58,177	-
Corporate Bonds:			
AAA	21,341	21,341	-
Total investments	$ 316,903	$ 119,796	$ 197,107

Deposits totaling $69,073 are included in investments on the Balance Sheets at December 31, 2011.

(Dollars in Thousands)

Note 3. Deposits and Investments (Continued)

		Investment Maturities	
	2010	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
Total investments	$ 298,220	$ 109,447	$ 188,773

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

The System's carrying amounts of the deposits and investments at December 31, 2011 and 2010 are as follows:

	2011	2010
Deposits	$ 72,459	$ 47,596
Investments	316,903	298,220
Total deposits and investments	$ 389,362	$ 345,816

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, 2011 and 2010, 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.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investments in any single issuer. The System holds 5.2% of its portfolio in a UBS Finance Delaware CP.

(Dollars in Thousands)

Note 3. Deposits and Investments (Continued)

The Foundation: As of December 31, 2011, the fair values of the Foundation's investments were as follows:

	2011	2010
Mutual funds	$ 24,505	$ 24,674
Common stock	26	154
Limited Partnership Interest	1,698	1,361
Premier Purchasing Partners, L.P.	956	906
Total investments	$ 27,185	$ 27,095

The Foundation's investments had cumulative unrealized gains of $604 and $822 and cumulative unrealized losses of $1,727 and $918 at December 31, 2011 and 2010, respectively.

Note 4. Capital Assets

The following summarizes changes in the capital assets of the System for the years ended December 31, 2011 and 2010:

2011	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,314	$ -	$ -	$ 9,314
Construction in progress	4,386	27,658	(24,957)	7,087
Total nondepreciated capital assets	13,700	27,658	(24,957)	16,401
Depreciable capital assets:				
Land improvements	11,574	45		11,619
Buildings and fixed equipment	530,980	5,066	(39)	536,007
Equipment	291,186	19,854	(11,121)	299,919
Total depreciable capital assets	833,740	24,965	(11,160)	847,545
Less accumulated depreciation:				
Land improvements	(6,921)	(421)		(7,342)
Buildings and fixed equipment	(344,110)	(16,508)	10	(360,608)
Equipment	(229,952)	(14,599)	10,217	(234,334)
Total accumulated depreciation	(580,983)	(31,528)	10,227	(602,284)
Total depreciable capital assets - net	252,757	(6,563)	(933)	245,261
Total capital assets - net	$ 266,457	$ 21,095	$ (25,890)	$ 261,662

(Dollars in Thousands)

Note 4. Capital Assets (Continued)

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
Total nondepreciated capital assets	18,853	11,497	(16,650)	13,700
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
Total depreciable capital assets	815,995	20,241	(2,496)	833,740
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)
Total accumulated depreciation	(550,423)	(32,098)	1,538	(580,983)
Total depreciable capital assets - net	265,572	(11,857)	(958)	252,757
Total capital assets - net	$ 284,425	$ (360)	$ (17,608)	$ 266,457

Total depreciation and amortization expense related to capital assets for 2011 and 2010 was $31,528 and $32,098, respectively.

(Dollars in Thousands)

Note 5. Long-Term Debt

Information regarding the System's long-term debt activity and balances as of and for the years ended December 31, 2011 is as follows:

	2011				
	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 4.6% to 5.6% and mature in varying amounts through 2027. Partially refunded in 2011 with Hospital Refunding Revenue Bonds, Series 2011.	$ 30,155	$ -	$ (12,555)	$ 17,600	$ -
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5%. Partially and advance refunded in 2011 with Hospital Refunding Revenue Bonds, Series 2011.	60,605	-	(54,875)	5,730	5,730
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and maturing in varying amounts through 2033.	26,185	-	(725)	25,460	750
Hospital Improvement and Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035.	72,880	-	(375)	72,505	390
Hospital Facilities Revenue Bonds, Series 2009A, bear interest at 3.9%, refunded with Hospital Refunding Revenue Bonds, Series 2011.	7,683	-	(7,683)	-	-
Hospital Facilities Revenue Bonds, Series 2009B, bear interest at 8.2% and mature in varying amounts through 2040.	75,000	-	-	75,000	-
Hospital Refunding Revenue Bonds, Series 2011, bear interest at 3.2% and mature in varying amounts through 2019.	-	67,455	-	67,455	8,635
Equipment obligation, GE Leasing, as defined in the respective lease agreement, bears interest at 6.0% and matures through 2014.	29	-	(6)	23	10
Equipment obligation, IBM Leasing, as defined in the respective lease agreement, bears interest at 2.7% and matures through 2014.	874	-	(268)	606	252
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018.	44		(4)	40	5
	273,455	67,455	(76,491)	264,419	15,772
Unamortized discount and loss on refunding	(9,211)	(816)	888	(9,139)	-
Long-term debt	$ 264,244	$ 66,639	$ (75,603)	$ 255,280	$ 15,772

(Dollars in Thousands)

Note 5. Long-Term Debt (Continued)

Information regarding the System's long-term debt activity and balances as of and for the years ended December 31, 2010 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 mature in varying amounts 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)	-
Long-term debt	$ 195,598	$ 76,092	$ (7,446)	$ 264,244	$ 8,723

Note 5. Long-Term Debt (Continued)

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. On November 22, 2011, the entire principal amounts of the Series 1997 Bonds maturing in years 2012 through 2019 were refunded with proceeds from the County's Series 2011 Hospital Refunding Revenue Bonds. The refundings totaled $11,440.

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, $7 and $4,259 at December 31, 2011 and 2010, respectively, is reported in the accompanying financial statements as a reduction from long-term debt and is included as additional interest expense through the year 2012. On November 22, 2011, all outstanding Series 1997A principal amounts maturing on and after February 15, 2012 were refunded or advance refunded using proceeds from the County's Series 2011 Hospital Refunding Revenue Bonds. The Bond refundings totaled $55,170 of which $49,440 was immediately refunded and $5,730 was advance refunded for February 2012.

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 rates at December 31, 2011 and 2010, were 0.07% and 0.32%, 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 ("2003 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.

Note 5. Long-Term Debt (Continued)

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. 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. As of December 31, 2011 and 2010, the letter of credit fee was 95 and 115 basis points, respectively. There were no amounts outstanding on the letters of credit as of December 31, 2011 and 2010.

The 2003 Letter of Credit is subject to various financial covenants for debt service coverage, long-term debt to capitalization, cash to debt and short-term debt to earnings before interest, taxes, depreciation and amortization.

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 rates at December 31, 2011 and 2010 were 0.07% and 0.32%, respectively.

In connection with the issuance of the Series 2005 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit 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 ("2005 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. In addition, the System paid to the Banks a closing fee of 15 basis points (and an additional $10 to the Agent Bank), and to the Lead Arranger an arrangement fee of $75. As of December 31, 2011 and 2010, the letter of credit fee was 95 and 125 basis points, respectively. There were no amounts outstanding on the letters of credit as of December 31, 2011 and 2010.

The 2005 Letter of Credit is subject to various financial covenants for debt service coverage, long-term debt to capitalization, cash to debt and short-term debt to earnings before interest, taxes, depreciation and amortization.

Note 5. Long-Term Debt (Continued)

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 ($3,764 and $3,985 at December 31, 2011 and 2010, respectively), reported in the accompanying financial statements, as a reduction from long-term debt, is being amortized as an increase to interest expense through the year 2029.

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 carried an interest rate of 3.9% and were to mature through 2014. On November 22, 2011, all outstanding Series 2009A Bonds totaling $7,076 were refunded from proceeds of the County's Series 2011 Hospital Refunding Revenue Bonds.

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. Payments received from the Treasury are recorded in other non-operating revenue.

Effective November 8, 2011, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $67,455 of Hospital Refunding Revenue Bonds, Series 2011, (The MetroHealth System), (Taxable Bonds). Proceeds from the Series 2011 Bonds were used to currently refund the entire principal amount of the Series 1997 Bonds maturing on February 15, 2012 through February 15, 2019; currently refund the outstanding principal amount of the Series 1997A Bonds maturing on and after February 15, 2013; advance refund the principal amount of the Series 1997A Bonds maturing February 15, 2012; currently refund all the outstanding Series 2009A Bonds; and pay certain costs of issuance of the Series 2011 Bonds. The Bonds bear interest at a fixed rate of 3.16% per annum and mature at various dates through 2019.

The November 8, 2011 bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,187. The unamortized difference ($5,098 at December 31, 2011) is reported in the accompanying financial statements as a reduction from long-term debt and is being amortized as an increase to interest expense through the year 2019.

The Series 1997, 1997A, 1999, 2003, 2005, 2009A, 2009B and 2011 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, 2009B and 2011 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.

(Dollars in Thousands)

Note 5. Long-Term Debt (Continued)

The terms of the master trust bond indenture agreement provide for the establishment of a depreciation reserve fund and maintenance of certain special funds, which are maintained under the control of the bond trustee, and are used for payment of principal and interest on the bonds when due.

The revenue bonds and lease obligation payment requirements for fiscal years subsequent to December 31, 2011, are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	$ 267	$ 15	$ 282	$ 15,505	$ 11,272	$ 26,777
2013	298	8	306	8,825	11,314	20,139
2014	80	1	81	9,115	11,036	20,151
2015	6	1	7	9,415	10,750	20,165
2016	6	1	7	9,725	10,454	20,179
2017–2021	12	1	13	46,060	47,644	93,704
2022–2026	-	-	-	43,355	40,673	84,028
2027–2031	-	-	-	40,635	33,247	73,882
2032–2036	-	-	-	40,570	23,790	64,360
2037–2040	-	-	-	40,545	6,889	47,434
	$ 669	$ 27	$ 696	263,750	$ 207,069	$ 470,819
Unamortized discount				(270)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				(8,869)		
Total hospital revenue bonds — net				$ 254,611		

The cost value of Hospital Revenue Bonds was $263,480 and $271,540 at December 31, 2011 and 2010, respectively.

There are no amounts remaining to be paid to bond holders related to defeased debt at December 31, 2011.

(Dollars in Thousands)

Note 6. 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 $97,965 and $99,065 at December 31, 2011 and 2010, 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, 2011 and 2010, was ($15,353) and ($3,421), respectively. The amounts due to the counterparties are included within long-term liabilities. The fair value decrease of $11,932 in 2011 and the fair value decrease of $3,416 in 2010 are included in net investment income (loss) in the statements of revenues, expenses and changes in net assets. As a result of the agreements, net settlements increased the System's interest expense by $2,121 and $1,929 in 2011 and 2010, respectively.

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

12/31/2011 Notional Amount	12/31/2010 Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 72,505	$ 72,880	July 28, 2005	February 1, 2035	the System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 25,460	$ 26,185	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 initial 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 2011, ISDA five-year interest rates ranged between 1.1% and 2.6%. 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.

(Dollars in Thousands)

Note 7. 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 considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined. See Note 1, net patient service revenue, for additional information. As of December 31, 2011 and 2010, the liability for amounts due to third-party payors was $8,868 and $10,769, 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 earned. 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, 2011 and 2010, the liability for accrued vacation and sick was $40,438 and $39,900, respectively.

Other Long-Term Liabilities: Other long-term liabilities consist of the following at December 31, 2011 and 2010:

2011	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due third-party payors	$ 10,769	$ 1,439	$ (3,340)	$ 8,868	$ 5,029
Accrued vacation and sick leave	39,900	42,300	(41,762)	40,438	7,419
Derivative instruments - rate swaps	3,421	11,932	-	15,353	-
	$ 54,090	$ 55,671	$ (45,102)	$ 64,659	$ 12,448

2010	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due third-party payors	$ 19,534	$ 255	$ (9,020)	$ 10,769	$ 5,262
Accrued vacation and sick leave	36,377	42,134	(38,611)	39,900	5,591
Pollution remediation	2,383	-	(2,383)	-	-
Derivative instruments - rate swaps	5	3,416	-	3,421	-
	$ 58,299	$ 45,805	$ (50,014)	$ 54,090	$ 10,853

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 employee health insurance, 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 for workers compensation and medical malpractice have not exceeded insurance coverage in any of the past three years.

(Dollars in Thousands)

Note 7. Other Long-Term Liabilities (Continued)

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 employee health insurance, 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. For the employee health insurance, a historical analysis has been performed of incurred but not reported claims to determine the liability at December 31, 2011 and 2010.

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, claims incurred but not reported, for 2011, 2010 and 2009 as follows:

2011	**Beginning Balance**	**Claims Incurred**	**Claims Paid**	**Ending Balance**	**Due Within One Year**
Worker's compensation	$ 8,724	$ 2,823	$ (2,671)	$ 8,876	$ 3,055
Self-insurance	28,596	15,488	(5,705)	38,379	12,200
Employee health insurance	1,517	17,484	(17,465)	1,536	1,536
	$ 38,837	$ 35,795	$ (25,841)	$ 48,791	$ 16,791

2010	**Beginning Balance**	**Claims Incurred**	**Claims Paid**	**Ending Balance**	**Due Within One Year**
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
	$ 39,989	$ 29,432	$ (30,584)	$ 38,837	$ 13,471

2009	**Beginning Balance**	**Claims Incurred**	**Claims Paid**	**Ending Balance**	**Due Within One Year**
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
	$ 49,690	$ 22,761	$ (32,462)	$ 39,989	$ 14,665

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

The liabilities recorded for worker's compensation and self-insurance at December 31, 2011 are discounted liabilities. The discount rate used was 1.5 percent. The undiscounted liabilities are approximately $600 and $2,100 higher for worker's compensation and self-insurance, respectively.

(Dollars in Thousands)

Note 8. 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, 2011, are as follows:

2012	$	1,968
2013		1,564
2014		921
2015		607
2016		610
2017-2020		1,776
Total	$	7,446

Rent expense totaled $2,104 in 2011 and $1,906 in 2010.

Note 9. 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 in which the members invests both member and employee contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employee contributions plus any investment earnings; 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. Information related to the OPERS as a whole is included in the County's Comprehensive Annual Financial Report. A separate valuation of pension benefits is not performed for the System's employees.

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 ended December 31, 2011, 2010, and 2009, the employee contribution rate was 10.0% of covered payroll and the System was required to contribute 14.0% of covered payroll. For 2011, member and employer contribution rates were consistent across all three plans. Employee contributions to OPERS for the years ended December 31, 2011, 2010, 2009, and 2008, were $37,487, $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 ended December 31, 2011, 2010, 2009, and 2008, were $52,482, $49,988, $48,406, and $48,009, respectively, equal to the required contributions for each year.

The Ohio Revised Code provided the statutory authority requiring public employers to fund pensions through their contributions to OPERS.

Note 9. 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 2011, 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 health care benefits. The portion of employer contributions allocated to healthcare for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care beginning in calendar year 2012 have remained the same but are subject to change based on Board action. 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 contributions for 2011, 2010, 2009, and 2008 used to fund post retirement healthcare benefits were $14,994, $18,149, $20,313, and $24,005, respectively, which are included in the System's contractually required contribution of $52,482, $49,988, $48,406, and $48,009 for the years ended December 31, 2011, 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.

(Dollars in Thousands)

Note 10. Restricted Net Assets, Expendable and Nonexpendable

The System has expendable restricted net assets which have been restricted by the master trust bond indenture and donors to a specific purpose. These net assets are designated for the following purposes at December 31:

	2011	2010
Debt service payment and reserve funds	$ 25,542	$ 28,008
Time restrictions	5,854	5,829
Total	$ 31,396	$ 33,837

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:

	2011	2010
Programmatic activities of The MetroHealth System	$ 16,933	$ 15,468
Time restrictions	188	140
Total	$ 17,121	$ 15,608

The Foundation has restricted net assets, nonexpendable, in the amounts of $8,998 and $8,615 at December 31, 2011 and 2010, that are restricted in perpetuity, the income from which is expendable to support the programmatic activities of The MetroHealth System.

Note 11. Related Organizations

The System is the primary beneficiary of The MetroHealth Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the System has reported the Foundation as a component unit in the System's 2011 and 2010 financial statements. The System received support from the Foundation in the amount of $3,933 and $4,725 in 2011 and 2010, respectively, which is recorded as grant revenue on the System's statements of revenues, expenses and changes in net assets. The outstanding receivable from the Foundation was $1,581 and $2,137 at December 31, 2011 and 2010, respectively. The System provided the Foundation in-kind support totaling $1,367 and $1,101 in 2011 and 2010, 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. There were no transfers in 2011 and 2010.

The System was a partner in the joint venture, Concordia Care and in 2010, the System sold its interest in this joint venture.

Note 12. Investment in Blended Component Unit

MHS Holdings LLC (LLC) was formed to acquire and own interests in certain health care businesses. The System is the 99% member of the LLC. During 2011, the System's 40% equity interest in CCF/MHS Renal Care Company, LTD., joint venture with The Cleveland Clinic Foundation, which provides renal care (dialysis), was transferred to the LLC. Because the LLC is considered to be a blended entity component unit of the System, its financial activity is reflected within the financial activity of the System on these financial statements. In 2011, the System has reflected $6,633 in other assets and $5,113 in other income in the statements of revenue, expenses and changes in net assets related to the activity of the LLC, which essentially represents the LLC's interest in CCF/MHS Renal Care Company LTD. In addition, prior to the establishment of the LLC, the System received $2,548 in distributions from CCF/MHS Renal Care Company, LTD in 2011.

Prior to the establishment of the LLC, the System was a 40% partner in CCF/MHS Renal Care Company, LTD. Accounting principles generally accepted in the United States require that a material equity interest in a joint venture be reported as an asset in the financial statements of a reporting entity, and that certain other information, including operating activity, be disclosed. Because CCF/MHS Renal Care Company, LTD. did not prepare and had not made complete financial statements available since its inception in 1996, management was not able to accurately determine its equity interest in CCF/MHS Renal Care Company, LTD. or report its activities. However, management believed it had obtained sufficient information to conclude that the financial statements of the System were not materially misstated without such information and that it had no material related party transactions with CCF/MHS Renal Care Company, LTD., that warranted disclosure. For the year ended December 31, 2010, the System had reflected in the statements of revenues, expenses and changes in net assets distributions from CCF/MHS Renal Care Company, LTD of $9,949. Of this amount, $4,069 was receivable at December 31, 2010. This amount is presented in other assets in the balance sheet at December 31, 2010. This amount was reclassified from other receivables to conform to the 2011 presentation of LLC's interest in CCF/MHS Renal Care Company LTD.

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 $3,415 and $4,415 at December 31, 2011 and 2010, 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, 2011, the System had contractual commitments for the construction of various projects totaling approximately $10,948. Projects with large contractual commitments include $1,318 for the replacement of MetroHealth Drive, $891 for elevator modernization, $755 for parking garage improvements, and $629 for the Neurosurgery renovations. These projects are being funded with operating funds and bond project funds.

Note 14. Commitments and Contingencies (Continued)

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.

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.

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, 2011

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
U.S. Department of Agriculture:					
Pass-Through Program from:					
Ohio Department of Health	Special Supplement Nutrition Program for Women, Infants and Children	10.557	1830011WA0411; 1830011WA0512	$	4,867,304
	TOTAL --- U.S. Department of Agriculture			**$**	**4,867,304**
U.S. Department of Education:					
Pass-Through Program from:					
Ohio Department of Health	Special Education - Grants for Infants and Families -HMG Hospital Based Regional Child Find	84.181	1830011HB0411; 1830011HB0512	$	31,821
Ohio Rehabilitation Services Commission	Rehabilitation Services - Vocational Rehabilitation Grants to States - VRP3	84.126	n/a		255,121
	TOTAL --- U.S. Department of Education			**$**	**286,942**
U.S. Department of Health & Human Services:					
Pass-Through Program from:					
University Hospital/Cuyahoga County Board of Health	Maternal and Child Health Services Block Grants to the States - CFHS Cleveland Regional Perinatal Network	93.994	1810011MC; 01810011MC0512	$	26,307
Western Reserve Area Agency on Aging	Special Programs for the Aging - Access Your Benefits Enrollment Program	93.044	1YOCMS030365/01		38,331
Western Reserve Area Agency on Aging	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations - Access Your Benefits Enrollment Program	93.779	1YOCMS030365/01		19,097
Cuyahoga County	Acquired Immunodeficiency Syndrome (AIDS) Activity - Tuberculosis Prevention & Control	93.118	01810022TB0111; 01810022TB0212		202,273
Cuyahoga County	HIV Emergency Relief Project Grants - Ryan White Title I	93.914	CE0900731-01		1,176,088
Ohio Department of Health	*HIV Care Formula Grants* - Ryan White Part B/Title II	93.917	01830011HC0410; 01830011RW0111		92,609
	HIV Care Formula Grants - Ryan White Emergency Assistance Funding - Title II	93.917	n/a		2,771
	Centers for Disease Control and Prevention - Investigations and Technical Assistance - Coverdell Registry for Heart Disease & Stroke Prevention	93.283	01830014HD0411; 01830012HD0108		357,832
Center for Health Affairs	National Bioterrorism Hospital Preparedness Program - HRSA Emergency Preparedness/ASPR Grant	93.889	n/a		86,364
Cuyahoga County Board of Health	Immunization Grants - Immunization Action Plan	93.268	n/a		56,254
	TOTAL --- U.S. Department of Health & Human Services			**$**	**2,057,926**

(Continued)

The MetroHealth System
(A Component Unit of Cuyahoga County)

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
Research and Development Cluster					
U.S. Department of Education:					
Direct Programs:	National Institute on Disability and Rehabilitation Research - NORSCIS - Collaborative Project	84.133	H133N060017	$	341,938
	Subtotal - U.S. Department of Education - Direct			**$**	**341,938**
	Subtotal - Research & Development Cluster - Direct			**$**	**341,938**
U.S. Department of Defense:					
Pass-Through Program from:					
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	$	45,165
	Subtotal - U.S. Department of Defense - Pass Through			**$**	**45,165**
U.S. Department of Health & Human Services:					
Pass-Through Program from:					
Cleveland Clinic Foundation	Cancer Treatment Research - GOG Trials Gynecologic Oncology Group	93.395	CA027469		21,277
Duke Clinical Research Institute	Cancer Treatment Research - American College of Surgeons Oncology Group	93.395	CA76001		630
Frontier Science	Cancer Treatment Research - Eastern Cooperative Oncology Group	93.395	CA21115		30,132
Frontier Science	Cancer Control - Eastern Cooperative Oncology Group	93.399	CA37403		30,132
Duke Clinical Research / NIAMS	Trans-NIH Recovery Act Research Support - Childhood Arthritis and Research Alliance Network ***** RECOVERY*****	93.701	SPS165191		3,494
Duke Clinical Research / NIH-NHLBI	Trans-NIH Recovery Act Research Support - Prospective Multicenter Imaging Study Evaluation of Chest Pain ***** RECOVERY*****	93.701	DUKE 173530		23,752
NEOMED	Medical Assistance Program - Ohio Family Health Survey	93.778	n/a		9,450
University of Rochester / NIH-NHLBI	Cardiovascular Diseases Research - Risk Stratification in Madit II Type Patients	93.837	R01HL077478		15,118
Brigham & Williams / NIH-NHLBI	Cardiovascular Diseases Research - Pre-Determine Biologic Markers & MRI SCD Colvort Sttudy	93.837	620-5346000-600022475		10,838
University of California / NIH-NHLBI	Cardiovascular Diseases Research - Vest Predicts	93.837	U01HL089458		246
Social & Scientific Systems / NIH-NHLBI	Cardiovascular Diseases Research - ACTG Grant	93.837	R01 HL095132-01		900
Duke Clinical Research / NIH-NHLBI	Blood Diseases and Resources Research - Bridging Anticoagulation In Patients Who Require Temporary Interruption of Warfarin Therapy	93.839	U01HL087229		18,021
University of Minnesota / NIH-NIAMS	Arthritis, Musculoskeletal and Skin Diseases Research - Faith Hip Fracture	93.846	N00188516		11,176
Columbia University / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Warfarin Versus Aspirin in Reduced Cardiac Ejection Fraction	93.853	NS39143		1,864
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		91,188
Yale / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Insulin Resistance Intervention After Stroke Trial	93.853	NS044876-02		17,438
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		7,984
Social & Scientific Systems / NIH-NHLBI	Allergy, Immunology and Transplantation Research - Aids Clinical Trials Group Network Grant	93.855	1U01 AI06836-01		10,000
University of Virginia / NIH-NCI	Biomedical Research and Research Training - Multicenter Study of Duration of Antibiotics	93.859	GC11617-134415		16,978
University of Alabama	Clinical Trials for Antiviral Therapies	93.unknown	000189671-242		29,110
New England Research Inst. / NIH-NHLBI	Treatment of Preserved Cardiac Function Heart Failure	93.unknown	N01HC-45207		439
	Subtotal - U.S. Department of Health & Human Services - Pass-through			**$**	**350,167**
	Subtotal - Research & Development Cluster - Pass Through			**$**	**395,332**
	TOTAL - Research & Development Cluster			**$**	**737,270**
	TOTAL EXPENDITURES OF FEDERAL AWARDS			**$**	**7,949,442**

See Note to Schedule of Expenditures of Federal Awards.

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.

McGladrey

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, 2011, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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

Management of The MetroHealth System is responsible for establishing and maintaining effective 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 a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as finding 2011-01 that we consider to be a significant deficiency 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.

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* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the System in a separate letter dated April 24, 2012.

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 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 24, 2012

McGladrey

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 the System's major federal programs for the year ended December 31, 2011. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

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

In our opinion, the System complied in all material respects, with the 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, 2011.

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.

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 (Continued)

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.

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 24, 2012

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011

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?		Yes	X	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?		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
Numerous	Research and Development Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
93.914	HIV Emergency Relief Project Grants
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

Section II - Financial Statement Findings

Finding Number: 2011-01

Finding Description: Information Technology

Criteria: 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.

Condition: The System does not have a process in place to periodically review logical access for billing financial applications. Lawson access was reviewed as part of the conversion of the security model but a regular review for all financial statement applications has not been implemented.

Development of the System's disaster recovery plan and facilities have not been completed and tested for adequacy and sufficiency or reviewed periodically for continued viability.

These conditions were also noted in the prior year. See summary schedule of prior year findings and questioned costs, finding number 2010-01 and 2009-03.

Context: These conditions were identified during our review of the Information Technology General Controls and operational practices and procedures as they relate to the financial statement audit of the System.

Effect: Inappropriate logical access could cause security over data to be compromised and/or a disruption in operations.

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.

Cause: 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.

Recommendation: During 2011, we acknowledge that the System did review the propriety of user access for certain Lawson applications. We recommend that management continue to develop an ongoing comprehensive user access review process that includes annual verification of appropriate access to financial applications. 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.

We were able to observe that the System did enhance the current disaster recovery servicer room. However, we recommend the System develop a detailed disaster recovery plan and install a larger recovery data center with sufficient capacity to recover all organizational functions including all critical financial processing and regularly exercise the plan and facilities for adequacy and viability.

Section II - Financial Statement Findings (continued)

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 the 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. The Information Services Change Management policy is a department specific not an enterprise policy.

All system security access is administered through identified individuals and is based upon the capabilities of individual applications. The 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 compliance with all the appropriate regulations, policies and processes.

The access request process has been implemented and verified by MH Internal Audit. EPIC has also been upgraded and the Lawson security portal upgrade is in process.

Disaster Recovery: The Business Continuity program manager has developed a three phased approach to addressing the disaster recovery capability issues for the critical applications. Phase one has been completed and includes the creation of recovery environments for the Epic EHR system and the Radiology systems. The Lab system and the interface engine will be completed by the end of Quarter 1 2012. In addition, the Business Continuity Planning team conducted a Business Impact analysis and gathered critical process information for each MetroHealth Department in 2012 and has input this information into the Business Continuity Planning Portal software creating the shell of continuity of operations plans for each department. Phase two of the three phase plan begins Quarter 2 2012 and includes developing the recovery capability and recovery plans for the next 30 critical systems.

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2011

Section III - Findings and Questioned Costs for Federal Awards

None

Summary Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2011

Section II – Financial Statement Findings

Finding Number: 2010-01 and 2009-03

Finding Description: Information Technology

Summary of Prior Year Finding:

The System does not have a process in place to periodically review logical access for all applications. The System's disaster recovery plan and the facilities have not been assessed for adequacy and sufficiency or reviewed periodically for continued viability.

Status

Repeat finding – refer to 2011-01.

Finding Number: 2010-02

Finding Description: Internal Controls Surrounding Payroll

Summary of Prior Year Finding:

We noted an instance in which an employee's salary was not appropriately calculated and therefore, the employee was compensated at an incorrect amount.

Status

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.

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

Summary of prior year finding:

We noted an instance in which an employee's salary was not appropriately calculated and therefore, the employee was compensated at an incorrect amount.

Status

See response in 2010-02.

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 12, 2012