The MetroHealth System
(A Component Unit of Cuyahoga County)

Financial Report
December 31, 2015

RSM

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the MetroHealth System, Cuyahoga County, prepared by RSM US LLP, for the audit period January 1, 2015 through December 31, 2015. 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 18, 2016

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RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The MetroHealth System (the System), a component unit of Cuyahoga County, Ohio, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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 MetroHealth System as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As disclosed in Note 10 to the financial statements, the System adopted the reporting and disclosure requirements of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 – *Pension Transition for Contributions Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* The implementation of these statements results in a restatement of opening net position. Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3–9 as well as the pension related data on pages 47-48 to 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 audit 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2016 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

RSM US LLP

Cleveland, Ohio
March 22, 2016

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 year ended December 31, 2015. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis, while covering two years, is designed to focus on current year activities.

Financial and Operating Highlights

- Outpatient visits increased 3.1% in 2015.
- Hospital patient days increased 2.1% in 2015.
- Total surgical volumes increased 4.0% in 2015.
- Emergency room visits decreased 4.9% in 2015.
- Total net position increased by $34,654 in 2015.

Overview of the Financial Statements

The System is the public health care system for Cuyahoga County, Ohio (the County). The System includes the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; The Elisabeth Severance Prentiss Center for Skilled Nursing Care; and several urban and suburban health care sites.

The System is organized and operated by its board of county hospital trustees (the Board) pursuant to Chapter 339 of the Ohio Revised Code. Members of the Board are appointed by the County Executive together with the senior judges of the Probate and Common Pleas Courts of the County, subject to confirmation by the County Council.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* as amended, the System's financial statements are included, as a discretely presented component unit, in the County's Consolidated Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Fiscal Officer, Reserve Square, 2079 East 9th Street, Cleveland, Ohio 44115.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The MetroHealth Foundation, Inc. (Foundation) is presented as a discretely presented 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, MetroHealth Holdings LLC and MHS Purchasing LLC are presented as blended component units whose financial activity is included with the activities of the System.

The System's financial statements consist of three statements – Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the System. The System is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

(Dollars in Thousands)

Overview of the Financial Statements (Continued)

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report the System's total net position and is one measure of the System's financial health. Over time, increases or decreases in the System's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the System's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the System.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from defined types of activities. It provides answers to such questions as to what sources provided and expended cash during the reporting period.

The System's Net Position

A summary of the System's Statement of Net Position as of December 31, 2015 and 2014 is presented below in Table 1.

Table 1
The MetroHealth System
Statements of Net Position

	2015	2014
Assets:		
Current assets	$ 185,173	$ 189,944
Investments	363,159	331,424
Restricted assets	36,121	51,696
Capital assets	321,318	288,849
Other assets	14,388	9,779
Total assets	920,159	871,692
Deferred outflows of resources	72,783	6,055
Liabilities:		
Current liabilities	171,890	198,153
Long-term liabilities	675,005	281,173
Total liabilities	846,895	479,326
Deferred inflows of resources	6,585	-
Net position:		
Net investment in capital assets	113,087	84,201
Restricted, debt service payments	20,214	25,981
Restricted, capital asset use	2,250	3,400
Unrestricted	3,911	284,839
Total net position	$ 139,462	$ 398,421

The System's Net Position (Continued)

Significant changes in the System's total assets, deferred outflows of resources, total liabilities, deferred inflows of resources, and net position occurred in 2015 as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Under the new standards, the net pension liability and asset equals the System's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus the plan assets available to pay those benefits.

Based on the new standards, GASB noted that the unfunded portion of the net pension liability is a present obligation of the System and should accordingly be reported by the System as a liability. However, the System is not responsible for certain key factors affecting the balance of the liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly, and approval of the Governor. Benefit provisions are also determined by State statue. In Ohio, there is no legal means to enforce the unfunded liability of the pension against the System. Additional information on the new standards and their impact is available in the notes to the financial statements.

Total assets increased by $48,467 from 2014 from the purchase of investments and capital assets related to strong cash flows from operations. Capital assets increased by $32,469 from 2014 related to the System's plans to transform its main campus.

Deferred outflows of resources, deferred inflows of resources, and total liabilities increased by $66,728, $6,585, and $367,569, respectively, due to the implementation of GASB Statement No. 68.

In addition to the GASB Statement No. 68 implementation impact, the shift between current liabilities and long-term liabilities is related to the current year refinancing of System's debt that was classified as current at December 31, 2014, and partially offset by additional higher current amounts due to third-party payors and for sick and vacation liabilities.

The System's net position decreased by $258,959 from 2014 due to a combination of a $293,613 reduction from the implementation of GASB Statement No. 68 and the current year net profit of $34,654. The profit from 2015 is mostly attributed to higher outpatient volume growth from expanded access to medical services within the community and from more favorable contracts with third-party insurers.

(Dollars in Thousands)

Operating Results and Changes in the System's Net Position

Table 2
The MetroHealth System
Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,	
	2015*	**2014**
Revenues:		
Operating Revenues		
Net patient service revenue	$ 808,102	$ 793,345
Other revenue	80,301	66,533
	888,403	859,878
Non-Operating Revenues	53,517	43,275
Total revenues	941,920	903,153
Expenses:		
Operating Expenses		
Salaries and benefits	607,278	591,745
Department expenses	207,912	189,348
General expenses	77,733	77,416
	892,923	858,509
Non-Operating Expenses	14,343	14,872
Total expenses	907,266	873,381
Increase in net position	34,654	29,772
Total net position - beginning of the year - restated	104,808	368,649
Total net position - end of the year	$ 139,462	$ 398,421

* Beginning Net Position in 2015 was restated due to the implementation of GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27.*

In 2015, net patient service revenue increased 1.9% from 2014 levels. The net patient revenue increase is mostly attributed to higher outpatient volume growth from expanded access to medical services within the community, the expansion of the Ohio Medicaid program, and from more favorable contracts with third-party insurers.

The System's patient volumes mostly increased when compared to 2014 levels. Hospital patient days increased 2.1%, discharges were down 1.3%, inpatient surgeries decreased 1.7% and deliveries increased 3.2%. Outpatient visits were up 3.1% from 2014 results, with visits topping one million for the second year in a row. Emergency room visits decreased 4.9% and outpatient surgical volumes increased 6.6% from the prior year.

Operating Results and Changes in the System's Net Position (Continued)

The System's level of uncompensated care, though down from 2014 levels, continues to reflect the System's status as a safety net facility in Cuyahoga County. Hospital Care Assurance Program (HCAP) and Upper Payment Limit (UPL) program revenues, components of net patient revenue, decreased by 5.7% from 2014 levels. HCAP and UPL programs are discussed in further detail in the System's financial statement notes.

Other revenue increased 20.7% from 2014 primarily due to higher retail pharmacy revenue from additional contracted locations, and revenue from insurance contracts related to patient population wellness metrics.

In 2015, non-operating revenues increased 23.7% from the prior year. Non-operating revenues include county funding revenue, net investment income, net appreciation (depreciation) in the fair value of investments, other non-operating revenue, and grants and donations.

In 2015, the county funding was $40,000, which was similar to the prior year level. Investment income decreased by $156 from the prior year as a result of continued, historically low interest rates. Non-operating revenues from the net appreciation (depreciation) in the fair value of investments increased by $7,839 from the prior year. The large fluctuations in the value of the System's two swaps accounts for the majority of the $7,839 change. Other non-operating revenues from grant revenue increased by $3,362 from 2014 levels mostly due to an increase in grants for capital acquisitions.

In 2015, salaries and wages increased 3.3% from the prior year. The increase between years is attributed to higher FTE's. Employee benefits expense in 2015 decreased .3% from 2014 and is the result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The statement implementation is discussed further in the System's notes to the financial statements.

Department expenses increased by 9.8% from 2014 primarily due to higher pharmaceutical costs related to additional contracted pharmacy locations, volumes, price increases and purchased medical services.

Capital Assets and Debt Administration

Capital Assets

The System had $321,318 and $288,849 invested in capital assets, net of accumulated depreciation at December 31, 2015 and 2014, respectively. The Hospital acquired or constructed capital assets in the amount of $53,028 and $36,030 during 2015 and 2014, respectively.

Debt

The System had $229,968 and $236,849 in bonds and capital lease obligations outstanding at December 31, 2015 and 2014, respectively.

Economic Factors and Next Year's Budget

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

- The SFY 2016-2017 State budget contains a number of provisions which will have a negative impact on the System's Medicaid reimbursement going forward. The main provisions are as follows: A 5% reduction in all Medicaid outpatient payments effective January 1, 2016; a change in the reimbursement for certain hospital administered drugs which would limit payments to no more than what Medicaid pays on the physician fee schedule as January 1, 2016; a consolidation or roll-in of outpatient visits occurring within 72 hours of an inpatient stay as part of the inpatient stay effective January 1, 2016; and a measure effective July 1, 2016 to reform Medicaid GME payments by reducing GME funding state-wide by $25,000 but increasing physician payments by an equal amount for certain primary care type visits. The Hospital Franchise Fee and inpatient and outpatient Medicaid Upper Payment Limit (UPL) programs will remain methodologically unchanged for the SFY 2016-2017 Budget.

- As a safety net adult Disproportionate Share Hospital (DSH), the System benefits from the State of Ohio's decision, effective beginning in 2014, to adopt the Medicaid expansion provisions of the Affordable Care Act (ACA), with previously uninsured patients now insured through Medicaid. In the future, the State of Ohio can choose not to participate in ACA Medicaid expansion provisions.

- Major changes are once again occurring in the State's Hospital Care Assurance Program (HCAP) as a result of the State's decision to expand its Medicaid program. As of this writing, the 2016 HCAP model is still preliminary, with no assessments or distributions scheduled. The 2016 preliminary model indicates that the System's net gain after assessments will be $7,528. It is not yet known what impact the federal DSH audits will have on this net distribution since shortfalls and final uncompensated care figures are not available until the 2015 Medicaid cost report is completed. As previously noted, the decrease in HCAP funds should be offset by the increase in Medicaid reimbursement resulting from Medicaid expansion.

- In May 2014, the System announced it would embark on a redevelopment of its main campus. As part of this process, the System plans to add two stories to its 10-year-old critical care pavilion — a project estimated to cost approximately $82,000. The project is scheduled for completion in the summer of 2016.

- The County has approved 2016 funding for the System of $32,400, which is a decrease of $7,600 from the 2015 funding amount.

- The System and HealthSpan announced plans in September 2015 to bring freestanding emergency departments to Parma and Cleveland Heights in 2016. This new expansion supports the System's commitment to improve access to care for every resident of Cuyahoga County. Under the terms of the agreement, the System will begin new operations as freestanding emergency departments in early 2016. The emergency departments will be a part of the System and under the direction of the System's Department of Emergency Medicine. Under the System's management, the emergency departments will be open to every resident of Cleveland Heights, Parma and the surrounding communities.

- The System announced in January 2016 that it will continue to expand its presence throughout Northeast Ohio and expand options for members of HealthSpan's insurance plans to receive care. The System has hired more than 40 HealthSpan primary care physicians who will join the System on April 1, 2016, and an additional 25 specialty providers are expected to join in the near future.

Economic Factors and Next Year's Budget (Continued)

- The System has also joined Advanced Health Select (AHS), the largest clinically integrated network in Ohio. The network, jointly created by Cincinnati-based Mercy Health - the largest health system in Ohio - and Summa Health of Akron, is designed to improve chronic care management and lower the cost of care for patients and communities throughout Ohio. Through this collaboration, the System will be a preferred provider for HealthSpan's Northeast Ohio members. In addition, the System plans to provide care at several of HealthSpan's existing facilities, including Cleveland Heights, Parma, Bedford and Rocky River beginning on April 1, 2016.

- The System anticipates the opening of a new free standing health center in Brecksville during the third quarter of 2016. The developer is currently constructing the facility that the System will lease for a term of 15 years. The facility is expected to offer a 24-hour freestanding emergency department, outpatient and specialty services, lab, radiology, a pharmacy, and an ambulatory surgery center.

Contacting the System's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Vice President of Finance by telephoning (216) 778-7800.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Net Position
December 31, 2015
(Dollars in Thousands)

	The MetroHealth System	Component Unit The MetroHealth Foundation, Inc.
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,905	$ 514
Accounts receivable	119,115	4,616
Allowance for uncollectible accounts	(13,405)	(438)
	105,710	4,178
Other receivables	59,032	347
Supplies	11,732	-
Prepaid expenses	4,794	-
Total current assets	185,173	5,039
Noncurrent Assets:		
Investments:		
General	197,850	5,456
Academic funds	27,835	-
Depreciation reserve fund	137,474	-
	363,159	5,456
Restricted Assets:		
Cash and cash equivalents	181	2,225
Special purpose investments	-	36,497
Under bond indenture agreements	35,940	-
	36,121	38,722
Capital Assets:		
Land and construction in progress	71,191	-
Land improvements	13,253	-
Buildings and fixed equipment	586,749	-
Equipment	384,402	-
	1,055,595	-
Accumulated depreciation	(734,277)	-
	321,318	-
Other Assets:		
Net pension asset	1,454	-
Other assets	12,934	-
	14,388	-
Total assets	920,159	49,217
Deferred Outflows of Resources		
Deferred outflows related to pensions	66,824	-
Deferred amounts on acquisitions	840	-
Deferred amounts on debt refundings	5,119	-
Total deferred outflows of resources	72,783	-

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Net Position
December 31, 2015
(Dollars in Thousands)

	The MetroHealth System	Component Unit The MetroHealth Foundation, Inc.
Liabilities		
Current Liabilities:		
Accounts payable	$ 55,954	$ 1,289
Accrued payroll and related liabilities	31,208	-
Contribution payable to the Public Employees Retirement System	6,434	-
Accrued interest payable	3,340	-
General and professional liabilities	15,549	-
Estimated amounts due to third-party payors	18,564	-
Accrued vacation and sick leave	14,149	-
Current installments of long-term debt	12,120	-
Other current liabilities	14,572	429
Total current liabilities	171,890	1,718
Long-Term Liabilities, less current installments:		
General and professional liabilities	38,361	-
Estimated amounts due to third-party payors	17,815	-
Accrued vacation and sick leave	39,403	-
Net pension liability	348,619	-
Derivative instruments - rate swaps	12,959	-
Long-term debt	217,848	-
Total long-term liabilities	675,005	-
Total liabilities	846,895	1,718
Deferred Inflows of Resources		
Deferred inflows related to pensions	6,585	-
Net Position		
Net investment in capital assets	113,087	-
Restricted, debt service payments	20,214	-
Restricted, capital asset use	2,250	-
Restricted, program activities	-	27,771
Restricted, nonspendable	-	12,733
Unrestricted	3,911	6,995
Total net position	$ 139,462	$ 47,499

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2015
(Dollars in Thousands)

	The MetroHealth System	Component Unit The MetroHealth Foundation, Inc.
Operating Revenues		
Net patient service revenue	$ 808,102	$ -
Other revenue	80,301	-
Total operating revenues	888,403	-
Operating Expenses		
Salaries and wages	499,194	-
Employee benefits	108,084	-
Purchased services	52,997	-
Medical supplies	58,835	-
Pharmaceuticals	49,889	-
Plant operations	31,516	-
Non-medical supplies	14,675	-
Other expenses	30,675	-
Insurance	9,065	-
Depreciation and amortization	37,993	-
Total operating expenses	892,923	-
Operating income (loss)	(4,520)	-
Non-Operating Revenues (Expenses)		
County funding	40,000	-
Net investment income	2,164	(453)
Other non-operating revenue	3,878	-
Noncapital grants and donations	3,447	10,973
Grant expenses and support	(3,337)	(7,771)
Interest expense	(11,006)	-
Total non-operating revenues (expenses)	35,146	2,749
Income before capital contributions	30,626	2,749
Grants for capital acquisitions	4,028	-
Change in net position	34,654	2,749
Total net position - beginning of year - restated	104,808	44,750
Total net position - end of year	$ 139,462	$ 47,499

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statement of Cash Flows
Year Ended December 31, 2015
(Dollars in Thousands)

Cash Flows From Operating Activities	
Patient service revenue	$ 838,370
Other operating cash receipts	60,884
Payments to suppliers	(252,414)
Payments for compensation and benefits	(610,367)
Net cash flows provided by operating activities	36,473
Cash Flows From Noncapital Financing Activities	
County funding	40,000
Restricted grants, donations and other	6,273
Specific purpose funds expenses	(3,337)
Proceeds from notes payable	893
Noncapital acquisitions	(893)
Net cash flows provided by noncapital financing activities	42,936
Cash Flows From Capital and Related Financing Activities	
Grants for capital acquisitions	4,028
Acquisitions and construction	(53,028)
Proceeds from sale of assets	12
Proceeds from long-term debt	74,385
Retirement of long-term debt	(70,835)
Principal payments on long-term debt	(11,343)
Interest payments on long-term debt	(10,952)
Build America Bond receipts	1,999
Payments of financing fees on long-term debt	(92)
Net cash flows used in capital and related financing activities	(65,826)
Cash Flows From Investing Activities	
Payments for investment purchases and reinvestments	(500,191)
Proceeds from investment sales and maturities	483,438
Interest received	2,593
Net cash flows used in investing activities	(14,160)
Net decrease in cash and cash equivalents	(577)
Cash and cash equivalents	
Beginning	4,663
Ending	$ 4,086

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statement of Cash Flows (Continued)
Year Ended December 31, 2015
(Dollars in Thousands)

Reconciliation of Operating Loss to Net Cash Flows Provided By Operating Activities:	
Operating loss	$ (4,520)
Adjustments to reconcile operating loss to net cash flows provided by operating activities	
Depreciation and amortization	37,993
Provision for uncollectible accounts	38,250
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Increase in patient accounts receivable	(27,471)
Increase in other assets	(8,880)
Increase in deferred outflows of resources	(65,902)
Decrease in general and professional liabilities	(2,911)
Increase in accounts payable and other liabilities	25,904
Increase in net pension liability and other long-term liabilities	37,442
Increase in deferred inflows of resources	6,568
Net cash flows provided by operating activities	$ 36,473

Noncash Investing, Capital and Financing Activities:

The System held investments at December 31, 2015, with a fair value of $399,099. During 2015, the net change in the fair value of these investments was an increase of $16,154.

The System held interest rate swap obligations at December 31, 2015, with a fair value of $12,959. During 2015, the net change in the fair value of these swap obligations was a decrease of $9.

Included in accounts payable at December 31, 2015 is $22,473, of invoices related to unpaid capital acquisitions.

See Notes to Financial Statements.

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; MetroHealth Centers for Skilled Nursing Care, consisting of the Elisabeth Severance Prentiss Center for Skilled Nursing Care; and several urban and suburban primary care health sites.

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 established a new form of government by charter (the Charter). Under the Charter, future members of the Board are appointed by the County Executive together with the senior judges of the Probate and Common Pleas Courts of the County, subject to confirmation by the County Council. In order to support the general operations of the System, the County approved funding of $40,000 for 2015. The County has also approved funding of approximately $32,400 for 2016. The System is exempt from federal income taxes as a governmental entity.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended, the System's financial statements are included, as a discretely presented component unit, in the County's Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Cuyahoga County Fiscal Officer, 2079 East 9th Street, Cleveland, Ohio 44115.

Furthermore, in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The MetroHealth Foundation, Inc. (Foundation) is included as a discretely presented 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, MetroHealth Holdings LLC and MHS Purchasing LLC are presented as blended component units whose financial activity is included within the activities of the System. The System is the sole member of MetroHealth Holdings LLC and MHS Purchasing LLC. Although these entities are legally separate from the System, they are reported as if they were part of the System because their sole purpose is to acquire and own investment interests for 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 Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows, for the System as a whole
- Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the System's operations are included in the Statement of Net Position. 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 all assets and deferred outflows of resources and all liabilities and deferred inflows of resources 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 position: 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. Non-operating revenues include County fundings, investment income and special purpose grants and donations, primarily research. Non-operating expenses include interest expense and expenses from special purpose funds for research related activities.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors, 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 a provision for uncollectible accounts of $38,250 in 2015.

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, behavioral medicine, rehabilitation, skilled nursing and outpatient services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively-determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The System also receives reimbursement for direct and indirect medical education costs, disproportionate share and unreimbursed Medicare bad debts.

Note 1. Summary of Significant Accounting Policies (Continued)

The System is reimbursed 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 Position in the year of settlement. The System recorded favorable adjustments to net patient revenue of $1,900 in 2015, due to prior year retroactive adjustments of amounts previously estimated and changes in estimates.

Net revenue from the Medicare and Medicaid programs accounted for approximately 29% and 36%, respectively, of the System's net patient service revenue for the year ended December 31, 2015. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

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

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (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. At December 31, 2015, $14,371 was due to the System and recorded in the Statement of Net Position in other receivables. The amount recorded in net patient service revenue for UPL by the System was $38,100 in 2015. 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 health care programs, including the UPL program. The System incurred franchise fee expense of $11,664 in 2015, recorded in other expenses in the Statement of Revenues, Expenses, and Changes in Net Position. The System's franchise fee liability payable to the State of Ohio at December 31, 2015 was $6,125 and is recorded in the Statement of Net Position 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 $22,849 for 2015. These amounts are included in net patient service revenue and include Hospital Care Assurance (HCAP) revenue of $11,614, which was reduced by HCAP assessments accrued by the System of $4,137 in 2015. At December 31, 2015, the System had an HCAP receivable of $11,614 and an HCAP payable of $4,137. The receivable and payable are included in other receivables and other current liabilities, respectively, in the Statement of Net Position.

Note 1. Summary of Significant Accounting Policies (Continued)

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 $112,548, which represent 4.1% of gross charges in 2015, are not reported as revenue. The System accepts certain indigent Ohio residents and all residents from the County regardless of their ability to pay.

Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid Incentive Programs beginning in Federal fiscal year 2011 for eligible hospitals and professionals that are meaningful users of certified EHR technology, as defined by the Federal Register. The System has implemented certified EHR technology that has enabled it to demonstrate its meaningful use and to qualify for the incentive programs. Incentive payments received for the hospital Medicare and Medicaid EHR incentive programs are estimates based upon data from prior year's cost reports. Final settlements are determined after the submission of the current annual cost reports and subsequent audits by the fiscal intermediary. Incentive payments received for the professional programs are set by CMS. The hospital EHR incentive programs continued through 2015, while the professional incentive programs continue through 2021. Beginning in 2015, hospitals and professionals that are not meaningful users or certified users of EHR technology are subject to reduced Medicare and Medicaid payments. The System accounts for EHR Incentive funds using the grant accounting model. Under this model, the System records EHR incentive revenue when it is reasonably assured that it will meet the meaningful use criteria for the required reporting period and that the grant will be received.

During the year ended December 31, 2015, the System recorded Medicare and Medicaid EHR revenue of $4,465, included in other revenue in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. At December 31, 2015, related receivables of $3,456 were recorded in other receivables, and related payables of $626 were recorded in estimated amounts due to third-party payors, in the accompanying Statement of Net Position.

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 cash in its commercial checking accounts to be cash and cash equivalents.

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

Investments: The System generally 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*. Changes in unrealized gains and losses on investments are included in net investment income in the Statement of Revenues, Expenses, and Changes in Net Position.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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 $5 per unit and expenditures for renovations must exceed $25 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 Statement of Revenues, Expenses, and Changes in Net Position.

Note 1. Summary of Significant Accounting Policies (Continued)

Pensions: For purposes of measuring the net pension liability or asset, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS) Traditional and Combined Plans and additions to/deductions from OPERS fiduciary net position have been determined on the same basis as they were reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) were recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Net investment in capital assets – consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, other debt and deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets.

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

Unrestricted – consists of the remaining net position that does not meet the previously listed criteria.

The System's beginning net position has been restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (see Note 10).

Bond discounts: Amortization expense related to bond discounts was $19 in 2015. This amount is included in interest expense using the straight-line method in the Statement of Revenues, Expenses, and Changes in Net Position. 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.

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 $860 was recorded in construction in progress as opposed to interest expense for 2015. 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 Statement of Net Position. These derivative instruments are not effective hedging instruments; therefore, gains and losses are recognized in the Statement of Revenues, Expenses, and Changes in Net Position during the period of change as adjustments to investment income on the related debt (see Note 7).

Note 1. Summary of Significant Accounting Policies (Continued)

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 a provision for uncollectible accounts based on the expected collectability of patient accounts receivable.

Note 2. Changes in Accounting Principles and Recent Accounting Pronouncements

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The System implemented the provisions of this Statement for the year ended December 31, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement were applied simultaneously with the provisions of Statement No. 68 for the year ended December 31, 2015.

The implementation of Statement Nos. 68 and 71 had a material impact on the financial statements, note disclosures and required supplementary information of the System (see Note 10).

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

GASB Statement No. 72, *Fair Value Measurement and Application* – This Statement addresses accounting and financial reporting issues related to fair value measurements, including, but not limited to, proving guidance for determining fair value measurements for financial reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for periods beginning after June 15, 2015. The System has not yet determined the impact this Statement will have on the financial statements.

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

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68* – The objective of this Statement is to establish requirements for defined benefit pension plans that are not administered through a trust meeting specified criteria. Additionally, this Statement amends certain provisions of GASB Statement Nos. 67 and 68. This Statement is effective for periods beginning after June 30, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for periods beginning after June 30, 2016. The System believes this Statement will not have a material impact on the financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* – The objective of this Statement is to improve the usefulness of information about postemployments benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for periods beginning after June 15, 2016. The System believes this Statement will not have an impact on the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for periods beginning after June 15, 2017. The System has not yet determined the impact this Statement will have on the financial statements, however, expects the impact to be material.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* – This Statement supersedes GASB Statement No. 55 and reduces the existing hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP. This Statement is effective for periods beginning after June 15, 2015. The System believes this Statement will not have an impact on the financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures* – This Statement requires disclosure of tax abatement information about the reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. For financial reporting purposes, tax abatement is defined as resulting from an agreement between a government and an individual or entity in which the government promised to forgo tax revenues and the individual or entity subsequently takes specific action to contribute to the economic development or other benefits of the government. This Statement is effective for reporting periods beginning after December 15, 2015. The System believes this Statement will not have an impact on the financial statements.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* – This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that is not a state or local governmental pension plan; is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement is effective for reporting periods beginning after December 15, 2015. The System believes this Statement will not have an impact on the financial statements.

(Dollars in Thousands)

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

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets certain criteria. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The System believes this Statement will not have an impact on the financial statements.

GASB Statement No. 80 - *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14* – This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for reporting periods beginning after June 15, 2016. The System has not yet determined the impact this Statement will have on the financial statements.

Note 3. Deposits and Investments

Deposits

All monies are deposited with 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. FDIC insurance through December 31, 2015 for funds held in interest bearing accounts is $250 per depositor per category of legal ownership. Ohio Revised Code requires that deposits in excess of FDIC insured amounts are collateralized. The System's investment policy does not address custodial credit risk, but it believes that the System's depository bank carries sufficient collateral to cover the total amount of public funds on deposit with the bank (after FDIC coverage) and is in compliance with the requirements specified in Sections 135.18 and 135.181 of the Ohio Revised Code. The System's bank deposits at December 31, 2015 totaled $55,985 and were subject to the following categories of custodial credit risk:

Collateralized with securities held by the pledging institution's trust department, but not in the System's name	$ 55,485
Amount insured	500
Total bank balances	$ 55,985

Note 3. Deposits and Investments (Continued)

Investments

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

- Securities and obligations of the U.S. 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 10% 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 $500,000, and total combined investments in commercial paper and bankers acceptances does not exceed 25% of the System's average aggregate investment portfolio.
- 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, the single obligation will not exceed 5% of the System's total average portfolio, and the total combined investments in bankers acceptances and commercial paper does not exceed 25% of the System's average aggregate investment portfolio.
- Notes issued by corporations incorporated in the United States and operating in the United States, 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 U.S. 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 counterparties. The Swaps have notional amounts, maturity schedules, and other features that match the System's two series of underlying variable rate bonds. The Swaps obligate the System to make fixed rate payments to the counterparties, and obligate the counter-parties to make variable-rate payments to the System. The Swaps are accounted for as "investments" in the System's financial statements pursuant to GASB Statement No. 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.

(Dollars in Thousands)

Note 3. Deposits and Investments (Continued)

As of December 31, 2015, the fair values of the System's investments and their ratings by Standard and Poor's were as follows:

		Investment Maturities	
		Less than 1 year	1-5 years
U.S. Treasury Notes			
AA+	$ 28,427	$ 15,017	$ 13,410
Government National Mortgage Association			
AA+	12	-	12
Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Banks and Federal Farm Credit Banks			
AA+	269,021	75,857	193,164
Commercial Paper			
A-1	26,190	26,190	-
Money Market			
AAA	23,452	23,452	-
Total investments	$ 347,102	$ 140,516	$ 206,586

Deposits totaling $51,997 are included in investments in the Statement of Net Position at December 31, 2015.

The System's carrying amounts of the deposits and investments at December 31, 2015 are as follows:

Deposits	$ 56,083
Investments	347,102
Total deposits and investments	$ 403,185

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 policy limits investment portfolios to maturities of five years or less. All of the System's investments at December 31, 2015 have effective maturity dates of less than five years.

Credit Risk: The System's investment policy limits the System to commercial paper investments with ratings only in the highest category. For year ended December 31, 2015, all of the System's commercial paper investments have ratings in the highest category.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy does not address custodial credit risk. The System is not exposed to custodial credit risk as it relates to its investment portfolio.

(Dollars in Thousands)

Note 3. Deposits and Investments (Continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investments in any single issuer. This does not apply to obligations and agencies of the United States Treasury which are deemed to be "risk-free". The System's investment policy requires that the portfolio be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the total average portfolio permitted in each eligible security is as follows:

U.S. Treasury	100% maximum
Federal Agency (Fixed Rate)	100% maximum
Federal Agency (Callable)	35% maximum
Repurchase Agreements	50% maximum
Commercial Paper and Bankers' Acceptances combined	25% maximum
Certificates of Deposit	20% maximum
Bank Deposits (excluding CDs)	25% maximum
Municipal Obligations	10% maximum
STAR Ohio	25% maximum
Mutual Funds	25% maximum
Treasury Inflation Protected	
Securities (TIPS)	100% maximum
Corporate Bonds	15% maximum

The System's investment policy requires further diversification to limit the exposure to any one issuer. No more than 5% of the System's total average portfolio shall be invested in securities of any single issuer, with the following exceptions:

U.S. Government Obligations	100%
Repurchase Agreements	
Counterparties	25% or $150 million
	whichever is less
Mutual Funds	25% maximum

The System holds 40% of its portfolio in Federal National Mortgage Association (Fannie Mae) issues, 20% in Federal Home Loan Mortgage Corporation (Freddie Mac) issues, and 7% in United States Treasury.

(Dollars in Thousands)

Note 3. Deposits and Investments (Continued)

The Foundation: As of December 31, 2015, the fair values of the Foundation's investments were as follows:

Exchange traded funds	$	2,983
Money market funds		2,473
Pooled investment fund		2,298
Mutual funds		31,491
Common stock		25
Limited partnerships interests		2,683
Total investments	$	41,953

The Foundation's net investment income for the year ended December 31, 2015 consisted of the following:

Interest and dividends	$	1,182
Net realized and unrealized gains (losses)		(1,545)
Less: investment management fees		(90)
	$	(453)

The Foundation's investments had cumulative unrealized gains of $5,474 and cumulative unrealized losses of $775 at December 31, 2015.

(Dollars in Thousands)

Note 4. Capital Assets

The following summarizes changes in the capital assets of the System for the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated				
Land	$ 10,563	$ 4,719	$ -	$ 15,282
Construction in progress	22,853	69,462	(36,406)	55,909
Total non-depreciated capital assets	33,416	74,181	(36,406)	71,191
Depreciable capital assets				
Land improvements	12,898	355	-	13,253
Buildings and fixed equipment	573,624	13,760	(635)	586,749
Equipment	366,177	19,031	(806)	384,402
Total depreciable capital assets	952,699	33,146	(1,441)	984,404
Less accumulated depreciation				
Land improvements	(8,783)	(567)		(9,350)
Buildings and fixed equipment	(407,928)	(16,213)	176	(423,965)
Equipment	(280,555)	(21,213)	806	(300,962)
Total accumulated depreciation	(697,266)	(37,993)	982	(734,277)
Total depreciable capital assets, net	255,433	(4,847)	(459)	250,127
Total capital assets, net	$ 288,849	$ 69,334	$ (36,865)	$ 321,318

Total depreciation and amortization expense related to capital assets for 2015 was $37,993.

Note 5. Revolving Line of Credit

During October 2015, the System put a revolving line of credit in place with one of its corporate banks. There is $50,000 available under the credit facility, which is unsecured and can be used for any working capital or liquidity management purposes. The term of the facility is October 1, 2016. As of December 31, 2015, the credit facility was undrawn and had not been drawn upon previously.

(Dollars in Thousands)

Note 6. Long-Term Debt

Information regarding the System's long-term debt activity and balances as of and for the year ended December 31, 2015 is as follows:

	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.	$ 17,600	$ -	$ -	$ 17,600	$ -
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates, refunded in December 2015.	71,280	-	(71,280)	-	-
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.	43,315	-	(8,125)	35,190	8,390
Hospital Refunding Revenue Bonds, Series 2012, bear variable interest rates and mature in varying amounts through 2033.	23,110	-	(845)	22,265	875
Hospital Improvement and Refunding Revenue Bonds, Series 2015, bear variable interest rates and mature in varying amounts through 2035.	-	70,835	-	70,835	460
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2019.	264	-	(60)	204	61
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.1% and matures through 2019.	1,403	-	(295)	1,108	304
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 2.9% and matures through 2019.	1,142	-	(231)	911	239

(Dollars in Thousands)

Note 6. Long-Term Debt (Continued)

	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2020.	$ 1,320	$ -	$ (229)	$ 1,091	$ 235
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2020.	1,132	-	(191)	941	198
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.4% and matures through 2021.	1,476	-	(206)	1,270	196
Note obligation, August Health Services, Inc., as defined in the respective note agreement, bears interest at 4.0% and matures through 2017.	-	600	-	600	300
Note obligation, State Road Family Practice, Inc., as defined in the respective note agreement, bears interest at 4.0% and matures through 2017.	-	293	-	293	146
Loan obligation, Key Government Finance, Inc., as defined in the respective loan agreement, bears interest at 0% and matures through 2019.	-	3,550	(710)	2,840	710
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, bears interest at 4.5% and matures through 2018.	24	-	(6)	18	6
	237,066	75,278	(82,178)	230,166	12,120
Unamortized discount	(217)	-	19	(198)	-
Long-term debt	$ 236,849	$ 75,278	$ (82,159)	$ 229,968	$ 12,120

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.

Note 6. Long-Term Debt (Continued)

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 bore 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 were due at various dates until 2035. On December 1, 2015, all remaining Series 2005 Bonds were refunded using proceeds from the County's Series 2015 Hospital Improvement and Refunding Revenue Bonds issuance. The Bond refundings totaled $70,835.

Effective January 28, 2010, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $75,000 of Hospital Facilites Revenue Bonds, Taxable Series 2009B, (The MetroHealth System), (Build America Bonds – Direct Payment). Proceeds from the Series 2009B have been and 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 on 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 ($2,236 at December 31, 2015), reported in the accompanying financial statements as a deferred outflow of resources, is being amortized as an increase to interest expense through the year 2019.

Note 6. Long-Term Debt (Continued)

Effective December 20, 2012, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $24,710 of Hospital Refunding Revenue Bonds, Series 2012, (The MetroHealth System), (Series 2012 Bonds). Proceeds from the Series 2012 Bonds were used to refund the entire principal amount of the Series 2003 Bonds maturing on March 1, 2013 through March 1, 2033. The debt service payments required for the Series 2012 do not differ from the debt service payments that were required under the Series 2003 Bonds. The Bonds bear variable rate interest determined monthly by the Bank Rate as noted in the Continuing Covenants Agreement (the Tax Factor multiplied by the sum of One-Month LIBOR plus the Credit Spread). The interest rate at December 31, 2015 was 1.1%. The bonds mature at various dates through 2033; however, the agreement that governs the Series 2012 Bonds contains a mandatory put effective November 30, 2017. The System intends to refinance this debt prior to the mandatory put and therefore the related debt is expected to be paid based on the original 2012 payment schedule.

Effective December 1, 2015, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $70,835 of Hospital Improvement and Refunding Revenue Bonds, Series 2015, (The MetroHealth System), (Series 2015 Bonds). Proceeds from the Series 2015 Bonds were used to refund the remaining principal amount of the Series 2005 Bonds maturing on February 1, 2016 through February 1, 2035. The debt service payments required for the Series 2015 Bonds do not differ from the debt service payments that were required under the Series 2005 Bonds. The Bonds bear variable rate interest determined monthly by the Bank Rate as noted in the Continuing Covenants Agreement (the Tax Factor multiplied by One-Month LIBOR plus the Applicable Spread). The interest rate at December 31, 2015 was 0.78%. The Bonds mature at various dates through 2035; however, the agreement that governs the Series 2015 Bonds contains a mandatory put effective January 31, 2021. The System intends to refinance this debt prior to the mandatory put and therefore the related debt is expected to be paid based on the original 2015 payment schedule.

The December 1, 2015 bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,902. The unamortized difference ($2,883 at December 31, 2015), reported in the accompanying financial statements as a deferred outflow of resources, is being amortized as an increase to interest expense through the year 2029.

The Series 1997, 2009B, 2011, 2012 and 2015 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, 2009B, 2011, 2012 and 2015 Bonds are special obligations issued by the County payable solely from the revenue derived from the operation of the System and other monies available to the System's Board of Trustees. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

The terms of the master 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.

(Dollars in Thousands)

Note 6. Long-Term Debt (Continued)

The revenue bonds and lease obligation payment requirements for years subsequent to December 31, 2015, are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	$ 2,395	$ 187	$ 2,582	$ 9,725	$ 11,050	$ 20,775
2017	2,452	134	2,586	10,055	10,726	20,781
2018	2,045	75	2,120	10,380	10,399	20,779
2019	1,774	35	1,809	10,745	10,061	20,806
2020	464	11	475	7,275	9,716	16,991
2021–2025	146	2	148	41,520	44,093	85,613
2026–2030	-	-	-	42,965	35,694	78,659
2031–2035	-	-	-	38,820	26,320	65,140
2036–2040	-	-	-	49,405	10,585	59,990
	$ 9,276	$ 444	$ 9,720	220,890	$ 168,644	$ 389,534
Unamortized discount				(198)		
Total hospital revenue bonds, net				$ 220,692		

There are no amounts remaining to be paid to bond holders related to defeased debt at December 31, 2015.

Note 7. Derivative Instruments

The System's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management of the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, the System entered into various interest rate swap agreements with a total outstanding notional amount of $93,100 at December 31, 2015.

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 at December 31, 2015 was ($12,959) and are included within the liabilities section of the Statement of Net Position. The fair value increase of $9 in 2015 is included in net investment income in the Statement of Revenues, Expenses, and Changes in Net Position. As a result of the agreements, net settlements increased the System's interest expense by $2,113 in 2015.

(Dollars in Thousands)

Note 7. Derivative Instruments (Continued)

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

12/31/2015 Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 70,835	June 1, 2006	February 1, 2035	the System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 22,265	June 1, 2006	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 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. On December 1, 2015, the Series 2005 Bonds were advance refunded with proceeds from the issuance of the Series 2015 Bonds, which maintain an identical repayment schedule. 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 2015, ISDA five-year interest rates ranged between 1.3% and 1.9%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

On March 13, 2003, the System entered into a swap agreement 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. On December 20, 2012, the Series 2003 Bonds were advance refunded with proceeds from the issuance of the Series 2012 Bonds, which maintain an identical repayment schedule. 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 previously 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 increases.

Note 8. Other Long-Term Liabilities

Amounts due to third-party payors: The System has agreements with third-party payors that provide for payment of amounts different from established rates. Retroactive adjustments are 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, 2015, the total liability for amounts due to third-party payors was $36,379.

(Dollars in Thousands)

Note 8. Other Long-Term Liabilities (Continued)

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, 2015, the total liability for accrued vacation and sick leave was $53,552.

Other long-term liabilities: The following summarizes changes in other long-term liabilities for the year ended December 31, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due to third-party payors	$ 31,146	$ 9,540	$ (4,307)	$ 36,379	$ 18,564
Accrued vacation and sick leave	51,247	49,057	(46,752)	53,552	14,149
Derivative instruments - rate swaps	12,968	-	(9)	12,959	-
	$ 95,361	$ 58,597	$ (51,068)	$ 102,890	$ 32,713

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, worker's compensation and professional liability but maintains commercial insurance policies for property and casualty, automobile, aircraft (helicopter and fixed wing), as well as excess coverage for professional liability and employee health claims. For professional liability and worker's compensation, professional actuarial consultants have been retained to determine funding requirements. Amounts funded for professional liability have been placed in an irrevocable self-insurance trust account, which is being administered by a trustee. For the employee health claims, a historical analysis has been performed of incurred but not reported claims to determine the liability at December 31, 2015. Settled claims for worker's compensation and professional liability have not exceeded insurance coverage in any of the past three years.

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

(Dollars in Thousands)

Note 8. Other Long-Term Liabilities (Continued)

Losses from asserted claims and from unasserted claims identified under the System's incident reporting systems are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The liability for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and incurred but not reported claims for 2015 and 2014 as follows:

	2015				
	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 9,156	$ 1,089	$ (1,829)	$ 8,416	$ 1,860
Professional liability	47,665	6,677	(8,848)	45,494	13,689
Employee health	1,747	23,142	(23,605)	1,284	1,284
	$ 58,568	$ 30,908	$ (34,282)	$ 55,194	$ 16,833

	2014				
	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 9,403	$ 1,566	$ (1,813)	$ 9,156	$ 2,013
Professional liability	44,111	11,874	(8,320)	47,665	13,366
Employee health	2,488	21,902	(22,643)	1,747	1,747
	$ 56,002	$ 35,342	$ (32,776)	$ 58,568	$ 17,126

The liabilities recorded for worker's compensation and professional liability at December 31, 2015 are discounted liabilities. The discount rate used was 1.5 percent. The undiscounted liabilities are approximately $976 and $2,484 higher for worker's compensation and professional liability, respectively.

Note 9. Operating Leases

The System has entered into operating lease agreements for medical and office space, which expire through 2025. 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, 2015, are as follows:

2016	$ 6,390
2017	6,502
2018	6,435
2019	6,239
2020	5,720
2021-2025	19,317
2026-2030	16,247
Total	$ 66,850

Rent expense totaled $2,440 in 2015.

(Dollars in Thousands)

Note 10. Benefit Plans

For the year ended December 31, 2015, the System implemented the provisions of GASB's Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Among other changes, these Statements changed the manner in which governments account for their proportionate share of the net pension liability and deferred outflows of resources relating to contributions made by government employers. As a result of implementing these Statements, the System was required to restate net position to the earliest period presented. The effect of the restatement on net position is as follows:

Net position as previously reported, December 31, 2014	$	398,421
Adjustment for net pension liability and deferred outflows of resources		(293,613)
Net position as restated, December 31, 2014	$	104,808

The effect of the restatement of beginning net position includes the beginning deferred outflows of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability. Restatement for the beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions was not done because it was not practical to determine all such amounts. Additionally, the impact on the change in net position for fiscal year 2014 was not determined.

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 member invests both member and employer 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) employer 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 death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Participants in the Member-Directed Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefits to the OPERS Board of Trustees. 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.

Legislation: Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Please see the Plan Statement in the OPERS 2014 CAFR for additional details.

Note 10. Benefit Plans (Continued)

Benefits in the Traditional Pension Plan for members are calculated on the basis of age, final average salary (FAS), and service credit. Members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Refer to the age-and-service tables located in the OPERS 2014 CAFR Plan Statement for additional information regarding the requirements for reduced and unreduced benefits. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS for the first 35 years of service. A factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the members’ contributions plus or minus the investment gains or losses resulting from the members’ investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Note 10. Benefit Plans (Continued)

Other Benefits: Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment on the defined benefit portion of their benefit. A death benefit of $500-$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional Pension Plan and Combined Plan. Death benefits are not available to beneficiaries of Member-Directed Plan participants.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For the year ended December 31, 2015, the employee contribution rate was 10.0% of covered payroll and the System was required to contribute 14.0% of covered payroll for all covered benefits, including OPEB. For 2015, member and employer contribution rates were consistent across all three plans. The System's contributions to OPERS for the year end December 31, 2015 were $61,686, equal to the statutorily required contributions for each year, made up of $51,359 for the Traditional Pension Plan, $2,137 for the Combined Plan and $8,190 for the Member Directed Plan.

Pension Liabilities, Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pensions: At December 31, 2015 , the System reported a liability of $348,619 for its proportionate share of the net pension liability related to the Traditional Pension Plan and an asset of $1,454 for its proportionate share of the net pension asset related to the Combined Plan. The net pension liability and asset were measured as of December 31, 2014, and the total pension liability/asset used to calculate the net pension liability/asset was determined by an actuarial valuation as of that date. The System's proportion of the net pension liability/asset was based on the System's contributions to the pension plan relative to contributions of all participating employers contributed to the Plan during the measurement period (year ended December 31, 2014). At December 31, 2014, the System's proportion was 2.89 percent for the Traditional Pension Plan, which was an increase of .02 from its proportion measured as of December 31, 2013, and 3.78 percent for the Combined Plan, which was an increase of .17 from its proportion measured as of December 31, 2013.

(Dollars in Thousands)

Note 10. Benefit Plans (Continued)

For the year ended December 31, 2015, the System recognized pension expense for the Traditional Pension Plan, the Combined Plan, and the Member-Directed Plan of $38,734, $952, and $6,061, respectively. At December 31, 2015, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 6,125
Net difference between projected and actual earnings on pension plan investments	18,601	-
Changes in proportionate share of contributions	1,762	-
System contributions subsequent to the measurement date	44,634	
Total Traditional Pension Plan	64,997	6,125
Differences between expected and actual experience	-	444
Net difference between projected and actual earnings on pension plan investments	89	-
Changes in proportionate share of contributions	-	16
System contributions subsequent to the measurement date	1,738	-
Total Combined Plan	1,827	460
Total	$ 66,824	$ 6,585

The Traditional Pension Plan and the Combined Plan reported $44,634 and $1,738, respectively, as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Traditional Pension Plan	Combined Plan
Year ending December 31:		
2016	$ 2,637	$ (32)
2017	2,637	(32)
2018	4,313	(32)
2019	4,651	(32)
2020	-	(55)
Thereafter	-	(188)

(Dollars in Thousands)

Note 10. Benefit Plans (Continued)

Actuarial Assumptions – OPERS Traditional Pension Plan and Combined Plan

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability (Traditional Plan) and pension asset (Combined Plan) were determined by actuarial valuations as of December 31, 2014, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 68. Key methods and assumptions used in the latest actuarial valuations are presented below and pertain to both the Traditional Pension Plan and the Combined Plan.

Actuarial Information	Traditional Pension Plan	Combined Plan
Valuation Date	December 31, 2014	December 31, 2014
Experience Study	5 Year Period Ended December 31, 2010	5 Year Period Ended December 31, 2010
Actuarial Cost Method	Individual entry age	Individual entry age
Actuarial Assumptions		
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.75%
Projection Salary Increases	4.25%-10.05% (includes wage inflation at 3.75%)	4.25%-10.05% (includes wage inflation at 3.75%)
Cost-of-living Adjustments	3.00% Simple	3.00% Simple

Mortality rates are based on the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based upon the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

The discount rate used to measure the total pension liability was 8.0% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

(Dollars in Thousands)

Note 10. Benefit Plans (Continued)

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return for both the Traditional Pension Plan and the Combined Plan.

Asset Class	Target Allocation for 2014	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	18.00	4.59
Total	100.00 %	5.28 %

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investment portfolios for the Defined Benefit portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio.

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report. Additional information supporting the preparation of the Schedules of Collective Pension Amounts and Employer Allocations (including the disclosures of the net pension liability/(asset) required supplementary information on the net position liability/(asset), and the unmodified audit opinion on the combined financial statements) is located at OPERS 2014 CAFR. This CAFR is available at www.opers.org or by contacting OPERS at: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800) 222-7377.

(Dollars in Thousands)

Note 10. Benefit Plans (Continued)

The following table presents the net pension liability (asset) calculated using the discount rate of 8.0%, and the expected net pension liability (asset) if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

Sensitivity of Net Pension Liability/(Asset) to Changes in the Discount Rate			
Net Pension Liability/(Asset)	**1% Decrease 7.0%**	**Current Discount Rate 8.0%**	**1% Increase 9.0%**
Traditional Pension Plan	$641,359	$348,619	$102,061
Combined Plan	$189	($1,454)	($2,756)

The Member-Directed Plan is a defined contribution plan in which at retirement, members have the option to convert their defined contribution account to a defined benefit annuity. The purchased defined benefit annuities under this plan were immaterial to the System and immaterial from a GASB 68 perspective to the System's financial statements as of December 31, 2015.

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. OPERS' eligibility requirements for post-employment healthcare coverage changed for those retiring on and after January 1, 2015. Details of the changes are available in the Plan Statement in the OPERS 2013 CAFR.

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

OPERS issues a stand-alone financial report. A copy may be obtained by visiting https://www.opers.org/investments/cafr.shtml, by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 earnable salary of active members. In 2015, the employer contribution was 14.0% of earnable salary. The Ohio Revised Code limits the employer contribution to a rate not to exceed 14.0% of earnable salary. Active members do not make contributions to the OPEB plan.

(Dollars in Thousands)

Note 10. Benefit Plans (Continued)

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to healthcare for members in the Traditional Plan and Combined Plan was 2.0% during calendar year 2015. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0% for both plans, as recommended by OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the healthcare provided. Payment amounts vary depending on the coverage selected and the number of covered dependents. The System's contributions for 2015, 2014, and 2013 used to fund post retirement healthcare benefits were $8,813, $8,430, and $3,921, respectively, which are included in the System's contractually required contribution of $61,686, $59,012, and $54,891, for the years ended December 31, 2015, 2014, and 2013, respectively.

Changes to the healthcare plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the healthcare fund after the end of the transition period.

Note 11. Restricted, Expendable and Nonexpendable Net Position

The System has a restricted expendable net position that is restricted by the master trust bond indenture and donors to specific purposes. The net position is restricted for the following purposes at December 31, 2015:

Restricted, debt service payments	$ 20,214
Restricted, capital asset use	2,250
Total	$ 22,464

The Foundation has a restricted expendable net position that is restricted by the donors or grantors to a specific time or purpose. The net position is restricted for the following purposes at December 31, 2015:

Programmatic activities of The MetroHealth System	$ 27,059
Time restrictions	712
Total	$ 27,771

The Foundation has restricted, nonexpendable net positions in the amounts of $12,733 at December 31, 2015, that are restricted in perpetuity, the income from which is expendable to support the programmatic activities of The MetroHealth System.

Note 12. Related Organizations

The System is the primary beneficiary of The MetroHealth Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the System has reported the Foundation as a discretely presented component unit in the System's 2015 financial statements. The System received support from the Foundation totaling $3,911 in 2015, which is recorded in other revenue and grants for capital acquisitions on the System's Statement of Revenues, Expenses, and Changes in Net Position. The outstanding receivable from the Foundation was $851 at December 31, 2015, which is included in other receivables on the System's Statement of Net Position. The System provided the Foundation in-kind support totaling $1,823 in 2015. 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. Amounts transferred in 2015 were $18.

Note 13. Investment in Blended Component Unit

MetroHealth Holdings LLC (LLC) was formed to acquire and own interests in certain health care businesses. During 2011, the System's 40% equity interest in CCF/MHS Renal Care Company, LTD., a joint venture with The Cleveland Clinic Foundation, which provides renal care (dialysis), was transferred to the LLC. As of June 2015, the System is sole member of the LLC. Prior to this, the Foundation owned 1% of the LLC. Because the LLC is considered to be a blended component unit of the System, its financial activity is reflected within the financial activity of the System on these financial statements. At December 31, 2015, the LLC had a balance of $8,087 that is included in other assets in the System's Statement of Net Position, which essentially represents the LLC's interest in CCF/MHS Renal Care Company LTD. In 2015, the LLC recorded other income of $2,184 that is included in the System's Statement of Revenues, Expenses, and Changes in Net Position. The LLC holds no other assets, liabilities, equity, revenue or expenses as of and for the years ended December 31, 2015. The LLC received distributions in 2015 of $1,960.

MHS Purchasing LLC (MHS) was formed during 2012 to own an interest in Premier Purchasing Partners, L.P. (Premier). Premier is a group purchasing organization that provides the group greater bargaining power for cost of materials. Because MHS is considered to be a blended component unit of the System, its financial activity is reflected within the financial activity of the System on these financial statements. Prior to 2012, this ownership interest was held by the Foundation. At December 31, 2015, MHS had a balance of $2,761 that is included in other assets in the System's Statement of Net Position, which essentially represents MHS's interest in Premier. MHS held no other assets, liabilities, equity, revenue or expenses as of and for the year ended December 31, 2015.

Effective October 1, 2013, Premier reorganized to convert to a public company. From this reorganization, MHS received proceeds of $1,221 and Class B units that vest over a seven-year period. As a result of this conversion, MHS recognized a gain of $1,221, a loss on original investment of ($643) and a reduction in medical supplies expense of $306 related to vesting in the Class B units. In 2015, MHS recorded a reduction to medical supplies expense of $1,197 related to vesting of the Class B units, which is included in the System's Statement of Revenues, Expenses, and Changes in Net Position.

Note 14. Conditional Promises to Give

The Foundation: In May 2014, the Foundation received a conditional pledge in the form of a challenge grant totaling $1,000,000. During 2014, the Foundation received $250,000. Of this amount, $204,070 was reflected as a refundable advance because the conditions associated with this portion of the balance had not been met. During 2015, the Foundation met the conditions associated with the entire grant and recorded the remaining balance of $954,070 as gift and grant income. At December 31, 2015, $500,000 is included in the pledge receivable balance.

Note 15. Commitments and Contingencies

CMS Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC program 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) has rolled out this program nationally.

Purchase Commitments: As of December 31, 2015, the System had contractual commitments for various projects totaling approximately $93,319. Projects with large contractual commitments include $51,986 for the expansion of the Critical Care Pavilion, $26,403 for construction and equipment costs for the new Brecksville Health Center, $2,237 for campus transformation startup costs, $968 for the emergency department expansion at Parma and Cleveland Heights, $877 for system-wide roof repairs, $780 for the reconfiguration of the main campus emergency department space, and $737 for the implementation of the Infor Enterprise software. These projects are being funded with operating funds and bond project funds.

Regulatory Environment Including Fraud and Abuse Matters: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental 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.

Required Supplementary Information

Schedules of Required Supplementary Information

Schedule of System's Contributions
Ohio Public Employees Retirement System (OPERS) Traditional Pension Plan
Last 10 Fiscal Years*
(Dollars in Thousands)

	2015	2014	2013	2012	2011
Contractually required contributions	$ 51,359	$ 49,612	$ 46,543	$ 44,374	$ 44,916
Contributions in relation to the contractually required contributions	(51,359)	(49,612)	(46,543)	(44,374)	(44,916)
Contribution deficiency (excess)	-	-	-	-	-
System's covered-employee payroll	$ 366,850	$ 350,890	$ 332,450	$ 316,957	$320,829
Contributions as a percentage of covered-employee payroll	14%	14%	14%	14%	14%

* The amounts presented for each fiscal year includes contributions to the postemployment health care plan. The System has presented as many years as is available

Schedule of System's Contributions
Ohio Public Employees Retirement System (OPERS) Combined Plan
Last 10 Fiscal Years*
(Dollars in Thousands)

	2015	2014	2013	2012	2011
Contractually required contributions	$ 2,137	$ 1,849	$ 1,655	$ 1,459	$ 1,378
Contributions in relation to the contractually required contributions	(2,137)	(1,849)	(1,655)	(1,459)	(1,378)
Contribution deficiency (excess)	-	-	-	-	-
System's covered-employee payroll	$ 15,264	$ 13,066	$ 11,821	$ 10,421	$ 9,843
Contributions as a percentage of covered-employee payroll	14%	14%	14%	14%	14%

* The amounts presented for each fiscal year includes contributions to the postemployment health care plan. The System has presented as many years as is available

Schedules of Required Supplementary Information

Schedule of the System's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System (OPERS) Traditional Pension Plan
Last 10 Measurement Dates*
(Dollars in Thousands)

	2014	2013
System's proportion of the net pension liability	2.89%	2.87%
System's proportionate share of the net pension liability	$ 348,619	$ 295,647
System's covered-employee payroll	$ 350,890	$ 332,450
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	99.35%	88.93%
Plan fiduciary net position as a percentage of total pension liability	86.45%	not available

* The System has presented as many years as information is available and includes activity associated with the postemployment healthcare plan

Schedule of the System's Proportionate Share of the Net Pension Asset
Ohio Public Employees Retirement System (OPERS) Combined Plan
Last 10 Measurement Dates*
(Dollars in Thousands)

	2014	2013
System's proportion of the net pension asset	3.78%	3.36%
System's proportionate share of the net pension asset	$ 1,454	$ 2,034
System's covered-employee payroll	$ 13,066	$ 11,821
System's proportionate share of the net pension asset as a percentage of its covered-employee payroll	11.13%	17.21%
Plan fiduciary net position as a percentage of total pension asset	114.83%	not available

* The System has presented as many years as information is available and includes activity associated with the postemployment healthcare plan

The MetroHealth System
(A Component Unit of Cuyahoga County)

Uniform Guidance Requirements

The MetroHealth System
(A Component Unit of Cuyahoga County)

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

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 Supplemental Nutrition Program for Women, Infants and Children	10.557	1830011WA0815; 1830011WA0916	$	4,456,914
	TOTAL --- U.S. Department of Agriculture			**$**	**4,456,914**
U.S. Department of Justice:					
Direct Program:	Second Chance Act Reentry Initiative	16.812	2015-RW-BX-0003	$	4,384
	TOTAL --- U.S. Department of Justice			**$**	**4,384**
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	1830011HB0815; 1830011HB0916	$	29,008
	TOTAL --- U.S. Department of Education			**$**	**29,008**
U.S. Department of Health & Human Services:					
Direct Programs:	Special Projects of National Significance - HIV: Implementation of a Collaborative Care Model	93.928	H97HA27429-01-00; H97HA27429-02-01	$	218,804
	Special Projects of National Significance - HRSA Social Media	93.928	H97HA28892-01-00	$	107,186
	Subtotal - U.S. Department of Health & Human Services - Direct			**$**	**325,990**
Pass-Through Program from:					
Western Reserve Area Agency on Aging	Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers - Access Your Benefits Program	93.044	n/a	$	65,205
Cuyahoga County	Project Grants and Cooperative Agreements for Tuberculosis Control Programs - Tuberculosis Prevention & Control	93.116	01810022TB0515; 01810022TB0616		124,444
Ohio Department of Health	Centers for Disease Control & Prevention_Investigations & Technical Assistance - Heart Disease & Stroke Prevention	93.283	01830014HD0815; 01830014HD0916		101,423
Ohio Department of Health	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities - Ebola Treatment Center	93.817	1 U3REP150529		359,210
Center for Health Affairs	National Bioterrorism Hospital Preparedness Program - HRSA Emergency Preparedness/ASPR Grant	93.889	01860052RP0714; 01860052RP0815; 01860052RP0916		36,661
Cuyahoga County Board of Health	HIV Emergency Relief Project Grants - Ryan White Part A/Title I	93.914	352239/H89HA23812		1,808,663
Ohio Department of Health	HIV Care Formula Grants - Ryan White Part B	93.917	01830012RW0414; 01830012RW0515		74,321
	HIV Care Formula Grants - Ryan White Emergency Assistance Funding - Title II	93.917	n/a		5,706
Cleveland Department of Public Health	HIV Prevention Activities_Health Department Based - Linkage to Care	93.940	CT5005SG 2014-033; CT5005SG 2015-004		130,567
Cuyahoga County Board of Health	Maternal and Child Health Services Block Grant to the States - CFHS Cleveland Regional Perinatal Network; Child & Family Health Services	93.994	01810011MC0815		12,064
	Subtotal - U.S. Department of Health & Human Services - Pass-through			**$**	**2,718,264**
	TOTAL --- U.S. Department of Health & Human Services			**$**	**3,044,254**
Research and Development Cluster					
U.S. Department of Health & Human Services:					
Direct Programs:	Child Health & Human Development Extramural Research - Maternal Obesity Depresses Essential Fatty Acid Transport	93.865	4R00HD062841/ 5R00HD062841-04	$	264,822
	Subtotal - U.S. Department of Health & Human Services - Direct			**$**	**264,822**
	Subtotal - Research & Development Cluster - Direct			**$**	**264,822**

(Continued)

The MetroHealth System
(A Component Unit of Cuyahoga County)

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2015

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
U.S. Department of Defense:					
Pass-Through Program from:					
American Burn Association/U.S. Army Medical Research	Military Medical Research & Development - Development of an Inhalation Injury Scoring System	12.420	W81XWH-09-2-0194	$	23
Johns Hopkins University / U.S. Army Medical Research	Basic Scientific Research - The Major Extremity Trauma Research Consortium ****** RECOVERY ******	12.431	W81XWH1020090		12,045
Johns Hopkins University, Bloomberg School of Public Health	Basic Scientific Research - Streamlining Trauma Research Evaluation ****** RECOVERY ******	12.431	ROI AR 064066		3,419
	Subtotal - U.S. Department of Defense - Pass Through			**$**	**15,487**
U.S. Department of Health & Human Services:					
Pass-Through Program from:					
Frontier Science	Cancer Treatment Research - Eastern Cooperative Oncology Group	93.395	CA21115		3,224
Frontier Science	Cancer Control - Eastern Cooperative Oncology Group	93.399	CA37403		3,224
Emmes Corporation / NIH-NINDS	Trans-NIH Recovery Act Research Support - Platelet-Oriented Inhibition in New TIA (POINT) ***** RECOVERY*****	93.701	NS062835		4,906
Duke Clinical Research / NIH-NHLBI	Cardiovascular Diseases Research - Functional Impact of GLP-1 for Heart (FIGHT)	93.837	193603; HL084904		23,052
Duke Clinical Research / NIH-NHLBI	Cardiovascular Diseases Research - Oral Iron Repletion Effect on Oxygen Uptake in Heart Failure	93.837	200464; HL084904		9,738
Duke Clinical Research / NIH-NHLBI	Cardiovascular Diseases Research - Aldosterone Targeted Neurohormanal combined with Natriuresis Therapy	93.837	200464; HL084904		14,997
Vanderbilt University / NIH-NHLBI	Cardiovascular Diseases Research - Flecanide for Catecholaminergic Polymorphic Ventricular Tachycardia	93.837	VUMC39032; HL108173		130
University of Rochester / NIH-NHLBI	Cardiovascular Diseases Research - Ranolazine ICD Trial (RAID)	93.837	415639-G; U01HL966107		54,256
University of Michigan / NIH-NIAMS	Arthritis, Musculoskeletal and Skin Diseases Research - Surgical Treatment of Elderly Radius Fractures	93.846	3002598257, R01AR062066		3,016
University of Minnesota / NIH-NIAMS	Arthritis, Musculoskeletal and Skin Diseases Research - Faith Hip Fracture	93.846	N00188516; AR055267		250
University of Michigan / NIH-NIDDK	Diabetes, Digestive, and Kidney Diseases Extramural Research - Gastroparesis Clinical Research Consortium (GLUMIT)	93.847	3002688231; 5U01DK073985		14
Yale / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Insulin Resistance Intervention After Stroke Trial	93.853	A06113; NS044876-02		3,913
Cleveland Medical Devices / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Self Abrading Rapidly Applied Electrode	93.853	2R44NS53116-02		12,397
Social & Scientific Systems / NIH-NHLBI	Allergy and Infectious Disease Research - AIDS Clinical Trials Group Network	93.855	BRS-ACURE-S-11-000863-00864; UM01 AI068636-01		2,484
Louis Stokes Department of Veterans Affairs Medical Center	Trunk Study	Unknown	VA250--P-0692		2,281
	Subtotal - U.S. Department of Health & Human Services - Pass-through			**$**	**137,882**
	Subtotal - Research & Development Cluster - Pass Through			**$**	**153,369**
	TOTAL - Research & Development Cluster			**$**	**418,191**
	TOTAL EXPENDITURES OF FEDERAL AWARDS			**$**	**7,952,751**

See Notes 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) under programs of the federal government for the year ended December 31, 2015. The information on this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net position, or cash flows of the System.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The System has elected not to exercise its option to use the 10-percent de minimis indirect cost rate due to the fact that the System has an existing approved indirect cost rate.

RSM

RSM US LLP

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, 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, 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, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated March 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-002.

The Metrohealth System's Response to Findings
The System's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Cleveland, Ohio
March 22, 2016

Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited The MetroHealth System's (the System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2015. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, The MetroHealth System complied, in all material respects, with the types of 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, 2015.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each of its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Cleveland, Ohio
March 22, 2016

The MetroHealth System
(A Component Unit of Cuyahoga County)

Schedule of Findings and Questioned Costs
Year Ended December 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified 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 federal programs:	Unmodified Opinion			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities

Dollar threshold used to distinguish between Type A and Type B programs:			$ 750,000	
Auditee qualified as a low risk auditee?		Yes	X	No

Section II - Financial Statement Findings

Finding 2015-001

Criteria: According to auditing standards generally accepted in the United States of America, management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: During the course of audit procedures performed, an audit adjustment was made to the financial statements to reflect an expenditure in the proper period.

Context: An audit adjustment was made to the financial statements to properly reflect an expenditure in the proper period.

Effect: The impact of this adjustment increased accounts payable and construction in progress by $4.3 million.

Cause: Management indicated that this error was caused due to a delay in receipt of the invoice in the finance office.

Recommendations: In order to ensure that the financial statements are not materially misstated, we recommend that management review its policies and procedures and make enhancements where appropriate.

Management Response and Plan of Corrective Action (Unaudited): See views of responsible officials in the accompanying Corrective Action Plan on page 60.

Finding 2015-002

Criteria: According to the Ohio Compliance Supplement, a board of county hospital trustees may adopt, annually, bidding procedures and purchasing policies for supplies and equipment that are routinely used in operating the hospital and that cost in excess of the amount specified in Ohio Rev. Code § 307.86, which is $50,000, as the threshold above which purchases must be competitively bid.

If a board of county hospital trustees adopts such policies and procedures, and the board of county commissioners approves them, the board of county hospital trustees may follow these policies and procedures in lieu of following the competitive bidding procedures of Ohio Rev. Code § 307.86 to 307.92.

Condition: During the course of audit procedures performed, we noted instances in which The MetroHealth System did not follow its bidding policies and procedures.

Context: In 2 of 14 instances selected for testing, we noted instances in which the System did not follow its policies and procedures associated with its competitive bidding processes.

Effect: Noncompliance with competitive bidding policies and procedures resulted in noncompliance with laws and regulations.

Cause: Management indicated that this error was due to a misunderstanding of the policies associated with purchases that are required to undergo competitive bidding processes.

Recommendations: In order to ensure compliance with laws and regulations and the award of contracts to the lowest priced bidder, policies should be implemented to ensure that all employees that are involved of the purchase of goods and services have an in-depth understanding of the competitive bidding requirements in place.

Management Response and Plan of Corrective Action (Unaudited): See views of responsible officials in the accompanying Corrective Action Plan on page 60.

Section III - Findings and Questioned Costs for Federal Awards

No findings noted.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2015

Section II – Financial Statement Findings

No findings.

Section III – Findings and Questioned Costs for Federal Programs

No findings noted.

MetroHealth

Management Response & Plan of Corrective Action
2015 Audit

March 22, 2016

Finding 2015-01 - Accounts Payable Cutoff

Management Response:
Management has implemented new month-end closing procedures whereby the Construction and Facilities department will provide General Accounting a comprehensive listing of all incurred costs associated with each open construction project at the end of the month. The listings will include project completion percentages and retainage estimates, for any project not yet invoiced.

In addition, the General Accounting, Accounts Payable and Supply Chain departments have implemented new month-end procedures to streamline month-end accruals, and have vendor invoices submitted directly to the Accounts Payable department.

Finding 2015-02 - Purchase Order Testing

Management Response:
Management has evaluated the existing Supply Chain bidding policy and procedures, and has provided the training and education to the appropriate staff related to the required bidding policies and procedures.

The MetroHealth System

3/22/16
Dr. Akram Boutros
President and Chief Executive Officer

3/22/16
Mr. Craig Richmond
Senior ~~Vice President~~ and Chief Financial Officer

3/22/16
Mr. Geoff Himes
Vice President, Finance

Dave Yost • Auditor of State

THE METROHEALTH SYSTEM

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 31, 2016