



RSM US LLP

### **Transmittal Letter**

This report is subject to review and acceptance by the Auditor of State's office, and the requirements of Ohio Revised Code § 117.25 are not met until the Auditor of State certifies this report. This process will be completed by the Auditor of State in a reasonable timeframe and reports are subject to change if the Auditor of State determines that modification of a report is necessary to comply with required accounting or auditing standards or the Uniform Guidance.

*RSM US LLP*

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# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The MetroHealth System, Cuyahoga County, prepared by RSM US LLP, for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

June 7, 2018

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

Financial Report  
December 31, 2017 and 2016

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## 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 years ended December 31, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report (Continued)

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3–11 as well as the pension related data on pages 59-60 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audits were 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 21, 2018 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 21, 2018

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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(Dollars in Thousands)**

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**Management's Discussion and Analysis**

This section of The MetroHealth System's (the System) annual financial report presents management's discussion and analysis (MD&A) of the System's financial performance and provides an overall review of the System's financial position and activities as of and for the years ended December 31, 2017 and 2016. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis, while covering three years, is designed to focus on current year activities.

**Financial and Operating Highlights**

- Outpatient visits increased 3.6% in 2017 and 13.3% in 2016.
- Hospital patient days decreased 0.4% in 2017 and 0.9% in 2016.
- Total surgical volumes increased 3.3% in 2017 and 6.2% in 2016.
- Emergency room visits increased 12.6% in 2017 and 21.5% in 2016.

**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 9<sup>th</sup> 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, MHS Purchasing LLC, and Select Assurance Captive 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.

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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(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 can be an indicator of whether its financial health is improving or deteriorating. Included in deferred outflows and deferred inflows is the impact of the recognition of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and this should be considered when evaluating the overall changes in net position. 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, 2017, 2016 and 2015 is presented in Table 1.

**Table 1  
The MetroHealth System  
Statements of Net Position**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets:</b>			
Current assets	\$ 210,271	\$ 192,471	\$ 185,173
Investments	373,189	345,823	365,920
Restricted assets	827,606	21,340	36,121
Capital assets	398,749	374,886	321,318
Other assets	16,307	11,579	11,627
<b>Total assets</b>	<b>1,826,122</b>	<b>946,099</b>	<b>920,159</b>
<b>Deferred outflows of resources</b>	<b>314,234</b>	<b>221,825</b>	<b>72,783</b>
<b>Liabilities:</b>			
Current liabilities	173,523	173,159	171,890
Long-term liabilities	1,903,349	848,301	675,005
<b>Total liabilities</b>	<b>2,076,872</b>	<b>1,021,460</b>	<b>846,895</b>
<b>Deferred inflows of resources</b>	<b>14,212</b>	<b>10,956</b>	<b>6,585</b>
<b>Net position:</b>			
Net investment in capital assets	141,331	152,981	113,087
Restricted, debt service payments	14,822	20,173	20,214
Restricted, capital asset use	2,250	2,250	2,250
Restricted, program activities	1,055	1,051	-
Unrestricted	(110,186)	(40,947)	3,911
<b>Total net position</b>	<b>\$ 49,272</b>	<b>\$ 135,508</b>	<b>\$ 139,462</b>

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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(Dollars in Thousands)**

**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 beginning in 2015 as a result of the implementation of GASB Statement No. 68 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.

The GASB Statement No. 68 adjustment is recorded on an annual basis using the results from the OPERS actuary reports. In Ohio, employer contributions to the State's cost-sharing multi-employer retirement systems are established by statute. These contributions, are payable to the retirement systems one month in arrears and constitute the full legal claim on the System for pension funding. Although the liabilities recognized under GASB Statement No. 68 meet the GASB's definition of a "liability" in its conceptual framework for accounting standards, they do not represent legal claims on the System's resources, and there are no cash flows associated with the recognition of net pension liabilities, deferrals and expense. End users of the audited financial statements will gain a clearer understanding of the System's actual financial condition by adding the net pension liability and deferred inflows related to pension to the reported net position and subtracting net pension asset and deferred outflows related to pension, as shown below in Table 2.

**Table 2  
The MetroHealth System**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Net position:</b>			
Net position	\$ 49,272	\$ 135,508	\$ 139,462
Plus:			
Net pension liability	726,077	510,316	348,619
Deferred inflows related to pensions	14,212	10,956	6,585
Less:			
Net pension asset	(2,658)	(2,093)	(1,454)
Deferred outflows related to pensions	(310,612)	(217,642)	(66,824)
<b>Total net position</b>	<b>\$ 476,291</b>	<b>\$ 437,045</b>	<b>\$ 426,388</b>

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 statute. Additional information on the standards and their impact is available in the notes to the financial statements.

Total assets increased by \$880,023 and \$25,940 from 2016 and 2015, respectively. The increase in 2017 is primarily related to new bond project and interest payment funds established by the System's issuance of Series 2017 Bonds, and capital asset purchases. Capital assets increased by \$23,863 and \$53,568 from 2016 and 2015, respectively, related to the System's plans to transform its main campus. In 2017, capital asset purchases were made with operating cash flows, bond project funds and investment sales.

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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(Dollars in Thousands)**

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**The System's Net Position (Continued)**

In 2017, deferred outflows of resources, deferred inflows of resources, and total liabilities increased by \$92,409, \$3,256, and \$1,055,412, respectively. In 2016, deferred outflows of resources, deferred inflows of resources, and total liabilities increased by \$149,042, \$4,371, and \$174,565, respectively. The increases in 2017 were primarily due to additional debt and interest assumed by the System from the issuance of the Series 2017 Bonds, and the GASB Statement No. 68 pension adjustment, partially offset by a decrease in the estimated amounts due to third-party payors. The 2016 increases were primarily due to the GASB No. 68 Statement pension adjustment and additional amounts due to third-party payors. The GASB Statement No. 68 pension adjustment increased total liabilities by \$215,761 and \$161,697 in 2017 and 2016, respectively.

In 2017, the System's overall net position decreased by \$86,236 from 2016. However, the GASB Statement No. 68 pension expense adjustment of \$125,482 drove this overall decrease as the strong operating results prior to the GASB Statement No. 68 adjustment had a positive impact of \$39,246 on net position. The solid operating results are mainly attributed to higher outpatient volume growth from expanded access to medical services within the community, more favorable contracts with third-party insurers and favorable changes in estimates for amounts due to third-party payors. In 2016, the System's net position decreased by \$3,954 from 2015. Large, non-recurring charges associated with the site expansions, and an unfavorable annual GASB Statement No. 68 pension adjustment contributed to the net position decrease.

**Capital Assets, Debt and Transformation**

**Capital Assets**

The System had \$398,749 and \$374,886 invested in capital assets, net of accumulated depreciation at December 31, 2017 and 2016, respectively. The System acquired or constructed capital assets in the amount of \$65,668 and \$93,885 during 2017 and 2016, respectively.

**Debt**

The System had \$1,061,323, \$226,534, and \$229,968 in bonds and capital lease obligations outstanding at December 31, 2017, 2016 and 2015, respectively. The overall increase of \$834,789 in long-term debt from 2016 to 2017 is related to the issuance of the Series 2017 Bonds with proceeds being used to fund the transformation project, finance bond interest payments due during the construction period, and refund debt. The net decrease from 2015 to 2016 is due to principal payments made on existing debt during 2016, partially offset by new System debt.

In May 2017, the System, issued \$945,660 of Hospital Revenue Bonds, Series 2017 (Series 2017 Bonds). Proceeds from the Series 2017 Bonds were used to refund debt, payoff a loan associated with a capital lease, payoff a revolving line of credit, pay certain bond issuance costs, establish a bond interest payment fund, and fund the System's transformation project. The Series 2017 Bonds mature in varying amounts from February 15, 2023 through February 15, 2057 and the interest rates are fixed and range between 4.0% and 5.5%. See Note 6 for additional details.

The System's bonds, which include the Series 2017 and Series 2009Bs, carry a rating of BBB- from Standard and Poor's, a downgrade from the previously held bond ratings of A-. The System has maintained investment grade ratings primarily due to its steady financial trend, fully integrated business model, and essentiality as a public health system. The overall rating decrease was a result of the increased debt burden from the Series 2017 Bonds.

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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(Dollars in Thousands)**

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**Transformation**

The System is embarking on a largescale transformation project that includes a reconstruction of its aging main campus. Many of the existing hospital structures were constructed more than 60 years ago and, for decades, have been repaired, rehabilitated or replaced episodically. It was determined that the cost to maintain and utilize the existing structure is greater than the costs to be incurred to replace those components with new facilities that are sized, configured and equipped to more effectively, efficiently and reliably deliver clinical care.

In 2017, the System began construction on a new 1,500-space parking garage which is expected to be completed in the second half of 2018. Once construction of the new parking garage is completed, demolition of the Southpoint (existing) parking garage will begin, with the construction of a new 10-story hospital to follow. Construction of the new hospital is planned to begin in early 2019 with completion planned for 2022.

**Operating Results and Changes in the System's Net Position**

The System's operating results, as presented in Table 3 below, are measured for the purposes of System management, the System's Board of Trustees and a wide range of other users of the audited financial statements as they enhance the usefulness of the statements, and the understandability of the System's financial and operating performance. The presentation of the County funding and the GASB Statement No. 68 pension adjustment in Table 3 below will provide the end users of the audited financial statements a clearer understanding of the System's actual financial condition.

County funding of \$32,400, \$32,400 and \$40,000 in 2017, 2016 and 2015, respectively have been recorded within the other revenue category of total operating revenues. The county funding is sustained through the Health and Human Services tax levies which aid our most vulnerable citizens: children, seniors, families and people in crisis across Cuyahoga County. The System makes an integral contribution to meeting the health, safety and welfare needs of County residents through the provision of health care services and its participation in community health programs. The county funding is therefore included in the other revenue category within the total operating revenues as it supports MetroHealth's principal ongoing operations as a public health system and is deemed by the System as a direct exchange with the County for the ongoing provision of health care services to County residents.

GASB Statement No. 68 pension adjustment that is a non-cash transaction has been presented in the non-operating section of the financial statements below as a separate line item within the Change in Net Position. While the liabilities recognized under GASB Statement No. 68 meet the GASB's definition of a liability in its conceptual framework for accounting standards, they do not represent legal claims on the System's resources, and there are no cash flows associated with the related expense. The Ohio Revised Code (section 145.48) provides statutory authority for employee and employer contributions and rates are capped by State statute. For the years ended December 31, 2017 and 2016, 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. As such, the System's pension plan cash contributions are presented in the operating expenses which represent the System's statutorily required contributions for 2017 and 2016.

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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(Dollars in Thousands)**

**Table 3  
The MetroHealth System  
Statements of Revenues, Expenses and Changes in Net Position**

	Years Ended December 31,		
	2017	2016	2015
Operating Revenues			
Net patient service revenue	\$ 963,776	\$ 895,434	\$ 808,102
Other revenue	158,783	140,706	120,301
<b>Total operating revenues</b>	<b>1,122,559</b>	<b>1,036,140</b>	<b>928,403</b>
Operating Expenses			
Salaries and wages	578,015	548,750	499,194
OPERS pension contributions	70,779	69,332	61,852
Other employee benefits	65,079	57,914	52,919
Purchased services	69,058	75,296	52,997
Medical supplies	70,374	63,092	58,835
Pharmaceuticals	81,829	71,288	49,889
Plant operations	38,617	36,300	31,516
Non-medical supplies	15,314	16,532	14,675
Other expenses	33,415	32,453	30,675
Insurance	9,209	9,542	9,065
Depreciation and amortization	41,807	40,263	37,993
<b>Total operating expenses</b>	<b>1,073,496</b>	<b>1,020,762</b>	<b>899,610</b>
<b>Operating income</b>	<b>49,063</b>	<b>15,378</b>	<b>28,793</b>
Non-Operating Revenues (Expenses)			
Net investment income	1,494	2,774	2,164
Other non-operating revenue	4,858	4,164	3,878
Debt issuance expense	(6,980)	-	-
Noncapital grants and donations	3,594	3,566	3,447
Grant expenses and support	(3,254)	(3,488)	(3,337)
Interest expense	(12,770)	(12,058)	(11,006)
<b>Total non-operating expenses</b>	<b>(13,058)</b>	<b>(5,042)</b>	<b>(4,854)</b>
<b>Income before OPERS actuarial pension adjustment and capital grants and gifts</b>	<b>36,005</b>	<b>10,336</b>	<b>23,939</b>
OPERS actuarial pension adjustment	(125,482)	(14,611)	6,687
Capital grants and gifts	3,241	321	4,028
<b>Change in net position</b>	<b>(86,236)</b>	<b>(3,954)</b>	<b>34,654</b>
Total net position - beginning of year	135,508	139,462	104,808
Total net position - end of year	<b>\$ 49,272</b>	<b>\$ 135,508</b>	<b>\$ 139,462</b>



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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(Dollars in Thousands)**

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**2017 Activity**

In 2017, net patient service revenue increased 7.6% from 2016 levels. The net patient revenue increase is mostly attributed to higher outpatient volume growth, an improved payor mix from the 2016 site expansion, and expanded access to medical services within the community.

The System's patient volumes mostly increased when compared to 2016 levels. Outpatient visits increased 3.6% from 2016 results, with visits topping one million for the fourth year in a row. Emergency room visits increased 12.6% from the prior year due to the opening of three new facilities in various months in 2016. Hospital patient days decreased 0.4%, discharges decreased 7.0%, outpatient surgical volumes increased 5.2%, inpatient surgeries decreased 1.9% and deliveries increased by 1.4% when compared to 2016 levels.

The System's level of uncompensated care continues to reflect the System's status as a safety net facility in Cuyahoga County. The Hospital Care Assurance Program (HCAP) and Upper Payment Limit (UPL) program revenues, components of net patient revenue, decreased by 12.6% from 2016 levels. This excludes retrospective adjustments which are recognized through estimated amounts due to third-party payors. HCAP and UPL programs are discussed in further detail in the System's financial statement notes.

Other operating revenue increased 12.8% from 2016 primarily due to increased pharmacy revenue from additional contracted locations, and revenue from insurance contracts related to patient population wellness metrics. Other operating revenue as presented above includes county funding which was \$32,400 in both 2017 and 2016.

Total operating expenses increased by 5.2% from 2016 primarily due to increased salaries and wages, employee benefits, pharmaceutical and medical supply expense driven by increased pricing and volumes, partially offset by lower purchased services.

In 2017, salaries and wages increased 5.3% from the prior year. This increase is attributed to a growth in FTE's because of health system expansion and a general 2.0% wage increase. In 2017, other employee benefits increased 12.4% as compared to the prior year as a result of the increase in salaries and wages coupled with an increase in health insurance expense.

In 2017, total non-operating expenses increased \$8,016 mainly due to expense incurred as a result of the issuance of the Series 2017 Bonds. Non-operating revenues and expenses include net investment income, net appreciation (depreciation) in the fair value of investments, noncapital grants and donations, interest expense, debt issuance expense and other non-operating revenue.

Capital grants and gifts increased from \$321 in 2016 to \$3,241 in 2017 due to several large capital contributions.

Operating Income was \$49,063 in 2017 as compared to \$15,378 in 2016, an increase of 219.0%. Income before OPERS actuarial pension adjustment and capital contributions was \$36,005 in 2017 versus \$10,336 in 2016, a 248.3% increase. The increase in financial improvement is due to strong volumes, expanded pharmacy operations, an improved payor mix and keeping costs contained.

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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(Dollars in Thousands)**

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

**2016 Activity**

In 2016, net patient service revenue increased 10.8% from 2015 levels. The net patient revenue increase is mostly attributed to higher outpatient volume growth, an improved payor mix from the site expansion, and expanded access to medical services within the community.

The System's patient volumes mostly increased when compared to 2015 levels. Outpatient visits were increased 13.3% from 2015 results, with visits topping one million for the third year in a row. Emergency room visits increased 21.5% from the prior year due to the opening of three new facilities. Hospital patient days decreased 0.9%, discharges were up 1.1%, outpatient surgical volumes increased 9.3%, inpatient surgeries decreased 1.3% and deliveries increased by 2.0% when compared to 2015 levels.

The System's level of uncompensated care continues to reflect the System's status as a safety net facility in Cuyahoga County. Hospital Care Assurance Program (HCAP) and Upper Payment Limit (UPL) program revenues, components of net patient revenue, increased by 13.7% from 2015 levels. HCAP and UPL programs are discussed in further detail in the System's financial statement notes.

Other operating revenue increased 17.0% from 2015 primarily due to increased pharmacy revenue from additional contracted locations, and revenue from insurance contracts related to patient population wellness metrics. Other operating revenue includes county funding which was \$32,400 in 2016, a decrease of \$7,600 from 2015.

Total operating expenses increased by 13.5% from 2015 to 2016. In 2016, salaries and wages and other employee benefits increased 9.9% and 9.4%, respectively. This increase is attributed to a greater number of FTE's related to health system expansion and a general 2.0% wage increase. Other drivers of the change in operating expenses include pharmaceuticals and purchased services which increased 42.9% and 42.1% respectively as compared to 2015. Consistent with the growth in salaries and wages and the related employee benefits, the increase in expense was due to new pharmacy locations and overall health system expansion.

In 2016, total non-operating expenses increased 3.9% from the prior year due to an increase in interest expense, partially offset by an increase in net investment income. Non-operating revenues and expenses include net investment income, net appreciation (depreciation) in the fair value of investments, noncapital grants and donations, interest expense and other non-operating revenue.

Capital grants and gifts decreased by \$3,707 from 2015 levels. In 2015, several large grants for capital were received.

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

**Management's Discussion and Analysis  
December 31, 2017 and 2016  
(Dollars in Thousands)**

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

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

- 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. As of this writing it does not appear that components of the ACA which benefited the hospital, such as the aforementioned Medicaid expansion, are at immediate risk in the foreseeable future based on failed attempts to repeal and replace the ACA during 2017. At this time, nothing specific is yet known other than changes to Medicaid coverage and funding will be in the future.
- The preliminary 2018 Hospital Care Assurance Program (HCAP) model has a further reduction in the System's gross HCAP distribution from \$14,206 in 2017 to approximately \$9,100 in 2018. The 2018-2019 State budget contains provisions for the HCAP Program in both years and the System anticipates the 2019 model should be similar in scope and distribution to the 2018 model.
- Upper Payment Level (UPL) estimates for State Fiscal Year (SFY) 2018 have declined from approximated \$33,000 in SFY 2017 to \$25,000 in SFY 2018, based on the preliminary SFY 2018 model.
- Medicare DSH/uncompensated care payments are expected to increase approximately \$870 or about 6% in 2018 when compared with 2017. This is the result of the Federal government adding approximately one billion dollars to the national uncompensated care pool in the Federal Fiscal Year (FFY) 2018 Inpatient Prospective Payment System (IPPS) final rules. Medicare reductions associated with value-based purchasing and readmissions appear to have leveled off and should be fairly consistent with only slight increases predicted for 2018 when compared to 2017, according to estimates by the Association of American Medical Colleges (AAMC) and the Ohio Hospital Association (OHA).
- The County has approved 2018 funding for the System of \$32,400, consistent with the 2017 funding amount.

**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, 2017 and 2016**  
**(Dollars in Thousands)**

<b>Assets</b>	<b>The MetroHealth System</b>		<b>Component Unit The MetroHealth Foundation, Inc.</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 23,869	\$ 11,462	\$ 77	\$ 587
Accounts receivable	145,237	135,048	6,540	4,625
Allowance for uncollectible accounts	(17,406)	(16,660)	(955)	(467)
	127,831	118,388	5,585	4,158
Other receivables	36,095	40,769	389	644
Supplies	15,910	15,498	-	-
Net investment in lease	-	-	-	341
Prepaid expenses	6,566	6,354	20	-
<b>Total current assets</b>	<b>210,271</b>	<b>192,471</b>	<b>6,071</b>	<b>5,730</b>
<b>Noncurrent Assets:</b>				
<b>Investments:</b>				
General	345,226	171,986	14,948	8,521
Academic funds	27,963	27,871	-	-
Depreciation reserve fund	-	145,966	-	-
	373,189	345,823	14,948	8,521
<b>Restricted Assets:</b>				
Cash and cash equivalents	1,153	1,167	2,217	2,575
Special purpose investments	-	-	40,034	37,600
Under bond indenture agreements	826,453	20,173	-	-
	827,606	21,340	42,251	40,175
<b>Capital Assets:</b>				
Land and construction in progress	83,906	46,688	-	-
Land improvements	13,711	13,353	-	-
Buildings and fixed equipment	692,815	680,260	-	-
Equipment	423,597	408,553	-	-
	1,214,029	1,148,854	-	-
Accumulated depreciation	(815,280)	(773,968)	-	-
	398,749	374,886	-	-
<b>Other Assets:</b>				
Net pension asset	2,658	2,093	-	-
Net investment in lease	-	-	-	8,300
Other assets	13,649	9,486	-	-
	16,307	11,579	-	8,300
<b>Total assets</b>	<b>1,826,122</b>	<b>946,099</b>	<b>63,270</b>	<b>62,726</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows related to pensions	310,612	217,642	-	-
Deferred amounts on debt refundings	3,622	4,183	-	-
<b>Total deferred outflows of resources</b>	<b>314,234</b>	<b>221,825</b>	<b>-</b>	<b>-</b>

See Notes to Financial Statements.

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

**Statements of Net Position**  
**December 31, 2017 and 2016**  
**(Dollars in Thousands)**

<b>Liabilities</b>	<b>The MetroHealth System</b>		<b>Component Unit The MetroHealth Foundation, Inc.</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Current Liabilities:</b>				
Accounts payable	\$ 60,283	\$ 53,574	\$ 1,656	\$ 2,223
Accrued payroll and related liabilities	48,844	40,209	-	-
Contribution payable to the Public Employees Retirement System	13,199	13,534	-	-
Accrued interest payable	20,699	3,305	-	-
General and professional liabilities	16,491	16,787	-	-
Estimated amounts due to third-party payors	2,764	522	-	-
Accrued vacation and sick leave	6,227	4,759	-	-
Current installments of long-term debt	2,027	33,350	-	348
Other current liabilities	2,989	7,119	429	427
<b>Total current liabilities</b>	<b>173,523</b>	<b>173,159</b>	<b>2,085</b>	<b>2,998</b>
<b>Long-Term Liabilities, less current installments:</b>				
General and professional liabilities	43,069	41,305	-	-
Estimated amounts due to third-party payors	30,858	49,049	-	-
Accrued vacation and sick leave	44,049	42,849	-	-
Net pension liability	726,077	510,316	-	-
Derivative instruments - rate swaps	-	11,598	-	-
Long-term debt	1,059,296	193,184	-	8,180
<b>Total long-term liabilities</b>	<b>1,903,349</b>	<b>848,301</b>	<b>-</b>	<b>8,180</b>
<b>Total liabilities</b>	<b>2,076,872</b>	<b>1,021,460</b>	<b>2,085</b>	<b>11,178</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	14,212	10,956	-	-
<b>Net Position</b>				
Net investment in capital assets	141,331	152,981	-	-
Restricted, debt service payments	14,822	20,173	-	-
Restricted, capital asset use	2,250	2,250	-	-
Restricted, program activities	1,055	1,051	30,200	28,530
Restricted, nonspendable	-	-	16,393	13,427
Unrestricted	(110,186)	(40,947)	14,592	9,591
<b>Total net position</b>	<b>\$ 49,272</b>	<b>\$ 135,508</b>	<b>\$ 61,185</b>	<b>\$ 51,548</b>

See Notes to Financial Statements.

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

**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2017 and 2016**  
**(Dollars in Thousands)**

	<b>The MetroHealth System</b>		<b>Component Unit The MetroHealth Foundation, Inc.</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Operating Revenues				
Net patient service revenue	\$ 963,776	\$ 895,434	\$ -	\$ -
Other revenue	126,383	108,306	-	-
<b>Total operating revenues</b>	<b>1,090,159</b>	<b>1,003,740</b>	<b>-</b>	<b>-</b>
Operating Expenses				
Salaries and wages	578,015	548,750	-	-
Pension expense - Note 10	196,261	83,943	-	-
Other employee benefits	65,079	57,914	-	-
Purchased services	69,058	75,296	-	-
Medical supplies	70,374	63,092	-	-
Pharmaceuticals	81,829	71,288	-	-
Plant operations	38,617	36,300	-	-
Non-medical supplies	15,314	16,532	-	-
Other expenses	33,415	32,453	-	-
Insurance	9,209	9,542	-	-
Depreciation and amortization	41,807	40,263	-	-
<b>Total operating expenses</b>	<b>1,198,978</b>	<b>1,035,373</b>	<b>-</b>	<b>-</b>
<b>Operating loss</b>	<b>(108,819)</b>	<b>(31,633)</b>	<b>-</b>	<b>-</b>
Non-Operating Revenues (Expenses)				
County funding	32,400	32,400	-	-
Net investment income	1,494	2,774	7,778	2,589
Other non-operating revenue	4,858	4,164	138	198
Debt issuance expense	(6,980)	-	-	-
Noncapital grants and donations	3,594	3,566	7,833	7,822
Grant expenses and support	(3,254)	(3,488)	(6,112)	(6,560)
Interest expense	(12,770)	(12,058)	-	-
<b>Total non-operating revenues (expenses)</b>	<b>19,342</b>	<b>27,358</b>	<b>9,637</b>	<b>4,049</b>
<b>(Loss) income before capital grants and gifts</b>	<b>(89,477)</b>	<b>(4,275)</b>	<b>9,637</b>	<b>4,049</b>
Capital grants and gifts	3,241	321	-	-
<b>Change in net position</b>	<b>(86,236)</b>	<b>(3,954)</b>	<b>9,637</b>	<b>4,049</b>
Total net position - beginning of year	135,508	139,462	51,548	47,499
Total net position - end of year	<u>\$ 49,272</u>	<u>\$ 135,508</u>	<u>\$ 61,185</u>	<u>\$ 51,548</u>

See Notes to Financial Statements.

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

**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**  
**(Dollars in Thousands)**

	<b>2017</b>	<b>2016</b>
Cash Flows From Operating Activities		
Patient service revenue	\$ 948,811	\$ 907,034
Other operating cash receipts	121,446	115,826
Payments to suppliers	(312,678)	(304,277)
Payments for compensation and benefits	(702,478)	(666,547)
<b>Net cash flows provided by operating activities</b>	<b>55,101</b>	<b>52,036</b>
Cash Flows From Noncapital Financing Activities		
County funding	32,400	32,400
Restricted grants, donations and other	6,426	6,567
Specific purpose funds expenses	(3,254)	(3,488)
Proceeds from issuance of long-term debt	161,238	-
Interest payments on long-term debt	(1,787)	-
Proceeds from revolving line of credit	12,181	-
Principal payments on revolving line of credit and notes payable	(12,628)	(446)
Interest payments on revolving line of credit and notes payable	(63)	(36)
<b>Net cash flows provided by noncapital financing activities</b>	<b>194,513</b>	<b>34,997</b>
Cash Flows From Capital and Related Financing Activities		
Capital grants	852	321
Acquisitions and construction	(51,102)	(95,951)
Proceeds from sale of assets	11	3
Proceeds from issuance of long-term debt	816,575	-
Proceeds from revolving line of credit	17,600	-
Refunding of long-term debt	(134,613)	-
Principal payments on long-term debt	(12,243)	(11,711)
Principal payments on revolving line of credit	(17,600)	-
Interest payments on long-term debt	(18,084)	(11,460)
Interest payments on revolving line of credit	(43)	-
Build America Bond receipts	2,010	2,003
Payments of financing fees on long-term debt	(2,333)	-
<b>Net cash flows provided by (used in) capital and related financing activities</b>	<b>601,030</b>	<b>(116,795)</b>
Cash Flows From Investing Activities		
Payments for investment purchases and reinvestments	(1,215,274)	(476,358)
Proceeds from investment sales and maturities	369,859	512,858
Interest received	7,164	1,805
<b>Net cash flows (used in) provided by investing activities</b>	<b>(838,251)</b>	<b>38,305</b>
<b>Net increase in cash and cash equivalents</b>	<b>12,393</b>	<b>8,543</b>
Cash and cash equivalents		
Beginning	12,629	4,086
Ending	<b>\$ 25,022</b>	<b>\$ 12,629</b>

(Continued)

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

**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**  
**(Dollars in Thousands)**

	<b>2017</b>	<b>2016</b>
Reconciliation of Operating Loss to Net Cash Flows		
Provided by Operating Activities		
Operating loss	\$ (108,819)	\$ (31,633)
Adjustments to reconcile operating loss to net cash flows provided by operating activities		
Depreciation and amortization	41,807	40,263
Provision for bad debts	50,620	44,897
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Increase in patient accounts receivable	(60,063)	(57,575)
Decrease in other assets	6,500	11,956
Increase in deferred outflows of resources	(92,970)	(149,978)
Increase in self-insurance liabilities	1,467	4,182
Increase (decrease) in accounts payable and other liabilities	14,533	(9,984)
Increase in net pension liability and other long-term liabilities	198,770	195,537
Increase in deferred inflows of resources	3,256	4,371
<b>Net cash flows provided by operating activities</b>	<b>\$ 55,101</b>	<b>\$ 52,036</b>

**Noncash Investing, Capital and Financing Activities:**

The System held investments at December 31, 2017 and 2016, with a fair value of \$388,011 and \$365,996, respectively. During 2017 and 2016, the net change in the fair value of these investments was an increase of \$22,015 and a decrease of \$35,864, respectively.

The System held interest rate swap obligations at December 31, 2016 with a fair value of \$11,598. During 2017 and 2016, the net change in the fair value of these swap obligations was an increase of \$493 and a decrease of \$1,361, respectively. In 2017, the System terminated all interest rate swap agreements.

In 2016, the System entered into a capital lease, acquiring capital assets of \$8,706.

In 2017, the System received capital gifts of \$2,389.

In 2017, the System capitalized interest income and interest expense of \$12,669 and \$24,794, respectively, and in 2016, \$0 and \$355, respectively.

Included in accounts payable at December 31, 2017 and 2016 is \$11,349 and \$11,293, respectively, of invoices related to unpaid capital acquisitions.



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

**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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**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, 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. To support the general operations of the System, the County approved funding of \$32,400 per year for 2017 and 2016. The County has also approved funding of approximately \$32,400 for 2018. 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 9<sup>th</sup> 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, MHS Purchasing LLC, and Select Assurance Captive 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, MHS Purchasing LLC, and Select Assurance Captive 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 support the System's mission and operations.

**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

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

**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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**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 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 funding, 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 recorded 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 \$50,620 and \$44,897 in 2017 and 2016, respectively.

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

**Medicare and Medicaid:** Inpatient acute care, 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 MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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

The System also receives reimbursement for medical education costs, disproportionate share and unreimbursed Medicare bad debts which are reimbursed at interim rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor (MAC). 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 recorded 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 \$16,350 in 2017 and unfavorable adjustments of \$12,831 in 2016, 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 30% and 28%, respectively, of the System's net patient service revenue for the year ended December 31, 2017, and 29% and 32%, respectively, of the System's net patient service revenue for the year ended December 31, 2016. 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. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the financial statements.

**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, 2017 and 2016, \$334 and \$637, respectively, was due to the System and recorded in the Statements of Net Position in other receivables. The amount recorded in net patient service revenue for UPL by the System was \$35,440 and \$41,282 in 2017 and 2016, respectively. The State of Ohio discontinued the Program's required contributing match for participants as of June 30, 2009. Effective July 1, 2009, the State began assessing a franchise fee to hospitals to fund health care programs, including the UPL program. The System incurred franchise fee expense of \$13,440 and \$12,767 in 2017 and 2016, respectively, and recorded in other expenses in the Statements of Revenues, Expenses, and Changes in Net Position. The System's franchise fee liability payable to the State of Ohio at December 31, 2017 and 2016 was \$0, respectively.

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

**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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

**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 resulting from this status totaling \$24,728 and \$24,523 for 2017 and 2016, respectively. These amounts are included in net patient service revenue and include Hospital Care Assurance (HCAP) revenue of \$14,206 and \$14,444, in 2017 and 2016, respectively, reduced by HCAP assessments recorded by the System of \$4,346 and \$4,321 in 2017 and 2016, respectively. At December 31, 2017 and 2016, the System had HCAP receivables of \$0 and \$14,444, and HCAP payables of \$0 and \$4,321, respectively. The receivable and payable are included in other receivables and other current liabilities, respectively, in the Statements of Net Position.

**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 \$136,426 and \$123,549, which represents 4.1% and 4.0% of gross charges in 2017 and 2016, respectively, are not reported as revenue. The System accepts certain indigent Ohio residents and all residents from the County regardless of their ability to pay.

**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 years ended December 31, 2017 and 2016, the System recorded Medicare and Medicaid EHR revenue of \$2,251 and \$5,820, respectively, included in other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. At December 31, 2017 and 2016, related receivables of \$2,326 and \$4,535, respectively, were recorded in other receivables, and related payables of \$1,637 and \$0, respectively, were recorded in estimated amounts due to third-party payors, in the accompanying Statements of Net Position.

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

**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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

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

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

**Cash and cash equivalents:** The System considers 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. 72 – *Fair Value Measurement and Application*. Changes in unrealized gains and losses on investments are included in net investment income in the Statements of Revenues, Expenses, and Changes in Net Position.

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

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

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

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

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

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

**Capital assets:** Capital assets are stated at cost and contributed capital assets are stated at their acquisition 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 Statements of Revenues, Expenses, and Changes in Net Position.

**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, Combined and Member-Directed 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.

**Bond premiums and discounts:** Amortization expense related to bond premiums and discounts was (\$868) and \$17 in 2017 and 2016, respectively. The 2017 amount is included in interest expense using the effective interest method in the Statements of Revenues, Expenses, and Changes in Net Position. The 2016 amount was calculated utilizing the straight-line method. The Accounting guidance requires amounts to be amortized utilizing the effective interest method. The difference between the two amortization methods for the 2016 amount is immaterial to the financial statements.

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

**Cost of borrowing:** Interest costs incurred on debt during the construction or acquisition of assets are capitalized as a component of the capital asset's cost. The total interest cost capitalized is offset by the interest income earned on the invested bond proceeds during the same period. Capitalized interest expense for 2017 and 2016 totaled \$24,794 and \$355, respectively. Capitalized interest income for 2017 and 2016 totaled \$12,668 and \$0, respectively.

Through April 2017, the System held various interest rate swap agreements, carried at fair value in the Statements of Net Position. These derivative instruments are not effective hedging instruments; therefore, gains and losses are recognized in the Statements of Revenues, Expenses, and Changes in Net Position during the period of change as adjustments to investment income on the related debt. In April 2017, the System exercised its early termination options on both outstanding interest rate swap agreements, and settled with the counterparties (See Note 7).

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

The System places its cash and cash equivalents with high credit quality financial institutions. The System's investments include money market funds, U.S. Treasury bills and notes, U.S. agency obligations, commercial paper, and corporate bonds.

Concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the System's patients and payors. Patient accounts receivable consist of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. Excluding governmental programs, no payor source represents more than 10.0% of the System's patient accounts receivable. The System maintains a provision for uncollectible accounts based on the expected collectability of patient accounts receivable.

**Reclassifications:** Certain reclassifications of 2016 amounts have been made to conform to the 2017 presentation.

**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. 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 implemented the provisions of this Statement for the year ending December 31, 2017. There was no significant impact to the financial statements as a result of the application of this standard.

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

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 implemented the provisions of this Statement for the year ending December 31, 2017. There was no significant impact to the financial statements as a result of the application of this standard.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for periods beginning after December 15, 2016. The System implemented the provisions of this Statement for the year ending December 31, 2017. There was no significant impact to the financial statements as a result of the application of this standard.

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statements No. 67, No. 68, and No. 73* – The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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 Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The System implemented the provisions of this Statement for the year ending December 31, 2017.

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

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.



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

GASB Statement No. 83, *Certain Asset Retirement Obligations* – This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for reporting periods beginning after June 15, 2018. The System has not yet determined the impact this Statement will have on the financial statements.

GASB Statement No. 84, *Fiduciary Activities* – The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2018. The System has not yet determined the impact this Statement will have on the financial statements.

GASB Statement No. 85, *Omnibus 2017* – The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The System has not yet determined the impact this Statement will have on the financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The System has not yet determined the impact this Statement will have on the financial statements.

GASB Statement No. 87, *Leases* - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The System has not yet determined the impact this Statement will have on the financial statements, however, expects the impact to be material.

**The MetroHealth System  
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**Notes to Financial Statements  
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**Note 3. Deposits and Investments**

**Deposits**

All monies are deposited with the System's banks or trust companies as designated by the Board of Trustees. Funds not needed for immediate expenditure may be deposited in interest bearing or non-interest bearing accounts.

*Guaranteed investment contracts (GICs):* The System entered into two distinct investment contracts with separate banks yielding guaranteed fixed interest rates for its Series 2017 Bond Project and Capitalized Interest Payment Funds. Deposits were made into the two accounts on the bond settlement date of May 25, 2017. The Capitalized Interest Payment Fund of \$811,631 has a fixed interest rate of 2.60% with earned interest payments posting semiannually through the agreement maturity date on 2/14/2023. The agreement has a schedule of required withdrawals that cannot be accelerated. The Bond Project Fund bears a fixed interest rate of 2.54% with earnings reinvested each February 15 and August 15. The agreement terminates with respect to the funds at the earlier of the March 31, 2024 maturity date or the date the Bonds are no longer outstanding under the Indenture. The agreement may be extended by mutual written agreement.

The GICs are classified as deposits and are eligible holdings in accordance with the Twelfth Supplemental Trust Indenture enacted May 1, 2017 between the County, acting by and through the System's Board of Trustees, and the bond trustee.

*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, 2017 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, except for the invested proceeds of revenue bonds which follow the requirements stated in the bond indenture. 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, 2017 and 2016 totaled \$898,816 and \$52,677, respectively, and were subject to the following categories of custodial credit risk:

	2017	2016
Uncollateralized	\$ 811,631	\$ -
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	86,685	52,177
Amount insured	500	500
<b>Total bank balances</b>	<b>\$ 898,816</b>	<b>\$ 52,677</b>

**The MetroHealth System  
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**Notes to Financial Statements  
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**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 banker's 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 counterparties 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. The System terminated its two derivative instruments in April 2017.

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

As of December 31, 2017, and 2016, the fair values of the System's investments and their ratings by Standard and Poor's were as follows:

	2017	Investment Maturities	
		Less than 1 year	1-5 years
U.S. Treasury Notes			
AA+	\$ 44,701	\$ 2,398	\$ 42,303
Government National Mortgage Association			
AA+	2	-	2
Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Banks and Federal Farm Credit Banks			
AA+	236,696	71,525	165,171
Corporate Bonds			
AA+	2,994	-	2,994
Corporate Bonds			
AA-	2,696	2,696	-
Commercial Paper			
A-1	7,556	7,556	-
Money Market Mutual Funds			
AAA	26,820	26,820	-
<b>Total investments</b>	<b>\$ 321,465</b>	<b>\$ 110,995</b>	<b>\$ 210,470</b>

Deposits totaling \$873,783 are included in investments in the Statement of Net Position at December 31, 2017.

	2016	Investment Maturities	
		Less than 1 year	1-5 years
U.S. Treasury Notes			
AA+	\$ 40,072	\$ 10,096	\$ 29,976
Government National Mortgage Association			
AA+	4	-	4
Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Banks and Federal Farm Credit Banks			
AA+	248,893	75,900	172,993
Commercial Paper			
A-1	10,299	10,299	-
Money Market Mutual Funds			
AAA	23,222	23,222	-
<b>Total investments</b>	<b>\$ 322,490</b>	<b>\$ 119,517</b>	<b>\$ 202,973</b>

Deposits totaling \$40,058 are included in investments in the Statement of Net Position at December 31, 2016.

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**Notes to Financial Statements  
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**Note 3. Deposits and Investments (Continued)**

The System's carrying amounts of the deposits and investments at December 31, 2017 and 2016 are as follows:

	2017	2016
Deposits	\$ 898,805	\$ 52,687
Investments	325,859	325,938
<b>Total deposits and investments</b>	<b>\$ 1,224,664</b>	<b>\$ 378,625</b>

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

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System has the following as of year ended December 31, 2017 and 2016:

**Investments and Derivative Instruments Measured at Fair Value**

	2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Investments by fair value level</b>			
Debt Securities			
U.S. Treasury securities	\$ 44,701	\$ -	\$ 44,701
U.S. Agency securities	236,698	-	236,698
Corporate bonds	5,690	-	5,690
Commercial paper	7,556	-	7,556
Total debt securities	294,645	-	294,645
Money market mutual funds	26,820	26,820	-
Domestic equities (Note 13)	4,394	-	4,394
<b>Total investments measured at fair value</b>	<b>\$ 325,859</b>	<b>\$ 26,820</b>	<b>\$ 299,039</b>

**The MetroHealth System  
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**Notes to Financial Statements  
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**Note 3. Deposits and Investments (Continued)**

	2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Investments by fair value level</b>			
Debt Securities			
U.S. Treasury securities	\$ 40,072	\$ -	\$ 40,072
U.S. Agency securities	248,897	-	248,897
Commercial paper	10,299	-	10,299
Total debt securities	299,268	-	299,268
Money market mutual funds	23,222	23,222	-
Domestic equities (Note 13)	3,448	-	3,448
<b>Total investments measured at fair value</b>	<b>\$ 325,938</b>	<b>\$ 23,222</b>	<b>\$ 302,716</b>
<b>Investment derivative instruments</b>			
Interest rate swaps	<u>\$ (11,598)</u>		<u>\$ (11,598)</u>

Money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates. Domestic equities classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets.

*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, 2017 and 2016, 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 years ended December 31, 2017 and 2016, 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. For the years ended December 31, 2017 and 2016, the System is not exposed to custodial credit risk as it relates to its investment portfolio.

**The MetroHealth System  
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**Notes to Financial Statements  
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**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 Agreement Counterparties	25% or \$150 million, whichever is less
Mutual Funds	25% maximum

As of December 31, 2017, The System holds 41% in Federal National Mortgage Association (Fannie Mae) issues, 12% in Federal Home Loan Mortgage Corporation (Freddie Mac) issues, and 12% in United States Treasury.

As of December 31, 2016, The System holds 46% of its portfolio in Federal National Mortgage Association (Fannie Mae) issues, 17% in Federal Home Loan Mortgage Corporation (Freddie Mac) issues, and 11% in United States Treasury.

**The Foundation:** As of December 31, 2017 and 2016, the fair values of the Foundation's investments were as follows:

	2017	2016
Exchange traded funds	\$ 3,049	\$ 3,456
Money market funds	2,884	2,707
Pooled investment fund	2,444	2,309
Mutual funds	44,333	35,355
Common stock	25	26
Limited partnerships interests	2,247	2,268
<b>Total investments</b>	<b>\$ 54,982</b>	<b>\$ 46,121</b>

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

The Foundation's net investment income for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Interest and dividends	\$ 1,489	\$ 860
Net realized and unrealized gains (losses)	6,375	1,812
Less: investment management fees	(86)	(83)
	<u>\$ 7,778</u>	<u>\$ 2,589</u>

**Note 4. Capital Assets**

The following summarizes changes in the capital assets of the System for the years ended December 31, 2017 and 2016:

	2017			
	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated				
Land	\$ 15,282	\$ 350	\$ -	\$ 15,632
Construction in progress	31,406	65,222	(28,354)	68,274
<b>Total non-depreciated capital assets</b>	<u>46,688</u>	<u>65,572</u>	<u>(28,354)</u>	<u>83,906</u>
Depreciable capital assets				
Land improvements	13,353	358	-	13,711
Buildings and fixed equipment	680,260	12,570	(15)	692,815
Equipment	408,553	15,522	(478)	423,597
<b>Total depreciable capital assets</b>	<u>1,102,166</u>	<u>28,450</u>	<u>(493)</u>	<u>1,130,123</u>
Less accumulated depreciation				
Land improvements	(9,917)	(563)	-	(10,480)
Buildings and fixed equipment	(441,091)	(17,692)	15	(458,768)
Equipment	(322,960)	(23,552)	480	(346,032)
<b>Total accumulated depreciation</b>	<u>(773,968)</u>	<u>(41,807)</u>	<u>495</u>	<u>(815,280)</u>
<b>Total depreciable capital assets, net</b>	<u>328,198</u>	<u>(13,357)</u>	<u>2</u>	<u>314,843</u>
<b>Total capital assets, net</b>	<u>\$ 374,886</u>	<u>\$ 52,215</u>	<u>\$ (28,352)</u>	<u>\$ 398,749</u>



**The MetroHealth System  
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**Note 4. Capital Assets (Continued)**

	2016			
	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated				
Land	\$ 15,282	\$ -	\$ -	\$ 15,282
Construction in progress	55,909	87,014	(111,517)	31,406
<b>Total non-depreciated capital assets</b>	<b>71,191</b>	<b>87,014</b>	<b>(111,517)</b>	<b>46,688</b>
Depreciable capital assets				
Land improvements	13,253	100	-	13,353
Buildings and fixed equipment	586,749	93,516	(5)	680,260
Equipment	384,402	24,772	(621)	408,553
<b>Total depreciable capital assets</b>	<b>984,404</b>	<b>118,388</b>	<b>(626)</b>	<b>1,102,166</b>
Less accumulated depreciation				
Land improvements	(9,350)	(567)	-	(9,917)
Buildings and fixed equipment	(423,965)	(17,131)	5	(441,091)
Equipment	(300,962)	(22,565)	567	(322,960)
<b>Total accumulated depreciation</b>	<b>(734,277)</b>	<b>(40,263)</b>	<b>572</b>	<b>(773,968)</b>
<b>Total depreciable capital assets, net</b>	<b>250,127</b>	<b>78,125</b>	<b>(54)</b>	<b>328,198</b>
<b>Total capital assets, net</b>	<b>\$ 321,318</b>	<b>\$ 165,139</b>	<b>\$ (111,571)</b>	<b>\$ 374,886</b>

Total depreciation and amortization expense related to capital assets for 2017 and 2016 was \$41,807 and \$40,263, respectively.

**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 facility was renewed for one year during 2016 and again in 2017. The new term maturity date is September 30, 2018. Line of credit draws totaled \$29,781 and \$0, in 2017 and 2016, respectively. Total repayments in 2017 and 2016 were \$29,781 and \$0, respectively. As of December 31, 2017 and 2016, the balance on the line of credit was \$0, respectively.

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**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, 2017 is as follows:

	2017				
	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%; refunded in April 2017.	\$ 17,600	\$ -	\$ (17,600)	\$ -	\$ -
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%; refunded with Hospital Revenue Bonds, Series 2017.	26,800	-	(26,800)	-	-
Hospital Refunding Revenue Bonds, Series 2012, bear variable interest rates; refunded with Hospital Revenue Bonds, Series 2017.	21,390	-	(21,390)	-	-
Hospital Improvement and Refunding Revenue Bonds, Series 2015, bear variable interest rates; refunded with Hospital Revenue Bonds, Series 2017.	70,375	-	(70,375)	-	-
Hospital Revenue Bonds, Series 2017, bear fixed interest rates ranging from 4.0% to 5.5%, and mature in varying amounts through 2057.	-	945,660	-	945,660	-
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2019.	149	-	(68)	81	65
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.1% and matures through 2019.	829	-	(339)	490	324
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 2.9% and matures through 2019.	672	-	(246)	426	253

**The MetroHealth System  
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**Note 6. Long-Term Debt (Continued)**

	2017				
	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.	\$ 836	\$ -	\$ (222)	\$ 614	\$ 249
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2020.	760	-	(221)	539	211
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.4% and matures through 2021.	1,074	-	(238)	836	209
Note obligation, August Health Services, Inc., as defined in the respective note agreement, bears interest at 4.0% and matures through 2017.	300	-	(300)	-	-
Note obligation, State Road Family Practice, Inc., as defined in the respective note agreement, bears interest at 4.0% and matures through 2017.	147	-	(147)	-	-
Building obligations, HS Acquisition LLC, FRE Holdings LLC and FRE Holdings II LLC, as defined in the respective lease agreements, bears interest at a variable rate equal to the one month LIBOR rate plus a margin of 1.5%, with a minimum rate of 1.0% for the one month LIBOR rate. Lease was repaid in May 2017. (See Note 12)	8,641	-	(8,641)	-	-
Loan obligation, Key Government Finance, Inc., as defined in the respective loan agreement, bears interest at 0% and matures through 2019.	2,130	-	(710)	1,420	710
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, bears interest at 4.5% and matures through 2018.	12	-	(6)	6	6
	226,715	945,660	(147,303)	1,025,072	2,027
Unamortized discounts and premiums	(181)	37,124	(692)	36,251	-
<b>Long-term debt</b>	<b>\$ 226,534</b>	<b>\$ 982,784</b>	<b>\$ (147,995)</b>	<b>\$ 1,061,323</b>	<b>\$ 2,027</b>

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

Information regarding the System's long-term debt activity and balances as of and for the year ended December 31, 2016 is as follows:

	2016				
	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 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.	35,190	-	(8,390)	26,800	8,655
Hospital Refunding Revenue Bonds, Series 2012, bear variable interest rates and mature in varying amounts through 2033.	22,265	-	(875)	21,390	21,390
Hospital Improvement and Refunding Revenue Bonds, Series 2015, bear variable interest rates and mature in varying amounts through 2035.	70,835	-	(460)	70,375	485
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2019.	204	-	(55)	149	67
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.1% and matures through 2019.	1,108	-	(279)	829	340
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 2.9% and matures through 2019.	911	-	(239)	672	246

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

	2016				
	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.	\$ 1,091	\$ -	\$ (255)	\$ 836	\$ 222
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2020.	941	-	(181)	760	221
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.4% and matures through 2021.	1,270	-	(196)	1,074	220
Note obligation, August Health Services, Inc., as defined in the respective note agreement, bears interest at 4.0% and matures through 2017.	600	-	(300)	300	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	-	(146)	147	147
Building obligations, HS Acquisition LLC, FRE Holdings LLC and FRE Holdings II LLC, as defined in the respective lease agreements, bears interest at a variable rate equal to the one month LIBOR rate plus a margin of 1.5%, with a minimum rate of 1.0% for the one month LIBOR rate and matures through 2046. (See Note 12)	-	8,706	(65)	8,641	341
Loan obligation, Key Government Finance, Inc., as defined in the respective loan agreement, bears interest at 0% and matures through 2019.	2,840	-	(710)	2,130	710
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, bears interest at 4.5% and matures through 2018.	18	-	(6)	12	6
	230,166	8,706	(12,157)	226,715	33,350
Unamortized discount	(198)	-	17	(181)	-
<b>Long-term debt</b>	<b>\$ 229,968</b>	<b>\$ 8,706</b>	<b>\$ (12,140)</b>	<b>\$ 226,534</b>	<b>\$ 33,350</b>

**The MetroHealth System  
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**Note 6. Long-Term Debt (Continued)**

Effective February 1, 1997, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued \$70,000 of Hospital Improvement and Refunding Revenue Bonds Series 1997 (The MetroHealth System Project) (Series 1997). The proceeds of the Series 1997 Bonds were used to refund \$20,900 of Series 1989 Bonds; to finance the construction of various improvements and additions to The MetroHealth Medical Center; and to pay costs of issuance of the Series 1997 Bonds. On November 22, 2011, the principal amounts of the Series 1997 Bonds maturing in years 2012 through 2019 totaling \$11,440, were refunded with proceeds from the County's Series 2011 Hospital Refunding Revenue Bonds. On April 19, 2017, all principal amounts of the Series 1997 Bonds, maturing in years 2020 through 2027, totaling \$17,600, were refunded.

Effective January 28, 2010, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued \$75,000 of Hospital Facilities 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. On May 25, 2017, all outstanding Series 2011 Bonds totaling \$18,145, maturing in years 2018 and 2019, were refunded from Series 2017 Hospital Revenue Bond proceeds.

The November 8, 2011 bond refundings, resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$5,187. The unamortized difference (\$0 and \$1,520 at December 31, 2017 and 2016), reported in the accompanying financial statements as a deferred outflow of resources, is being amortized as an increase to interest expense through the year 2017.

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, 2016 was 1.50%. The bonds mature at various dates through 2033; however, the agreement that governed the Series 2012 Bonds contained a mandatory put effective November 30, 2017. On May 25, 2017, all outstanding Series 2012 Bonds totaling \$20,475, and maturing in years 2018 through 2033, were refunded from Series 2017 Hospital Revenue Bond proceeds.

**The MetroHealth System  
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**Notes to Financial Statements  
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**Note 6. Long-Term Debt (Continued)**

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, 2016 was 1.05%. The Bonds mature at various dates through 2035; however, the agreement that governed the Series 2015 Bonds contained a mandatory put effective January 31, 2021. On May 25, 2017, all outstanding Series 2015 Bonds totaling \$69,890, and maturing in years 2018 through 2035, were refunded from Series 2017 Hospital Revenue Bond proceeds.

The December 1, 2015 bond refundings, resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,902. The unamortized difference (\$0 and \$2,663 at December 31, 2017 and 2016), reported in the accompanying financial statements as a deferred outflow of resources, is being amortized as an increase to interest expense through the year 2017.

Effective May 25, 2017, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued \$945,660 of Hospital Revenue Bonds, Series 2017, (The MetroHealth System), (Series 2017 Bonds). Proceeds from the Series 2017 Bonds were used to refund the principal amounts of the Series 2015 Bonds maturing on February 1, 2018 through February 1, 2035, the Series 2012 Bonds principal amounts maturing on March 1, 2018 through March 1, 2033, and the Series 2011 Bonds principal amounts maturing on February 15, 2018 through February 15, 2019, payoff a loan associated with a capital lease, establish a bond interest payment fund, pay certain bond issuance costs, payoff a revolving line of credit which was drawn to fully refund the remaining Series 1997 Bonds, maturing on February 15, 2020 through February 15, 2027, and pay settlement costs associated with the early termination of two interest rate swap agreements. The remaining bond proceeds are being used to fund the System's transformation project. The Series 2017 Bonds mature in varying amounts from February 15, 2023 through February 15, 2057 and the interest rates are fixed and range between 4.0% and 5.5%. So long as the Series 2017 Bonds are outstanding, the System is required to be in compliance with certain financial and performance-related covenants.

The 2017 bond refundings, resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,311. The unamortized difference (\$3,622 at December 31, 2017), 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 refunding increased the System's total debt service payments by an estimated \$117,749 and extended the payment term by 22 years. The refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$9,456.

The Series 1997, 2009B, 2011, 2012, 2015 and 2017 Bonds were issued pursuant to a supplemental 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, 2015 and 2017 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 MetroHealth System  
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**Note 6. Long-Term Debt (Continued)**

The terms of the previous supplemental trust bond indenture agreement provided 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. In May 2017, with the adoption of the Twelfth Supplemental Trust Indenture, the depreciation reserve fund requirement ended.

The Twelfth Supplemental Trust Indenture provides for the establishment of a bond 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. To satisfy the bond reserve fund requirement Cuyahoga County has entered into an Irrevocable Letter of Credit for an amount not to exceed \$63,322, expiring on May 22, 2020. In the event there is a draw on the Letter of Credit, the System is required to repay Cuyahoga County in accordance with the terms of the payment agreement. Additionally, Cuyahoga County is responsible for payment of the annual Letter of Credit Fee, up to a maximum of \$350 per year, with any amount over the maximum to be paid by the System. As of December 31, 2017, there were no draws on the Letter of Credit.

The System leases various buildings and equipment under capital leases which expire at various dates through 2046 (See Note 12). The assets and liabilities under capital lease obligations are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. Depreciation of the assets under capital lease is included in depreciation expense for the years ended December 31, 2017 and 2016.

Following is a summary of property held under capital leases at December 31:

	2017	2016
Equipment	\$ 8,830	\$ 8,830
Buildings	8,706	8,706
	17,536	17,536
Accumulated depreciation	(6,158)	(4,575)
	<u>\$ 11,378</u>	<u>\$ 12,961</u>



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

The revenue bonds, leases and loan payment requirements for years subsequent to December 31, 2017, are as follows:

	Total Lease Obligations		Total Loan Obligations		Total Hospital Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,311	\$ 73	\$ 716	\$ -	\$ -	\$ 55,197
2019	1,064	35	710	-	-	55,197
2020	464	11	-	-	-	55,197
2021	147	2	-	-	-	55,197
2022	-	-	-	-	-	55,197
2023–2027	-	-	-	-	60,110	268,770
2028–2032	-	-	-	-	76,755	251,559
2033–2037	-	-	-	-	98,715	226,651
2038–2042	-	-	-	-	127,550	191,902
2043-2047	-	-	-	-	164,425	153,662
2048-2052	-	-	-	-	213,765	104,323
2053-2057	-	-	-	-	279,340	38,737
	<u>\$ 2,986</u>	<u>\$ 121</u>	<u>\$ 1,426</u>	<u>\$ -</u>	<u>1,020,660</u>	<u>\$ 1,511,589</u>
Unamortized premiums					<u>36,251</u>	
<b>Total hospital revenue bonds, net</b>					<u><u>\$1,056,911</u></u>	

There are no amounts remaining to be paid to bond holders related to defeased debt at December 31, 2017.

**Foundation:** On October 14, 2016, HS Acquisitions LLC, FRE Holdings LLC and FRE Holdings II LLC (collectively referred to as the LLCs) signed an interim loan agreement (Note) with KeyBank for a total of \$8,706. The proceeds of the Note were used to acquire eight properties in Cuyahoga County which were subsequently leased to the System.

The Note was paid in full in 2017 and the remaining debt issuance costs were written off and included with interest expense.

Total interest expense incurred by the Foundation was \$86 and \$27 for the years ended December 31, 2017 and 2016, respectively.

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**Notes to Financial Statements  
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**Note 7. Derivative Instruments**

The System's objectives of its derivative instruments included 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 two interest rate swap agreements with a total outstanding notional amount of \$91,765 at December 31, 2016. In April 2017, the System exercised its early termination option and ended both agreements.

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, 2017 and 2016 was \$0 and (\$11,598), respectively, and are included within the liabilities section of the Statements of Net Position. The loss from the change in fair value of the swap agreements of \$493 in 2017 and the gain from the change in fair value of the swap agreements of \$1,361 in 2016, is included in net investment income in the Statements of Revenues, Expenses, and Changes in Net Position. As a result of the agreements, net settlements increased the System's interest expense by \$551 and \$2,274 in 2017 and 2016, respectively.

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

12/31/2017	12/31/2016		Agreement	Early		
Notional	Notional	Effective	Termination	Termination	The System	Counterparty
Amount	Amount	Date	Date	Option	Pays	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 2017, ISDA five-year interest rates ranged between 1.65% and 2.23%. In 2016, ISDA five-year interest rates ranged between .95% and 2.08%. The net amount is exchanged monthly between the two parties. The System has an early termination option which was exercised and effective April 17, 2017. The agreement unwind fee paid to terminate the swap was \$9,291.

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**Note 7. Derivative Instruments (Continued)**

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 which was exercised and effective April 13, 2017. The agreement unwind fee paid to terminate the swap was \$2,890.

**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.

**Counterparty risk:** The System is exposed to counterparty risk on its interest rate swaps. The System could be at risk for replacing these contracts at current market rates, should the counterparty default. The System seeks to control this risk through contracting only with counterparties who meet certain credit guidelines. The System has maintained the same counterparties since the swaps' inception and neither The System nor the counterparties have ever triggered the collateral posting thresholds.

**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, 2017 and 2016, the total liability for amounts due to third-party payors was \$33,622 and \$49,571, respectively. Amounts classified as 'due within one year' are based on historical communications and estimated timing of recoupment requests from third-party payors.

**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 one and a half years of their earned vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has completed 90 days of employment 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, 2017, and 2016, the total liability for accrued vacation and sick leave was \$50,276 and \$47,608, respectively. Amounts classified as 'due within one year' are based on historical usage patterns.

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

**Other long-term liabilities:** The following summarizes changes in other long-term liabilities for the years ended December 31, 2017 and 2016:

	2017				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due to third-party payors	\$ 49,571	\$ 2,037	\$ (17,986)	\$ 33,622	\$ 2,764
Accrued vacation and sick leave	47,608	56,206	(53,538)	50,276	6,227
Derivative instruments - rate swaps	11,598	493	(12,091)	-	-
	<u>\$ 108,777</u>	<u>\$ 58,736</u>	<u>\$ (83,615)</u>	<u>\$ 83,898</u>	<u>\$ 8,991</u>

  

	2016				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due to third-party payors	\$ 36,379	\$ 23,551	\$ (10,359)	\$ 49,571	\$ 522
Accrued vacation and sick leave	53,552	44,746	(50,690)	47,608	4,759
Derivative instruments - rate swaps	12,959	-	(1,361)	11,598	-
	<u>\$ 102,890</u>	<u>\$ 68,297</u>	<u>\$ (62,410)</u>	<u>\$ 108,777</u>	<u>\$ 5,281</u>

**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 and worker's compensation but maintains commercial insurance policies for property and casualty, automobile, aircraft (helicopter and fixed wing). Additionally, beginning in 2016, the System is self-insured for professional liability through Select Assurance Captive LLC, a wholly owned single parent captive insurance company. The System also maintains 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, 2017 and 2016. Settled claims have not exceeded insurance coverage in any of the past three years.

During the normal course of its operations, the System has become a defendant in various legal actions. In the opinion of legal counsel and the System administration, the disposition of the pending cases will not have a material adverse effect of the financial condition or operations of the System.

Losses from asserted claims and from unasserted claims identified under the System's incident reporting systems are recorded 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.

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

The liability for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and incurred but not reported claims for 2017, 2016 and 2015 as follows:

	2017				
	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	\$ 7,707	\$ 2,391	\$ (1,963)	\$ 8,135	\$ 1,621
Professional liability	50,385	6,292	(5,252)	51,425	14,870
Employee health	1,616	28,306	(27,760)	2,162	2,162
	<u>\$ 59,708</u>	<u>\$ 36,989</u>	<u>\$ (34,975)</u>	<u>\$ 61,722</u>	<u>\$ 18,653</u>
	2016				
	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	\$ 8,416	\$ 986	\$ (1,695)	\$ 7,707	\$ 1,592
Professional liability	45,494	6,994	(2,103)	50,385	15,195
Employee health	1,284	25,419	(25,087)	1,616	1,616
	<u>\$ 55,194</u>	<u>\$ 33,399</u>	<u>\$ (28,885)</u>	<u>\$ 59,708</u>	<u>\$ 18,403</u>
	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
	<u>\$ 58,568</u>	<u>\$ 30,908</u>	<u>\$ (34,282)</u>	<u>\$ 55,194</u>	<u>\$ 16,833</u>

The liabilities recorded for worker's compensation and professional liability at December 31, 2017 are discounted liabilities. A discount rate of 1.5% was used. The undiscounted liabilities are approximately \$896 and \$2,409 higher for worker's compensation and professional liability, respectively.

The liabilities recorded for worker's compensation and professional liability at December 31, 2016 are discounted liabilities. A discount rate of 1.5% was used. The undiscounted liabilities are approximately \$834 and \$2,565 higher for worker's compensation and professional liability, respectively.

**The MetroHealth System  
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**Note 9. Operating Leases**

The System has entered into operating lease agreements for medical and office space, which expire through 2031. 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, 2017, are as follows:

2018	\$	5,543
2019		5,348
2020		4,694
2021		4,297
2022		3,992
2023-2027		18,039
2028-2031		12,057
<b>Total</b>	<b>\$</b>	<b>53,970</b>

Rent expense totaled \$5,768 in 2017 and \$4,007 in 2016.

**Note 10. Benefit Plans**

**Pension:** Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (OPERS). The plans are the Traditional Pension Plan — a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan — a defined contribution pension plan 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.

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

**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 2016 CAFR for additional details.

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 2016 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.

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**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 cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a cost-of-living adjustment on the defined benefit portion of their benefit. The cost-of-living increase varies somewhat but is generally defined as Consumer Price Index (CPI) not to exceed 3%. 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. Both employee and employer contribution rates are capped by State statute. For the years ended December 31, 2017 and 2016, 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. A change in these caps requires action of both Houses of the General Assembly, and approval by the Governor. For years 2017 and 2016, member and employer contribution rates were consistent across all three plans. The System's contributions to OPERS for the years ended December 31, 2017 and 2016 were \$71,069 and \$69,279, respectively, equal to the statutorily required contributions for each year, made up of \$58,271 and \$56,789, respectively, for the Traditional Pension Plan, \$2,575 and \$2,512, respectively, for the Combined Plan, and \$10,223 and \$9,978, respectively, 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, 2017 and 2016, the System reported a liability of \$726,077 and \$510,316, respectively, for its proportionate share of the net pension liability related to the Traditional Pension Plan and an asset of \$2,658 and \$2,093, respectively, 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, 2016 and 2015, respectively, and the total pension liability/asset used to calculate the net pension liability/asset was determined by an actuarial valuation as of those dates. 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 periods (year ended December 31, 2016 and 2015). Although the pension liabilities recognized in accordance with GASB Statement No. 68 meet the definition of a "liability" in its conceptual framework for accounting standards, they do not represent legal claims on the System's resources, and there are no cash flows associated with the recognition of net pension liabilities, deferrals and expense.

At December 31, 2016, the System's proportion was 3.20% for the Traditional Pension Plan, which was an increase of .25% from its proportion measured as of December 31, 2015, and 4.67% for the Combined Plan, which was an increase of .47% from its proportion measured as of December 31, 2015, and 13.84% for the Member-Directed Plan, which was an increase of 1.56% from its proportion measured as of December 31, 2015.

At December 31, 2015, the System's proportion was 2.95% for the Traditional Pension Plan, which was an increase of .06% from its proportion measured as of December 31, 2014, and 4.20% for the Combined Plan, which was an increase of .42% from its proportion measured as of December 31, 2014, and 12.28% for the Member-Directed Plan, which was a decrease of (.05%) from its proportion measured as of December 31, 2014.



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

For the year ended December 31, 2017 and 2016, the System recognized pension expense for the Traditional Pension Plan of \$174,600 and \$83,044, respectively, the Combined Plan of \$2,129 and \$1,346, respectively, and the Member-Directed Plan of \$19,532 and (\$447), respectively.

At December 31, 2017 and 2016, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017			
	Traditional Pension Plan	Combined Plan	Member-Directed Plan	Total
<b>Deferred Outflow of Resources</b>				
Net difference between projected and actual earnings on pension plan investments	\$ 108,129	\$ 634	\$ 50	\$ 108,813
Difference between expected and actual experience	984	-	587	1,571
Change in assumptions	115,165	634	65	115,864
Changes in proportionate share of contributions	32,026	37	-	32,063
System contributions subsequent to the measurement date	49,692	2,216	393	52,301
	<u>\$ 305,996</u>	<u>\$ 3,521</u>	<u>\$ 1,095</u>	<u>\$ 310,612</u>

	2017			
	Traditional Pension Plan	Combined Plan	Member-Directed Plan	Total
<b>Deferred Inflow of Resources</b>				
Difference between expected and actual experience	\$ 4,321	\$ 1,330	\$ -	\$ 5,651
Changes in proportionate share of contributions	8,166	345	50	8,561
	<u>\$ 12,487</u>	<u>\$ 1,675</u>	<u>\$ 50</u>	<u>\$ 14,212</u>

	2016			
	Traditional Pension Plan	Combined Plan	Member-Directed Plan	Total
<b>Deferred Outflow of Resources</b>				
Net difference between projected and actual earnings on pension plan investments	\$ 150,001	\$ 883	\$ 76	\$ 150,960
Difference between expected and actual experience	-	-	325	325
Changes in proportionate share of contributions	5,549	-	-	5,549
System contributions subsequent to the measurement date	48,676	2,154	9,978	60,808
	<u>\$ 204,226</u>	<u>\$ 3,037</u>	<u>\$ 10,379</u>	<u>\$ 217,642</u>

	2016			
	Traditional Pension Plan	Combined Plan	Member-Directed Plan	Total
<b>Deferred Inflow of Resources</b>				
Difference between expected and actual experience	\$ 9,860	\$ 934	\$ -	\$ 10,794
Changes in proportionate share of contributions	-	162	-	162
	<u>\$ 9,860</u>	<u>\$ 1,096</u>	<u>\$ -</u>	<u>\$ 10,956</u>

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

At December 31, 2017 and 2016, the Traditional Pension Plan reported \$49,692 and \$48,676, respectively, the Combined Plan reported \$2,216 and \$2,154, respectively, and the Member-Directed Plan reported \$393 and \$9,978, 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 subsequent fiscal year. 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	Member-Directed Plan
Year ending December 31:			
2018	103,140	85	97
2019	104,533	84	97
2020	39,314	56	94
2021	(3,170)	(169)	75
2022	-	(145)	78
Thereafter	-	(281)	211
<b>Total</b>	<b>\$ 243,817</b>	<b>\$ (370)</b>	<b>\$ 652</b>

**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, 2016, using the actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 67. In 2016, the OPERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of December 31, 2016. The most significant change was a reduction in the discount rate from 8.0% to 7.5%. 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.

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

Key methods and assumptions used in the valuation of the total pension liability is as follows at December 31:

2017

Actuarial Information	Traditional Pension Plan	Combined Plan	Member-Directed Plan
Valuation Date	December 31, 2016	December 31, 2016	December 31, 2016
Experience Study	5 Year Period Ended December 31, 2015	5 Year Period Ended December 31, 2015	5 Year Period Ended December 31, 2016
Actuarial Cost Method	Individual entry age	Individual entry age	Individual entry age
Actuarial Assumptions			
Investment Rate of Return	7.50%	7.50%	7.50%
Wage Inflation	3.25%	3.25%	3.25%
Projection Salary Increases	3.25%-10.75% (includes wage inflation at 3.25%)	3.25%-8.25% (includes wage inflation at 3.25%)	3.25%-8.25% (includes wage inflation at 3.25%)
Cost-of-living Adjustments	Pre-1/7/13 Retirees: 3.0% Simple Post-1/7/13 Retirees: 3.0% Simple through 2018, then 2.15% Simple	Pre-1/7/13 Retirees: 3.0% Simple Post-1/7/13 Retirees: 3.0% Simple through 2018, then 2.15% Simple	Pre-1/7/13 Retirees: 3.0% Simple Post-1/7/13 Retirees: 3.0% Simple through 2018, then 2.15% Simple

2016

Actuarial Information	Traditional Pension Plan	Combined Plan	Member-Directed Plan
Valuation Date	December 31, 2015	December 31, 2015	December 31, 2015
Experience Study	5 Year Period Ended December 31, 2010	5 Year Period Ended December 31, 2010	5 Year Period Ended December 31, 2010
Actuarial Cost Method	Individual entry age	Individual entry age	Individual entry age
Actuarial Assumptions			
Investment Rate of Return	8.00%	8.00%	8.00%
Wage Inflation	3.75%	3.75%	3.75%
Projection Salary Increases	4.25%-10.05% (includes wage inflation at 3.75%)	4.25%-8.05% (includes wage inflation at 3.75%)	4.25%-8.05% (includes wage inflation at 3.75%)
Cost-of-living Adjustments	Pre-1/7/13 Retirees: 3.0% Simple Post-1/7/13 Retirees: 3.0% Simple through 2018, then 2.8% Simple	Pre-1/7/13 Retirees: 3.0% Simple Post-1/7/13 Retirees: 3.0% Simple through 2018, then 2.8% Simple	Pre-1/7/13 Retirees: 3.0% Simple Post-1/7/13 Retirees: 3.0% Simple through 2018, then 2.8% Simple

For 2017, the mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010 respectively. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010 respectively. Mortality rates for a particular calendar year for both healthy and disabled retirees are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For 2016, the 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.

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

For 2017, the discount rate used to measure the total pension liability was 7.5% 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.

For 2016, 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.

For 2017, 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 2016 and the long-term expected real rates of return for both the Traditional Pension Plan and the Combined Plan.

The OPERS Board approved asset allocation policy and long-term expected real rates of return is as follows at December 31:

2017

<b>Asset Class</b>	<b>Target Allocation for 2016</b>	<b>Weighted Average Long-Term</b>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other Investments	18.00	4.92
Total	100.00 %	5.66 %

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

2016

<b>Asset Class</b>	<b>Target Allocation for 2015</b>	<b>Weighted Average Long-Term Expected Real Rate of Return</b>
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other Investments	18.00	4.59
Total	100.00 %	5.27 %

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 2016 CAFR. This CAFR is available at [www.opers.org](http://www.opers.org) or by contacting OPERS at: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800) 222-7377.

The following table presents the December 31, 2017 net pension liability (asset) calculated using the discount rate of 7.5%, 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.

<b>Sensitivity of Net Pension Liability/(Asset) to Changes in the Discount Rate</b>			
<b>Net Pension Liability/(Asset)</b>	<b>1% Decrease 6.5%</b>	<b>Current Discount Rate 7.5%</b>	<b>1% Increase 8.5%</b>
Traditional Pension Plan	\$1,109,244	\$726,077	\$406,774
Combined Plan	\$187	(\$2,658)	(\$4,766)
Member-Directed Plan	\$138	\$0	(\$138)

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

The following table presents the December 31, 2016 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.

<b>Sensitivity of Net Pension Liability/(Asset) to Changes in the Discount Rate</b>			
<b>Net Pension Liability/(Asset)</b>	<b>1% Decrease 7.0%</b>	<b>Current Discount Rate 8.0%</b>	<b>1% Increase 9.0%</b>
Traditional Pension Plan	\$813,057	\$510,316	\$254,962
Combined Plan	(\$42)	(\$2,093)	(\$3,658)
Member-Directed Plan	\$123	\$0	(\$123)

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, 2016.

**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 2017, 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.

**The MetroHealth System  
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**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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**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. Beginning January 1, 2017, the portion of employer contributions allocated to healthcare for members in the Traditional Plan and Combined Plan decreased from 2.0% to 1.0% for both plans, as recommended by OPERS' actuary. Beginning January 1, 2018, employer contributions for the two plans decrease from 1.0% to 0.0% as recommended by the 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 employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%. The System's contributions for 2017, 2016, and 2015 used to fund post-retirement healthcare benefits were \$7,267, \$8,472 and \$8,813, respectively, which are included in the System's contractually required contribution of \$71,069, \$69,279 and \$61,686, for the years ended December 31, 2017, 2016, and 2015, 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 supplemental trust bond indenture and other external parties for specific purposes. The net position is restricted for the following purposes at December 31:

	2017	2016
Restricted, debt service payments	\$ 14,822	\$ 20,173
Restricted, capital asset use	2,250	2,250
Restricted, program activities	1,055	1,051
<b>Total</b>	<b>\$ 18,127</b>	<b>\$ 23,474</b>

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:

	2017	2016
Programmatic activities of The MetroHealth System	\$ 29,928	\$ 28,043
Time restrictions	272	487
<b>Total</b>	<b>\$ 30,200</b>	<b>\$ 28,530</b>

The Foundation has restricted, nonexpendable net positions in the amounts of \$16,393 and \$13,427 at December 31, 2017 and 2016, respectively, that are restricted in perpetuity, the income from which is expendable to support the programmatic activities of The MetroHealth System.

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

**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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**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 2017 and 2016 financial statements. The System received support from the Foundation totaling \$2,420 and \$3,889 in 2017 and 2016, respectively, which is recorded in other revenue and capital grants and gifts on the System's Statements of Revenues, Expenses, and Changes in Net Position. The outstanding receivable from the Foundation was \$1,228 and \$1,690 at December 31, 2017 and 2016, respectively, which is included in other receivables on the System's Statements of Net Position. The System provided the Foundation in-kind support totaling \$1,880 and \$1,748 in 2017 and 2016, respectively. This support covered the direct expenses of the Development Department and indirect expenses for the use of space and support departments such as information services and environmental services.

During 2016, the System entered into lease agreements with the LLCs. The lease agreements between the System and the LLCs have a thirty-year term, with an additional thirty-year renewal option. The Development and Operations Service Agreement (DOSA) required the System to pay a monthly amount equal to the principal and interest on the financing in the acquisition of the property. On May 25, 2017, with proceeds from the Series 2017 Bonds the System paid \$8,509, to satisfy the financing obligation connected to the lease agreements with the LLCs and therefore on May 31, 2017, the DOSA was terminated. After termination of the DOSA, the base rate is reduced to one dollar per year per lease per lease agreement. The leases also require the System to be responsible for any operating expenses related to the maintenance, operation and repairs to the properties. These costs include maintenance, real estate taxes and assessments, insurance on the property and contents and other related costs.

**Foundation:** As of December 31, 2017, the Foundation was conditionally committed to a \$960,392 grant to be paid to a related party of the System. Due to its conditional nature, this commitment is not recorded in the financial statements of the Foundation.

**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. 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, 2017 and 2016, the LLC had balances of \$10,061 and \$7,663, respectively, which are included in other assets in the System's Statements of Net Position, which essentially represents the LLC's interest in CCF/MHS Renal Care Company LTD. In 2017 and 2016, the LLC recorded other income of \$2,399 and \$2,516, respectively, which is included in the System's Statements 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, 2017 and 2016. The LLC received distributions in 2017 and 2016 of \$0 and \$2,940, respectively.

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 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, 2017 and 2016, MHS had a balance of \$4,394 and \$3,448, respectively, which is included in general investments in the System's Statements 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 years ended December 31, 2017 and 2016.



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

**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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**Note 13. Investment in Blended Component Unit (Continued)**

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 2017 and 2016, MHS recorded a reduction to medical supplies expense of \$978 and \$1,184, respectively, related to vesting of the Class B units, which is included in the System's Statements of Revenues, Expenses, and Changes in Net Position.

Select Assurance Captive LLC (Select) was formed November 5, 2015 for the purpose of insuring the risks of the System related to medical malpractice. Although it is a legally separate entity, the System is the sole member of Select. Because Select is considered a blended component unit of the System, Select's financial activity is reflected within the financial activity of the System in these financial statements.

At December 31, 2017, Select had balances reported in the Statement of Net Position of \$21,001, \$91, and \$13,404 in Cash, Accounts Payable and General and Professional Liabilities, respectively. At December 31, 2016, Select had balances reported in the Statement of Net Position of \$6,955, \$95, and \$6,496 in Cash, Accounts Payable and General and Professional Liabilities, respectively. In 2017 and 2016, Select recorded operating loss of \$211 and \$149, respectively, which is included in the System's Statements of Revenues, Expenses, and Changes in Net Position.

**Note 14. 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. The System is subject to review and audit as part of this program. Certain amounts could be identified as overpayments and be subject to repayment. Generally, no provision for repayment is recorded until an audit has determined that repayment is necessary. The System is not aware of any material unrecorded liabilities pertaining to this program.

**Purchase Commitments:** As of December 31, 2017, the System had commitments for various projects totaling approximately \$96,554. Projects with large commitments include \$38,691 for planning and executive services related to the campus transformation project, \$25,507 for construction of a new parking garage and \$7,368 for construction and equipment at the Cleveland Heights and Parma hospitals. These projects are being funded with Series 2017 Bond project funds.

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

**Notes to Financial Statements  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

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

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

**Note 15. Subsequent Event**

On March 12, 2018, a five-year campaign was announced to raise \$100 million in philanthropic support for core aspects of the transformation project.

## **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)**

	2017	2016	2015	2014	2013	2012	2011
Contractually required contributions	\$ 58,271	\$ 56,789	\$ 51,359	\$ 49,612	\$ 46,543	\$ 44,374	\$ 44,916
Contributions in relation to the contractually required contributions	(58,271)	(56,789)	(51,359)	(49,612)	(46,543)	(44,374)	(44,916)
Contribution deficiency (excess)	-	-	-	-	-	-	-
System's employee covered payroll	\$ 416,221	\$ 405,636	\$ 366,850	\$ 350,890	\$ 332,450	\$ 316,957	\$ 320,829
Contributions as a percentage of employee covered payroll	14%	14%	14%	14%	14%	14%	14%

**Schedule of System's Contributions**

**Ohio Public Employees Retirement System (OPERS) Combined Plan**

**Last 10 Fiscal Years\***

**(Dollars in Thousands)**

	2017	2016	2015	2014	2013	2012	2011
Contractually required contributions	\$ 2,575	\$ 2,512	\$ 2,137	\$ 1,849	\$ 1,655	\$ 1,459	\$ 1,378
Contributions in relation to the contractually required contributions	(2,575)	(2,512)	(2,137)	(1,849)	(1,655)	(1,459)	(1,378)
Contribution deficiency (excess)	-	-	-	-	-	-	-
System's employee covered payroll	\$ 18,393	\$ 17,943	\$ 15,264	\$ 13,066	\$ 11,821	\$ 10,421	\$ 9,843
Contributions as a percentage of employee covered payroll	14%	14%	14%	14%	14%	14%	14%

**Schedule of System's Contributions**

**Ohio Public Employees Retirement System (OPERS) Member-Directed Plan**

**Last 10 Fiscal Years\***

**(Dollars in Thousands)**

	2017	2016	2015	2014	2013	2012	2011
Contractually required contributions	\$ 10,223	\$ 9,978	\$ 8,190	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	(10,223)	(9,978)	(8,190)	-	-	-	-
Contribution deficiency (excess)	-	-	-	-	-	-	-
System's employee covered payroll	\$ 73,021	\$ 71,273	\$ 58,497	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of employee covered payroll	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)

	2016	2015	2014	2013
System's proportion of the net pension liability	3.20%	2.95%	2.89%	2.87%
System's proportionate share of the net pension liability	\$ 726,077	\$ 510,316	\$ 348,619	\$ 295,647
System's employee covered payroll	\$ 405,636	\$ 366,850	\$ 350,890	\$ 332,450
System's proportionate share of the net pension liability as a percentage of its employee covered payroll	179.00%	139.11%	99.35%	88.93%
Plan fiduciary net position as a percentage of total pension liability	77.25%	81.08%	86.45%	not available

### 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)

	2016	2015	2014	2013
System's proportion of the net pension asset	4.67%	4.20%	3.78%	3.36%
System's proportionate share of the net pension asset	\$ 2,600	\$ 2,046	\$ 1,454	\$ 2,034
System's employee covered payroll	\$ 17,943	\$ 15,264	\$ 13,066	\$ 11,821
System's proportionate share of the net pension asset as a percentage of its employee covered payroll	14.49%	13.41%	11.13%	17.21%
Plan fiduciary net position as a percentage of total pension asset	116.55%	116.90%	114.83%	not available

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

	2016	2015	2014	2013
System's proportion of the net pension asset	13.84%	12.28%	12.33%	not available
System's proportionate share of the net pension asset	\$ 58	\$ 47	\$ 73	not available
System's employee covered payroll	\$ 71,273	\$ 71,273	\$ 58,497	not available
System's proportionate share of the net pension asset as a percentage of its employee covered payroll	0.08%	0.07%	0.12%	not available
Plan fiduciary net position as a percentage of total pension asset	103.40%	103.91%	not available	not available

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

### Changes in Actuarial Assumptions:

In 2016, the OPERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of December 31, 2016. The most significant change was a reduction in the discount rate from 8.0% to 7.5%.

# **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  
For The Year Ended December 31, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U.S. Department of Agriculture:</b>				
Pass-Through Program from the Ohio Department of Health:				
WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	1830011WA1017; 1830011WA1118	\$ -	\$ 4,499,075
<b>TOTAL --- U.S. Department of Agriculture Pass-Through Programs . . . .</b>			<b>\$ -</b>	<b>\$ 4,499,075</b>
<b>U.S. Department of Justice:</b>				
Second Chance Act Reentry Initiative				
	16.812	2015-RW-BX-0003	\$ -	\$ 257,945
<b>TOTAL --- U.S. Department of Justice Direct Program . . . .</b>			<b>\$ -</b>	<b>\$ 257,945</b>
<b>U.S. Department of Justice:</b>				
Pass-Through Program from the Ohio Attorney General:				
Crime Victim Assistance	16.575	2017-VOCA-72451059; 2018-VOCA-109853044	\$ -	\$ 102,501
<b>TOTAL --- U.S. Department of Justice Direct Pass-Through Programs . . . .</b>			<b>\$ -</b>	<b>\$ 102,501</b>
<b>U.S. Department of Health &amp; Human Services:</b>				
Special Projects of National Significance	93.928	H97HA27429-03-02; H97HA27429-04-01	\$ -	\$ 383,225
Special Projects of National Significance	93.928	H97HA28892-02-02; H97HA28892-03-00	\$ 23,020	\$ 279,296
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1H79SP080312-01	\$ -	\$ 8,172
<b>Subtotal - U.S. Department of Health &amp; Human Services - Direct . . . .</b>			<b>\$ 23,020</b>	<b>\$ 670,693</b>
<b>U.S. Department of Health &amp; Human Services:</b>				
Pass-Through Program from the Western Reserve Area Agency on Aging:				
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	ADRN – Benefits Assistance	\$ -	\$ 53,153
Pass-Through Program from Cuyahoga County:				
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	5U52PS00470303	-	45,936
Pass-Through Program from Ohio Department of Health:				
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073	01830011GS1017	-	2,631
Paul Coverdell National Acute Stroke Program National Center for Chronic Disease Prevention and Health Promotion	93.810	01830014HD1017; 01830014HD1118	-	154,807
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	1 U3REP150529	-	113,649
HIV Care Formula Grants	93.917	01830012RW0515; 01830012RW0616; 01830012RW0717	-	128,125
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	01830011MH0117; 01830011MH0218	-	477,815
Maternal and Child Health Services Block Grant to the States	93.994	01830011GS1017	-	421
Pass-Through Program from the Center for Health Affairs:				
National Bioterrorism Hospital Preparedness Program	93.889	01860052RP1017	-	12,410
Pass-Through Program from the Cuyahoga County Board of Health:				
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	01810014IP0717	-	22,533
Pass-Through Program from the Ohio Department of Mental Health & Addiction Services:				
Opioid STR	93.788	1H79TI080261-01	-	9,425
Pass-Through Program from the Cuyahoga County Board of Health:				
HIV Emergency Relief Project Grants	93.914	352239/H89HA23812	-	1,783,752
HIV Care Formula Grants	93.917	6x07HA000162703	-	40,595
Pass-Through Program from AIDS United:				
Special Projects of National Significance	93.928	U90HA29237	-	227,903
Pass-Through Program from the Cleveland Department of Public Health:				
HIV Prevention Activities Health Department Based	93.940	CT5005SG 2017-004	-	132,000
Pass-Through Program from the Health Resource & Educational Trust in partnership with AHA:				
DHHS - Unknown (National Implementation of TeamSteps)	93.xxx	HSSA29020100025/ HSA29032002T	-	68,000
<b>Subtotal - U.S. Department of Health &amp; Human Services - Pass-Through Programs . . . .</b>			<b>\$ -</b>	<b>\$ 3,273,155</b>

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

**Schedule of Expenditures of Federal Awards (Continued)  
For The Year Ended December 31, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>Research and Development Cluster</b>				
<b>U.S. Department of Health &amp; Human Services:</b>				
Child Health and Human Development Extramural Research	93.865	5R00HD062841-04	\$ -	\$ 44,576
<b>Subtotal - U.S. Department of Health &amp; Human Services - Direct . . . . .</b>			<b>\$ -</b>	<b>\$ 44,576</b>
<b>U.S. Department of Defense:</b>				
Pass-Through Program from American Burn Association/U.S. Army Medical Research:				
Military Medical Research and Development	12.420	W81XWH-09-2-0194; W81XWH-16-2-0048	\$ -	\$ 1,138
Pass-Through Program from Johns Hopkins University / U.S. Army Medical Research:				
Basic Scientific Research	12.431	W81XWH1020090 W81XWH-10-2-0134 W81XWH-12-1-0588 W81XWH-10-2-0108	-	1,112 4,727 59 533
Pass-Through Program from Johns Hopkins University, Bloomberg School of Public Health / NIH-NAIMSD:				
Basic Scientific Research	12.431	ROI AR 064066	-	137
<b>Subtotal - U.S. Department of Defense - Pass Through Programs . . . . .</b>			<b>\$ -</b>	<b>\$ 7,706</b>
<b>U.S. Department of Health &amp; Human Services:</b>				
Pass-Through Program from Duke Clinical Research / USFDA:				
Food and Drug Administration Research	93.103	207574-215728; R18FD005292	\$ -	\$ 1,222
Pass-Through Program from University of Pittsburgh / NIH-NIAMS:				
Minority Health and Health Disparities Research	93.307	0041119 (124864-20); 5R01MH009118-03	-	24,447
Pass-Through Program from Frontier Science:				
Cancer Treatment Research	93.395	CA21115	-	5,006
Cancer Control	93.399	CA37403	-	5,006
Pass-Through Program from Emmes Corporation / NIH-NINDS:				
Trans-NIH Recovery Act Research Support <b>**RECOVERY**</b>	93.701	NS062835	-	5,526
Pass-Through Program from Duke Clinical Research / NIH-NHLBI:				
Cardiovascular Diseases Research	93.837	HL084904 200464; HL084904 U10HL084904 177494/223700/226028/U10HL 084904	- - - -	775 36 38,731 2,490
Allergy and Infectious Diseases Research	93.855	189925/218470; UM1AI104681	-	2,424
DHHS - Unknown (Infants at Risk of Bronchopulmonary Dysplasia)	93.xxx	210424; HH SN-2752010031	-	9,400
Pass-Through Program from University of Rochester / NIH-NHLBI:				
Cardiovascular Diseases Research	93.837	415639-G, U01HL096610	-	5,256
Pass-Through Program from University of Alabama / NIH-NHLBI:				
Cardiovascular Diseases Research	93.837	000503570-020, HL120338	-	29,800
Pass-Through Program from University of Michigan / NIH-NIAMS:				
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	3002598257, R01AR062066	-	9,737
Pass-Through Program from Cleveland Medical Devices / NIH-NINDS				
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	2R44NS53116-02	-	60
<b>Subtotal - U.S. Department of Health &amp; Human Services - Pass-Through Programs . . . . .</b>			<b>\$ -</b>	<b>\$ 139,916</b>
<b>Executive Office of the President:</b>				
Pass-Through Program from the University of Baltimore:				
Research and Data Analysis	95.007	G1799ONDCP06B	\$ -	\$ 1,773
<b>Subtotal - Executive Office of the President - Pass-Through Programs . . . . .</b>			<b>\$ -</b>	<b>\$ 1,773</b>
<b>TOTAL - Research &amp; Development Cluster . . . . .</b>			<b>\$ -</b>	<b>\$ 193,971</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS . . . . .</b>			<b>\$ 23,020</b>	<b>\$ 8,997,340</b>

See notes to schedule of expenditures of federal awards.



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

**Notes to Schedule of Expenditures of Federal Awards  
For The Year Ended December 31, 2017**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The MetroHealth System (the System) under programs of the federal government for the year ended December 31, 2017. The information in 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 the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Indirect Cost Rate**

The System has elected not to use the 10-percent de minimis indirect cost rate due to the fact that the System has an existing approved indirect cost rate.

**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***

**Independent Auditor's Report**

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, 2017, 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 21, 2018.

**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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 21, 2018

**Report on Compliance For Each Major Federal Program and Report on  
Internal Control Over Compliance**

**Independent Auditor's Report**

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, 2017. 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, 2017.

## **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 21, 2018

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

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2017**

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

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

	Yes	<u>    X    </u>	No
	Yes	<u>    X    </u>	None reported

Noncompliance material to financial statements noted?

	Yes	<u>    X    </u>	No
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*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

	Yes	<u>    X    </u>	No
	Yes	<u>    X    </u>	None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?

	Yes	<u>    X    </u>	No
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Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.914

HIV Emergency Relief Projects Grants

93.870

Maternal, Infant and Early Childhood Home Visiting Grant Program

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

\$ 750,000

Auditee qualified as a low risk auditee?

	<u>    X    </u>	Yes	<u>                    </u>	No
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**The MetroHealth System  
(A Component Unit of Cuyahoga County)**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2017**

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Section II - Financial Statement Findings

No matters were reported.

Section III - Findings and Questioned Costs for Federal Awards

No matters were reported.

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

**Summary Schedule of Prior Year Findings and Questioned Costs  
Year Ended December 31, 2017**

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Section II – Financial Statement Findings

No matters were reported.

Section III – Findings and Questioned Costs for Federal Programs

No matters were reported.





# Dave Yost • Auditor of State

**THE METROHEALTH SYSTEM**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 21, 2018**