SINGLE AUDIT REPORT

The MetroHealth System

December 31, 2000

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees
The MetroHealth System

We have reviewed the Independent Auditor's Report of The MetroHealth System, Cuyahoga County, prepared by Ernst & Young LLP for the audit period January 1, 2000 through December 31, 2000. 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.

JIM PETRO
Auditor of State

August 10, 2001

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The MetroHealth System

Single Audit Report

December 31, 2000

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ERNST & YOUNG

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Report of Independent Auditors

Board of Trustees
The MetroHealth System

We have audited the accompanying balance sheets of The MetroHealth System, a component unit of Cuyahoga County, Ohio, as of December 31, 2000 and 1999, and the related statements of revenue and expenses of general funds, changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of The MetroHealth System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The MetroHealth System as of December 31, 2000 and 1999, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended December 31, 2000, dated March 8, 2001 on our consideration of The MetroHealth System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements of The MetroHealth System taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2000 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the 2000 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2000 financial statements and, in our opinion, is fairly presented in all material respects in relation to the 2000 financial statements taken as a whole.

Ernst & Young LLP

March 8, 2001

The MetroHealth System

Balance Sheets

(In Thousands)

	December 31 2000	December 31 1999
General funds		
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,743**	$ 8,383
Investments required for current liabilities	**6,517**	6,212
Patient accounts receivable	**57,014**	70,963
Less allowance for uncollectible accounts	**6,924**	9,710
	50,090	61,253
Due from restricted funds	**8,834**	8,860
Other receivables	**10,096**	13,764
Supplies	**5,206**	4,801
Prepaid expenses	**5,307**	3,175
Total current assets	**89,793**	106,448
Investments:		
By Board designation	**73,954**	62,216
Under bond indenture agreement	**123,548**	129,512
Self-insurance funds	**21,990**	27,557
Academic funds	**34,039**	32,813
	253,531	252,098
Less investments required for current liabilities	**6,517**	6,212
	247,014	245,886
Property, plant and equipment:		
Land and land improvements	**16,990**	16,127
Buildings and fixed equipment	**346,958**	308,817
Equipment	**173,882**	161,930
	537,830	486,874
Less accumulated depreciation	**331,428**	307,507
	206,402	179,367
Construction in progress	**22,962**	45,645
	229,364	225,012
Deferred financing costs and other assets	**2,737**	2,602
	$ 568,908	$579,948
Restricted funds		
Cash and cash equivalents	**$ 239**	$ 159
Investments	**14,029**	14,097
Other receivables	**226**	–
	$ 14,494	$ 14,256

	December 31	
	2000	1999
General funds		
Liabilities and fund balance		
Current liabilities:		
Accounts payable	**$ 20,610**	$ 17,517
Accrued payroll and related liabilities	**17,888**	15,071
Estimated amounts due to third-party payors	**12,897**	9,322
Accrued vacation and sick leave	**15,868**	14,264
Accrued interest payable	**4,107**	4,030
Public Employees Retirement System liability	**6,321**	10,439
Current installments of long-term debt	**6,517**	6,212
Other current liabilities	**3,696**	1,958
Total current liabilities	**87,904**	78,813
Long-term liabilities:		
Self-insurance liabilities	**29,685**	24,987
Estimated amounts due to third-party payors and other liabilities	**20,626**	23,472
Long-term debt, less current installments	**192,862**	198,874
Fund balance	**237,831**	253,802
	$568,908	$579,948
Restricted funds		
Other restricted liabilities	**$ –**	$ 191
Due to general funds	**8,834**	8,860
	8,834	9,051
Fund balances	**5,660**	5,205
	$ 14,494	$ 14,256

See accompanying notes to financial statements.

The MetroHealth System

Statements of Revenue and Expenses of General Funds

(In Thousands)

	Years Ended December 31	
	2000	**1999**
Revenue		
Net patient service revenue	**$ 389,202**	$ 374,921
Other revenue	**15,818**	16,548
County appropriation	**25,850**	25,352
Investment income	**11,454**	17,343
Unrealized gains (losses) on investments	**6,134**	(10,183)
Total revenue	**448,458**	423,981
Expenses		
Professional care of patients	**279,174**	269,430
Dietary	**5,748**	6,156
Household and property	**18,442**	19,557
Administrative and general	**66,496**	57,300
Employee benefits	**45,319**	43,704
Provision for bad debts	**13,553**	10,923
Depreciation and amortization	**27,152**	24,312
Interest	**8,545**	9,316
Total expenses	**464,429**	440,698
Deficiency of revenue over expenses	**$ (15,971)**	$ (16,717)

See accompanying notes to financial statements.

The MetroHealth System

Statements of Changes in Fund Balances

(In Thousands)

	General Funds	Restricted Funds
Balances at January 1, 1999	$ 270,519	$ 5,717
Deficiency of revenue over expenses	(16,717)	–
Restricted grants and donations	–	8,649
Specific purpose funds expenditures	–	(9,161)
Balances at December 31, 1999	253,802	5,205
Deficiency of revenue over expenses	**(15,971)**	
Restricted grants and donations	–	**5,914**
Specific purpose funds expenditures	–	**(5,459)**
Balances at December 31, 2000	**$ 237,831**	**$ 5,660**

See accompanying notes to financial statements.

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The MetroHealth System

Statements of Cash Flows

(In Thousands)

	Years Ended December 31	
	2000	**1999**
Operating activities		
Deficiency of revenue over expenses	**$ (15,971)**	$ (16,717)
Adjustments to reconcile deficiency of revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	**27,152**	24,312
Unrealized (gains) losses on investments	**(6,134)**	10,183
Amortization of deferred financing costs and bond discounts	**618**	231
Provision for bad debts	**13,553**	10,923
County appropriation	**(25,850)**	(25,352)
Interest expense considered capital financing	**8,545**	9,316
Changes in assets and liabilities:		
Increase in patient accounts receivable	**(2,391)**	(23,489)
Decrease (increase) in other current assets	**905**	(2,089)
Decrease in self-insurance funds	**5,567**	7,819
Increase in accounts payable and other current liabilities	**5,540**	8,922
Increase (decrease) in long-term liabilities	**4,698**	(11,394)
Net cash provided by (used in) operating activities	**16,232**	(7,335)
Noncapital financing activities		
County appropriation	**25,850**	25,352
Restricted grants and donations	**5,914**	8,649
Specific purpose funds expenditures	**(5,459)**	(9,161)
Net cash provided by noncapital financing activities	**26,305**	24,840
Capital and related financing activities		
Deposits (withdrawals) in project funds	**13,160**	(39,315)
Acquisition and construction of capital assets	**(31,504)**	(55,881)
Proceeds from issuance of long-term debt	**–**	63,076
Principal payments on long-term debt	**(6,212)**	(3,564)
Interest expense on long-term debt	**(8,545)**	(9,316)
Net cash used in capital and related financing activities	**(33,101)**	(45,000)
Investing activities		
Change in investments	**(13,996)**	27,397
Net decrease in cash and cash equivalents	**(4,560)**	(98)
Cash and cash equivalents at beginning of year	**8,542**	8,640
Cash and cash equivalents at end of year	**$ 3,982**	$ 8,542

See accompanying notes to financial statements.

The MetroHealth System

Notes to Financial Statements
(Dollars in Thousands)

December 31, 2000 and 1999

A. Summary of Significant Accounting Policies

Organization

The accompanying financial statements of The MetroHealth System (the System) are prepared on the accrual basis and include MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; MetroHealth Clement Center for Family Care, an outpatient community health facility; MetroHealth Centers for Skilled Nursing Care, Skilled East and Skilled West; Faculty Business Office, a medical specialty group practice; and several primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

In accordance with Government Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, the System's financial statements are included, as a discrete entity, in the County of Cuyahoga, Ohio's (the County) Consolidated Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Frank Russo, Cuyahoga County Auditor, County Administration Building, 1219 Ontario Street, Cleveland, Ohio 44113.

The System is the public health care system for Cuyahoga County, Ohio, (County) and was created pursuant to Ohio Revised Code Chapter 339. The System is governed by a board of trustees appointed jointly by the Board of County Commissioners of the Board of County of Cuyahoga, and the senior judges of the Probate Court and Common Pleas Court. In order to support the general operations of the System, the County of Cuyahoga, Ohio Commissioners approved an appropriation of $25,850 and $25,352 in 2000 and 1999, respectively. The County has approved a similar amount of appropriation for 2001. The System is exempt from federal income taxes as a governmental entity.

Effective September 1, 1997, the System assumed responsibility for operating the former County Nursing Home, a long-term care facility consisting of 177 beds located on the near west side of Cleveland. Effective July 27, 2000, the System moved its Skilled West operations from the former County Nursing Home facility into its newly constructed long term care facility consisting of 150 beds located south of the hospital campus. The County has agreed to subsidize any operating loss of the Skilled West facility through June 2001 ($1,850 in 2000 and $1,352 in 1999 included in County appropriation on the statements of revenue and expenses of the general funds). The County retained ownership of the County Nursing Home facility and equipment which amounts and related depreciation are not reflected in these financial statements.

A. Summary of Significant Accounting Policies (continued)

Accounting Standards

Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), statements and interpretations issued after November 30, 1989 which do not conflict or contradict GASB pronouncements.

The GASB has issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This standard establishes comprehensive financial reporting standards; Application of this standard is required for fiscal 2001. Statement No. 34 is not expected to have an impact on the results and financial position of the System.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

A. Summary of Significant Accounting Policies (continued)

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

> ***Medicare and Medicaid***—Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries and Medicare capital costs are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.
>
> Inpatient psychiatric and rehabilitation services, and certain outpatient services related to Medicare beneficiaries and capital costs for Medicaid beneficiaries are reimbursed based on a cost-based methodology subject to certain limitations. Effective August 2000, Medicare implemented its Ambulatory Payment Classification based outpatient prospective payment system. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received. The System is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare and Medicaid fiscal intermediaries. The System's classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission are subject to an independent review by a peer review organization. Differences between the estimated amounts accrued at interim and final settlements are reported in the statement of revenue and expenses of general funds in the year of settlement. The System recorded favorable adjustments of \$3,984 and \$4,577 in 2000 and 1999, respectively, applicable to prior years.
>
> Net revenue from the Medicare and Medicaid programs accounted for approximately 24% and 33%, respectively, of the System's net patient service revenue for the year ended December 31, 2000. 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 possibly 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.

A. Summary of Significant Accounting Policies (continued)

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

Capitation—The System has contracted with various insurers to provide comprehensive health care services under capitated managed care arrangements. The cost of services provided or contracted for under these capitated arrangements is accrued in the period in which the services are provided to members of the managed care plans based in part on estimates, including an accrual for medical services provided but not reported to the System. The System has entered into a stop-loss insurance agreement to limit its potential losses on claims to $125 per member per year.

Disproportionate Share—As a public health care provider, the System renders services to residents of the County and others regardless of ability to pay. The System is classified as a disproportionate share provider by the Medicare and Medicaid programs due to the volume of low income persons it serves and receives additional payments (including Care Assurance of $36,465 and $38,752 in 2000 and 1999, respectively) from these programs as a result of this status which aggregated $43,360 and $45,692 in 2000 and 1999, respectively. The System also provides major trauma services to the region. The ability to continue these levels of service and programs will be contingent upon the various funding sources.

Charity Care

Throughout the admission, billing and collection processes, certain patients are identified by the System as qualifying for charity care. The System provides care to these patients without charge or at amounts less than its established rates. The charges foregone for charity care provided by the System, totaling $98,505 and $86,292 which represents 13.2 and 13.1 percent of gross charges in 2000 and 1999, 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.

A. Summary of Significant Accounting Policies (continued)

General and Restricted Funds

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restriction or that arise as a result of the operations of the System for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted funds.

Resources restricted by donors for plant replacement and expansion are added to the general fund balance to the extent expended within the period.

Cash and Cash Equivalents

The System considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost which approximates fair value excluding amounts limited as to use or restricted by board designation.

Supplies

Supplies are stated at the lower of cost (determined on first-in, first-out method) or net realizable value.

Investments

The System records its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on investments are recorded in the statement of revenue and expenses of general funds.

The System pools certain of its investments for investment purposes. Investment income for these pooled investments is allocated to the proper investment classification based on each investments fair value to the total fair value of all pooled investments.

A. Summary of Significant Accounting Policies (continued)

The net realized losses on investments ($1,716 in 2000 and $218 in 1999) is the difference between the proceeds received and the amortized cost of investments sold and is included in investment income in the statement of revenue and expenses of general funds.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization (straight-line method) are provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives. Routine maintenance and repairs are expensed as incurred.

Deferred Compensation Plans

The System offers eligible employees a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is available to employees upon termination of employment, retirement, disability, death, or unforeseeable emergency. The System may at any time amend or terminate the plan with or without consent of the participants.

In accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* the System created a trust for the assets of the plan for which the System has no fiduciary responsibility. The System has no recorded liability.

Costs of Borrowing

Interest costs on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest income and interest expense was $2,368 and $2,942, respectively, in 2000; no amounts were capitalized in 1999.

Deferred financing costs represent debt issuance expenditures on long-term obligations and are amortized over the period the bonds are outstanding on a straight-line basis.

A. Summary of Significant Accounting Policies (continued)

In 1999, the System entered into an interest-rate swap agreement to effectively convert a portion of its fixed rate debt to a variable rate basis. Net amounts periodically receivable or payable as a result of swap agreements are accrued as adjustments to interest expense on the related debt. Other than the net interest receipts or expenses resulting from these agreements, no amounts are recorded in the financial statements. (*See Note C*).

Concentrations of Credit Risk

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

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

Concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the System's patients and payors. Patient accounts receivable consist of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. Excluding governmental programs, no payor source represents more than 10 percent of the System's patient accounts receivable. The System maintains an allowance for losses based on the expected collectibility of patient accounts receivable.

B. Deposits and Investments

Deposits

All monies are deposited to the System's banks or trust companies designated by the Board of Trustees. Funds not needed for immediate expenditure may be deposited in interest-bearing or non-interest bearing accounts or U.S. government obligations. Banks or trust companies shall furnish security for all such deposits, whether interest bearing or noninterest bearing, except that no such security is required for U.S. government obligations.

B. Deposits and Investments (continued)

At December 31, 2000, the financial statement carrying amount of the System's deposits was $1,476. The actual bank balances including accrued interest, totaled $1,081, the difference represents outstanding checks payable and normal reconciling items. Of the bank balances, approximately $100 was covered by federal depository insurance and are thus a category (1) deposit risk in accordance with the provisions of GASB Statement No. 3. The remainder was secured by collateral pools of U.S. government and municipal securities.

Investments

The System's investment policies are governed by state statutes which authorize the System to invest in U.S. government obligations. Investments are categorized to give an indication of the level of risk assumed by the System at year end. The categorized investments include those which are classified as cash and cash equivalents in accordance with the provisions of GASB Statement No. 9.

At December 31, 2000, cash and investments include:

	(1) Insured or Registered, or Securities Held By the System or its Agent in the System's Name	(3) Uninsured and Unregistered, with Securities Held by the Counterparty, or its Trust Department or Agent but Not in the System's Name	Cost	Market Value
U. S. Treasury notes	$ 41,750	$ –	$ 41,750	$ 41,752
U. S. Agency obligations	123,212	–	123,212	123,442
Repurchase agreements	–	8,589	8,589	8,589
	$ 164,962	$ 8,589	173,551	173,783
Money market funds			96,283	96,283
Total cash and investments			$ 269,834	$ 270,066

The amounts invested in money market funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

C. Long-Term Debt

Long-term debt at December 31, 2000 and 1999, is comprised as follows:

	2000	1999
Hospital Improvement and Refunding Revenue Bonds, Series 1997, net of unamortized bond discount, bear interest at rates ranging from 3.90% to 5.80% and mature in varying amounts through 2027	**$ 62,145**	$ 65,593
Hospital Refunding Revenue Bonds, Series 1997A, net of unamortized bond discount and refunding loss, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	**68,173**	68,078
Hospital Improvement Revenue Bonds, Series 1999, net of unamortized bond discount, bear interest at rates ranging from 6.125% to 6.150% and mature in varying amounts through 2029	**56,783**	56,775
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 4.96% and matures in 2007	**7,607**	8,807
Equipment obligation, Banc One Leasing, as defined in the respective lease agreement at an interest rate of 4.958% and matures n 2004	**4,671**	5,833
	199,379	205,086
Less current installments	**6,517**	6,212
Long-term debt	**$ 192,862**	$ 198,874

C. Long-Term Debt (continued)

Effective February 1, 1997, the County issued $70,000 of Hospital Improvement and Refunding Revenue Bonds Series 1997 (The MetroHealth System Project). The proceeds of the Series 1997 Bonds were used to refund $20,900 of Series 1989 Bonds scheduled to mature on February 15, 2007; to advance refund $2,410, $2,570, and $2,745 of the Series 1989 Bonds stated to mature on February 15, 1999, February 15, 2000 and February 15, 2001, respectively; to finance the construction of various improvements and additions to the MetroHealth Medical Center; and to pay costs of issuance of the Series 1997 Bonds.

Effective November 1, 1997, the County issued $77,525 of Hospital Refunding Revenue Bonds, Series 1997A. The proceeds of the Series 1997A Bonds were used to refund $73,725 of Series 1989 Bonds scheduled to mature on February 15, 2019. The 1997 refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $9,753. This unamortized difference ($8,850 at December 31, 2000), reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2019 using the effective interest method.

Effective September 1, 1999, the County issued $56,995 of Hospital Improvement Revenue Bonds, Series 1999. The proceeds of the Series 1999 Bonds are being used to finance the construction of a 150-bed long-term care facility and acquiring, constructing, renovating, furnishing, equipping, and improving operating rooms and other hospital facilities.

The Series 1997, 1997A, and 1999 Bonds were issued pursuant to a master trust indenture between the County, acting by and through the System's Board of Trustees, and the bond trustee. The Series 1997, 1997A, and 1999 Bonds are special obligations of the County payable solely from the revenue derived from the operation of the System and other monies available to the System's Board of Trustees. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

C. Long-Term Debt (continued)

In 1999, the System entered into a 15-year interest rate swap agreement for a notional amount of $56 million of its fixed-rate general obligation bonds. Based on the swap agreement, the System makes payments calculated at a variable rate equal to the BMA Swap Index to the counterparty to the swap. In return the counterparty makes payments to the County based on the fixed rate of 5.41%. Only the net difference in payments is exchanged with the counterparty, the $56 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. Net interest savings for 2000 and 1999 was $686 and $200, respectively. At December 31, 2000, the fair value of the swap agreement based on current settlement price is $1,232 due from the counterparty. No amounts are recorded on the System's balance sheet for the swap agreement.

The terms of the master trust bond indenture agreement provide for the establishment of a depreciation reserve fund and maintenance of certain special funds which are maintained under the control of the bond trustee and are used for payment of principal and interest on the bonds when due. The required payments into these funds and scheduled equipment obligation payments for the years 2001 through 2005 and thereafter are as follows:

	Hospital Revenue Bonds	Equipment Obligation
2001	$ 14,774	$ 3,035
2002	14,782	3,035
2003	14,770	3,035
2004	14,769	2,441
2005	14,768	779
Thereafter	306,611	1,559
Total minimum payments	380,474	13,884
Amounts representing interest	(182,269)	(1,606)
Unamortized discount	(2,254)	–
Subtotal	195,951	12,278
Unamortized difference between reacquisition price and the net carrying amount of old debt	(8,850)	–
Present value of net minimum payments	$ 187,101	$ 12,278

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C. Long-Term Debt (continued)

The fair value of Hospital Revenue Bonds ($199,878 at December 31, 2000) is estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

D. Commitments

Operating Leases – The System has entered into operating lease agreements for a parking facility, medical space, and office space which expire through 2011. Certain leases contain rent escalation clauses and renewal options for additional periods ranging from two to five years.

Minimum rental commitments under operating leases extending beyond one year at December 31, 2000 are as follows:

2001	$ 1,246
2002	1,256
2003	1,263
2004	1,186
2005	11,365
Thereafter	979
Total	$ 17,295

Rent expense totaled $868 in 2000 and $458 in 1999.

E. Benefit Plans

Pension

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Public Employees Retirement System (PERS). This retirement program is a statewide, cost-sharing, multiple-employer defined benefit plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members.

E. Benefit Plans (continued)

The Public Employees Retirement System's Comprehensive Annual Financial Report for the multi-employee defined benefit plan may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent of covered payroll and the System is required to contribute 13.55 percent which was rolled back during 2000 resulting in an effective rate of 10.84 percent of covered payroll. The System's contributions to PERS for the years ending December 31, 2000, 1999 and 1998 were $24,291, $28,819 and $26,777, respectively, equal to the required contributions for each year.

Postretirement Benefits

PERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The System's actual contribution for 2000 and 1999 which was used to fund postretirement health care benefits was $9,477 and $8,933, respectively.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions include a rate of return on investments of 7.75 percent; active employee payroll increases of 4.75 percent compounded annually and between 0.54 to 5.10 percent based on additional pay increases; and health care premium increases of 4.75 percent annually.

As of December 31, 1999, (the most recent information available), PERS had $10,806 million in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were $12,474 million and $1,668 million, respectively. The number of active contributing participants was 401,339.

F. Self-Insurance Liabilities

The System is self-insured for the purpose of providing professional and patient care liability and workers' compensation claims. For the professional and patient care liability, professional insurance consultants have been retained to determine funding requirements. Amounts funded for professional and patient care have been placed in an irrevocable self-insurance trust account, which is being administered by a trustee.

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

	2000	1999
Beginning balance	**$ 24,987**	$ 32,335
Provision for self-insurance	**16,577**	1,643
Claims paid and other	**(11,879)**	(8,991)
Ending balance	**$ 29,685**	$ 24,987

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2000

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Research and Development Cluster			
U.S. Department of Health and Human Services			
Direct Programs:			
Transcriptional Interference & Tumorigenicity	93.396		$ 93,877
Interlukin 4 Signalling	93.853		22,939
Regulation of AP-2 and HER-2/NEU Gene Promoters	93.396		117,820
Neuronal Migration	93.854		97,917
Total Research and Development Cluster			332,553
U.S. Department of Agriculture			
Pass-Through Programs From:			
State of Ohio:			
Special Supplemental Food Program for Women, Infants and Children	10.557	18-3-01-F-CL-389	3,735,596
U.S. Department of Health and Human Services			
Direct Programs:			
Advanced Education Program in General Dentistry	93.897		63,479
Residency Training in Primary Care	93.884		56,337
Subtotal Direct Programs			119,816
Pass-Through Programs From:			
HIV Emergency Aid-Cluster:			
Cuyahoga County Board of Commissioners:			
Ryan White Title I—Medical Services	93.914	CE 9476A, 9477A, 8825A	400,986
Ryan White Title I—Dental Services	93.915	CE 9475A, 9840A	75,885
			476,871
Federation for Community Planning:			
Title X/Family Planning	93.217	05-H-00520-20	386,983
Immunization Action Plan	93.268		4,753
Alcohol & Drug Addiction Service Board:			
Medicaid Assistance Program	93.778	18408-01, 96-05-02	469,912
Federal SAPT Block Grant-Women's Set Aside	93.959	18-18408-01-W-T-00-9704, 18-2925-00-W-T-01-9704	145,832

The MetroHealth System

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)			
Pass-Through Programs From:			
Cleveland State University—Mother's Drug Treatment and Children's Resiliency (NIDA)	93.279	1R01 DA 09370	1,125
State of Ohio:			
TB Prevention and Control/Outreach	93.118	18-3-01-P-CK-392	245,609
Perinatal Project	93.994	18-3-01-F-BM-320	48,699
Early Intervention Hospital Based	84.181	18-3-01-F-DD-392	71,910
Subtotal Pass-Through Programs			1,851,694
Total U.S. Department of Health and Human Services			1,971,510
U.S. Department of Housing and Urban Development			
Pass-Through Programs From:			
Cuyahoga Metropolitan Housing Authority:			
Drug Elimination—Substance Abuse Outreach Program/Crisis Intervention	86-703-99F	OH12DEP0030195	105,585
Drug Elimination—Miracle Village	86-703-99E	OH12DEP0030196	104,957
City of Cleveland, Extended Hours HIV/AIDS Education and Testing	14.218		14,690
Subtotal Pass-Through Programs			225,232
Total Expenditures of Federal Awards			$6,264,891

Notes to the Schedule of Expenditures of Federal Awards

Note A. Summary of Significant Accounting Policies

Basis of Presentation

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

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Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
The MetroHealth System

We have audited the financial statements of The MetroHealth System as of and for the year ended December 31, 2000, and have issued our report thereon dated March 8, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the Board of Trustees in a separate letter dated March 8, 2001.

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

Ernst & Young LLP

March 8, 2001

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Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
The MetroHealth System

Compliance

We have audited the compliance of The MetroHealth System with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2000. The MetroHealth System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The MetroHealth System's management. Our responsibility is to express an opinion on The MetroHealth System's compliance based on our audit.

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

In our opinion, The MetroHealth System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2000.

0101-0133150

Internal Control Over Compliance

The management of The MetroHealth System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The MetroHealth System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Ernst + Young LLP

March 8, 2001

The MetroHealth System

Schedule of Findings and Questioned Costs

Year Ended December 31, 2000

Part I—Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued:	Unqualified Opinion			
Internal Control over financial reporting:				
Material weakness(es) identified?		yes	✓	no
Reportable condition(s) identified not considered to be material weaknesses?		yes	✓	none reported
Noncompliance material to financial statement noted?		yes	✓	no

Federal Awards Section

Dollar threshold used to determine Type A programs:	$300,000			
Auditee qualified as low-risk auditee?	✓	yes		no
Type of auditor's report issued on compliance for major programs:	Unqualified Opinion			
Internal Control over major programs:				
Material weakness(es) identified?		yes	✓	no
Reportable condition(s) identified not considered to be material weakness(es)?		yes	✓	none reported
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))?		yes	✓	no

0101-0133150

Part I—Summary of Auditor's Results (continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.557	Special Supplemental Food Program for Women, Infants and Children
93.778	Medicaid Assistance Program
Various	Research and Development

Part II—Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

None.

Part III—Schedule of Federal Award Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 section __.510.

None.

The MetroHealth System

Summary Schedule of Prior Audit Findings

Item 99-1

In 1999, and in connection with management implementing procedures to improve account analysis and reconciliations, management determined that the accounts payable and property subledgers did not reconcile to the general ledger. Also, while accounts payable and cash disbursements processes were properly posting activity to the general ledger, manual adjustments were recorded to reduce accounts payable and expenses. When the Lawson general ledger system was implemented in 1999, manual adjustments decreased because the Lawson accounts payable system (implemented in 1997) now interfaces directly with the general ledger. Also, it was determined that in 1998 and 1997, the accounting department was not using the proper Lawson outstanding accounts payable subledger report to reconcile to the general ledger. Based on further analysis, management determined that accounts payable per the general ledger did not reconcile to the detail accounts payable report and was understated for 1998 and 1997. At year end 1999, adjustments were made to current year activity and the 1998 and 1997 financial statements were restated, increasing accounts payable and expenses by $3.7 million in 1997 and $2.5 million in 1998.

Current Year Update

Corrective action was taken.

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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
AUGUST 21, 2001