The MetroHealth System

Financial Statements as of and for the
Years Ended December 31, 2008 and 2007,
and Independent Auditors' Reports

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of The MetroHealth System, Cuyahoga County, prepared by Deloitte & Touche LLP, for the audit period January 1, 2008 through December 31, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 11, 2009

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THE METROHEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of The MetroHealth System (the "System"), a component unit of Cuyahoga County, Ohio, as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, the MetroHealth Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits, and the report of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the System and the Foundation at December 31, 2008 and 2007, and the results of their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2009, on our consideration of the System's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 5 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we express no opinion on it.

Deloitte & Touche LLP

April 24, 2009

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of The MetroHealth System (the "System"), as of and for the year ended December 31, 2008, and have issued our report thereon dated April 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of MetroHealth Foundation (the "Foundation"), as described in our on The System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reporting on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with general accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the System in a separate letter dated April 24, 2009.

This report is intended solely for the information and use of the audit committee, board of trustees, management, federal awarding agencies, state funding agencies, pass-through entities, and the Ohio Auditor of State and is not intended to be, and should not be, used by anyone other than these specified parties.

April 24, 2009

Management's Discussion and Analysis (5-13)

This section of The MetroHealth System's (the "System") annual financial report presents management's discussion and analysis 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, 2008 and 2007. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change, and currently known facts. The financial statements, footnotes, and this discussion and analysis are the responsibility of the System's management.

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37*, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* and GASB Statement No. 38*, Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities.

The accompanying financial statements of the System include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; MetroHealth Centers for Skilled Nursing Care, consisting of the Old Brooklyn Campus Skilled Nursing facility and The Elisabeth Severance Prentiss Center for Skilled Nursing Care; and several urban and suburban primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

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

The System has a discretely presented component unit in the MetroHealth Foundation (the "Foundation") that is reported in a separate column in the System's financial statements to emphasize the Foundation is a legally separate entity from the System. The Foundation is a non-for-profit organization supporting the System through fundraising. The Foundation is not included in the amounts below but is included in greater detail in the financial statements and footnotes.

Financial and Operating Highlights for 2008

- Outpatient visits increased 4.1% from the prior year.
- Patient days decreased 1.8% from the prior year.
- The System opened the Old Brooklyn Skilled nursing facility in March of 2008. This was the relocation of the Skilled East facility located in Highland Hills.

- Surgical volumes increased 8.2% for the year.

- The Upper Payment Limit (UPL) and Hospital Care Assurance program revenues increased $1.2 million from the prior year.

- Total net assets increased $1.1 million from the prior year.

- Charity care reached record levels increasing 4.6% to $240.1 million.

Financial and Operating Highlights for 2007

- Outpatient visits increased 4.3% from the prior year.

- Patient days increased 3.1% from the prior year.

- The System opened the Senior Health and Wellness Center at its Old Brooklyn Campus (the South Campus was renamed in 2007 to "Old Brooklyn" in recognition of the Cleveland neighborhood in which it is located) in the fall.

- Surgical volumes increased 4.5% for the year.

- The Upper Payment Limit (UPL) and Hospital Care Assurance program revenues decreased $10.7 million from the prior year.

- Total net assets decreased $2.8 million from the prior year.

- Charity care reached record levels increasing 19.5 % to $230 million.

Financial Analysis of the System at December 31, 2008 and 2007

Total assets decreased by 1.4% to $636.8 million, and total liabilities decreased 2.4% to $394.6 million in 2008. The System's total net assets increased from $241.4 million to $242.2 million in 2008, a 0.3% increase from a year ago. Table 1 summarizes the balance sheet movement for the last three years.

Table 1
The MetroHealth System
Balance Sheets (000's)

	2008	2007	2006
Assets:			
Current assets	$ 96,897	$110,755	$ 96,443
Investments	228,329	222,518	247,061
Restricted assets	25,183	24,634	31,175
Capital assets	283,327	282,230	259,585
Other assets	3,071	5,556	6,478
Total assets	$636,807	$645,693	$640,742
Liabilities and net assets:			
Liabilities:			
Current liabilities	$ 97,359	$115,697	$104,739
Long-term liabilities	297,247	288,637	291,850
Total liabilities	394,606	404,334	396,589
Net assets:			
Invested in capital assets — net of related debt	90,059	83,551	60,012
Restricted	21,863	21,097	28,195
Unrestricted	130,279	136,711	155,946
Total net assets	242,201	241,359	244,153
Total liabilities and net assets	$636,807	$645,693	$640,742

Current Assets

Fiscal year 2008 ended with a decrease in total current assets of $13.9 million or 12.5% compared to 2007 balances. The decrease is primarily attributed to net patient accounts receivable that decreased $16.1 million for the year. Efforts were focused on reducing the Medicaid Pending balances in 2008 and adjudicate the claims as Self Pay or Medicaid. The year ended with the Medicaid Pending class realizing a net reduction of $23.3 million while the Medicaid and Self Pay increased $4.2 million and $1.6 million respectively. Cash balances increased for the year by $1.8 million or 62.7% from 2007. The other receivables balance increased slightly ($0.5 million or 2.9%) from 2007 but was net of these significant changes: the accounts receivable balance related to grants fell by $1.4 million compared to 2007 while the System's Upper Payment Limit receivable increased by $2.4 million over the 2007 balance. The 2007 grant receivable contained a $1.0 million receivable from the State of Ohio for constructions costs at the Senior Health and Wellness Center and was paid in 2008. The UPL amount is related to the System's participation in the State of Ohio's supplemental Medicaid program that provides access to available funding up to 100% of the Medicare UPL for inpatient hospital services

Total current assets increased $14.3 million in 2007 or 14.8% from 2006. The large increase is primarily related to a higher patient accounts receivable balance. The patient accounts receivable balance increased $11.7 million or 16.3% from 2006. Overnight cash balances increased $1.5 million and the receivable related to the Upper Payment Limit Program increased $1.4 million.

Investments

Total investments for the year increased $5.8 million or 2.6% above 2007. The Depreciation Reserve fund increased $8.2 million from transfers for the annual funding requirement ($5.5 million in 2008) and investments returns that include mark to market adjustments ($2.7 million in 2008). The Academic funds decreased for the year by $3.5 million due to capital expenditures on large projects: $1.1 million for Phase II of the PACS (imaging) system and $1.8 million toward an MRI project. Restricted investments had a modest increase of $0.6 million in 2008.

Investments decreased $24.5 million or 9.9% in 2007 from 2006. Board Designated investments decreased $33.8 million. The decrease was due largely to the need to fund capital expenditures for the year. Major projects requiring funding are phases II (long-term care facility) and III (geriatric clinic) at the System's Old Brooklyn Campus (see Capital Assets section below). The Depreciation Reserve fund increased $11.1 million from transfers for the annual funding requirement and investment returns. Restricted investments decreased $6.5 million for the year and represents withdrawals from the 2005 project fund.

Capital Assets

Expenditures on capital in 2008 totaled $33.2 million, a $21.3 million decrease from 2007. Construction at the System's Old Brooklyn Campus wound down in 2008 with the opening of the skilled nursing facility in the first quarter. Related capital expenditures on the project totaled $9.3 million for the year. Expenditures on other large projects for the year included $2.5 million for demolition of the old emergency and operating room areas, $2.5 million for the Interventional CT reconfiguration in radiology, $2.2 million for electrical substation upgrades, $2.8 million on HVAC cooling tower upgrades, $3.7 million for inpatient medical records project, $1.0 million on surface parking, $1.0 million on ICU central station monitors, $1.1 million for Phase II of the PACS (imaging) system, $1.8 million toward an MRI project, $1.0 million for operating room equipment and $0.8 million on Hamann building elevator refurbishments. All of the System's capital expenditures in 2008 were from operating fund

Capital expenditures for 2007 totaled $54.5 million, a $25.7 million increase compared to the prior year. Major project expenditures in 2007 included $20.9 million for construction at the Senior Health and Wellness Center (Phases II and III at the Old Brooklyn Campus), $2.1 million for inpatient medical record software (initial payment), $1.6 million for MRI equipment, $1.5 million deposit for helicopter replacements, $1.3 million for the elevator modernization project, and $1.1 million for employee parking lots. The remaining expenditures were for facility infrastructure upgrades, clinic renovations, technology updates, and medical equipment purchases. The 2005 Project fund, $6.6 million, was used for construction at the Old Brooklyn Campus and the remaining capital expenditures were paid from operating funds.

Detail information regarding the System's capital assets can be found in Note 4 of the financial statements.

Current Liabilities

Total current liabilities decreased $18.3 million or 15.9% from the prior year. Current liabilities decreases of $7.7 million in accounts payable, $5.1 million in Public Employees Retirement System liabilities, $2.7 million in self-insurance liabilities, $2.5 million in third party payables and $1.1 in short-term note payable account for the change from the preceding year.

For 2007, total Current Liabilities increased $11.0 million or 10.5% from the prior year. Accounts Payable increased $7.8 million or 35.4% from the prior year. The major driver for the increase was $6.4 million increase in capital equipment and construction liabilities from 2006. Year-end accounts payable accruals also increased $2.5 million. Increase in accrued salaries and wages payable of $1.2 million and health care liabilities of $1.2 million rounded out the current liability increases for 2007.

Long-Term Liabilities

Long-term liabilities increased $8.6 million or 3.0% in 2008.

All of the System's long-term debt related to the acquisition of capital assets. For 2008, long term debt payments totaled $7.0 million and amortized bond discounts and deferred losses were $0.8 million. The balance for estimated amounts due third to parties decreased in 2008 by $9.0 million. The change reflects the reversal of an $8.3 million liability to a bankrupt managed care company. The bankruptcy case had claimed the System received preferential payments leading up to the bankruptcy filing. This portion to the case was adjudicated in 2008 and the System, thusly, reversed the amount it had reserved for the potential payback. Other changes in long-term liabilities include a $3.7 million increase in self-insurance liabilities and a $2.4 million increase in Accrued vacation and sick leave liabilities.

The System has two SWAP agreements linked to its long term bond debt. The System was not immune to the unprecedented global economic downturn in 2008. This was highlighted in the fourth quarter where 10 and 30 year interest rates fell 140 and 150 basis points, respectively, in November. This resulted in a large change in the System's mark to market adjustment for its SWAPS. The market value related to SWAP agreements changed by $19.4 million from 2007 to 2008. The System ended the year with a liability of $17.7 million that is reflected in Other Long-Term Liabilities. Last year the market adjustment for the SWAPS had a $1.8 million receivable balance. The SWAP agreements do not require the System to put up any addition collateral.

For 2007, long-term debt decreased $5.8 million or 2.9%. Principal payments on outstanding bond issues were $5.8 million, lease and other principal payments totaled $0.8 million, and amortized bond discounts and deferred losses were $0.8 million. For other long-term liabilities, an increase of $1.5 million in self insurance liabilities and a $3.4 million increase in accrued sick and vacation was offset by a decrease in amounts due third-party payors of $2.3 million. In total, long-term liabilities decreased 1.1% from the prior year.

The System's bond indenture and capital lease agreements contain various covenants that the System must maintain. The financial covenants include Days Cash on Hand, Debt Service Coverage and Debt to Capitalization ratios. Additional detail regarding the System's long-term debt can be found in Note 6 of the financial statements.

Table 2
The MetroHealth System
Statements of Revenues, Expenses, and Changes in Net Assets (000's)

	Years Ended December 31		
	2008	**2007**	**2006**
Operating revenues:			
Net patient service revenue	$617,178	$562,018	$554,797
Other revenue	25,140	24,064	22,807
Total operating revenues	642,318	586,082	577,604
Operating expenses:			
Professional care of patients	417,974	406,289	385,909
Dietary	7,759	8,111	7,398
Household and property	31,432	28,491	27,197
Administrative and general	82,738	69,254	68,010
Employee benefits	85,913	83,799	79,503
Provision for bad debts	9,917	10,158	7,457
Depreciation and amortization	31,865	31,497	30,666
Total operating expenses	667,598	637,599	606,140
Operating loss	(25,280)	(51,517)	(28,536)
Nonoperating revenues — net	24,666	47,661	50,100
Grants for capital acquisitions	1,685	1,564	1,087
Increase (decrease) in net assets	1,071	(2,292)	22,651
Total net assets — beginning of year	241,359	244,153	221,862
Transfer of net assets	(229)	(502)	(360)
Total net assets — end of year	$242,201	$241,359	$244,153

The System's total operating and nonoperating revenues in 2008 were $700.6 million while expenses were $699.5 million. This resulted in net assets increasing $1.1 million for the year. This compared to a net asset decrease between 2007 and 2006 of $2.3 million that had $646.6 million while expenses were $648.9 million

Net Patient Service Revenue

Net patient service revenue increased $7.2 million or 1.3% in 2007. Positive gains in inpatient days of 3.1% and outpatient visits of 4.3% coupled with a 5% price increase accounted for increased gross revenues of $111.2 million or 7.8%. Other major changes to net patient revenue that off-set gross revenue included a contractual allowance increase of $54.7 million, Hospital Care Assurance Program payments decrease of $9.2 million, and charity care write-offs increase of $37.4 million. This compares to the $30.8 million or 5.9% increase in 2006.

Charity care increased $10.6 million to $240.1 million in 2008. This was an increase of 5.0% over the previous year. The System's level of charity care continues to reflect the System's status as a safety net facility in Cuyahoga County.

Operating Expenses

The System's total operating expenses increased by $30.0 million or 4.7% from 2007. This percentage is a little lower than the 5.2% or $31.5 million increase experienced between 2006 and 2007. Table 3 summarizes the expenses from the last three years.

Table 3
The MetroHealth System
Expense Detail (000's)

	2008	2007	2006
Operating expenses:			
Salaries and wages	$370,127	$357,613	$337,756
Employee benefits	85,914	83,799	79,503
Medical supplies	38,881	34,862	35,852
Pharmaceuticals	31,507	30,556	28,184
Plant operations	37,990	36,264	37,126
Supplies and other	51,487	42,161	38,873
Liability insurance	9,910	10,689	10,723
Provision for bad debts	9,917	10,158	7,457
Depreciation and amortization	31,865	31,497	30,666
Total operating expenses	$667,598	$637,599	$606,140

Salaries and wages increased $12.5 million or 3.5% in 2008. This is lower than the 5.8% increase 2006 to 2007 of 19.9 million. The general wage increase for 2008 was 3.0%. There was a 71 FTE decrease in administrative and support areas of the System that helped keep salary and wage expenses down but were offset by increases in physician general and incentives pay that totaled $5.8 million or 6.0%.

Employee benefits increased a total of $2.1 million in 2008, or 2.5% from 2007. Public Employee Retirement System (PERS) payments increased $2.0 million or 4.4% for the year. This is in line with the pay and rate (0.23%) increases for the year. Healthcare insurance increased $0.4 million in 2008 or 1.3%. Other benefits changes for the year included an increase in Medicare ($0.2 million) and a decrease in workers' compensation ($0.5 million).

Salaries and wages increased $19.9 million from 2006 to 2007, or 5.9%. This is lower than the 6.5% increase from 2005 to 2006 of $20.5 million. There was a general wage increase of 3.0% in 2007 and 2006. The remainder of the difference is attributed to a net increase of 130 FTE's and physician incentives.

Employee benefits increased a total of $4.3 million in 2007, or 5.4% from 2006 expense levels. Health insurance costs increased $1.8 million or 6.2%. PERS ($3.0 million) and Medicare ($0.3 million) expense increases were consistent with the general salary and wage increase, FTE growth and the PERS contribution rate increase of 0.15%.

Medical supplies increased $4.0 million or 11.5% in 2008. The expense with the largest increase was Prosthetics, with a $2.5 million increase from 2007 or 29% increase. Pharmaceuticals increase $1.0 million or 3.1 % over 2007 expenses. Medical Supplies and Pharmaceuticals increased a combined 2.2% from 2006 to 2007.

Plant operations expense increased $1.7 million or 5% in 2008. Gas, oil and natural gas increased $0.6 million and service contracts on equipment and software increased $1.1 million over the prior year. Plant Operations decreased a total of $0.9 million or 2.3% in 2007.

Plant Operations increased a total of $3.5 million or 10.5 % in 2006. Service contracts, remodeling, and natural gas comprise the majority of the increase. Service contracts on equipment and software increased $1.3 million. Construction and remodeling costs increased $0.7 million and is related to main campus demolition expenses. Natural gas supply costs increased $0.7 million

Liability insurance decreased $0.8 million compared to 2007.Liability insurance remained about the same in 2007 with only a slight decrease ($34 thousand) from 2006.

Nonoperating Revenue and Expenses

Net nonoperating revenue for 2008 decreased by $23.0 million or 48.20% compared to 2007. The subsidy from the County was relatively unchanged at $40.0 million for the year. Investment income declined by $3.0 million, or 25.8% compared to 2007. The market value of the System's SWAP agreements decreased by $19.4 million during 2008 and generated unrealized losses for the System. Interest expense remained flat from 2007 to 2008.

Net nonoperating revenue decreased $2.4 million from 2006 to 2007. The County's overall subsidy, including the general subsidy, for 2007 was a net decrease of $5.1 million when taken into account that in 2006, the County provided a one-time $10 million contribution to assist the System with the costs associated with relocating the east side skilled nursing facility to the Old Brooklyn Campus. The County's 2007 general subsidy to the System was $40.0 million which is a $5.0 million increase from 2006. Offsetting a portion of the County decrease was higher investment income of $0.7 million; unrealized gains from changes in investment and interest rate Swap agreement market values of $2.6 million; and flat interest expense.

Economic Factors and Next Year's Budget

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

- The System budgeted to receive a $40.0 million appropriation from the County in 2008, and 2009. This is exactly the same amount we received from general appropriation in 2007. The System will be in negotiations with the County for Budget year 2010 to obtain an appropriate funding level. The System will continue to explore revenue enhancement and cost reduction (productivity) opportunities.

- At both the Federal and State level, proposed Medicare and Medicaid freezes and funding cuts continue to harm System revenues and cash flows as it relies on Medicare and Medicaid for 30% and 29.5% of net patient revenues respectively. The System will continue to promote Federal and State policy reforms to prevent these reductions and provide adequate funding to safety net providers.

- Governor Strickland's staff released its 2010/2011 state budget proposal which contained a new franchise tax on hospitals total facility costs to fund Medicaid and provider payments. The proposal will increase inpatient and outpatient Medicaid hospital payments by 5%. The State claims without this assessment, Medicaid payments to hospitals would have to be reduced by 15% to offset the state shortfall. The System is working with the Ohio Hospital Association to reduce the impact imposed by the proposed franchise fee and research alternative methods of funding the Medicaid program.

- Capital funds needed for replacement of depreciated facilities and equipment, and the addition/expansion of vital programs will require use of existing investments or debt. The System intends to use unrestricted reserves for continued operating and Capital needs in 2009. In addition, efforts to obtain appropriate philanthropy to offset these operational and capital needs will continue in 2009.

- The System is estimating net HCAP dollars of $27.2 million in 2009. Due to the American Recovery and Reinvestment Act signed in February 2009, we anticipate an additional $2.1 million net HCAP dollars. It is estimated that the 2009 OBRA Cap (which is based on 2007 data) will increase due to the growth in uncompensated care from prior year.

- In 2008, the System netted $10.7 million in net Upper Payment Limit (UPL) dollars. This was an increase over prior year due to the elimination of Medicaid HMO's resulting in an increase in Medicaid FFS claims. This trend will continue in the first three quarters of 2009 resulting in Net UPL dollars of $12.3 million for 2009. Medicaid Managed Care patients do not qualify for UPL monies. We expect new Medicaid HMO plans to commence in the third quarter of 2009**.**

- The Skilled East Nursing facility closed its 291 bed facility in February 2008. On March 1, 2008, 144 beds were relocated and is now MetroHealth Skilled Nursing Services at The Senior Health & Wellness Center, MetroHealth Old Brooklyn Campus. We are in the process of selling the remaining 147 beds.

THE METROHEALTH SYSTEM

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2008	2007	2008	2007
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 4,742	$ 2,915	$ 583	$ 673
Accounts receivable	67,206	83,802	2,571	2,231
Allowance for uncollectible accounts	(7,138)	(7,635)	(192)	(202)
Net accounts receivable	60,068	76,167	2,379	2,029
Other receivables	18,728	18,205		70
Supplies	6,624	6,367	27	49
Prepaid expenses	6,735	7,101		
Total current assets	96,897	110,755	2,989	2,821
INVESTMENTS:				
General	102,932	101,870	2,911	3,622
Academic funds	32,252	35,760		
Depreciation reserve fund	93,145	84,888		
	228,329	222,518	2,911	3,622
RESTRICTED ASSETS:				
Cash and cash equivalents	125	141	947	505
Special purpose investments	5,556	5,556	15,311	19,507
Under bond indenture agreement	19,502	18,937		
	25,183	24,634	16,258	20,012
CAPITAL ASSETS:				
Land and land improvements	20,593	21,924		
Buildings and fixed equipment	511,069	497,541		
Equipment	252,433	250,340		
	784,095	769,805		-
Accumulated depreciation	(517,845)	(516,408)		
	266,250	253,397		-
Construction in progress	17,077	28,833		
	283,327	282,230		-
OTHER ASSETS	3,071	5,556		
TOTAL	$ 636,807	$ 645,693	$22,158	$26,455

(Continued)

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2008	**2007**	**2008**	**2007**
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	$ 22,117	$ 29,755	$ 1,404	$ 1,182
Accrued payroll and related liabilities	24,443	23,781		
Public Employees Retirement System liability	7,111	12,212		
Accrued interest payable	2,353	2,490		3
Self-insurance liabilities	14,416	17,094		
Estimated amounts due to third-party payors	3,857	6,364		
Accrued vacation and sick leave	3,117	2,575		
Note payable	2,599	3,707		
Current installments of long-term liabilities	6,969	6,648	67	64
Other current liabilities	10,377	11,071	420	262
Total current liabilities	97,359	115,697	1,891	1,511
LONG-TERM LIABILITIES — Less current installments:				
Self-insurance liabilities	33,925	30,263		
Estimated amounts due to third-party payors	23,199	32,220		
Accrued vacation and sick leave	31,854	29,437		
Other Long-Term Liabilities	22,014	4,319		
Long-term debt	186,255	192,398	70	137
Total long-term liabilities	297,247	288,637	70	137
Total liabilities	394,606	404,334	1,961	1,648
NET ASSETS:				
Invested in capital assets — net of related debt	90,059	83,551		
Restricted for debt service and projects	19,502	18,937		
Restricted — nonexpendable			7,949	6,179
Restricted — expendable	2,361	2,160	11,326	14,152
Unrestricted	130,279	136,711	920	4,476
Total net assets	242,201	241,359	20,195	24,807
TOTAL	$636,807	$645,693	$22,156	$26,455

See notes to financial statements.

(Concluded)

THE METROHEALTH SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2008	2007	2008	2007
OPERATING REVENUES:				
Net patient service revenue	$617,178	$562,018	$	$ -
Other revenue	25,140	24,064		
Total operating revenues	642,318	586,082		
OPERATING EXPENSES:				
Professional care of patients	417,974	406,289		
Dietary	7,759	8,111		
Household and property	31,432	28,491		
Administrative and general	82,738	69,254		
Employee benefits	85,913	83,799		
Provision for bad debts	9,917	10,158		
Total operating expenses before depreciation and amortization	635,733	606,102		
Operating gain (loss) before depreciation and amortization	6,585	(20,020)		
Depreciation and amortization	31,865	31,497		
Operating loss	(25,280)	(51,517)		
NONOPERATING REVENUES (EXPENSES):				
County appropriation	39,773	40,000		
Net investment income	(8,038)	15,060	(5,190)	2,107
Other nonoperating revenue	2,612	2,803		
Grants and donations	5,548	4,480	7,210	7,068
Grant expenditures and support	(5,118)	(4,558)	(6,861)	(7,409)
Interest expense	(10,111)	(10,124)		
Total nonoperating revenues — net	24,666	47,661	(4,841)	1,766
(LOSS) GAIN BEFORE OTHER CHANGES	(614)	(3,856)	(4,841)	1,766
OTHER CHANGES — Grants for capital acquisitions	1,685	1,564		
INCREASE (DECREASE) IN NET ASSETS	1,071	(2,292)	(4,841)	1,766
TOTAL NET ASSETS — Beginning of year	241,359	244,153	24,807	22,539
TRANSFER OF NET ASSETS	(229)	(502)	229	502
TOTAL NET ASSETS — End of year	$242,201	$241,359	$ 20,195	$ 24,807

See notes to financial statements.

THE METROHEALTH SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Patient service revenue	$ 610,040	$ 537,968
Other operating cash receipts	25,140	24,064
Payments to suppliers	(170,242)	(151,352)
Payments for compensation and benefits	(458,671)	(433,417)
Net cash flows provided by (used in) operating activities	6,267	(22,737)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County appropriation	39,773	40,000
Proceeds from notes payable	2,599	3,707
Principal payments on notes payable	(3,707)	(4,500)
Interest payments on notes payable	(82)	(107)
Restricted grants and donations	9,845	8,847
Specific-purpose funds expenditures	(5,118)	(4,558)
Transfer of net assets	(229)	(502)
Restricted receivables/liabilities	(284)	28
Net cash flows provided by noncapital financing activities	42,797	42,915
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits in project funds		(277)
Withdrawals from project funds		6,639
Acquisitions and construction	(18,717)	(49,392)
Principal payments on long-term debt	(6,647)	(7,105)
Interest payments on long-term debt	(9,253)	(9,463)
Net cash flows used in capital and related financing activities	(34,617)	(59,598)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) investments — net	(20,724)	29,515
Interest received and realized gains and losses	8,088	11,678
Net cash flows provided by (used in) investing activities	(12,636)	41,193
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,811	1,773
CASH AND CASH EQUIVALENTS — Beginning of year	3,056	1,283
CASH AND CASH EQUIVALENTS — End of year	$ 4,867	$ 3,056
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (25,280)	$ (51,517)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	31,865	31,497
Provision for bad debts	9,917	10,158
Changes in assets and liabilities:		
Increase in patient accounts receivable	6,182	(21,160)
Increase in other assets	468	(2,380)
Increase (decrease) in self-insurance liabilities	984	910
Increase (decrease) in accounts payable and other liabilities	(11,152)	8,773
Increase in long-term liabilities	(6,717)	982
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 6,267	$ (22,737)

See notes to financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37*, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* and GASB Statement No. 38*, Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — The accompanying financial statements of the MetroHealth System ("System") include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; Broadway Medical Offices, Buckeye Health Center and MetroHealth outpatient community health facilities; MetroHealth Centers for Skilled Nursing Care, consisting of the Old Brooklyn Nursing Facility and The Elisabeth Severance Prentiss Center for Skilled Nursing Care; Faculty Business Office, a medical specialty group practice; and several urban and suburban primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

The System is the public health care system for Cuyahoga County, Ohio, 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 the 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 $40,000 and $40,000 for 2008 and 2007, respectively. The County has approved an appropriation of $40,000 for 2009. The System is exempt from federal income taxes as a governmental entity.

In accordance with GASB Statement No. 14, *The Reporting Entity*, the System's financial statements are included, as a discrete entity, in the County's 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.

Furthermore, in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The MetroHealth Foundation ("Foundation") is presented as a discrete entity component unit in a separate column in the System's financial statements to emphasize that it is legally separate from the System. The Foundation is a not-for-profit organization supporting the System. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the System in support of its programs. Although the System does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which they hold and invest, are 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. Financial statements of the Foundation can be obtained by writing to The MetroHealth Foundation, 2500 MetroHealth Drive, Cleveland, Ohio 44109.

Basis of Accounting — The System's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System follows the "business-type" activities, which provides for the following components of the System's financial statements and management discussion and analysis:

- Management's Discussion and Analysis
- Basic Financial Statements including a Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows, for the System as a whole
- Notes to the Financial Statements

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

The accompanying financial statements of the System are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues and expenses are recognized in the period in which they are earned or incurred. Depreciation of assets, gains, losses, assets and liabilities are also recognized in the period in which the transaction has occurred.

Pursuant to the Ohio Revised Code, the System submits a budget to the County Commissioners for approval by November 1 of each fiscal year. The fundamental purpose of the budget is to plan for an expected level of operations and to provide management with a tool to control deviation from such a plan. The budget is prepared on an accrual basis.

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

Statement of Revenues, Expenses, and Changes in Net Assets — The System recognizes as operating revenues those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care, and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Nonoperating revenues include County appropriation, investment income, specific purpose grants and donations, primarily research, and unrealized gains on investments. Nonoperating expenses include interest expense and expenditures from specific 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue is reduced by contractual and retroactive adjustments of $878,204 and $757,476 in 2008 and 2007, respectively.

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

Medicare and Medicaid — Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries and Medicare capital costs are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received from Medicare and Medicaid. Medicare utilizes a prospective payment system for inpatient rehabilitation services.

Medicare outpatient claims are reimbursed under the Ambulatory Payment Classification based prospective payment system. The payments are based on patient assessment data classifying patients into one of one hundred case mix groups. In 2005, inpatient psychiatric services moved to a prospectively determined per diem rate, phased in over three years. In 2008, 100% of the inpatient psychiatric prospective payment system is at federal rate. In 2007, inpatient psychiatric services were reimbursed at 25% of reasonable cost plus 75% of the inpatient psychiatric facility prospective payment system federal rate. Certain outpatient services related to Medicare beneficiaries and capital costs for Medicaid beneficiaries are reimbursed based on a cost-based methodology subject to certain limitations. The System is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare and Medicaid fiscal intermediaries. The System's classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission are subject to an independent review by a peer review organization. Differences between the estimated amounts accrued at interim and final settlements are reported in the Statement of Revenues, Expenses, and Changes in Net Assets in the year of settlement. The System recorded favorable adjustments of $12,437 and $3,907 in 2008 and 2007, respectively, due to prior year retroactive adjustments to amounts previously estimated.

Net revenue from the Medicare and Medicaid programs accounted for approximately 30% and 29%, respectively, of the System's net patient service revenue for the year ended December 31, 2008, and 28% and 32%, respectively, of the System's net patient service revenue for the year ended December 31, 2007. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

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

Upper Payment Limit — In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Center for Medicare and Medicaid Services. This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. At December 31, 2008 and 2007, \$9,789 and \$7,395, respectively, were due to the System and recorded on the balance sheets in other receivables; the System's required match to the State of Ohio of \$3,765 and \$2,942, respectively, is included in other current liabilities. The net amount recorded in net patient service revenue for UPL by the System was \$10,732 and \$9,584 in 2008 and 2007, respectively.

Disproportionate Share — As a public health care provider, the System renders services to residents of the County and others regardless of ability to pay. The System is classified as a disproportionate share provider by the Medicare and Medicaid programs due to the volume of low income patients it serves. Accordingly, the System receives additional payments from these programs as a result of this status totaling \$43,469 and \$28,700 in 2008 and 2007, respectively, (including Care Assurance of \$29,103 and \$15,319 in 2008 and 2007, respectively) which are included in net patient service revenue. The System also provides major trauma services to the region. The ability to continue these levels of service and programs 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 \$240,126 and \$229,504, which represents 14.1% and 15.0% of gross charges in 2008 and 2007, respectively, are not reported as revenue. The System accepts certain indigent Ohio residents and all residents from the County regardless of their ability to pay.

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

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

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 average cost or market.

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 as nonoperating revenue — net in the statement of revenues, expenses, and changes in net assets.

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

The net realized gain of $557 and $255 in 2008 and 2007, respectively, on investments is the difference between the proceeds received and the amortized cost of investments sold and is included in investment income in the statement of revenues, expenses, and changes in net assets.

Restricted Assets — Restricted assets are cash and cash equivalents and investments whose use is limited by legal requirements. Investments under bond indenture agreement represent amounts required by debt instruments to pay bond principal and interest and approved projects. Restricted cash and cash equivalents and specific 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.

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

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

Capital Assets — Capital assets are stated at cost. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation and amortization of assets recorded under capital lease (straight-line method) are provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives. The following are the most commonly used estimated useful lives:

Buildings	25–40 years
Building improvements	5–20 years
Equipment	3–15 years
Land improvements	5–15 years
Vehicles	4 years

Half of a year's depreciation is taken the first year the asset is placed in service. The asset and accumulated depreciation are removed from the related accounts when the asset is disposed of. Any gain or loss resulting from this disposal is recorded in the statement of revenues, expenses, and changes in net assets.

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. Accordingly, the System does not record in its financial statements the assets and liabilities of this plan.

Bond Discounts and Bond Issuance Costs — Deferred financing costs represent debt issuance expenditures on long-term debt obligations and are amortized over the period the bonds are outstanding on a straight-line basis. The amortization for deferred bond financing costs was $154 in 2008 and $154 in 2007. Amortization expense related to bond discounts was $82 in 2008 and $92 in 2007. These amounts are included in interest expense in the statement of revenues, expenses, and changes in net assets.

Cost of Borrowing — Interest costs associated with funds borrowed and used to finance the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. The capitalized interest amount is calculated by taking the difference between the interest expense incurred during the construction period that bonds relate to and the interest earned on the invested proceeds of specific purpose tax exempt bonds, which cover the same period of time. Capitalized interest income and interest expense on the Series 2003 and 2005 Bonds totaled $0 and $ 66 in 2008, respectively, and $106 and $565 in 2007, respectively. Amortization of capitalized interest is included in depreciation expense.

The System has entered into various interest-rate swap agreements. These derivative instruments are not designated as hedging instruments; therefore, gains and losses are recognized in the statement of revenues, expenses, and changes in net assets during the period of change. Net amounts periodically receivable or payable as a result of swap agreements are recorded as adjustments to interest expense on the related debt (see Note 6).

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

The System places its cash and cash equivalents with high credit quality financial institutions. The System's investments include money market funds, U.S. Treasury bills and notes, U.S. agency obligations, 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 10.0% of the System's patient accounts receivable. The System maintains an allowance for losses based on the expected collectability of patient accounts receivable.

2. CHANGES IN ACCOUNTING PRINCIPLES

In July 2005, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*. This Statement establishes standards for the measurement, recognition, and display of Other Post Employment Benefits expense and related liabilities, note disclosures in the financial reports of state and local governmental employers. The System adopted GASB Statement No. 45 effective January 1, 2007. This statement has no effect on the System's financial statements, except additional footnote disclosures as noted at Note 10.

3. DEPOSITS AND INVESTMENTS

Deposits — All monies are deposited to the System's banks or trust companies designated by the Board of Trustees. Funds not needed for immediate expenditure may be deposited in interest bearing or non-interest bearing accounts or U.S. government obligations.

Custodial risk is the risk that, in the event of bank failure, the System's deposits might not be recovered. The FDIC increased insurance through December 31, 2009 for funds held in interest bearing accounts from $100 to $250 per depositor per category of legal ownership. In addition, the System's bank participates in the FDIC Transaction Account Guarantee Program where funds held in non-interest bearing transaction accounts are insured in full through December 31, 2009. The System's bank deposits at December 31, 2008 and 2007, totaled $4,740 and $2,981, respectively, and were subject to the following categories of custodial risk:

	2008	2007
Uncollateralized	$ 65	$2,821
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	63	60
Total amount subject to custodial risk	128	2,881
Amount insured	4,612	100
Total bank balances	$ 4,740	$2,981

Investments

The System — As of December 31, 2008 and 2007, the fair values of the System's investments were as follows:

	2008	2007
Cash and cash equivalents	$129,475	$ 71,089
U.S. Government Agencies	117,563	166,269
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)	203	308
Collateralized Mortgage Obligations	310	497
Corporate Bonds	5,836	8,848
Total investments	$253,387	$247,011

The System's carrying amounts of the deposits and investments at December 31, 2008 and 2007, are as follows:

	2008	2007
Deposits	$ 4,867	$ 3,056
Investments	253,387	247,011
Total deposits and investments	$258,254	$250,067

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

Interest Rate Risk — The System's investment policies limit investment portfolios to maturities of five years or less. All of the System's investments at December 31, 2008, have effective maturity dates of less than five years.

Credit Risk — All of the System's investments are rated AAA by Standard & Poor's. The System's investment policies are governed by State of Ohio statutes that authorize the System to invest in U.S. government obligations and AAA rated corporate bonds. The Collateralized Mortgage Obligations and Federal Mortgage pools are investments that are grandfathered from previous statutes that allowed such investments. These investments have an effective maturity date of less than one year.

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. Of the System's investments, only the repurchase agreements are exposed to custodial risk.

The Foundation — As of December 31, 2008, the fair values of the Foundation's investments were as follows:

	2008	**2007**
Mutual funds	$16,111	$22,207
Common stock	103	107
Limited Partnership Interest	1,134	
Premier Purchasing Partners, L.P.	874	815
Total deposits and investments	$18,222	$23,129

The Foundation's investments had cumulative unrealized gains of $524 and $1,722 and cumulative unrealized losses of $5,795 and $259 at December 31, 2008 and 2007, respectively.

4. CAPITAL ASSETS

The following summarizes the capital assets of the System for the years ended December 31, 2008 and 2007:

2008	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$	$ (63)	$ 9,314
Construction in progress	28,833	25,706	(37,462)	17,077
Total nondepreciated capital assets	38,210	25,706	(37,525)	26,391
Depreciable capital assets:				
Land improvements	12,547	492	(1,760)	11,279
Buildings and fixed equipment	497,541	31,271	(17,743)	511,069
Equipment	250,340	13,179	(11,086)	252,433
Total depreciable capital assets	760,428	44,942	(30,589)	774,781
Less accumulated depreciation:				
Land improvements	(7,276)	(406)	1,751	(5,931)
Buildings and fixed equipment	(308,431)	(18,182)	17,909	(308,704)
Equipment	(200,701)	(13,278)	10,769	(203,210)
Total accumulated depreciation	(516,408)	(31,866)	30,429	(517,845)
Total depreciable capital assets — net	244,020	13,076	(160)	256,936
Total capital assets — net	$ 282,230	$ 38,782	$ (37,685)	$ 283,327

2007	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$ -	$ -	$ 9,377
Construction in progress	8,765	47,170	(27,102)	28,833
Total nondepreciated capital assets	18,142	47,170	(27,102)	38,210
Depreciable capital assets:				
Land improvements	7,753	4,794		12,547
Buildings and fixed equipment	480,702	16,872	(33)	497,541
Equipment	238,885	12,431	(976)	250,340
Total depreciable capital assets	727,340	34,097	(1,009)	760,428
Less accumulated depreciation:				
Land improvements	(7,025)	(251)		(7,276)
Buildings and fixed equipment	(290,768)	(17,696)	33	(308,431)
Equipment	(188,104)	(13,550)	953	(200,701)
Total accumulated depreciation	(485,897)	(31,497)	986	(516,408)
Total depreciable capital assets — net	241,443	2,600	(23)	244,020
Total capital assets — net	$ 259,585	$ 49,770	$ (27,125)	$ 282,230

Total depreciation and amortization expense related to capital assets for 2008 and 2007 was $31,865 and $31,497, respectively.

5. LINE OF CREDIT

During 2005, the System entered into an agreement with a bank for a demand line of credit with a maximum amount available of $20,000. For the years ended December 31, 2008 and 2007, the System did not have an outstanding balance on the line of credit.

6. LONG-TERM DEBT

The System — Changes in long-term debt for 2008 and 2007 are as follows:

	2008				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 33,175	$	$ (955)	$ 32,220	$ 1,005
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,330		(4,670)	70,660	4,895
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	28,205		(645)	27,560	675
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	73,915		(330)	73,585	345
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	89		(44)	45	45
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	56		(4)	52	4
	210,770		(6,648)	204,122	6,969
Unamortized discount and loss	(11,724)		826	(10,898)	
	199,046		(5,822)	193,224	6,969
Current installments	(6,648)	(6,969)	6,648	(6,969)	
Long-term debt	$192,398	$ (6,969)	$ 826	$186,255	$ 6,969

	2007				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 38,245	$	$ (5,070)	$ 33,175	$ 955
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,620		(290)	75,330	4,670
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	28,830		(625)	28,205	645
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	74,230		(315)	73,915	330
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	759		(759)		
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	131		(42)	89	44
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	60		(4)	56	4
	217,875		(7,105)	210,770	6,648
Unamortized discount and loss	(12,542)		818	(11,724)	
	205,333		(6,287)	199,046	6,648
Current installments	(7,105)	(6,648)	7,105	(6,648)	
Long-term debt	$198,228	$ (6,648)	$ 818	$192,398	$6,648

Effective February 1, 1997, the County 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.

Effective November 1, 1997, the County issued $77,525 of Hospital Refunding Revenue Bonds, Series 1997A (The MetroHealth System Project) (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. The unamortized difference $5,307 and $5,831 at December 31, 2008 and 2007, respectively), reported in the accompanying financial statements, as a reduction from long-term debt, is included as additional interest expense through the year 2019 using the effective interest method.

Effective September 1, 1999, the County issued $56,995 of Hospital Improvement Revenue Bonds, Series 1999 (The MetroHealth System Project) (Series 1999 Bonds). The proceeds of the Series 1999 Bonds were used to finance the construction of a 150-bed long-term care facility and acquire, construct, renovate, equip, and improve operating rooms and other hospital facilities. On July 28, 2005, a portion of the proceeds from the County's 2005 Series Bond Issue was placed in escrow to advance refund the outstanding Series 1999 Bonds. The defeased series 1999 bonds remain outstanding at December 31, 2008.

Effective March 13, 2003, the County issued $30,545 of Hospital Improvement Variable Rate Demand Revenue Bonds, Series 2003 (The MetroHealth System Project) (Series 2003 Bonds). The proceeds of the Series 2003 Bonds were used to pay costs of constructing and equipping the Critical Care Pavilion and an administrative building. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2033. The interest rate at December 31, 2008 and 2007, was 1.88% and 3.48%, respectively.

In connection with the issuance of the Series 2003 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit ("Letter of Credit") issued by a local bank that expires on March 22, 2008, but has been extended to March 22, 2010, under terms of an extension signed in December of 2007. Under the terms of the Letter of Credit, the Trustee will be entitled to draw amounts necessary to make principal and interest payments. The Letter of Credit is subject to various financial covenants.

Effective July 28, 2005, the County issued $74,535 of Hospital Improvement and Refunding Variable Rate Demand Revenue Bonds, Series 2005 (The MetroHealth System Project) (Series 2005 Bonds). Proceeds from the 2005 Series Bonds were used to advance refund $56,995 of the outstanding Series 1999 Bonds scheduled to mature on February 15, 2029; to pay costs of constructing, renovating, furnishing, equipping, and improving the Old Brooklyn Campus long-term care and skilled nursing facility; and to pay certain costs of issuance of the Series 2005 Bonds. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2035. The interest rate at December 31, 2008 and 2007, was 2.38% and 3.48%, respectively.

In connection with the issuance of the Series 2005 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit ("Letter of Credit") issued by a local bank that expires on July 16, 2010. Under the terms of the Letter of Credit, the Trustee will be entitled to draw amounts necessary to make principal and interest payments. The Letter of Credit is subject to various financial covenants.

The July 28, 2005, bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,179. The unamortized difference $4,426 and $4,646 at December 31, 2008 and 2007, respectively), reported in the accompanying financial statements, as a reduction from long-term debt, is included as an increase to interest expense through the year 2029 using the effective interest method.

The Series 1997, 1997A, 1999, 2003, and 2005 Bonds were issued pursuant to a master trust bond indenture agreement between the County, acting by and through the System's Board of Trustees, and the bond trustee. The Series 1997, 1997A, 1999, 2003, and 2005 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, and are secured by the revenue and real property of the System. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

The terms of the master agreement provide for the establishment of a depreciation reserve fund and maintenance of certain special funds, which are maintained under the control of the bond trustee, and are used for payment of principal and interest on the bonds when due. The revenue bonds and lease obligation payment requirements for fiscal years subsequent to December 31, 2008, are as follows:

	Total Lease and Loan Obligations			**Total Hospital Revenue Bonds**		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2009	$ 49	$ 3	$ 52	$ 6,920	$ 7,680	$ 14,600
2010	4	4	8	7,280	7,228	14,508
2011	5	2	7	7,650	6,862	14,512
2012	5	2	7	8,045	6,471	14,516
2013	5	1	6	8,485	6,066	14,551
2014–2018	29	4	33	49,250	23,665	72,915
2019–2023				42,515	13,002	55,517
2024–2028				47,290	6,152	53,442
2029–2033				21,070	1,643	22,713
2034–2035				5,520	89	5,609
	$ 97	$ 16	$113	204,025	$78,858	$282,883
Unamortized discount				(1,166)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				(9,732)		
Total hospital revenue bonds—net				$193,127		

The Bond Reserve Funds, also required under the master trust bond indenture agreement, had balances as of December 31, 2008 and 2007, of $11,935 and $11,662, respectively. The cost value of Hospital Revenue Bonds was $202,859 and $209,377 at December 31, 2008 and 2007, respectively. The fair value of Hospital Revenue Bonds ($201,126 and $212,475 at December 31, 2008 and 2007, respectively) is estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

The Foundation — The Foundation's long-term obligations are comprised of the following notes payable:

2008	Beginning Balance	Additions/ Reductions	Payments	Ending Balance	Long-term Debt	Due Within One Year
3.96% note payable, due in semi-annual installments plus interest, through June 30, 2010, secure by its equity interest in Premier Purchaing Partners, L.P.	$ 201	$	$ (64)	$ 137	$ 70	$ 67
2007						
3.96% note payable, due in semi-annual installments plus interest, through June 30, 2010, secure by its equity interest in Premier Purchaing Partners, L.P.	$ 263	$ -	$ (62)	$ 201	$ 137	$ 64

The future scheduled maturities of the notes payable are as follows:

Years Ending December 31	
2009	$ 67
2010	70
	$ 137

7. DERIVATIVE INSTRUMENTS

The System's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management of the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, the System entered into various interest rate swap agreements with a total outstanding notional amount of $101,145 and $102,120 at December 31, 2008 and 2007, respectively.

The fair value of the swap agreements based on current settlement prices at December 31, 2008 and 2007, was ($17,627) and $1,778, respectively. The 2007 amount was due from the counterparties and was included in other assets. The 2008 amount is due to the counterparties and is included within other long term liabilities. In 2008 the fair value decrease of ($19,406) and the 2007 the fair value decrease of $924 are recorded as net investment income in the statement of revenues, expenses, and changes in net assets. As a result of the agreements, the System's interest expense was increased by $923 and $44 in 2008 and 2007, respectively.

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

Year-End Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 73,585	July 28, 2005	February 1, 2035	The System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 27,560	March 13, 2003	March 1, 2033	The System	Fixed 3.5 %	68.9% of ISDA 5 Yr. Swap Rate

On July 28, 2005, the System entered into a swap agreement (the "Original Agreement") with an amortizing notional amount of $74,535. The notional amount is based on the Series 2005 Bond principal repayment schedule that ends in 2035. Per 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 2008, ISDA five year interest rates ranged between 1.9% and 4.5%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

On March 13, 2003, the System entered into a swap agreement (the "Original Agreement") with an amortizing notional amount of $30,545. The amortizing notional amount is based on the Series 2003 Bond principal repayment schedule ending on March 1, 2033. Per terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.5% and the counterparty pays 68.9% of the ISDA USD five year swap rate. The original agreement required the counterparty to pay 75% of the 3-month USD LIBOR rate. Net settlement amounts are exchanged monthly. The System has an early termination option.

8. OTHER LONG-TERM LIABILITIES

Amounts Due to Third-Party Payors — The System has agreements with third-party payors that provide for payment of amounts different from established rates. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. See Note 1, net patient service revenue.

Accrued Vacation and Sick — System employees earn vacation and sick leave at varying rates depending on job classification and years of service. Employees can accumulate up to three years of their earned vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the System. There is no limit on the amount of sick time accrued. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 50% of eligible hours at their current rate of pay. The maximum payout is 800 hours. As of December 31, 2008 and 2007, the liability for accrued sick and vacation was $34,971 and $32,012, respectively.

Note Payable — The System financed one-year general and professional liability policies with a note payable in 2008 and 2007. The 2008 note payable bears interest at a rate of 3.44%; the 2007 note payable interest rate was 4.8%. At December 31, 2008 and 2007, the note payable balance outstanding was $2,599 and $3,707, respectively.

Asset Retirement Obligations — The System adopted the provisions of FIN No.47 as of December 31, 2005, for the Systems' obligations related to asbestos abatement. At December 31, 2005, the System recorded approximately $5,424 as an asbestos abatement liability. The amount of the asset and liability at the date the obligation was incurred in 1973 totaled $1,434. The amount of interest accretion and depreciation expense charged to net assets, as the cumulative change in accounting principle, for the years 1974 through 2005 totaled $5,161. The December 31, 2008 and 2007, total balance for asset retirement obligations totals $4,387 and $4,519, respectively, and reflects liability reductions for retired assets of $53 and $128, changes in estimates of $270 and $208, and an increase for interest accretion expense of $190 and $210, respectively. The current portion of the asset retirement obligations is included in other current liabilities.

Other Long-Term Liabilities — Other long-term liabilities consist of the following at December 31, 2008 and 2007:

2008	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due third-party payors	$38,584	$ 5,811	$(17,339)	$27,056	$ 3,857
Accrued vacation and sick leave	32,012	5,985	(3,026)	34,971	3,117
Asset retirement obligations	4,519	190	(322)	4,387	
Note payable	3,707	2,599	(3,707)	2,599	2,599
	$78,822	$14,585	$(24,394)	$69,013	$ 9,573

2007	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due third-party payors	$40,462	$ 600	$ (2,478)	$38,584	$ 6,364
Accrued vacation and sick leave	28,673	5,839	(2,500)	32,012	2,575
Asset retirement obligations	4,758	2	(241)	4,519	200
Note payable	4,500	3,707	(4,500)	3,707	3,707
	$78,393	$10,148	$ (9,719)	$78,822	$12,846

Risk Management — The System is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System is self-insured for workers compensation and medical malpractice but maintains commercial insurance policies for property and casualty, automobile, aircraft (helicopter and fixed wing) as well as excess coverage for medical malpractice claims. Settled claims have not exceeded insurance coverage in any of the past three years.

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

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

Losses from asserted claims and from unasserted claims identified under the System's incident reporting systems are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The reserve for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported undiscounted for 2008 and 2007.

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

2007	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 9,267	$ 2,361	$ (2,476)	$ 9,152	$ 3,097
Self-insurance	37,180	6,400	(5,375)	38,205	13,997
Employee health insurance	1,619	18,552	(17,369)	2,802	2,802
	$ 48,066	$ 27,313	$ (25,220)	$ 50,159	$ 19,896

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

9. OPERATING LEASES

The System has entered into operating lease agreements for a parking facility, medical space, and office space, which expire through 2020. Contract terms range between one and fifteen years and contain rent escalation clauses and renewal options for additional periods ranging from one to five years.

Minimum rental commitments under operating leases extending beyond one year at December 31, 2007, are as follows:

2009	$2,037
2010	1,355
2011	996
2012	750
2013	750
2014–2018	2,206
2019–2020	503
Total	$8,597

Rent expense totaled $2,118 in 2008 and $2,101 in 2007. The System leases the Valentine parking garage. The lease had an original five year term with five one-year options to renew. Upon the ultimate expiration of the lease, there are several options available to the System regarding the property which result in different amounts possibly due. One of these is an option to purchase the property. The original term has expired and the System's management has elected to exercise the fourth one-year option, which expires November 30, 2008. The cost to purchase the property at that time is $11,500. Funds have been allocated within Board Designated investments to make this payment.

10. BENEFIT PLANS

Pension — Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (OPERS). The plans are the Traditional Pension Plan — a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan — a defined contribution pension plan; and the Combined Plan — a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and postretirement healthcare benefits, to the Traditional and Combined Plan members however, healthcare benefits are not statutorily guaranteed. Participants in the Member-Directed Plan do not qualify for ancillary benefits.

The Ohio Public Employees Retirement System issues a stand-alone financial report and may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10.0% of covered payroll and the System is required to contribute 14.0% of covered payroll. The System's contributions to OPERS for the years ending December 31, 2008, 2007, and 2006, were $48,009, $45,977, and $42,897, respectively, equal to the required contributions for each year.

Postretirement 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. Health care coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

The Ohio Revised Code provided the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

The employer contribution rate is expressed as a percentage of the covered payroll of active members. In 2008, the employer contribution was 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB plan.

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 healthcare benefits. For 2008, the employer contribution allocated to the healthcare plan 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The System's contribution for 2008, 2007, and 2006 used to fund postretirement health care benefits was $24,005, $18,200, and $14,090, respectively, which is included in the System's pension contribution of $48,009, $45,977, and $42,897 for the years ending December 31, 2008, 2007, and 2006, respectively.

Based on the latest OPERS actuarial review as of December 31, 2007, OPERS had $12,800,000 in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were $29,800,000 and $17,000,000, respectively. The number of active contributing participants used in the 2007 actuarial valuation was 364,076. The active number of contributing participants as of December 31, 2008, was 363,503.

Benefits are advance-funded using the entry-age normal actuarial cost method. Assets are valued using a smoothed market value approach with assets adjusted annually to reflect 25% of the unrealized market appreciation or depreciation, not exceeding a 12.0% corridor. Other significant actuarial assumptions include an investment return of 6.5%; no change in the number of active employees; active employee payroll increases of 4.0% compounded annually with additional annual increases ranging between 0.5% to 6.3%; and health care costs increasing between 0.5% and 5.0% over the next eight years and 4.0% thereafter.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP), effective on January 1, 2007. In 2005, OPERS also took additional measures to improve the solvency of the Health Care Fund by establishing a separate investment pool for health care assets. Effective as of January 1, 2006, 2007, and 2008, member and employer contribution rates increased, allowing additional funds to be allocated to the health care plan.

11. RELATED ORGANIZATIONS

The System is the primary beneficiary of The MetroHealth Foundation, Inc. ("Foundation"). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the System has reported the Foundation as a component unit in the System's 2008 and 2007 financial statements. The System received support from the Foundation in the amount of $4,439 and $4,452 in 2008 and 2007, respectively, which is recorded as grant revenue on the System's statement of revenues, expenses, and changes in net assets. The outstanding receivable from the Foundation was $1,128 and $977 at December 31, 2008 and 2007, respectively. The System also provided the Foundation in-kind support totaling $896 and $920 in 2008 and 2007, respectively. This support covered the direct expenses of the Development department and indirect expenses for the use of space and support departments such as information services and environmental services.

The System had established restricted funds to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restrictions or that arise as a result of the operations of the System. A review of these restricted funds is performed annually to determine that funds related to completed clinical trials and certain donated money should be transferred to the Foundation. The total amounts transferred in 2008 and 2007 were $229 and $507, respectively.

12. CONDITIONAL PROMISES TO GIVE

The Foundation — The Foundation received a conditional pledge of $10,000 commencing in 2005 payable over the next 10 years at $1,000 per year. The outstanding balance of $6,182 and $7,000 at December 31, 2008 and 2007, respectively, is not included in these financial statements in accordance with FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations.

13. COMMITMENTS

As of December 31, 2008, the System has contractual commitments for the construction of various projects totaling approximately $31,048. The helicopter replacement project has commitments of $18,786 to be paid through 2009. Other projects with large contractual commitments include the inpatient electronic medical record project for $4,077, AHU-Replacement (Air Handling Units) for $1,287, CT Scanner reconfiguration for $1,017. These projects are being funded with operating funds.

* * * * * *

The MetroHealth System

Financial Statements as of and for the
Years Ended December 31, 2008 and 2007,
Supplemental Schedule of Expenditures
of Federal Awards for the Year Ended
December 31, 2008, and
Independent Auditors' Reports

THE METROHEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of The MetroHealth System (the "System"), a component unit of Cuyahoga County, Ohio, as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, the MetroHealth Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits, and the report of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the System and the Foundation at December 31, 2008 and 2007, and the results of their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2009, on our consideration of the System's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the 2008 basic financial statements of the System taken as a whole. The accompanying supplemental schedule of expenditures of federal awards and related notes is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133 and is not a required part of the basic financial statements. This supplemental information is the responsibility of the management of the System. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

April 24, 2009

Management's Discussion and Analysis (3-11)

This section of The MetroHealth System's (the "System") annual financial report presents management's discussion and analysis 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, 2008 and 2007. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change, and currently known facts. The financial statements, footnotes, and this discussion and analysis are the responsibility of the System's management.

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37*, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* and GASB Statement No. 38*, Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities.

The accompanying financial statements of the System include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; MetroHealth Centers for Skilled Nursing Care, consisting of the Old Brooklyn Campus Skilled Nursing facility and The Elisabeth Severance Prentiss Center for Skilled Nursing Care; and several urban and suburban primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

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

The System has a discretely presented component unit in the MetroHealth Foundation (the "Foundation") that is reported in a separate column in the System's financial statements to emphasize the Foundation is a legally separate entity from the System. The Foundation is a non-for-profit organization supporting the System through fundraising. The Foundation is not included in the amounts below but is included in greater detail in the financial statements and footnotes.

Financial and Operating Highlights for 2008

- Outpatient visits increased 4.1% from the prior year.
- Patient days decreased 1.8% from the prior year.
- The System opened the Old Brooklyn Skilled nursing facility in March of 2008. This was the relocation of the Skilled East facility located in Highland Hills.
- Surgical volumes increased 8.2% for the year.

- The Upper Payment Limit (UPL) and Hospital Care Assurance program revenues increased $1.2 million from the prior year.

- Total net assets increased $1.1 million from the prior year.

- Charity care reached record levels increasing 4.6% to $240.1 million.

Financial and Operating Highlights for 2007

- Outpatient visits increased 4.3% from the prior year.

- Patient days increased 3.1% from the prior year.

- The System opened the Senior Health and Wellness Center at its Old Brooklyn Campus (the South Campus was renamed in 2007 to "Old Brooklyn" in recognition of the Cleveland neighborhood in which it is located) in the fall.

- Surgical volumes increased 4.5% for the year.

- The Upper Payment Limit (UPL) and Hospital Care Assurance program revenues decreased $10.7 million from the prior year.

- Total net assets decreased $2.8 million from the prior year.

- Charity care reached record levels increasing 19.5 % to $230 million.

Financial Analysis of the System at December 31, 2008 and 2007

Total assets decreased by 1.4% to $636.8 million, and total liabilities decreased 2.4% to $394.6 million in 2008. The System's total net assets increased from $241.4 million to $242.2 million in 2008, a 0.3% increase from a year ago. Table 1 summarizes the balance sheet movement for the last three years.

Table 1
The MetroHealth System
Balance Sheets (000's)

	2008	2007	2006
Assets:			
Current assets	$ 96,897	$110,755	$ 96,443
Investments	228,329	222,518	247,061
Restricted assets	25,183	24,634	31,175
Capital assets	283,327	282,230	259,585
Other assets	3,071	5,556	6,478
Total assets	$636,807	$645,693	$640,742
Liabilities and net assets:			
Liabilities:			
Current liabilities	$ 97,359	$115,697	$104,739
Long-term liabilities	297,247	288,637	291,850
Total liabilities	394,606	404,334	396,589
Net assets:			
Invested in capital assets — net of related debt	90,059	83,551	60,012
Restricted	21,863	21,097	28,195
Unrestricted	130,279	136,711	155,946
Total net assets	242,201	241,359	244,153
Total liabilities and net assets	$636,807	$645,693	$640,742

Current Assets

Fiscal year 2008 ended with a decrease in total current assets of $13.9 million or 12.5% compared to 2007 balances. The decrease is primarily attributed to net patient accounts receivable that decreased $16.1 million for the year. Efforts were focused on reducing the Medicaid Pending balances in 2008 and adjudicate the claims as Self Pay or Medicaid. The year ended with the Medicaid Pending class realizing a net reduction of $23.3 million while the Medicaid and Self Pay increased $4.2 million and $1.6 million respectively. Cash balances increased for the year by $1.8 million or 62.7% from 2007. The other receivables balance increased slightly ($0.5 million or 2.9%) from 2007 but was net of these significant changes: the accounts receivable balance related to grants fell by $1.4 million compared to 2007 while the System's Upper Payment Limit receivable increased by $2.4 million over the 2007 balance. The 2007 grant receivable contained a $1.0 million receivable from the State of Ohio for constructions costs at the Senior Health and Wellness Center and was paid in 2008. The UPL amount is related to the System's participation in the State of Ohio's supplemental Medicaid program that provides access to available funding up to 100% of the Medicare UPL for inpatient hospital services

Total current assets increased $14.3 million in 2007 or 14.8% from 2006. The large increase is primarily related to a higher patient accounts receivable balance. The patient accounts receivable balance increased $11.7 million or 16.3% from 2006. Overnight cash balances increased $1.5 million and the receivable related to the Upper Payment Limit Program increased $1.4 million.

Investments

Total investments for the year increased $5.8 million or 2.6% above 2007. The Depreciation Reserve fund increased $8.2 million from transfers for the annual funding requirement ($5.5 million in 2008) and investments returns that include mark to market adjustments ($2.7 million in 2008). The Academic funds decreased for the year by $3.5 million due to capital expenditures on large projects: $1.1 million for Phase II of the PACS (imaging) system and $1.8 million toward an MRI project. Restricted investments had a modest increase of $0.6 million in 2008.

Investments decreased $24.5 million or 9.9% in 2007 from 2006. Board Designated investments decreased $33.8 million. The decrease was due largely to the need to fund capital expenditures for the year. Major projects requiring funding are phases II (long-term care facility) and III (geriatric clinic) at the System's Old Brooklyn Campus (see Capital Assets section below). The Depreciation Reserve fund increased $11.1 million from transfers for the annual funding requirement and investment returns. Restricted investments decreased $6.5 million for the year and represents withdrawals from the 2005 project fund.

Capital Assets

Expenditures on capital in 2008 totaled $33.2 million, a $21.3 million decrease from 2007. Construction at the System's Old Brooklyn Campus wound down in 2008 with the opening of the skilled nursing facility in the first quarter. Related capital expenditures on the project totaled $9.3 million for the year. Expenditures on other large projects for the year included $2.5 million for demolition of the old emergency and operating room areas, $2.5 million for the Interventional CT reconfiguration in radiology, $2.2 million for electrical substation upgrades, $2.8 million on HVAC cooling tower upgrades, $3.7 million for inpatient medical records project, $1.0 million on surface parking, $1.0 million on ICU central station monitors, $1.1 million for Phase II of the PACS (imaging) system, $1.8 million toward an MRI project, $1.0 million for operating room equipment and $0.8 million on Hamann building elevator refurbishments. All of the System's capital expenditures in 2008 were from operating fund

Capital expenditures for 2007 totaled $54.5 million, a $25.7 million increase compared to the prior year. Major project expenditures in 2007 included $20.9 million for construction at the Senior Health and Wellness Center (Phases II and III at the Old Brooklyn Campus), $2.1 million for inpatient medical record software (initial payment), $1.6 million for MRI equipment, $1.5 million deposit for helicopter replacements, $1.3 million for the elevator modernization project, and $1.1 million for employee parking lots. The remaining expenditures were for facility infrastructure upgrades, clinic renovations, technology updates, and medical equipment purchases. The 2005 Project fund, $6.6 million, was used for construction at the Old Brooklyn Campus and the remaining capital expenditures were paid from operating funds.

Detail information regarding the System's capital assets can be found in Note 4 of the financial statements.

Current Liabilities

Total current liabilities decreased $18.3 million or 15.9% from the prior year. Current liabilities decreases of $7.7 million in accounts payable, $5.1 million in Public Employees Retirement System liabilities, $2.7 million in self-insurance liabilities, $2.5 million in third party payables and $1.1 in short-term note payable account for the change from the preceding year.

For 2007, total Current Liabilities increased $11.0 million or 10.5% from the prior year. Accounts Payable increased $7.8 million or 35.4% from the prior year. The major driver for the increase was $6.4 million increase in capital equipment and construction liabilities from 2006. Year-end accounts payable accruals also increased $2.5 million. Increase in accrued salaries and wages payable of $1.2 million and health care liabilities of $1.2 million rounded out the current liability increases for 2007.

Long-Term Liabilities

Long-term liabilities increased $8.6 million or 3.0% in 2008.

All of the System's long-term debt related to the acquisition of capital assets. For 2008, long term debt payments totaled $7.0 million and amortized bond discounts and deferred losses were $0.8 million. The balance for estimated amounts due third to parties decreased in 2008 by $9.0 million. The change reflects the reversal of an $8.3 million liability to a bankrupt managed care company. The bankruptcy case had claimed the System received preferential payments leading up to the bankruptcy filing. This portion to the case was adjudicated in 2008 and the System, thusly, reversed the amount it had reserved for the potential payback. Other changes in long-term liabilities include a $3.7 million increase in self-insurance liabilities and a $2.4 million increase in Accrued vacation and sick leave liabilities.

The System has two SWAP agreements linked to its long term bond debt. The System was not immune to the unprecedented global economic downturn in 2008. This was highlighted in the fourth quarter where 10 and 30 year interest rates fell 140 and 150 basis points, respectively, in November. This resulted in a large change in the System's mark to market adjustment for its SWAPS. The market value related to SWAP agreements changed by $19.4 million from 2007 to 2008. The System ended the year with a liability of $17.7 million that is reflected in Other Long-Term Liabilities. Last year the market adjustment for the SWAPS had a $1.8 million receivable balance. The SWAP agreements do not require the System to put up any addition collateral.

For 2007, long-term debt decreased $5.8 million or 2.9%. Principal payments on outstanding bond issues were $5.8 million, lease and other principal payments totaled $0.8 million, and amortized bond discounts and deferred losses were $0.8 million. For other long-term liabilities, an increase of $1.5 million in self insurance liabilities and a $3.4 million increase in accrued sick and vacation was offset by a decrease in amounts due third-party payors of $2.3 million. In total, long-term liabilities decreased 1.1% from the prior year.

The System's bond indenture and capital lease agreements contain various covenants that the System must maintain. The financial covenants include Days Cash on Hand, Debt Service Coverage and Debt to Capitalization ratios. Additional detail regarding the System's long-term debt can be found in Note 6 of the financial statements.

Table 2
The MetroHealth System
Statements of Revenues, Expenses, and Changes in Net Assets (000's)

	Years Ended December 31		
	2008	**2007**	**2006**
Operating revenues:			
Net patient service revenue	$617,178	$562,018	$554,797
Other revenue	25,140	24,064	22,807
Total operating revenues	642,318	586,082	577,604
Operating expenses:			
Professional care of patients	417,974	406,289	385,909
Dietary	7,759	8,111	7,398
Household and property	31,432	28,491	27,197
Administrative and general	82,738	69,254	68,010
Employee benefits	85,913	83,799	79,503
Provision for bad debts	9,917	10,158	7,457
Depreciation and amortization	31,865	31,497	30,666
Total operating expenses	667,598	637,599	606,140
Operating loss	(25,280)	(51,517)	(28,536)
Nonoperating revenues — net	24,666	47,661	50,100
Grants for capital acquisitions	1,685	1,564	1,087
Increase (decrease) in net assets	1,071	(2,292)	22,651
Total net assets — beginning of year	241,359	244,153	221,862
Transfer of net assets	(229)	(502)	(360)
Total net assets — end of year	$242,201	$241,359	$244,153

The System's total operating and nonoperating revenues in 2008 were $700.6 million while expenses were $699.5 million. This resulted in net assets increasing $1.1 million for the year. This compared to a net asset decrease between 2007 and 2006 of $2.3 million that had $646.6 million while expenses were $648.9 million

Net Patient Service Revenue

Net patient service revenue increased $7.2 million or 1.3% in 2007. Positive gains in inpatient days of 3.1% and outpatient visits of 4.3% coupled with a 5% price increase accounted for increased gross revenues of $111.2 million or 7.8%. Other major changes to net patient revenue that off-set gross revenue included a contractual allowance increase of $54.7 million, Hospital Care Assurance Program payments decrease of $9.2 million, and charity care write-offs increase of $37.4 million. This compares to the $30.8 million or 5.9% increase in 2006.

Charity care increased $10.6 million to $240.1 million in 2008. This was an increase of 5.0% over the previous year. The System's level of charity care continues to reflect the System's status as a safety net facility in Cuyahoga County.

Operating Expenses

The System's total operating expenses increased by $30.0 million or 4.7% from 2007. This percentage is a little lower than the 5.2% or $31.5 million increase experienced between 2006 and 2007. Table 3 summarizes the expenses from the last three years.

Table 3
The MetroHealth System
Expense Detail (000's)

	2008	**2007**	**2006**
Operating expenses:			
Salaries and wages	$370,127	$357,613	$337,756
Employee benefits	85,914	83,799	79,503
Medical supplies	38,881	34,862	35,852
Pharmaceuticals	31,507	30,556	28,184
Plant operations	37,990	36,264	37,126
Supplies and other	51,487	42,161	38,873
Liability insurance	9,910	10,689	10,723
Provision for bad debts	9,917	10,158	7,457
Depreciation and amortization	31,865	31,497	30,666
Total operating expenses	$667,598	$637,599	$606,140

Salaries and wages increased $12.5 million or 3.5% in 2008. This is lower than the 5.8% increase 2006 to 2007 of 19.9 million. The general wage increase for 2008 was 3.0%. There was a 71 FTE decrease in administrative and support areas of the System that helped keep salary and wage expenses down but were offset by increases in physician general and incentives pay that totaled $5.8 million or 6.0%.

Employee benefits increased a total of $2.1 million in 2008, or 2.5% from 2007. Public Employee Retirement System (PERS) payments increased $2.0 million or 4.4% for the year. This is in line with the pay and rate (0.23%) increases for the year. Healthcare insurance increased $0.4 million in 2008 or 1.3%. Other benefits changes for the year included a increase in Medicare ($0.2 million) and a decrease in workers' compensation ($0.5 million).

Salaries and wages increased $19.9 million from 2006 to 2007, or 5.9%. This is lower than the 6.5% increase from 2005 to 2006 of $20.5 million. There was a general wage increase of 3.0% in 2007 and 2006. The remainder of the difference is attributed to a net increase of 130 FTE's and physician incentives.

Employee benefits increased a total of $4.3 million in 2007, or 5.4% from 2006 expense levels. Health insurance costs increased $1.8 million or 6.2%. PERS ($3.0 million) and Medicare ($0.3 million) expense increases were consistent with the general salary and wage increase, FTE growth and the PERS contribution rate increase of 0.15%.

Medical supplies increased $4.0 million or 11.5% in 2008. The expense with the largest increase was Prosthetics, with a $2.5 million increase from 2007 or 29% increase. Pharmaceuticals increase $1.0 million or 3.1 % over 2007 expenses. Medical Supplies and Pharmaceuticals increased a combined 2.2% from 2006 to 2007.

Plant operations expense increased $1.7 million or 5% in 2008. Gas, oil and natural gas increased $0.6 million and service contracts on equipment and software increased $1.1 million over the prior year. Plant Operations decreased a total of $0.9 million or 2.3% in 2007.

Plant Operations increased a total of $3.5 million or 10.5 % in 2006. Service contracts, remodeling, and natural gas comprise the majority of the increase. Service contracts on equipment and software increased $1.3 million. Construction and remodeling costs increased $0.7 million and is related to main campus demolition expenses. Natural gas supply costs increased $0.7 million

Liability insurance decreased $0.8 million compared to 2007.Liability insurance remained about the same in 2007 with only a slight decrease ($34 thousand) from 2006.

Nonoperating Revenue and Expenses

Net nonoperating revenue for 2008 decreased by $23.0 million or 48.20% compared to 2007. The subsidy from the County was relatively unchanged at $40.0 million for the year. Investment income declined by $3.0 million, or 25.8% compared to 2007. The market value of the System's SWAP agreements decreased by $19.4 million during 2008 and generated unrealized losses for the System. Interest expense remained flat from 2007 to 2008.

Net nonoperating revenue decreased $2.4 million from 2006 to 2007. The County's overall subsidy, including the general subsidy, for 2007 was a net decrease of $5.1 million when taken into account that in 2006, the County provided a one-time $10 million contribution to assist the System with the costs associated with relocating the east side skilled nursing facility to the Old Brooklyn Campus. The County's 2007 general subsidy to the System was $40.0 million which is a $5.0 million increase from 2006. Offsetting a portion of the County decrease was higher investment income of $0.7 million; unrealized gains from changes in investment and interest rate Swap agreement market values of $2.6 million; and flat interest expense.

Economic Factors and Next Year's Budget

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

- The System budgeted to receive a $40.0 million appropriation from the County in 2008, and 2009. This is exactly the same amount we received from general appropriation in 2007. The System will be in negotiations with the County for Budget year 2010 to obtain an appropriate funding level. The System will continue to explore revenue enhancement and cost reduction (productivity) opportunities.

- At both the Federal and State level, proposed Medicare and Medicaid freezes and funding cuts continue to harm System revenues and cash flows as it relies on Medicare and Medicaid for 30% and 29.5% of net patient revenues respectively. The System will continue to promote Federal and State policy reforms to prevent these reductions and provide adequate funding to safety net providers.

- Governor Strickland's staff released its 2010/2011 state budget proposal which contained a new franchise tax on hospitals total facility costs to fund Medicaid and provider payments. The proposal will increase inpatient and outpatient Medicaid hospital payments by 5%. The State claims without this assessment, Medicaid payments to hospitals would have to be reduced by 15% to offset the state shortfall. The System is working with the Ohio Hospital Association to reduce the impact imposed by the proposed franchise fee and research alternative methods of funding the Medicaid program.

- Capital funds needed for replacement of depreciated facilities and equipment, and the addition/expansion of vital programs will require use of existing investments or debt. The System intends to use unrestricted reserves for continued operating and Capital needs in 2009. In addition, efforts to obtain appropriate philanthropy to offset these operational and capital needs will continue in 2009.

- The System is estimating net HCAP dollars of $27.2 million in 2009. Due to the American Recovery and Reinvestment Act signed in February 2009, we anticipate an additional $2.1 million net HCAP dollars. It is estimated that the 2009 OBRA Cap (which is based on 2007 data) will increase due to the growth in uncompensated care from prior year.

- In 2008, the System netted $10.7 million in net Upper Payment Limit (UPL) dollars. This was an increase over prior year due to the elimination of Medicaid HMO's resulting in an increase in Medicaid FFS claims. This trend will continue in the first three quarters of 2009 resulting in Net UPL dollars of $12.3 million for 2009. Medicaid Managed Care patients do not qualify for UPL monies. We expect new Medicaid HMO plans to commence in the third quarter of 2009**.**

- The Skilled East Nursing facility closed its 291 bed facility in February 2008. On March 1, 2008, 144 beds were relocated and is now MetroHealth Skilled Nursing Services at The Senior Health & Wellness Center, MetroHealth Old Brooklyn Campus. We are in the process of selling the remaining 147 beds.

THE METROHEALTH SYSTEM

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2008	2007	2008	2007
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 4,742	$ 2,915	$ 583	$ 673
Accounts receivable	67,206	83,802	2,571	2,231
Allowance for uncollectible accounts	(7,138)	(7,635)	(192)	(202)
Net accounts receivable	60,068	76,167	2,379	2,029
Other receivables	18,728	18,205		70
Supplies	6,624	6,367	27	49
Prepaid expenses	6,735	7,101		
Total current assets	96,897	110,755	2,989	2,821
INVESTMENTS:				
General	102,932	101,870	2,911	3,622
Academic funds	32,252	35,760		
Depreciation reserve fund	93,145	84,888		
	228,329	222,518	2,911	3,622
RESTRICTED ASSETS:				
Cash and cash equivalents	125	141	947	505
Special purpose investments	5,556	5,556	15,311	19,507
Under bond indenture agreement	19,502	18,937		
	25,183	24,634	16,258	20,012
CAPITAL ASSETS:				
Land and land improvements	20,593	21,924		
Buildings and fixed equipment	511,069	497,541		
Equipment	252,433	250,340		
	784,095	769,805		-
Accumulated depreciation	(517,845)	(516,408)		
	266,250	253,397		-
Construction in progress	17,077	28,833		
	283,327	282,230		-
OTHER ASSETS	3,071	5,556		
TOTAL	$ 636,807	$ 645,693	$22,158	$26,455

(Continued)

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2008	2007	2008	2007
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	$ 22,117	$ 29,755	$ 1,404	$ 1,182
Accrued payroll and related liabilities	24,443	23,781		
Public Employees Retirement System liability	7,111	12,212		
Accrued interest payable	2,353	2,490		3
Self-insurance liabilities	14,416	17,094		
Estimated amounts due to third-party payors	3,857	6,364		
Accrued vacation and sick leave	3,117	2,575		
Note payable	2,599	3,707		
Current installments of long-term liabilities	6,969	6,648	67	64
Other current liabilities	10,377	11,071	420	262
Total current liabilities	97,359	115,697	1,891	1,511
LONG-TERM LIABILITIES — Less current installments:				
Self-insurance liabilities	33,925	30,263		
Estimated amounts due to third-party payors	23,199	32,220		
Accrued vacation and sick leave	31,854	29,437		
Other Long-Term Liabilities	22,014	4,319		
Long-term debt	186,255	192,398	70	137
Total long-term liabilities	297,247	288,637	70	137
Total liabilities	394,606	404,334	1,961	1,648
NET ASSETS:				
Invested in capital assets — net of related debt	90,059	83,551		
Restricted for debt service and projects	19,502	18,937		
Restricted — nonexpendable			7,949	6,179
Restricted — expendable	2,361	2,160	11,326	14,152
Unrestricted	130,279	136,711	920	4,476
Total net assets	242,201	241,359	20,195	24,807
TOTAL	$636,807	$645,693	$22,156	$26,455

See notes to financial statements. (Concluded)

THE METROHEALTH SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2008	2007	2008	2007
OPERATING REVENUES:				
Net patient service revenue	$617,178	$562,018	$	$ -
Other revenue	25,140	24,064		
Total operating revenues	642,318	586,082		
OPERATING EXPENSES:				
Professional care of patients	417,974	406,289		
Dietary	7,759	8,111		
Household and property	31,432	28,491		
Administrative and general	82,738	69,254		
Employee benefits	85,913	83,799		
Provision for bad debts	9,917	10,158		
Total operating expenses before depreciation and amortization	635,733	606,102		
Operating gain (loss) before depreciation and amortization	6,585	(20,020)		
Depreciation and amortization	31,865	31,497		
Operating loss	(25,280)	(51,517)		
NONOPERATING REVENUES (EXPENSES):				
County appropriation	39,773	40,000		
Net investment income	(8,038)	15,060	(5,190)	2,107
Other nonoperating revenue	2,612	2,803		
Grants and donations	5,548	4,480	7,210	7,068
Grant expenditures and support	(5,118)	(4,558)	(6,861)	(7,409)
Interest expense	(10,111)	(10,124)		
Total nonoperating revenues — net	24,666	47,661	(4,841)	1,766
(LOSS) GAIN BEFORE OTHER CHANGES	(614)	(3,856)	(4,841)	1,766
OTHER CHANGES — Grants for capital acquisitions	1,685	1,564		
INCREASE (DECREASE) IN NET ASSETS	1,071	(2,292)	(4,841)	1,766
TOTAL NET ASSETS — Beginning of year	241,359	244,153	24,807	22,539
TRANSFER OF NET ASSETS	(229)	(502)	229	502
TOTAL NET ASSETS — End of year	$242,201	$241,359	$20,195	$24,807

See notes to financial statements.

THE METROHEALTH SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Patient service revenue	$ 610,040	$ 537,968
Other operating cash receipts	25,140	24,064
Payments to suppliers	(170,242)	(151,352)
Payments for compensation and benefits	(458,671)	(433,417)
Net cash flows provided by (used in) operating activities	6,267	(22,737)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County appropriation	39,773	40,000
Proceeds from notes payable	2,599	3,707
Principal payments on notes payable	(3,707)	(4,500)
Interest payments on notes payable	(82)	(107)
Restricted grants and donations	9,845	8,847
Specific-purpose funds expenditures	(5,118)	(4,558)
Transfer of net assets	(229)	(502)
Restricted receivables/liabilities	(284)	28
Net cash flows provided by noncapital financing activities	42,797	42,915
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits in project funds		(277)
Withdrawals from project funds		6,639
Acquisitions and construction	(18,717)	(49,392)
Principal payments on long-term debt	(6,647)	(7,105)
Interest payments on long-term debt	(9,253)	(9,463)
Net cash flows used in capital and related financing activities	(34,617)	(59,598)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) investments — net	(20,724)	29,515
Interest received and realized gains and losses	8,088	11,678
Net cash flows provided by (used in) investing activities	(12,636)	41,193
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,811	1,773
CASH AND CASH EQUIVALENTS — Beginning of year	3,056	1,283
CASH AND CASH EQUIVALENTS — End of year	$ 4,867	$ 3,056
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (25,280)	$ (51,517)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	31,865	31,497
Provision for bad debts	9,917	10,158
Changes in assets and liabilities:		
Increase in patient accounts receivable	6,182	(21,160)
Increase in other assets	468	(2,380)
Increase (decrease) in self-insurance liabilities	984	910
Increase (decrease) in accounts payable and other liabilities	(11,152)	8,773
Increase in long-term liabilities	(6,717)	982
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 6,267	$ (22,737)

See notes to financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37*, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* and GASB Statement No. 38*, Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — The accompanying financial statements of the MetroHealth System ("System") include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; Broadway Medical Offices, Buckeye Health Center and MetroHealth outpatient community health facilities; MetroHealth Centers for Skilled Nursing Care, consisting of the Old Brooklyn Nursing Facility and The Elisabeth Severance Prentiss Center for Skilled Nursing Care; Faculty Business Office, a medical specialty group practice; and several urban and suburban primary care health sites. All significant inter-entity transactions have been eliminated in the financial statements.

The System is the public health care system for Cuyahoga County, Ohio, 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 the 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 $40,000 and $40,000 for 2008 and 2007, respectively. The County has approved an appropriation of $40,000 for 2009. The System is exempt from federal income taxes as a governmental entity.

In accordance with GASB Statement No. 14, *The Reporting Entity*, the System's financial statements are included, as a discrete entity, in the County's 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.

Furthermore, in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The MetroHealth Foundation ("Foundation") is presented as a discrete entity component unit in a separate column in the System's financial statements to emphasize that it is legally separate from the System. The Foundation is a not-for-profit organization supporting the System. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the System in support of its programs. Although the System does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which they hold and invest are 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. Financial statements of the Foundation can be obtained by writing to The MetroHealth Foundation, 2500 MetroHealth Drive, Cleveland, Ohio 44109.

Basis of Accounting — The System's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The System follows the "business-type" activities, which provides for the following components of the System's financial statements and management discussion and analysis:

- Management's Discussion and Analysis

- Basic Financial Statements including a Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows, for the System as a whole

- Notes to the Financial Statements

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

The accompanying financial statements of the System are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues and expenses are recognized in the period in which they are earned or incurred. Depreciation of assets, gains, losses, assets and liabilities are also recognized in the period in which the transaction has occurred.

Pursuant to the Ohio Revised Code, the System submits a budget to the County Commissioners for approval by November 1 of each fiscal year. The fundamental purpose of the budget is to plan for an expected level of operations and to provide management with a tool to control deviation from such a plan. The budget is prepared on an accrual basis.

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

Statement of Revenues, Expenses, and Changes in Net Assets — The System recognizes as operating revenues those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care, and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Nonoperating revenues include County appropriation, investment income, specific purpose grants and donations, primarily research, and unrealized gains on investments. Nonoperating expenses include interest expense and expenditures from specific 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue is reduced by contractual and retroactive adjustments of $878,204 and $757,476 in 2008 and 2007, respectively.

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

Medicare and Medicaid — Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries and Medicare capital costs are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received from Medicare and Medicaid. Medicare utilizes a prospective payment system for inpatient rehabilitation services.

Medicare outpatient claims are reimbursed under the Ambulatory Payment Classification based prospective payment system. The payments are based on patient assessment data classifying patients into one of one hundred case mix groups. In 2005, inpatient psychiatric services moved to a prospectively determined per diem rate, phased in over three years. In 2008, 100% of the inpatient psychiatric prospective payment system is at federal rate. In 2007, inpatient psychiatric services were reimbursed at 25% of reasonable cost plus 75% of the inpatient psychiatric facility prospective payment system federal rate. Certain outpatient services related to Medicare beneficiaries and capital costs for Medicaid beneficiaries are reimbursed based on a cost-based methodology subject to certain limitations. The System is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare and Medicaid fiscal intermediaries. The System's classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission are subject to an independent review by a peer review organization. Differences between the estimated amounts accrued at interim and final settlements are reported in the Statement of Revenues, Expenses, and Changes in Net Assets in the year of settlement. The System recorded favorable adjustments of $12,437 and $3,907 in 2008 and 2007, respectively, due to prior year retroactive adjustments to amounts previously estimated.

Net revenue from the Medicare and Medicaid programs accounted for approximately 30% and 29%, respectively, of the System's net patient service revenue for the year ended December 31, 2008, and 28% and 32%, respectively, of the System's net patient service revenue for the year ended December 31, 2007. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

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

Upper Payment Limit — In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Center for Medicare and Medicaid Services. This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. At December 31, 2008 and 2007, $9,789 and $7,395, respectively, were due to the System and recorded on the balance sheets in other receivables; the System's required match to the State of Ohio of $3,765 and $2,942, respectively, is included in other current liabilities. The net amount recorded in net patient service revenue for UPL by the System was $10,732 and $9,584 in 2008 and 2007, respectively.

Disproportionate Share — As a public health care provider, the System renders services to residents of the County and others regardless of ability to pay. The System is classified as a disproportionate share provider by the Medicare and Medicaid programs due to the volume of low income patients it serves. Accordingly, the System receives additional payments from these programs as a result of this status totaling $43,469 and $28,700 in 2008 and 2007, respectively, (including Care Assurance of $29,103 and $15,319 in 2008 and 2007, respectively) which are included in net patient service revenue. The System also provides major trauma services to the region. The ability to continue these levels of service and programs 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 $240,126 and $229,504, which represents 14.1% and 15.0% of gross charges in 2008 and 2007, respectively, are not reported as revenue. The System accepts certain indigent Ohio residents and all residents from the County regardless of their ability to pay.

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

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

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 average cost or market.

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 as nonoperating revenue — net in the statement of revenues, expenses, and changes in net assets.

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

The net realized gain of $557 and $255 in 2008 and 2007, respectively, on investments is the difference between the proceeds received and the amortized cost of investments sold and is included in investment income in the statement of revenues, expenses, and changes in net assets.

Restricted Assets — Restricted assets are cash and cash equivalents and investments whose use is limited by legal requirements. Investments under bond indenture agreement represent amounts required by debt instruments to pay bond principal and interest and approved projects. Restricted cash and cash equivalents and specific 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.

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

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

Capital Assets — Capital assets are stated at cost. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation and amortization of assets recorded under capital lease (straight-line method) are provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives. The following are the most commonly used estimated useful lives:

Buildings	25–40 years
Building improvements	5–20 years
Equipment	3–15 years
Land improvements	5–15 years
Vehicles	4 years

Half of a year's depreciation is taken the first year the asset is placed in service. The asset and accumulated depreciation are removed from the related accounts when the asset is disposed of. Any gain or loss resulting from this disposal is recorded in the statement of revenues, expenses, and changes in net assets.

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. Accordingly, the System does not record in its financial statements the assets and liabilities of this plan.

Bond Discounts and Bond Issuance Costs — Deferred financing costs represent debt issuance expenditures on long-term debt obligations and are amortized over the period the bonds are outstanding on a straight-line basis. The amortization for deferred bond financing costs was $154 in 2008 and $154 in 2007. Amortization expense related to bond discounts was $82 in 2008 and $92 in 2007. These amounts are included in interest expense in the statement of revenues, expenses, and changes in net assets.

Cost of Borrowing — Interest costs associated with funds borrowed and used to finance the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. The capitalized interest amount is calculated by taking the difference between the interest expense incurred during the construction period that bonds relate to and the interest earned on the invested proceeds of specific purpose tax exempt bonds, which cover the same period of time. Capitalized interest income and interest expense on the Series 2003 and 2005 Bonds totaled $0 and $ 66 in 2008, respectively, and $106 and $565 in 2007, respectively. Amortization of capitalized interest is included in depreciation expense.

The System has entered into various interest-rate swap agreements. These derivative instruments are not designated as hedging instruments; therefore, gains and losses are recognized in the statement of revenues, expenses, and changes in net assets during the period of change. Net amounts periodically receivable or payable as a result of swap agreements are recorded as adjustments to interest expense on the related debt (see Note 6).

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

The System places its cash and cash equivalents with high credit quality financial institutions. The System's investments include money market funds, U.S. Treasury bills and notes, U.S. agency obligations, 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 10.0% of the System's patient accounts receivable. The System maintains an allowance for losses based on the expected collectibility of patient accounts receivable.

2. CHANGES IN ACCOUNTING PRINCIPLES

In July 2005, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*. This Statement establishes standards for the measurement, recognition, and display of Other Post Employment Benefits expense and related liabilities, note disclosures in the financial reports of state and local governmental employers. The System adopted GASB Statement No. 45 effective January 1, 2007. This statement has no effect on the System's financial statements, except additional footnote disclosures as noted at Note 10.

3. DEPOSITS AND INVESTMENTS

Deposits — All monies are deposited to the System's banks or trust companies designated by the Board of Trustees. Funds not needed for immediate expenditure may be deposited in interest bearing or non-interest bearing accounts or U.S. government obligations.

Custodial risk is the risk that, in the event of bank failure, the System's deposits might not be recovered. The FDIC increased insurance through December 31, 2009 for funds held in interest bearing accounts from $100 to $250 per depositor per category of legal ownership. In addition, the System's bank participates in the FDIC Transaction Account Guarantee Program where funds held in non-interest bearing transaction accounts are insured in full through December 31, 2009. The System's bank deposits at December 31, 2008 and 2007, totaled $4,740 and $2,981, respectively, and were subject to the following categories of custodial risk:

	2008	2007
Uncollateralized	$ 65	$2,821
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	63	60
Total amount subject to custodial risk	128	2,881
Amount insured	4,612	100
Total bank balances	$ 4,740	$2,981

Investments

The System — As of December 31, 2008 and 2007, the fair values of the System's investments were as follows:

	2008	2007
Cash and cash equivalents	$129,475	$ 71,089
U.S. Government Agencies	117,563	166,269
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)	203	308
Collateralized Mortgage Obligations	310	497
Corporate Bonds	5,836	8,848
Total investments	$253,387	$247,011

The System's carrying amounts of the deposits and investments at December 31, 2008 and 2007, are as follows:

	2008	2007
Deposits	$ 4,867	$ 3,056
Investments	253,387	247,011
Total deposits and investments	$258,254	$250,067

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

Interest Rate Risk — The System's investment policies limit investment portfolios to maturities of five years or less. All of the System's investments at December 31, 2008, have effective maturity dates of less than five years.

Credit Risk — All of the System's investments are rated AAA by Standard & Poor's. The System's investment policies are governed by State of Ohio statutes that authorize the System to invest in U.S. government obligations and AAA rated corporate bonds. The Collateralized Mortgage Obligations and Federal Mortgage pools are investments that are grandfathered from previous statutes that allowed such investments. These investments have an effective maturity date of less than one year.

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. Of the System's investments, only the repurchase agreements are exposed to custodial risk.

The Foundation — As of December 31, 2008, the fair values of the Foundation's investments were as follows:

	2008	**2007**
Mutual funds	$16,111	$22,207
Common stock	103	107
Limited Partnership Interest	1,134	
Premier Purchasing Partners, L.P.	874	815
Total deposits and investments	$18,222	$23,129

The Foundation's investments had cumulative unrealized gains of $524 and $1,722 and cumulative unrealized losses of $5,795 and $259 at December 31, 2008 and 2007, respectively.

4. CAPITAL ASSETS

The following summarizes the capital assets of the System for the years ended December 31, 2008 and 2007:

2008	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$	$ (63)	$ 9,314
Construction in progress	28,833	25,706	(37,462)	17,077
Total nondepreciated capital assets	38,210	25,706	(37,525)	26,391
Depreciable capital assets:				
Land improvements	12,547	492	(1,760)	11,279
Buildings and fixed equipment	497,541	31,271	(17,743)	511,069
Equipment	250,340	13,179	(11,086)	252,433
Total depreciable capital assets	760,428	44,942	(30,589)	774,781
Less accumulated depreciation:				
Land improvements	(7,276)	(406)	1,751	(5,931)
Buildings and fixed equipment	(308,431)	(18,182)	17,909	(308,704)
Equipment	(200,701)	(13,278)	10,769	(203,210)
Total accumulated depreciation	(516,408)	(31,866)	30,429	(517,845)
Total depreciable capital assets — net	244,020	13,076	(160)	256,936
Total capital assets — net	$ 282,230	$ 38,782	$ (37,685)	$ 283,327

2007	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$ -	$ -	$ 9,377
Construction in progress	8,765	47,170	(27,102)	28,833
Total nondepreciated capital assets	18,142	47,170	(27,102)	38,210
Depreciable capital assets:				
Land improvements	7,753	4,794		12,547
Buildings and fixed equipment	480,702	16,872	(33)	497,541
Equipment	238,885	12,431	(976)	250,340
Total depreciable capital assets	727,340	34,097	(1,009)	760,428
Less accumulated depreciation:				
Land improvements	(7,025)	(251)		(7,276)
Buildings and fixed equipment	(290,768)	(17,696)	33	(308,431)
Equipment	(188,104)	(13,550)	953	(200,701)
Total accumulated depreciation	(485,897)	(31,497)	986	(516,408)
Total depreciable capital assets — net	241,443	2,600	(23)	244,020
Total capital assets — net	$ 259,585	$ 49,770	$ (27,125)	$ 282,230

Total depreciation and amortization expense related to capital assets for 2008 and 2007 was $31,865 and $31,497, respectively.

5. LINE OF CREDIT

During 2005, the System entered into an agreement with a bank for a demand line of credit with a maximum amount available of $20,000. For the years ended December 31, 2008 and 2007, the System did not have an outstanding balance on the line of credit.

6. LONG-TERM DEBT

The System — Changes in long-term debt for 2008 and 2007 are as follows:

	2008				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 33,175	$	$ (955)	$ 32,220	$ 1,005
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,330		(4,670)	70,660	4,895
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	28,205		(645)	27,560	675
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	73,915		(330)	73,585	345
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	89		(44)	45	45
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	56		(4)	52	4
	210,770		(6,648)	204,122	6,969
Unamortized discount and loss	(11,724)		826	(10,898)	
	199,046		(5,822)	193,224	6,969
Current installments	(6,648)	(6,969)	6,648	(6,969)	
Long-term debt	$192,398	$ (6,969)	$ 826	$186,255	$ 6,969

	2007				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 38,245	$	$ (5,070)	$ 33,175	$ 955
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,620		(290)	75,330	4,670
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	28,830		(625)	28,205	645
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	74,230		(315)	73,915	330
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	759		(759)		
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	131		(42)	89	44
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	60		(4)	56	4
	217,875		(7,105)	210,770	6,648
Unamortized discount and loss	(12,542)		818	(11,724)	
	205,333		(6,287)	199,046	6,648
Current installments	(7,105)	(6,648)	7,105	(6,648)	
Long-term debt	$198,228	$ (6,648)	$ 818	$192,398	$ 6,648

Effective February 1, 1997, the County 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.

Effective November 1, 1997, the County issued $77,525 of Hospital Refunding Revenue Bonds, Series 1997A (The MetroHealth System Project) (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. The unamortized difference $5,307 and $5,831 at December 31, 2008 and 2007, respectively), reported in the accompanying financial statements, as a reduction from long-term debt, is included as additional interest expense through the year 2019 using the effective interest method.

Effective September 1, 1999, the County issued $56,995 of Hospital Improvement Revenue Bonds, Series 1999 (The MetroHealth System Project) (Series 1999 Bonds). The proceeds of the Series 1999 Bonds were used to finance the construction of a 150-bed long-term care facility and acquire, construct, renovate, equip, and improve operating rooms and other hospital facilities. On July 28, 2005, a portion of the proceeds from the County's 2005 Series Bond Issue was placed in escrow to advance refund the outstanding Series 1999 Bonds. The defeased series 1999 bonds remain outstanding at December 31, 2008.

Effective March 13, 2003, the County issued $30,545 of Hospital Improvement Variable Rate Demand Revenue Bonds, Series 2003 (The MetroHealth System Project) (Series 2003 Bonds). The proceeds of the Series 2003 Bonds were used to pay costs of constructing and equipping the Critical Care Pavilion and an administrative building. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2033. The interest rate at December 31, 2008 and 2007, was 1.88% and 3.48%, respectively.

In connection with the issuance of the Series 2003 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit ("Letter of Credit") issued by a local bank that expires on March 22, 2008, but has been extended to March 22, 2010, under terms of an extension signed in December of 2007. Under the terms of the Letter of Credit, the Trustee will be entitled to draw amounts necessary to make principal and interest payments. The Letter of Credit is subject to various financial covenants.

Effective July 28, 2005, the County issued $74,535 of Hospital Improvement and Refunding Variable Rate Demand Revenue Bonds, Series 2005 (The MetroHealth System Project) (Series 2005 Bonds). Proceeds from the 2005 Series Bonds were used to advance refund $56,995 of the outstanding Series 1999 Bonds scheduled to mature on February 15, 2029; to pay costs of constructing, renovating, furnishing, equipping, and improving the Old Brooklyn Campus long-term care and skilled nursing facility; and to pay certain costs of issuance of the Series 2005 Bonds. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2035. The interest rate at December 31, 2008 and 2007, was 2.38% and 3.48%, respectively.

In connection with the issuance of the Series 2005 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit ("Letter of Credit") issued by a local bank that expires on July 16, 2010. Under the terms of the Letter of Credit, the Trustee will be entitled to draw amounts necessary to make principal and interest payments. The Letter of Credit is subject to various financial covenants.

The July 28, 2005, bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,179. The unamortized difference $4,426 and $4,646 at December 31, 2008 and 2007, respectively), reported in the accompanying financial statements, as a reduction from long-term debt, is included as an increase to interest expense through the year 2029 using the effective interest method.

The Series 1997, 1997A, 1999, 2003, and 2005 Bonds were issued pursuant to a master trust bond indenture agreement between the County, acting by and through the System's Board of Trustees, and the bond trustee. The Series 1997, 1997A, 1999, 2003, and 2005 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, and are secured by the revenue and real property of the System. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

The terms of the master agreement provide for the establishment of a depreciation reserve fund and maintenance of certain special funds, which are maintained under the control of the bond trustee, and are used for payment of principal and interest on the bonds when due. The revenue bonds and lease obligation payment requirements for fiscal years subsequent to December 31, 2008, are as follows:

	Total Lease and Loan Obligations			**Total Hospital Revenue Bonds**		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2009	$ 49	$ 3	$ 52	$ 6,920	$ 7,680	$ 14,600
2010	4	4	8	7,280	7,228	14,508
2011	5	2	7	7,650	6,862	14,512
2012	5	2	7	8,045	6,471	14,516
2013	5	1	6	8,485	6,066	14,551
2014–2018	29	4	33	49,250	23,665	72,915
2019–2023				42,515	13,002	55,517
2024–2028				47,290	6,152	53,442
2029–2033				21,070	1,643	22,713
2034–2035				5,520	89	5,609
	$ 97	$ 16	$113	204,025	$78,858	$282,883
Unamortized discount				(1,166)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				(9,732)		
Total hospital revenue bonds — net				$193,127		

The Bond Reserve Funds, also required under the master trust bond indenture agreement, had balances as of December 31, 2008 and 2007, of $11,935 and $11,662, respectively. The cost value of Hospital Revenue Bonds was $202,859 and $209,377 at December 31, 2008 and 2007, respectively. The fair value of Hospital Revenue Bonds ($201,126 and $212,475 at December 31, 2008 and 2007, respectively) is estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

The Foundation — The Foundation's long-term obligations are comprised of the following notes payable:

2008	Beginning Balance	Additions/ Reductions	Payments	Ending Balance	Long-term Debt	Due Within One Year
3.96% note payable, due in semi-annual installments plus interest, through June 30, 2010, secure by its equity interest in Premier Purchaing Partners, L.P.	$ 201	$	$ (64)	$ 137	$ 70	$ 67
2007						
3.96% note payable, due in semi-annual installments plus interest, through June 30, 2010, secure by its equity interest in Premier Purchaing Partners, L.P.	$ 263	$ -	$ (62)	$ 201	$ 137	$ 64

The future scheduled maturities of the notes payable are as follows:

Years Ending December 31	
2009	$ 67
2010	70
	$ 137

7. DERIVATIVE INSTRUMENTS

The System's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management of the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, the System entered into various interest rate swap agreements with a total outstanding notional amount of $101,145 and $102,120 at December 31, 2008 and 2007, respectively.

The fair value of the swap agreements based on current settlement prices at December 31, 2008 and 2007, was ($17,627) and $1,778, respectively. The 2007 amount was due from the counterparties and was included in other assets. The 2008 amount is due to the counterparties and is included within other long term liabilities. In 2008 the fair value decrease of ($19,406) and the 2007 the fair value decrease of $924 are recorded as net investment income in the statement of revenues, expenses, and changes in net assets. As a result of the agreements, the System's interest expense was increased by $923 and $44 in 2008 and 2007, respectively.

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

Year-End Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 73,585	July 28, 2005	February 1, 2035	The System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 27,560	March 13, 2003	March 1, 2033	The System	Fixed 3.5 %	68.9% of ISDA 5 Yr. Swap Rate

On July 28, 2005, the System entered into a swap agreement (the "Original Agreement") with an amortizing notional amount of $74,535. The notional amount is based on the Series 2005 Bond principal repayment schedule that ends in 2035. Per 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 2008, ISDA five year interest rates ranged between 1.9% and 4.5%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

On March 13, 2003, the System entered into a swap agreement (the "Original Agreement") with an amortizing notional amount of $30,545. The amortizing notional amount is based on the Series 2003 Bond principal repayment schedule ending on March 1, 2033. Per terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.5% and the counterparty pays 68.9% of the ISDA USD five year swap rate. The original agreement required the counterparty to pay 75% of the 3-month USD LIBOR rate. Net settlement amounts are exchanged monthly. The System has an early termination option.

8. OTHER LONG-TERM LIABILITIES

Amounts Due to Third-Party Payors — The System has agreements with third-party payors that provide for payment of amounts different from established rates. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. See Note 1, net patient service revenue.

Accrued Vacation and Sick — System employees earn vacation and sick leave at varying rates depending on job classification and years of service. Employees can accumulate up to three years of their earned vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the System. There is no limit on the amount of sick time accrued. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 50% of eligible hours at their current rate of pay. The maximum pay out is 800 hours. As of December 31, 2008 and 2007, the liability for accrued sick and vacation was $34,971 and $32,012, respectively.

Note Payable — The System financed one-year general and professional liability policies with a note payable in 2008 and 2007. The 2008 note payable bears interest at a rate of 3.44%; the 2007 note payable interest rate was 4.8%. At December 31, 2008 and 2007, the note payable balance outstanding was $2,599 and $3,707, respectively.

Asset Retirement Obligations — The System adopted the provisions of FIN No.47 as of December 31, 2005, for the Systems' obligations related to asbestos abatement. At December 31, 2005, the System recorded approximately $5,424 as an asbestos abatement liability. The amount of the asset and liability at the date the obligation was incurred in 1973 totaled $1,434. The amount of interest accretion and depreciation expense charged to net assets, as the cumulative change in accounting principle, for the years 1974 through 2005 totaled $5,161. The December 31, 2008 and 2007, total balance for asset retirement obligations totals $4,387 and $4,519, respectively, and reflects liability reductions for retired assets of $53 and $128, changes in estimates of $270 and $208, and an increase for interest accretion expense of $190 and $210, respectively. The current portion of the asset retirement obligations is included in other current liabilities.

Other Long-Term Liabilities — Other long-term liabilities consist of the following at December 31, 2008 and 2007:

2008	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due third-party payors	$38,584	$ 5,811	$(17,339)	$27,056	$ 3,857
Accrued vacation and sick leave	32,012	5,985	(3,026)	34,971	3,117
Asset retirement obligations	4,519	190	(322)	4,387	
Note payable	3,707	2,599	(3,707)	2,599	2,599
	$78,822	$14,585	$(24,394)	$69,013	$ 9,573

2007	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due third-party payors	$40,462	$ 600	$ (2,478)	$38,584	$ 6,364
Accrued vacation and sick leave	28,673	5,839	(2,500)	32,012	2,575
Asset retirement obligations	4,758	2	(241)	4,519	200
Note payable	4,500	3,707	(4,500)	3,707	3,707
	$78,393	$10,148	$ (9,719)	$78,822	$12,846

Risk Management — The System is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System is self-insured for workers compensation and medical malpractice but maintains commercial insurance policies for property and casualty, automobile, aircraft (helicopter and fixed wing) as well as excess coverage for medical malpractice claims. Settled claims have not exceeded insurance coverage in any of the past three years.

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

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

Losses from asserted claims and from unasserted claims identified under the System's incident reporting systems are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The reserve for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported undiscounted for 2008 and 2007.

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

2007	**Beginning Balance**	**Claims Incurred**	**Claims Paid**	**Ending Balance**	**Due Within One Year**
Worker's compensation	$ 9,267	$ 2,361	$ (2,476)	$ 9,152	$ 3,097
Self-insurance	37,180	6,400	(5,375)	38,205	13,997
Employee health insurance	1,619	18,552	(17,369)	2,802	2,802
	$ 48,066	$ 27,313	$ (25,220)	$ 50,159	$ 19,896

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

9. OPERATING LEASES

The System has entered into operating lease agreements for a parking facility, medical space, and office space, which expire through 2020. Contract terms range between one and fifteen years and contain rent escalation clauses and renewal options for additional periods ranging from one to five years.

Minimum rental commitments under operating leases extending beyond one year at December 31, 2007, are as follows:

2009	$2,037
2010	1,355
2011	996
2012	750
2013	750
2014–2018	2,206
2019–2020	503
Total	$8,597

Rent expense totaled $2,118 in 2008 and $2,101 in 2007. The System leases the Valentine parking garage. The lease had an original five year term with five one-year options to renew. Upon the ultimate expiration of the lease, there are several options available to the System regarding the property which result in different amounts possibly due. One of these is an option to purchase the property. The original term has expired and the System's management has elected to exercise the fourth one-year option, which expires November 30, 2008. The cost to purchase the property at that time is $11,500. Funds have been allocated within Board Designated investments to make this payment.

10. BENEFIT PLANS

Pension — Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (OPERS). The plans are the Traditional Pension Plan — a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan — a defined contribution pension plan; and the Combined Plan — a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and postretirement healthcare benefits, to the Traditional and Combined Plan members however, healthcare benefits are not statutorily guaranteed. Participants in the Member-Directed Plan do not qualify for ancillary benefits.

The Ohio Public Employees Retirement System issues a stand-alone financial report and may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10.0% of covered payroll and the System is required to contribute 14.0% of covered payroll. The System's contributions to OPERS for the years ending December 31, 2008, 2007, and 2006, were $48,009, $45,977, and $42,897, respectively, equal to the required contributions for each year.

Postretirement 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. Health care coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

The Ohio Revised Code provided the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

The employer contribution rate is expressed as a percentage of the covered payroll of active members. In 2008, the employer contribution was 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB plan.

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 healthcare benefits. For 2008, the employer contribution allocated to the healthcare plan 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The System's contribution for 2008, 2007, and 2006 used to fund postretirement health care benefits was $24,005, $18,200, and $14,090, respectively, which is included in the System's pension contribution of $48,009, $45,977, and $42,897 for the years ending December 31, 2008, 2007, and 2006, respectively.

Based on the latest OPERS actuarial review as of December 31, 2007, OPERS had $12,800,000 in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were $29,800,000 and $17,000,000, respectively. The number of active contributing participants used in the 2007 actuarial valuation was 364,076. The active number of contributing participants as of December 31, 2008, was 363,503.

Benefits are advance-funded using the entry-age normal actuarial cost method. Assets are valued using a smoothed market value approach with assets adjusted annually to reflect 25% of the unrealized market appreciation or depreciation, not exceeding a 12.0% corridor. Other significant actuarial assumptions include an investment return of 6.5%; no change in the number of active employees; active employee payroll increases of 4.0% compounded annually with additional annual increases ranging between 0.5% to 6.3%; and health care costs increasing between 0.5% and 5.0% over the next eight years and 4.0% thereafter.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP), effective on January 1, 2007. In 2005, OPERS also took additional measures to improve the solvency of the Health Care Fund by establishing a separate investment pool for health care assets. Effective as of January 1, 2006, 2007, and 2008, member and employer contribution rates increased, allowing additional funds to be allocated to the health care plan.

11. RELATED ORGANIZATIONS

The System is the primary beneficiary of The MetroHealth Foundation, Inc. ("Foundation"). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the System has reported the Foundation as a component unit in the System's 2008 and 2007 financial statements. The System received support from the Foundation in the amount of $4,439 and $4,452 in 2008 and 2007, respectively, which is recorded as grant revenue on the System's statement of revenues, expenses, and changes in net assets. The outstanding receivable from the Foundation was $1,128 and $977 at December 31, 2008 and 2007, respectively. The System also provided the Foundation in-kind support totaling $896 and $920 in 2008 and 2007, respectively. This support covered the direct expenses of the Development department and indirect expenses for the use of space and support departments such as information services and environmental services. The System had established restricted funds to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restrictions or that arise as a result of the operations of the System. A review of these restricted funds is performed annually to determine that funds related to completed clinical trials and certain donated money should be transferred to the Foundation. The total amounts transferred in 2008 and 2007 were $229 and $507, respectively.

12. CONDITIONAL PROMISES TO GIVE

The Foundation — The Foundation received a conditional pledge of $10,000 commencing in 2005 payable over the next 10 years at $1,000 per year. The outstanding balance of $6,182 and $7,000 at December 31, 2008 and 2007, respectively, is not included in these financial statements in accordance with FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations.

13. COMMITMENTS

As of December 31, 2008, the System has contractual commitments for the construction of various projects totaling approximately $31,048. The helicopter replacement project has commitments of $18,786 to be paid through 2009. Other projects with large contractual commitments include the inpatient electronic medical record project for $4,077, AHU-Replacement (Air Handling Units) for $1,287, CT Scanner reconfiguration for $1,017. These projects are being funded with operating funds.

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SUPPLEMENTAL SCHEDULES

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor/ Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Pass-Through Program From —				
Ohio Department of Health	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	1830011WA0108; 1830011WA0209	$4,715,399
		TOTAL — U.S. Department of Agriculture		4,715,399
U.S. Department of Education				
Pass-Through Program From —				
Ohio Department of Health	HMG Hospital Based Regional Child Fund	84.181	1830011HB0108; 1830011HB0209	51,370
		TOTAL — U.S. Department of Education		51,370
U.S. Department of Health & Human Services				
Direct Program:	Pediatric Intensive Care Unit New Construction & Renovation	93.887	C76HF05977AO	28,087
			Subtotal DHHS Direct	28,087
Pass-Through Programs From —				
Cuyahoga County Mental Health Board	Medicaid Assistance Program	93.778	129000	882,611
			Subtotal CFDA No. 93.778	882,611
University Hospital	CFHS Cleveland Regional Perinatal Network - Fetal Death Review	93.994	18-1-001-1-MC	27,084
	Cleveland Regional Perinatal Network	93.994	18-3-002-1-BM	24,069
			Subtotal CFDA No. 93.994	51,153

See notes to supplemental schedule of expenditures of federal awards. (Continued)

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor/ Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Health & Human Services				
Pass-Through Program From:				
Ohio Department of Health	TB Prevention and Control/Outreach	93.118	1830012CK08; 1830012TB0109	$ 220,109
	Federal HIV Care (Title II)	93.917	1830011HC0107; 1830011HC0108	112,962
	Ryan White Emergency Assistance Funding - Title II	93.917	N/A	8,360
Center for Community Solutions	Title X - Family Planning	93.217	6FPHPA050520-32-04; 5FPHPA050520-33-0; 2FPHPA050520-32-00; 2FPHPA050520-33-00	308,857
Cuyahoga County	Ryan White Title I	93.914	CE0700706-01; CE0800776-01	1,301,058
Cuyahoga County Help Me Grow	HMG Hospital Based Regional Child Find	93.558	N/A	22,321
Center for Health Affairs	HRSA Emergency Preparedness/Bioterrorism Grant	93.889	N/A	34,048
Cuyahoga County Board of Health	Immunization Action Plan	93.268	N/A	62,454
	Total — U.S. Department of Health & Human Services			3,032,020
U.S. Department of Homeland Security:				
Cuyahoga County	Urban Area Security Initiative	97.008	0700529-01	66
	Total — Department of Homeland Security			66
Research & Development Cluster:				
U.S. Department of Education:				
Direct Programs:				
	NORSCIS Collaborative	84.133	H133N060017	452,858
	Subtotal U.S. Dept of Education — Direct			452,858

See notes to supplemental schedule of expenditures of federal awards. (Continued)

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor/ Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
Research & Development Cluster:				
U.S. Department of Health & Human Services				
Direct Programs				
	Role of Molecular Chaperones	93.837	1RO1HL71789	$ 375,562
	Homogeneous Transfer of Connexin 43 to Prevent Atrial	93.837	F32HL090218	15,768
	Kirchstein National Research Service Award	93.837	F32HL090350	25,867
	Molecular Mechanism of Chemoprevention by Benzylistothiocyan	93.393	1RO3CA137476-01	16,675
	Subtotal U.S. Dept. of Health & Human Services — Direct			433,872
	Subtotal Research & Development Cluster — Direct			886,730
Pass-Through Programs From:				
University of Cincinnati	Effect of Improved Hospital Reimbursements for RT-PA Use	93.283	SRS20834; SAP1004826	2,525
UMDNJ/American Academy of Pediatrics	Breastfeeding Promotion in Physicians' Office Practices	93.283	U36/CCU319276	98
Cleveland State University	Engaging the African-American Community in Reducing Obesity	93.307	1R24MDOO1794	9,087
Cleveland Clinic Foundation	GOG Trials Gynecologic Oncology Group	93.395	CA27469	2,300
Duke Clinical Research Institute	American College of Surgeons Oncology Group	93.395	CA76001	360
University of Rochester	Risk Stratification in Madit II Type Patients	93.837	R01HL77478	6,672
Yale University	Telemonitoring to Improve Heart Failure	93.837	HL080228	11,630
NIH-NIDDK/Univ of North Carolina	Multicenter Clinical Trial of Focal Glomerulosclerosis	93.849	5U01DK63455	35
NIH-NINDS/Cleveland Medical Devices	Intraoperative Brain Dysfunction Monitor/Detector	93.853	2R444NS047815	35,376
NIH-NINDS/UMDNJ	Warfarin vs. Aspirin in Reduced Cardiac Ejection Fraction	93.853	NS39143	5,073
NIH-NINDS/Mayo	SWISS Single Rising Dose Study of FK506 Lipid Complex	93.853	NS39987	5,045
NIH-NINDS/Univ of Texas Health Center	SPS-3 Prevention of Small Subcortical Strokes	93.853	NS38529	122,614
NIH-NINDS/Yale University	Insulin Resistance Intervention After Stroke Trial	93.853	NS044876-02	30,038
NIH-NINDS/University of Miami	ALIAS Phase II Trial Albumin in Acute Ischemic Stroke	93.853	NS040406	21,629

See notes to supplemental schedule of expenditures of federal awards. (Continued)

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor/ Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
NIH-NICHD/Emmes Corporation	Emmes Safe Labor Subcontract	93.865	HHSN267200603425C	$ 57,777
NIH-NICHD/AEHN	Wilson Medical Rehabilitation Scientist Development Award	93.865	K12HD001097-11	58,047
NIH-NR/AEHN	Wilson Medical Rehabilitation Scientist Development Award	93.865	K12HD001097-12	59,520
HRSA/Bureau of Health Professionals	Special Project of National Significance (JAIL)	93.928	H97HA0854301	18,990
HRSA/Care Alliance	Care Alliance Subcontract Form HRSA Enhancing Linkages	93.928	H97HAO8543-01-02	117,597
Research Triangle Institute	Post Acute Care Tool Project	N/A	N/A	7,801
NIH-NHLBI/New England Research	Treatment of Preserved Cardiac Function Heart Failure	N/A	N01HC45207	897
NIH-NIAID/UAB at Birmingham	CMV Mono Antibody	N/A	AI30025	391
NIH-NIAID/UAB at Birmingham	Clinical Trials for Antiviral Therapies	N/A	N01A130025	1,770
	Subtotal Research & Development Cluster: Pass Through Programs			575,272
	TOTAL — Research & Development Cluster			1,462,002
	TOTAL EXPENDITURES OF FEDERAL AWARDS			$9,260,857

See notes to supplemental schedule of expenditures of federal awards. (Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

2. MEDICAID ASSISTANCE PROGRAM

The amount received from Medicaid Assistance Program in 2008 represents only a portion of the total amount billed by the System. The federal expenditure amount reported represents the actual and accrued receipts times the Federal Financial Participation reimbursement rate for service rendered in 2008.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of The MetroHealth System (the "System"), as of and for the year ended December 31, 2008, and have issued our report thereon dated April 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of MetroHealth Foundation (the "Foundation"), as described in our on The System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reporting on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting. Other auditors audited the financial statements of MetroHealth Foundation (the "Foundation"), as described in our on The System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reporting on separately by those auditors.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with general accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the System in a separate letter dated Apri 24, 2009.

Deloitte & Touche LLP

April 24, 2009

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of The MetroHealth System (the "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, 2008. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

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

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-01 and 08-02.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of the audit committee of the board of trustees, management, federal awarding agencies, state funding agencies, pass-through entities, and the Ohio Auditor of State and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

April 24, 2009

THE METROHEALTH SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

Part I — Summary of Auditors' Results

Financial Statements

1. The independent auditors' report on the financial statements expressed an unqualified opinion.

2. Internal control over financial reporting:

   a. Material weakness(es) identified? No

   b. Significant deficiency(ies) identified that are considered to be material weaknesses? None reported

   c. Noncompliance material to financial statements noted? No

Federal Awards

1. Internal control over major program:

   a. Material weakness(es) identified? No

   b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

   Type of auditor's report issued on compliance for major programs was unqualified.

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

   d. The System's major programs were:

      I. **U.S. Department of Health and Human Services** — Medicaid Assistance Program (CFDA No. 93.778)

      II. **U.S. Department of Health and Human Services** — Title X/Family Planning (CFDA No. 93.217)

      III. **U.S. Department of Health and Human Services** — Ryan White Title I (CFDA No. 93.914)

2. A threshold of $300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

3. The System did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II — Federal Awards Findings and Questioned Costs

Finding Number: 08-01

Program Name: Medicaid Assistance Program

CFDA: 93.778

Compliance Area: Allowable Costs

Condition: One individual visit of our sample of twenty-five visits reviewed was inaccurately billed to the Cuyahoga County Community Mental Health Board (overbilling) for the following service: Diagnostic Assessment (Non-Physician).

Criteria: According to the *U.S. Office of Management and Budget A-133 Compliance Supplement* for Medicaid, to be allowable, Medicaid costs for medical services must be paid at the rate allowed by the State plan.

Cause and Effect: The error is the result of twelve units of Assessment (Non-Physician) being billed instead of ten units being provided. A chart is utilized by the service providers, which indicates the number of units to be recorded, based on the time spent with each patient and the type of service being provided. Failure to record an accurate number of units of service results in an overbilling or underbilling to Cuyahoga County Community Mental Health Board, which results in the receipt of an improper reimbursement amount.

Known Questioned Costs: $26.01 — Net Amount Overbilled

Likely Questioned Costs: $8,527 — Best Estimate of Total Amount Overbilled Based on Diagnostic Assessment (Non-Physician) Services Rendered During the Fiscal Year

Context: The System requests reimbursement based on units of service provided by the System multiplied by the Medicaid contract rate for the type of service rendered.

Recommendation: To prevent the billing of incorrect units of service we recommend that the System re-educate its service providers and emphasize the importance of reporting accurate units.

Views of responsible officials and planned corrective actions: Management has established a corrective action plan for the finding. Please see details in the attachment titled "Correction Action Plan for the Year Ended 12/31/2008."

Part II – Federal Awards Findings and Questioned Costs

Finding Number:	08-02
Program Name:	HIV Emergency Relief Project Grants (Ryan White Title I - Medical/Dental Services)
CFDA:	93.914
Compliance Area:	Allowable Costs and Eligibility

Condition: Four individual dentistry visits of our sample of twenty-five visits, including medical and dental, reviewed were classified by the System as being related to the Ryan White program even though they did not meet the qualifications of an allowable billable visit under the grant agreement. The patients were insured by a third party.

Criteria: The System has certified to the granting agency that the services being reimbursed are not reimbursable in part or in full by any other third party. According to the grant agreement, services are to be provided to uninsured/underinsured HIV positive patients. Adherence to the grant is required.

Cause and Effect: Incorrect classification of dental patients as being Ryan White eligible results in a request for reimbursement that is greater than what is actually allowable. The error is the result of patients being classified as Ryan White eligible, when in fact the patients are insured by Medicaid at the time of billing.

Known Questioned Costs: $1,125 – Net Amount Overbilled

Likely Questioned Costs: $145,656 – Best Estimate of Total Amount Overbilled Based on Dental Services Rendered During the Fiscal Year

Context: The System requests reimbursement based on the number of eligible patient visits.

Recommendation: To prevent charging unallowable visits to the grant we recommend that the Dentistry department verify the insurance status of the patient on both the date of service and when the invoices are generated the following month for billing.

Views of responsible officials and planned corrective actions: Management has established a corrective action plan for the finding. Please see details in the attachment titled "Corrective Action Plan for the Year Ended 12/31/2008."

The MetroHealth System

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008

Prior Year Finding Number	Summary of Prior Year Finding	Status
07-02: Family Planning Services CFDA 93.217	The System incorrectly classified two (2) individual visits as allowable activities under Family Planning Title X when in fact the services rendered did not meet the qualifications of an allowable service under the grant agreement.	Completed/Ongoing: MetroHealth's Family Planning clinics continued its re-educaiton program with the staff providing family planning services. The coordinators and Medical Director also continued with periodic, random chart reviews. In 2008, a new report was developed from the billing systems to list the primary and secondary diagnoses for patients submitted as Title X funded. The grant coordinator reviewed the report to ensure the activities were allowable under the grant.
07-03: Family Planning Services CFDA 93.217	The System classified four (4) individual visits as Title X eligible when in fact the patients were insured by a third party insurance.	Completed/Ongoing: In 2008 MetroHealth's senior management required the clinics to utilize the on-line Clinic Visit Record maintained within the MetroHealth's billing system. As a result, edit reports were developed to identify services submitted as Title X funded that were subsequently paid by third party insurers. Errors were identified timely and corrected with the granting agency.
07-04: Medicaid Assistance Program CFDA 93.778	The System billed two (2) individual Medication/Somatic visits at an incorrect number of units, resulting in a net under-billing.	Completed/Ongoing: MetroHealth's Psychiatry continued its education program to all providers to reinforce the importance of billing accuracy and proper use of the units of service conversion chart. Psychiatry Administration also continued its random audit of service units billed against the provider's documentation in the patient charts.
07-05: Medicaid Assistance Program CFDA 93.778	One Mental Health provider incorrectly calculated units of service for Medication / Somatic services provided to 658 patient visits during 2007, resulting in an over-billing to the Mental Health Board.	Completed: MetroHealth's Psychiatry Administration immediately re-educated the provider on the proper use of the units of service conversion chart. In addition, MetroHealth's Billing Department immediately identified and corrected all of the erroneous bills with the Mental Health Board.

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THE METROHEALTH SYSTEM – A133
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED 12/31/08

Finding 08-01 – Allowable Costs
(Medicaid Assistance Program CFDA 93.778)

Corrective Action Planned:
To alleviate the potential of billing errors resulting from the manual nature of calculating service units, the administration over the Department of Psychiatry will continue its provider education program to all new and existing Mental Health providers, which includes:

- Reinforcing the importance of billing accuracy.
- Proper use of the Mental Health service units' conversion chart to correctly calculate the number of units for billing.

The administration of Specialty Care Services will continue to randomly audit the service units billed against the provider's documentation in the patient charts on a monthly basis. MetroHealth Finance will also discuss adding random chart reviews with the Internal Auditors.

Anticipated Completion Date: May 2009

Contact Persons Responsible for Corrective Action:
Mary Weir-Boylan, Administrative Director – Specialty Care
Cynthia O'Dor, Associate Director – Accounting and Grants

Finding 08-02 – Allowable Costs and Eligibility
(HIV Emergency Relief Project Grant – Ryan White Title I CFDA 93.914)

Corrective Action Planned:
To alleviate billing Ryan White for dental visits covered by third party insurers, the Department of Dentistry will implement additional insurance verification processes prior to approving the visit as "billable" under the Ryan White program. In addition to verifying insurance during the patient's check-in process, the Department of Dentistry

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will again verify insurance coverage for each patient visit flagged as "Ryan White" during the monthly billing process for the grant. Insurance will be verified using on-line insurance verification resources, as well as reviewing the patient's coverage per MetroHealth's patient billing systems. Patients covered by the Medicaid Spend-down program will be reviewed individually with the System's Spend-down Unit. MetroHealth will also consider the feasibility of obtaining a database of eligible client IDs from the pass-through agency (i.e., Cuyahoga County) to match against MetroHealth's listing of eligible clients prior to invoicing.

Anticipated Completion Date: June 2009

Contact Persons Responsible for Corrective Action:
Elizabeth Jones, Administrative Director – Primary Care
Angela Marie Kane, Operations Director - Dentistry
Cynthia O'Dor, Associate Director – Accounting and Grants

William M. Reniff

William Reniff, Vice President of Finance

Affiliated with Case Western Reserve University CWRU

Mary Taylor, CPA
Auditor of State

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 5, 2010

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