The MetroHealth System
(A Component Unit of Cuyahoga County)

Financial Report
December 31, 2014 and 2013

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The MetroHealth System, Cuyahoga County, prepared by McGladrey LLP, for the audit period January 1, 204 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

May 21, 2015

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McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The MetroHealth System (the System), a component unit of Cuyahoga County, Ohio, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the December 31, 2013 financial statements of the discretely presented component unit, The MetroHealth Foundation Inc. (the Foundation) which represents 100% of the assets and revenues of the discretely presented component unit as of and for the year ended December 31, 2013. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as they relate to the 2013 amounts included for the Foundation, are 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 financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of The MetroHealth System as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The accompanying schedule of expenditures of federal awards as required by *Office of Management and Budget Circular A-133*, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 24, 2015 and April 29, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

McGladrey LLP

Cleveland, Ohio
March 24, 2015

Management's Discussion and Analysis

This section of The MetroHealth System's (the System) annual financial report presents management's discussion and analysis (MD&A) of the System's financial performance and provides an overall review of the System's financial position and activities as of and for the years ended December 31, 2014 and 2013. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis, while covering three years, is designed to focus on current year activities.

Financial and Operating Highlights

- Outpatient visits increased 7.1% in 2014 and 9.3% in 2013.
- Hospital patient days increased 0.8% in 2014 and increased 1.3% in 2013.
- Inpatient and outpatient surgical volumes increased 6.2% in 2014 and 4.9% in 2013.
- Emergency room visits decreased 0.7% in 2014 and increased by 2.8% in 2013.
- Total net position increased by $29,772 and $32,718 in 2014 and 2013, respectively.

Overview of the Financial Statements

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

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

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

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The MetroHealth Foundation, Inc. (Foundation) is presented as a discretely presented component unit in a separate column in the System's financial statements to emphasize that it is legally separate from the System. The Foundation is a not-for-profit organization supporting the System through fundraising. The Foundation is not included in the following Management's Discussion and Analysis section, but is included in greater detail in the financial statements and footnotes. In addition, MHS Holding LLC and MHS Purchasing LLC are presented as blended entity component units whose financial activity is included with the activities of the System.

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

(Dollars in Thousands)

Overview of the Financial Statements (Continued)

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

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

The System’s Net Position

A summary of the System's Statement of Net Position as of December 31, 2014, 2013 and 2012 is presented below in Table 1. The System's total net position increased $29,772 from 2013 and $62,490 from 2012 through 2014.

Table 1
The MetroHealth System
Statements of Net Position

	2014	2013	2012
Assets:			
Current assets	$ 189,337	$ 184,467	$ 149,695
Investments	331,424	286,456	282,343
Restricted assets	51,696	51,381	69,146
Capital assets	289,456	286,059	265,264
Other assets	9,779	10,349	12,107
Total assets	871,692	818,712	778,555
Deferred outflows of resources	6,055	6,991	7,926
Liabilities:			
Current liabilities	198,153	127,673	114,583
Long-term liabilities	281,173	329,381	335,967
Total liabilities	479,326	457,054	450,550
Net position:			
Net investment in capital assets	84,201	73,029	64,221
Restricted, debt service payments	25,981	25,822	25,706
Restricted, capital asset use	3,400	3,400	-
Unrestricted	284,839	266,398	246,004
Total net position	$ 398,421	$ 368,649	$ 335,931

Significant changes in the System’s total assets, deferred outflows of resources and liabilities in 2014 resulted from the increase in investments related to strong cash flows from operations and the increase in estimated amounts due to third-party payors and the derivative instruments-rate swap agreements (Swaps).

(Dollars in Thousands)

The System's Net Position (Continued)

The shift between current liabilities and long-term liabilities is due to the letter of credit extension with Fifth Third Bank that expires December 16, 2015. The System intends to refinance this debt prior to the expiration of the letter of credit and therefore the related debt, while classified as current at December 31, 2014, is not expected to be paid during 2015.

Total liabilities increased significantly from the previous year, largely due to the accrual of an estimated settlement payment for the Hospital Care Assurance Program (HCAP) as a result of an audit performed on the allocation of HCAP funds from the State and the Derivative instruments-rate swaps from unfavorable market adjustments on the System's two swaps associated with its long-term debt.

The change in the System's net position is the current year net profit. In 2014, the System experienced net profit of $29,772, following the previous year's profit of $32,718. The profit from 2014 is mostly attributed to higher outpatient volume growth from expanded access to medical services within the community, the transitioning of MetroHealth Care Plus (MHCP) program enrollees to Medicaid insurance (Ohio Medicaid expansion), which has higher reimbursement rates, and from more favorable contracts with third-party insurers.

Operating Results and Changes in the System's Net Position

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

	Years Ended December 31,		
	2014	**2013**	**2012**
Revenues:			
Operating Revenues			
Net patient service revenue	$ 793,345	$ 744,123	$ 683,263
Other revenue	66,533	68,992	58,970
	859,878	813,115	742,233
Non-Operating Revenues	43,275	59,138	47,858
Total revenues	903,153	872,253	790,091
Expenses:			
Operating Expenses			
Salaries and benefits	591,745	550,565	523,454
Department expenses	189,869	198,741	164,902
General expenses	76,895	74,637	71,586
	858,509	823,943	759,942
Non-Operating Expenses	14,872	15,592	16,207
Total expenses	873,381	839,535	776,149
Increase in net position	29,772	32,718	13,942
Total net position - beginning of the year	368,649	335,931	321,989
Total net position - end of the year	$ 398,421	$ 368,649	$ 335,931

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

In 2014, net patient service revenue increased 6.6% from 2013 levels. The net patient revenue increase is mostly attributed to higher outpatient volume growth from expanded access to medical services within the community, the transitioning of MetroHealth Care Plus (MHCP) program enrollees to Medicaid insurance (Ohio Medicaid expansion), which has higher reimbursement rates, and from more favorable contracts with third party insurers.

The System's patient volumes mostly increased when compared to 2013 levels. Hospital patient days increased 0.8%, discharges were down 1.2%, inpatient surgeries increased 1.5% and deliveries decreased slightly. Outpatient visits were up 7.1% from 2013 results, with visits topping one million for the first time in our history. Emergency room visits decreased 0.7% and outpatient surgical volumes increased 8.3% from the prior year.

The System's level of uncompensated care, though down from 2013 levels, continues to reflect the System's status as a safety net facility in Cuyahoga County. Hospital Care Assurance (HCAP) and Upper Payment Limit (UPL) program revenues, components of net patient revenue, decreased by 25.0% from 2013 levels. HCAP and UPL programs are discussed in further detail in the System's financial statement's notes.

Other revenue declined from 2013 due to the transition of the MHCP program members under the Ohio Medicaid expansion guidelines. The MHCP program administrative expense billings were reduced as a result of this transition.

In 2014, non-operating revenues decreased 26.8% from the prior year. Non-operating revenues include county funding revenue, investment income, unrealized investment losses, other non-operating revenue, and grants and donations.

In 2014, the county funding was increased by an additional $3,998 from the prior year level. Investment income decreased by $1,269 from the prior year as a result of continued, historically low interest rates. Non-operating revenues from the net appreciation (depreciation) in the fair value of investments decreased by $14,816 from the prior year. The large fluctuations in the value of the System's two swaps accounts for the majority of the $14,816 change. Other non-operating revenues from grant revenue decreased by $3,167 from 2013 levels due to a large, one-time grant of $3,400 in 2013.

In 2014, salaries and wages increased 7.7% from the prior year. The increase between years is attributed to higher FTE's and a 2.0% general wage increase. Employee benefits expense in 2014 increased 6.3% from 2013 as a result in the increase of Public Employee Retirement System (PERS) expense from higher salaries and wages and the increase in the cost of health care benefits.

Department expenses decreased by 4.5% from 2013 primarily due to the MetroHealth Care Plus (MHCP) service contracts for medical and pharmacy services that ended in the 1st quarter of 2014. The MHCP program is discussed in further detail in the System's financial statement's notes.

The System's Cash Flows

The System had positive cash flow of $1,398 in 2014. Cash provided by operations totaled $55,514, an increase of $40,606 from 2013. Cash provided by noncapital financing activities totaled $42,768, an increase of $3,656 from 2013. Noncapital financing activities consists primarily of county funding which increased by $3,998 from 2013. Cash used in capital and related financing activities totaled $54,644, a decrease of $13,423 from 2013. The decrease is attributed to capital and related financing activities for 2013 including $17,776 for the Middleburg Heights Family Health Center. Cash used in investing activities totaled $42,240 in 2014 compared to cash provided by investing activities of $14,162 in 2013. The change is due to a net increase in investment purchases during 2014.

Capital Assets and Debt Administration

Capital Assets

The System had $289,456 and $286,059 invested in capital assets, net of accumulated depreciation at December 31, 2014 and 2013, respectively. The Hospital acquired or constructed capital assets in the amount of $35,555 and $52,430 during 2014 and 2013, respectively.

Debt

The System had $236,849 and $245,502 in bonds and capital lease obligations outstanding at December 31, 2014 and 2013, respectively.

Economic Factors and Next Year's Budget

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

- The System's Medicaid Waiver program that provided a medical home and health coverage for approximately 30 thousand uninsured Cuyahoga County residents ended on April 30, 2014. Effective January 1, 2014, the State of Ohio adopted the Medicaid expansion provisions of the Affordable Care Act (ACA) which enabled previously covered Waiver program patients to transition to Medicaid coverage. As a safety net adult Disproportionate Share Hospital (DSH), MetroHealth benefits from Medicaid expansion with previously uninsured patients now insured through Medicaid. In the future, the State of Ohio can choose not to participate in ACA Medicaid expansion provisions.

- As of this writing, the Governor has released the SFY 2016/2017 proposed State budget on February 2, 2015. The proposed State budget contains a number of provisions which could have a negative impact on MetroHealth's Medicaid reimbursement going forward. The main items would be a reduction to Medicaid medical education payments (partially offset by a physician payment increase), an increase in the Hospital Franchise Fee percentage from 2.7% to 3%, and a 5% across the board Medicaid outpatient rate reduction. Hospitals and advocacy groups are currently in the process of quantifying these provisions and working to identify the focus of their advocacy efforts over the next months.

- Net Hospital Care Assurance Program (HCAP) dollars recorded by the System in 2014 were $6,850, after estimated allowances for federal DSH/HCAP audits and lower uncompensated care levels resulting from the expansion of Medicaid. Major changes are anticipated once again in the State's 2015 HCAP program as a result of the State's decision to expand its Medicaid program. The 2015 HCAP distribution model is currently under development, with input from the industry, through the Ohio Hospital Association. The System's 2015 net HCAP receipts are expected to further decrease due to lower uncompensated care costs resulting from Medicaid expansion and on-going federal DSH audits. As previously noted, the decrease in HCAP funds should be offset by the increase in Medicaid reimbursement resulting from Medicaid expansion.

- In May 2014, the System announced it would embark on a redevelopment of its main campus. As part of this process the System plans to add two stories to its 10-year-old critical care pavilion — a project estimated to cost between $80,000 and $82,000. In the 1st quarter of 2015, the System will also begin tearing down the former Northcoast Behavioral Healthcare building on the southeast side of the health system's campus next to Interstate 71. The removal, which will make room for future expansion efforts, is expected to be finished by summer 2015.

- The County has approved 2015 funding for the System of $40,080, which approximates the 2014 funding amount.

Contacting the System's Financial Management

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

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Net Position
December 31, 2014 and 2013
(Dollars in Thousands)

Assets	**The MetroHealth System 2014**	**The MetroHealth System 2013**	**Component Unit The MetroHealth Foundation, Inc. 2014**	**Component Unit The MetroHealth Foundation, Inc. 2013**
Current Assets:				
Cash and cash equivalents	$ 4,488	$ 3,187	$ 59	$ 43
Accounts receivable	127,103	133,941	2,734	2,206
Allowance for uncollectible accounts	(10,614)	(26,116)	(256)	(203)
	116,489	107,825	2,478	2,003
Other receivables	53,709	58,764	227	1,160
Supplies	11,013	10,784	-	-
Prepaid expenses	3,638	3,907	-	-
Total current assets	189,337	184,467	2,764	3,206
Noncurrent Assets:				
Investments:				
General	174,521	138,672	4,611	4,763
Academic funds	28,063	28,151	-	-
Depreciation reserve fund	128,840	119,633	-	-
	331,424	286,456	4,611	4,763
Restricted Assets:				
Cash and cash equivalents	175	78	3,810	2,601
Special purpose investments	5,556	5,556	36,129	32,665
Under bond indenture agreements	45,965	45,747	-	-
	51,696	51,381	39,939	35,266
Capital Assets:				
Land and construction in progress	34,023	27,775	-	-
Land improvements	12,898	12,898	-	-
Buildings and fixed equipment	573,624	566,526	-	-
Equipment	366,177	340,115	26	26
	986,722	947,314	26	26
Accumulated depreciation	(697,266)	(661,255)	(22)	(14)
	289,456	286,059	4	12
Other assets	9,779	10,349	-	-
Total assets	871,692	818,712	47,318	43,247
Deferred Outflows of Resources:				
Deferred amounts on debt refundings	6,055	6,991	-	-

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Net Position
December 31, 2014 and 2013
(Dollars in Thousands)

	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
Liabilities	**2014**	**2013**	**2014**	**2013**
Current Liabilities:				
Accounts payable	$ 36,964	$ 39,847	$ 2,145	$ 1,099
Accrued payroll and related liabilities	29,483	27,194	-	-
Contribution payable to the Public Employees Retirement System	6,126	5,548	-	-
Accrued interest payable	3,380	3,493	-	-
General and professional liabilities	15,379	15,991	-	-
Estimated amounts due to third-party payors	5,627	5,042	-	-
Accrued vacation and sick leave	5,401	5,694	-	-
Current installments of long-term debt	81,451	10,131	-	-
Other current liabilities	14,342	14,733	423	415
Total current liabilities	198,153	127,673	2,568	1,514
Long-Term Liabilities, less current installments:				
General and professional liabilities	41,442	37,523	-	-
Estimated amounts due to third-party payors	25,519	11,228	-	-
Accrued vacation and sick leave	45,846	40,521	-	-
Derivative instruments - rate swaps	12,968	4,738	-	-
Long-term debt	155,398	235,371	-	-
Total long-term liabilities	281,173	329,381	-	-
Total liabilities	479,326	457,054	2,568	1,514
Net Position				
Net investment in capital assets	84,201	73,029	-	-
Restricted, debt service payments	25,981	25,822	-	-
Restricted, capital asset use	3,400	3,400	-	-
Restricted, program activities	-	-	27,922	25,690
Restricted, nonspendable	-	-	12,071	11,420
Unrestricted	284,839	266,398	4,757	4,623
Total net position	$ 398,421	$ 368,649	$ 44,750	$ 41,733

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2014 and 2013
(Dollars in Thousands)

	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2014	**2013**	**2014**	**2013**
Operating Revenues				
Net patient service revenue	$ 793,345	$ 744,123	$ -	$ -
Other revenue	66,533	68,992	-	-
Total operating revenues	859,878	813,115	-	-
Operating Expenses				
Salaries and wages	483,341	448,584	-	-
Employee benefits	108,404	101,981	-	-
Purchased services	46,108	57,011	-	-
Medical supplies	56,364	57,160	-	-
Pharmaceuticals	41,944	40,200	-	-
Plant operations	30,350	30,512	-	-
Non-medical supplies	15,103	13,858	-	-
Other expenses	25,999	25,765	-	-
Insurance	14,049	15,759	-	-
Depreciation and amortization	36,847	33,113	-	-
Total operating expenses	858,509	823,943	-	-
Operating income (loss)	1,369	(10,828)	-	-
Non-Operating Revenues (Expenses)				
County funding	40,024	36,026	-	-
Net investment (loss) income	(5,519)	10,566	1,994	5,863
Other non-operating revenue	4,657	5,266	-	-
Noncapital grants and donations	3,803	3,597	7,647	8,894
Grant expenses and support	(3,716)	(3,747)	(6,624)	(5,701)
Interest expense	(11,156)	(11,845)	-	-
Total non-operating revenues (expenses)	28,093	39,863	3,017	9,056
Income before capital contributions	29,462	29,035	3,017	9,056
Grants for capital acquisitions	310	3,683	-	-
Change in net position	29,772	32,718	3,017	9,056
Total net position - beginning of year	368,649	335,931	41,733	32,677
Total net position - end of year	$ 398,421	$ 368,649	$ 44,750	$ 41,733

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Cash Flows From Operating Activities		
Patient service revenue	$ 807,469	$ 722,366
Other operating cash receipts	64,892	66,683
Payments to suppliers	(232,754)	(232,640)
Payments for compensation and benefits	(584,093)	(541,501)
Net cash flows provided by operating activities	55,514	14,908
Cash Flows From Noncapital Financing Activities		
County funding	40,024	36,026
Restricted grants, donations and other	6,460	6,833
Specific purpose funds expenses	(3,716)	(3,747)
Net cash flows provided by noncapital financing activities	42,768	39,112
Cash Flows From Capital and Related Financing Activities		
Grants for capital acquisition	310	3,683
Acquisitions and construction	(35,555)	(52,430)
Proceeds from sale of assets and insurance	41	313
Principal payments on long-term debt	(10,248)	(9,914)
Interest payments on long-term debt	(11,199)	(11,783)
Build America Bond receipts	2,007	2,064
Net cash flows used in capital and related financing activities	(54,644)	(68,067)
Cash Flows From Investing Activities		
Payments for investment purchases and reinvestments	(630,287)	(878,943)
Proceeds from investment sales and maturities	585,069	888,918
Interest received	2,978	4,187
Net cash flows (used in) provided by investing activities	(42,240)	14,162
Net increase in cash and cash equivalents	1,398	115
Cash and cash equivalents		
Beginning	3,265	3,150
Ending	$ 4,663	$ 3,265

(Continued)

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Cash Flows (Continued)
Years Ended December 31, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided By Operating Activities:		
Operating income (loss)	$ 1,369	$ (10,828)
Adjustments to reconcile operating income (loss) to net cash flows provided by operating activities		
Depreciation and amortization	36,847	33,113
Provision for uncollectible accounts	41,439	91,803
Changes in assets and liabilities:		
Increase in patient accounts receivable	(50,104)	(117,676)
Decrease (increase) in other assets	5,425	(7,250)
Increase in self-insurance liabilities	3,307	1,851
(Decrease) increase in accounts payable and other liabilities	(2,385)	12,458
Increase in long-term liabilities	19,616	11,437
Net cash flows provided by operating activities	$ 55,514	$ 14,908

Noncash Investing, Capital and Financing Activities:

The System held investments at December 31, 2014 and 2013, with a fair value of $382,945 and $337,759, respectively. During 2014 and 2013, the net change in the fair value of these investments was an increase of $45,186 and a decrease of $13,645, respectively.

The System held interest rate swap obligations at December 31, 2014 and 2013, with a fair value of $12,968 and $4,738, respectively. During 2014 and 2013, the net change in the fair value of these swap obligations was an increase of $8,230 and a decrease of $10,226, respectively.

In 2014 and 2013, the System entered into capital leases, acquiring capital assets of $1,577 and $3,075, respectively.

Included in accounts payable at December 31, 2014 and 2013 is $5,399 and $3,131, respectively, of invoices related to unpaid capital acquisitions.

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Reporting entity: The accompanying financial statements of the MetroHealth System (System) include the MetroHealth Medical Center, a short-term acute care and long-term rehabilitation facility; MetroHealth Centers for Skilled Nursing Care, consisting of the Elisabeth Severance Prentiss Center for Skilled Nursing Care; and several urban and suburban primary care health sites.

The System is the public health care system for Cuyahoga County, Ohio (the County). It is organized and operated by its board of county hospital trustees (the Board) pursuant to Chapter 339 of the Ohio Revised Code. Until 2010, members of the Board were jointly appointed by the Board of County Commissioners of the County, and the senior judges of the Probate and Common Pleas Courts of the County. Effective January 2011, the County voters established a new form of government by charter (the Charter). Under the Charter, future members of the Board are appointed by the County Executive together with the senior judges of the Probate and Common Pleas Courts of the County, subject to confirmation by the County Council. In order to support the general operations of the System, the County approved fundings of $40,024 and $36,026 for 2014 and 2013, respectively. The County has also approved funding of approximately $40,000 for 2015. The System is exempt from federal income taxes as a governmental entity.

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

Furthermore, in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The MetroHealth Foundation, Inc. (Foundation) is included as a discretely presented component unit in a separate column in the System's financial statements to emphasize that it is legally separate from the System. The Foundation is a not-for-profit organization supporting the System. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the System in support of its programs. Although the System does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to support the activities of the System. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the System, it is considered a component unit of the System. Complete financial statements of the Foundation can be obtained by writing to The MetroHealth Foundation, 2500 MetroHealth Drive, Cleveland, Ohio 44109. In addition, MHS Holdings LLC and MHS Purchasing LLC are presented as blended component units whose financial activity is included within the activities of the System. The System owns 99% of MHS Holdings LLC and is the sole member of MHS Purchasing LLC. Although these entities are legally separate from the System, they are reported as if they were part of the System because their sole purpose is to acquire and own investment interests for the System.

Basis of accounting: The System reports only "business-type" activities, which requires the following financial statements and management discussion and analysis:

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

Note 1. Summary of Significant Accounting Policies (Continued)

The System is accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the System's operations are included in the Statement of Net Position. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

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

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

Statement of revenues, expenses, and changes in net position: The System recognizes as operating revenues those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care, and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Nonoperating revenues include County fundings, investment income and special purpose grants and donations, primarily research. Nonoperating expenses include interest expense and expenses from special purpose funds for research related activities.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors, estimated allowances for uncollectible accounts and uncompensated care allowances. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue is reported net of provisions for uncollectible accounts of $41,439 and $91,803 in 2014 and 2013, respectively.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

The System is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare and Medicaid fiscal intermediaries. The System's classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission are subject to an independent review. Differences between the estimated amounts accrued at interim and final settlements are reported in the Statement of Revenues, Expenses, and Changes in Net Position in the year of settlement. The System recorded unfavorable adjustments to net patient revenue of $8,091 in 2014 and favorable adjustments of $976 in 2013, due to prior year retroactive adjustments to amounts previously estimated and changes in estimates.

Net revenue from the Medicare and Medicaid programs accounted for approximately 28% and 38%, respectively, of the System's net patient service revenue for the year ended December 31, 2014, and 27% and 37%, respectively, of the System's net patient service revenue for the year ended December 31, 2013. Medicaid revenue in 2013 includes revenue from the MetroHealth Care Plus (MHCP) program (see discussion below). 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.

Effective February 5, 2013, the System was notified by the Ohio Department of Medicaid it was approved as a subgrantee of the 1115 Medicaid Waiver program called MetroHealth Care Plus (MHCP). MHCP was a pilot program that essentially served as an early expansion of Medicaid in Cuyahoga County. MHCP is the only 1115 Waiver program in the State of Ohio. Services provided under MHCP were reimbursed on a cost basis and recognized as net patient service revenue and services provided by entities outside of MetroHealth were recognized as purchased services in the Statements of Revenues, Expenses and Changes in Net Position.

Enrollment in the MHCP program was capped at 30,000 patients and as of December 31, 2013 the enrollment in the program was 28,260. The System recognized approximately $70,000 in Federal Medicaid dollars related to MHCP as net patient service revenue in 2013. MHCP was terminated in April 2014 and all participants meeting Medicaid eligibility were retroactively converted to Medicaid with an effective date of January 1, 2014. The System recognized net patient service revenue of approximately $970 in 2014 for the remaining MHCP participants converted to Medicaid. At the end of 2014, the System had an amount payable of $1,326 related to the program that is included in estimated amounts due to third-party payors in the Statements of Net Position.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. At December 31, 2014 and 2013, $15,829 and $11,991, respectively, was due to the System and recorded in the Statements of Net Position in other receivables. The amount recorded in net patient service revenue for UPL by the System was $41,476 and $36,303 in 2014 and 2013, respectively. The State of Ohio discontinued the Program's required contributing match for participants as of June 30, 2009. Effective July 1, 2009, the State began assessing a franchise fee to hospitals to fund healthcare programs, including the UPL program. The System incurred franchise fee expense of $11,087 and $10,827 in 2014 and 2013, respectively, and recorded the amounts as operating expenses in the other expenses category in the Statements of Revenues, Expenses, and Changes in Net Position. The System's franchise fee liability payable to the State of Ohio at December 31, 2014 and 2013 was $5,856 and $5,616, respectively, and is recorded on the Statements of Net Position in other current liabilities.

Disproportionate share: As a public health care provider, the System renders services to residents of the County and others regardless of ability to pay. The System is classified as a disproportionate share provider by the Medicare and Medicaid programs due to the volume of low-income patients it serves. Accordingly, the System receives additional payments from these programs as a result of this status totaling $27,414 and $40,506 for 2014 and 2013, respectively. These amounts are included in net patient service revenue and include Hospital Care Assurance (HCAP) revenue of $24,140 and $34,766 in 2014 and 2013, respectively, reduced by HCAP assessments paid by the System of $4,032 and $3,783 in 2014 and 2013, respectively. At December 31, 2014 and 2013, the System had HCAP receivables of $24,140 and $34,690, respectively and HCAP payables of $3,864 and $3,614, respectively. The receivable and payable are included in other receivables and other current liabilities, respectively, in the Statements of Net Position.

Charity care: Throughout the admission, billing, and collection processes, certain patients are identified by the System as qualifying for charity care. The System provides care to these patients without charge or at amounts less than its established rates. The charges foregone for charity care provided by the System, totaling $126,439 and $131,867, which represent 4.9% and 5.8% of gross charges in 2014 and 2013, 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. The decrease in charges foregone for charity care in 2014 is primarily due to changes in Ohio's Medicaid program in 2014, where additional residents now meet eligibility requirements.

Note 1. Summary of Significant Accounting Policies (Continued)

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

The System successfully registered for the hospital Medicare EHR Incentive Program and first completed the attestation process on September 6, 2012 after demonstrating the ninety days of continuous use as a meaningful user. For the years ended December 31, 2014 and 2013, the System recorded Medicare EHR revenue of $1,085 and $1,621, respectively. At December 31, 2014 and 2013, the related receivables are $1,085 and $0, respectively.

The System successfully registered for the hospital Ohio Medicaid EHR Incentive Program and first completed the attestation process in July, 2011. For the years ended December 31, 2014 and 2013, the System has recorded $255 and $1,748, respectively for Medicaid EHR incentive. At December 31, 2014 and 2013, the related receivables are $0. At December 31, 2014 and 2013, the related payables are $619 and $0, respectively.

The System successfully registered its professionals, on an individual basis, for the professional Ohio Medicare EHR Incentive Program and completed the first attestation process at various points during 2012. During the years ended December 31, 2014 and 2013, the System recorded Medicare EHR revenue of $46 and $268, respectively. At December 31, 2014 and 2013, the related receivables for Medicare EHR are $128 and $386, respectively.

The System successfully registered its professionals, on an individual basis, for the professional Ohio Medicaid EHR Incentive Program and completed the first attestation process at various points during 2011. As of December 31, 2014 and 2013, the System has recorded $5,349 and $4,403, respectively for Medicaid EHR incentive. At December 31, 2014 and 2013, the related receivables for Medicaid EHR are $866 and $2,210, respectively.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Cash and cash equivalents: The System considers cash in its commercial checking accounts to be cash and cash equivalents.

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

Investments: The System generally records its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on investments are included in net investment income in the Statements of Revenues, Expenses, and Changes in Net Position.

The net realized (loss) on investments of ($758) and ($231) in 2014 and 2013, respectively, is the difference between the proceeds received and the amortized cost of investments sold and is included in net investment income in the Statements of Revenues, Expenses, and Changes in Net Position.

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

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

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

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

(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital assets: Capital assets are stated at cost and contributed capital assets are stated at their fair value at the date of contribution. Expenditures for equipment must exceed $2.5 per unit and expenditures for renovations must exceed $10 in order for them to be capitalized. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation and amortization of assets recorded under capital lease (straight-line method) are provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives. The following are the most commonly used estimated useful lives:

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

The asset and accumulated depreciation are removed from the related accounts when the asset is disposed. Any income or loss resulting from this disposal is recorded in the Statements of Revenues, Expenses, and Changes in Net Position.

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

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

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

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

Bond discounts: Amortization expense related to bond discounts was $18 in 2014 and 2013. These amounts are included in interest expense in the Statements of Revenues, Expenses, and Changes in Net Position. Accounting guidance requires amounts to be amortized utilizing the effective interest method. The difference between the two amortization methods is immaterial to the financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

Cost of borrowing: Interest costs incurred on debt during the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. Capitalized interest of $884 and $767 was recorded in construction in progress as opposed to interest expense for 2014 and 2013, respectively. Construction in progress is transferred to capital assets when assets are substantially completed and amortization of capitalized interest is accounted for in the same manner as other components of asset cost and included in depreciation expense.

The System has entered into various interest rate swap agreements. The interest rate swap agreements are carried at fair value in the Statement of Net Position. These derivative instruments are not effective hedging instruments; therefore, gains and losses are recognized in the Statements of Revenues, Expenses, and Changes in Net Position during the period of change as adjustments to investment income on the related debt (see Note 6).

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

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

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

Reclassifications: Certain reclassifications of 2013 amounts have been made to conform to the 2014 presentation.

In addition, The Foundation had a policy whereby unrealized gains and losses from endowed investments were maintained as permanently restricted unless the fair value of permanently restricted net position fell below corpus. Based upon the provisions of the Uniform Prudent Management of Institutional Funds Acts (UPMIFA), management made a determination that the cumulative unrealized gains reflected within permanently restricted net position should be reclassified to temporarily restricted net position. As a result, $386 and $1,540 in unrealized gains were reclassified from permanently restricted to temporarily restricted net position as of January 1, 2013 and December 31, 2013, respectively.

In addition, $38 in contributions were reclassified from temporarily restricted to permanently restricted gifts for the year ended December 31, 2013 due to new information received by management.

Note 2. Changes in Accounting Principles and Recent Accounting Pronouncements

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

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The System implemented the provisions of this Statement for the year ending December 31, 2014.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The System implemented the provisions of this Statement for the year ending December 31, 2014.

There was no significant impact to the financial statements as a result of the application of these standards.

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

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

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

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The new standard is effective for financial statements for periods beginning after June 15, 2015, and earlier application is encouraged.

The implementation of these Statements is expected to have a material impact on the financial statements, note disclosures and required supplementary information of the System.

(Dollars in Thousands)

Note 3. Deposits and Investments

Deposits

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of bank failure, the System's deposits might not be recovered. FDIC insurance through December 31, 2014 for funds held in interest bearing accounts is $250 per depositor per category of legal ownership. Ohio Revised Code requires that deposits in excess of FDIC insured amounts are collateralized. The System's investment policy does not address custodial credit risk. The System's bank deposits at December 31, 2014 and 2013, totaled $60,071 and $34,300, respectively, and were subject to the following categories of custodial credit risk:

	2014	2013
Uncollateralized	$ 59,529	$ 33,760
Collateralized with securities held by the pledging insitution's trust department, but not in the System's name	42	40
Total amount subject to custodial risk	59,571	33,800
Amount insured	500	500
Total bank balances	$ 60,071	$ 34,300

Investments

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

- Securities and obligations of the U.S. Treasury and other federal agencies or instrumentalities.
- Time certificates of deposit or savings accounts and deposit accounts.
- Municipal and state bonds.
- No-load money market mutual funds investing in items listed above.
- Commercial paper that constitutes unsecured short-term debt on an entity defined in Division (D) of Section 1705.01 of the Ohio Revised Code and matures no later than 270 days from purchase date, the aggregate value of the commercial paper does not exceed 10% of the aggregate value of the outstanding paper of the entity, the paper is rated by a least two nationally recognized standard rating services (NRSRS) and is rated in the highest classification and the entity has assets exceeding $500,000, and total combined investments in commercial paper and bankers acceptances does not exceed 25% of the System's average aggregate investment portfolio.
- Bankers Acceptances that mature no later than 180 days from purchase, the obligations are eligible for purchase by the Federal Reserve System, the issuer has a minimum "AA" long-term debt rating by a majority of NRSRS agencies, the single obligation will not exceed 5% of the System's total average portfolio, and the total combined investments in bankers acceptances and commercial paper does not exceed 25% of the System's average aggregate investment portfolio.

(Dollars in Thousands)

Note 3. Deposits and Investments (Continued)

- Notes issued by corporations incorporated in the United States and operating in the United States, the notes are rated in the second highest or higher category by at least two NRSRS at the time of purchase, mature in two years or less from the date of purchase and cannot exceed 15% of the System's total average portfolio.

- No load money market mutual funds rated in the highest category at the time of purchase by at least one NRSRS and consisting exclusively of obligations in the U.S. Treasury and other federal agencies or instrumentalities and commercial paper listed above.

Derivative instruments: In previous periods, the System entered into two separate and distinct interest rate swap agreements (Swaps) with two counterparties. The Swaps have notional amounts, maturity schedules, and other features that match the System's two series of underlying variable rate bonds. The Swaps obligate the System to make fixed rate payments to the counterparties, and obligate the counter-parties to make variable-rate payments to the System. The Swaps are accounted for as "investments" in the System's financial statements pursuant to GASB Statement No. 53. However, the Swaps were intended, and in fact function, as risk management instruments for current obligations of the System. Consequently, the System does not consider them to be subject to the requirements of the System's investment policy.

As of December 31, 2014 and 2013, the fair values of the System's investments and their ratings by Standard and Poor's were as follows:

		Investment Maturities	
	2014	Less than 1 year	1-5 years
U.S. Government Agencies			
AA+	$ 272,074	$ 53,894	$ 218,180
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)			
AA+	19	-	19
Commercial Paper			
A-1	35,984	35,984	-
Money Market			
AAA	19,355	19,355	-
Total investments	$ 327,432	$ 109,233	$ 218,199

Deposits totaling $55,513 are included in investments on the Statement of Net Position at December 31, 2014.

(Dollars in Thousands)

Note 3. Deposits and Investments (Continued)

		Investment Maturities	
	2013	Less than 1 year	1-5 years
U.S. Government Agencies			
AA+	$ 249,928	$ 74,667	$ 175,261
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)			
AA+	45	-	45
Commercial Paper			
A-1	35,908	35,908	-
Money Market			
AAA	20,737	20,737	-
Total investments	$ 306,618	$ 131,312	$ 175,306

Deposits totaling $31,141 were included in investments on the Statement of Net Position at December 31, 2013.

The System's carrying amounts of the deposits and investments at December 31, 2014 and 2013 are as follows:

	2014	2013
Deposits	$ 60,176	$ 34,406
Investments	327,432	306,618
Total deposits and investments	$ 387,608	$ 341,024

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, 2014 and 2013, have effective maturity dates of less than five years.

Credit Risk: The federal mortgage pools are investments that were made according to policy at the time.

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

(Dollars in Thousands)

Note 3. Deposits and Investments (Continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investments in any single issuer. The System holds 37% of its portfolio in Federal National Mortgage Association (Fannie Mae) issues, 21% in Federal Home Loan Mortgage Corporation (Freddie Mac) issues, 6% in Federal Farm Credit Bank issues and 5% in US Bank commercial paper.

The Foundation: As of December 31, 2014 and 2013, the fair values of the Foundation's investments were as follows:

	2014	2013
Exchange traded funds	$ 3,126	$ 3,933
Money market funds	2,762	1,782
Pooled investment fund	1,839	1,050
Mutual funds	31,656	28,647
Common stock	24	25
Limited partnership interest	1,333	1,991
Total investments	$ 40,740	$ 37,428

The Foundation's net investment income for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Interest and dividends	$ 1,252	$ 925
Net realized gains	739	314
Net change in unrealized gains	86	4,695
Less: investment management fees	(83)	(71)
	$ 1,994	$ 5,863

The Foundation's investments had cumulative unrealized gains of $6,464 and $6,356 and cumulative unrealized losses of $131 and $88 at December 31, 2014 and 2013, respectively.

(Dollars in Thousands)

Note 4. Capital Assets

The following summarizes changes in the capital assets of the System for the years ended December 31, 2014 and 2013:

	2014			
	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated				
Land	$ 10,499	$ 64	$ -	$ 10,563
Construction in progress	17,276	41,409	(35,225)	23,460
Total nondepreciated capital assets	27,775	41,473	(35,225)	34,023
Depreciable capital assets				
Land improvements	12,898	-	-	12,898
Buildings and fixed equipment	566,526	7,118	(20)	573,624
Equipment	340,115	26,943	(881)	366,177
Total depreciable capital assets	919,539	34,061	(901)	952,699
Less accumulated depreciation				
Land improvements	(8,242)	(541)	-	(8,783)
Buildings and fixed equipment	(391,983)	(15,965)	20	(407,928)
Equipment	(261,030)	(20,341)	816	(280,555)
Total accumulated depreciation	(661,255)	(36,847)	836	(697,266)
Total depreciable capital assets, net	258,284	(2,786)	(65)	255,433
Total capital assets, net	$ 286,059	$ 38,687	$ (35,290)	$ 289,456

(Dollars in Thousands)

Note 4. Capital Assets (Continued)

	2013			
	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated				
Land	$ 9,314	$ 1,185	$ -	$ 10,499
Construction in progress	12,047	55,574	(50,345)	17,276
Total nondepreciated capital assets	21,361	56,759	(50,345)	27,775
Depreciable capital assets				
Land improvements	11,649	1,251	(2)	12,898
Buildings and fixed equipment	544,631	22,396	(501)	566,526
Equipment	317,537	24,166	(1,588)	340,115
Total depreciable capital assets	873,817	47,813	(2,091)	919,539
Less accumulated depreciation				
Land improvements	(7,765)	(479)	2	(8,242)
Buildings and fixed equipment	(376,333)	(15,999)	349	(391,983)
Equipment	(245,816)	(16,635)	1,421	(261,030)
Total accumulated depreciation	(629,914)	(33,113)	1,772	(661,255)
Total depreciable capital assets, net	243,903	14,700	(319)	258,284
Total capital assets, net	$ 265,264	$ 71,459	$ (50,664)	$ 286,059

Total depreciation and amortization expense related to capital assets for 2014 and 2013 was $36,847 and $33,113, respectively.

(Dollars in Thousands)

Note 5. Long-Term Debt

Information regarding the System's long-term debt activity and balances as of and for the year ended December 31, 2014 is as follows:

	2014				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 4.6% to 5.6% and mature in varying amounts through 2027. Partially refunded in 2011 with Hospital Refunding Revenue Bonds, Series 2011.	$ 17,600	$ -	$ -	$ 17,600	$ -
Hospital Improvement and Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035.	71,705	-	(425)	71,280	71,280
Hospital Facilities Revenue Bonds, Series 2009B, bear interest at 8.2% and mature in varying amounts through 2040.	75,000	-	-	75,000	-
Hospital Refunding Revenue Bonds, Series 2011, bear interest at 3.2% and mature in varying amounts through 2019.	51,190	-	(7,875)	43,315	8,125
Hospital Refunding Revenue Bonds, Series 2012, bear variable interest rates and mature in varying amounts through 2033.	23,925	-	(815)	23,110	845
Equipment obligation, GE Leasing, as defined in the respective lease agreement, bears interest at 6.0% and matures through 2014.	2	-	(2)	-	-
Equipment obligation, IBM Leasing, as defined in the respective lease agreement, bears interest at 2.7% and matures through 2014.	48	-	(48)	-	-
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2019.	321	-	(57)	264	59
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.1% and matures through 2019.	1,689	-	(286)	1,403	295

(Dollars in Thousands)

Note 5. Long-Term Debt (Continued)

	2014				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 2.9% and matures through 2019.	$ 1,368	$ -	$ (226)	$ 1,142	$ 232
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2020.	1,542	-	(222)	1,320	228
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2020.	1,318	-	(186)	1,132	192
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.4% and matures through 2021.	-	1,577	(101)	1,476	189
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018.	29	-	(5)	24	6
	245,737	1,577	(10,248)	237,066	81,451
Unamortized discount	(235)	-	18	(217)	-
Long-term debt	$ 245,502	$ 1,577	$ (10,230)	$ 236,849	$ 81,451

(Dollars in Thousands)

Note 5. Long-Term Debt (Continued)

Information regarding the System's long-term debt activity and balances as of and for the year ended December 31, 2013 is as follows:

	2013				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds Series, 1997, bear interest at rates ranging from 4.6% to 5.6% and mature in varying amounts through 2027. Partially refunded in 2011 with Hospital Refunding Revenue Bonds, Series 2011.	$ 17,600	$ -	$ -	$ 17,600	$ -
Hospital Improvement and Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035.	72,115	-	(410)	71,705	425
Hospital Facilities Revenue Bonds, Series 2009B, bear interest at 8.2% and mature in varying amounts through 2040.	75,000	-	-	75,000	-
Hospital Refunding Revenue Bonds, Series 2011, bear interest at 3.2% and mature in varying amounts through 2019.	58,820	-	(7,630)	51,190	7,875
Hospital Refunding Revenue Bonds, Series 2012, bear variable interest rates and mature in varying amounts through 2033.	24,710	-	(785)	23,925	815
Equipment obligation, GE Leasing, as defined in the respective lease agreement, bears interest at 6.0% and matures through 2014.	13	-	(11)	2	2
Equipment obligation, IBM Leasing, as defined in the respective lease agreement, bears interest at 2.7% and matures through 2014.	354	-	(306)	48	48
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2019.	376	-	(55)	321	57
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.1% and matures through 2019.	1,967	-	(278)	1,689	286

(Dollars in Thousands)

Note 5. Long-Term Debt (Continued)

	2013				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 2.9% and matures through 2019.	$ 1,587	$ -	$ (219)	$ 1,368	$ 226
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2020.	-	1,667	(125)	1,542	222
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2020.	-	1,408	(90)	1,318	170
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018.	34	-	(5)	29	5
	252,576	3,075	(9,914)	245,737	10,131
Unamortized discount	(253)	-	18	(235)	-
Long-term debt	$ 252,323	$ 3,075	$ (9,896)	$ 245,502	$ 10,131

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

Effective July 1, 2005, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $74,535 of Hospital Improvement and Refunding Variable Rate Demand Revenue Bonds, Series 2005 (The MetroHealth System Project) (Series 2005 Bonds). Proceeds from the 2005 Series Bonds were used to advance refund $56,995 of the outstanding Series 1999 Bonds, to pay costs of constructing, renovating, furnishing, equipping, and improving the Old Brooklyn Campus long-term care and skilled nursing facility; and to pay certain costs of issuance of the Series 2005 Bonds. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2035. The interest rates at December 31, 2014 and 2013 were 0.03% and 0.05%, respectively.

Note 5. Long-Term Debt (Continued)

In connection with the issuance of the Series 2005 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit issued by a local bank that was due to expire on July 16, 2010. Effective June 1, 2010, the System entered into a new letter of credit reimbursement agreement ("2005 Letter of Credit") that was due to expire on July 16, 2013 with PNC Bank (as Administrative Agent) and JPMorgan Chase Bank (collectively referred to as the “Banks”), and PNC Capital Markets as Lead Arranger and Book Runner. Effective December 20, 2012 this agreement was extended and JPMorgan Chase Bank was effectively replaced by Fifth Third Bank. This extension is scheduled to expire on December 16, 2015. The System intends to refinance this debt prior to the expiration of the letter of credit and therefore the related debt, while classified as current at December 31, 2014, is not expected to be paid during 2015.

In the event there is a remarketing drawing on the letter of credit and the tendered bonds have not been remarketed by the 367th day from the Remarketing Drawing, the System has the option to convert the obligation to a term loan in the amount of the unpaid portion of the remarketing drawing. The term loan is payable in twelve equal quarterly installments accruing interest at the base rate plus 2%. The base rate is defined as the highest of the Prime Rate, the sum of the Federal Funds Open rate plus .50%, the sum of the daily LIBOR Rate plus 1%, or 5% per annum. In the event of default, the term loan will be due immediately upon demand by the Banks.

Commencing with the extension dated December 20, 2012, the System is required to pay the Banks a letter of credit fee payable in quarterly installments at variable rates ranging from 70 basis points to 140 basis points depending on the debt rating in effect as of the date the rating report is released. In addition, the System paid to the Lead Arranger an arrangement fee of 7.5 basis points (and an additional $10 administration fee to the Agent Bank). As of December 31, 2014 and 2013, the letter of credit fee was 95 and 95 basis points, respectively. There were no amounts outstanding on the letters of credit as of December 31, 2014 and 2013.

The 2005 Letter of Credit is subject to various financial covenants for debt service coverage, long-term debt to capitalization, cash to debt and days cash on hand.

The July 28, 2005, bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,179. The unamortized difference ($3,104 and $3,324 at December 31, 2014 and 2013, respectively), reported in the accompanying financial statements as a deferred outflow of resources, is being amortized as an increase to interest expense through the year 2029.

Effective January 28, 2010, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $75,000 of Hospital Revenue Bonds, Taxable Series 2009B, (The MetroHealth System), (Build America Bonds – Direct Payment). Proceeds from the Series 2009B have been and will be used to pay for costs of hospital facilities, including three medical helicopters, the acquisition, construction and equipping of additional multi-specialty ambulatory centers in strategic locations, and additional scheduled equipment purchases and facilities renovations; funding the Bond Reserve Fund for the Series 2009B Bonds; and certain bond issuance costs. The Bonds bear interest at a fixed rate of 8.223% per annum and mature at various dates through 2040. As a qualified Build America Bond Issue, per terms of the federal government’s American Recovery and Reinvestment Act of 2009, the System will apply to receive direct payments semiannually from the Secretary of the United States Treasury in the amount of 35% of the corresponding bond interest paid. Payments received from the Treasury are recorded in other non-operating revenue.

Note 5. Long-Term Debt (Continued)

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

The November 8, 2011 bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,187. The unamortized difference ($2,951 and $3,667 at December 31, 2014 and 2013, respectively), reported in the accompanying financial statements as a deferred outflow of resources, is being amortized as an increase to interest expense through the year 2019.

Effective December 20, 2012, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $24,710 of Hospital Refunding Revenue Bonds, Series 2012, (The MetroHealth System), (Series 2012 Bonds). Proceeds from the Series 2012 Bonds were used to refund the entire principal amount of the Series 2003 Bonds maturing on March 1, 2013 through March 1, 2033. The debt service payments required for the Series 2012 do not differ from the debt service payments that were required under the Series 2003 Bonds. The Bonds bear variable rate interest determined monthly by the Bank Rate as noted in the Continuing Covenants Agreement (the Tax Factor multiplied by the sum of One-Month LIBOR plus the Credit Spread). The interest rate at December 31, 2014 and 2013 was 1.05%. The bonds mature at various dates through 2033, however, the agreement that governs the Series 2012 Bonds contains a mandatory put effective November 30, 2017. The System intends to refinance this debt prior to the mandatory put and therefore the related debt is expected to be paid based on the original 2012 payment schedule.

The Series 1997, 2005, 2009B, 2011 and 2012 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, 2005, 2009B, 2011 and 2012 Bonds are special obligations issued by the County payable solely from the revenue derived from the operation of the System and other monies available to the System's Board of Trustees. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

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

(Dollars in Thousands)

Note 5. Long-Term Debt (Continued)

The revenue bonds and lease obligation payment requirements for years subsequent to December 31, 2014, are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2015	$ 1,201	$ 189	$ 1,390	$ 80,250	$ 10,607	$ 90,857
2016	1,256	155	1,411	9,265	10,277	19,542
2017	1,295	116	1,411	9,570	9,973	19,543
2018	1,335	75	1,410	9,875	9,652	19,527
2019	1,064	35	1,099	10,205	9,322	19,527
2020–2024	610	13	623	15,630	42,682	58,312
2025–2029	-	-	-	15,755	35,889	51,644
2030–2034	-	-	-	24,700	28,088	52,788
2035–2039	-	-	-	44,100	14,446	58,546
2040	-	-	-	10,955	450	11,405
	$ 6,761	$ 583	$ 7,344	230,305	$ 171,386	$ 401,691
Unamortized discount				(217)		
Total hospital revenue bonds, net				$ 230,088		

There are no amounts remaining to be paid to bond holders related to defeased debt at December 31, 2014.

Note 6. Derivative Instruments

The System's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management of the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, the System entered into various interest rate swap agreements with a total outstanding notional amount of $94,390 and $95,630 at December 31, 2014 and 2013, respectively.

The System's swap agreements do not meet the criteria for hedging and are reported as investment derivative instruments. The fair value of the swap agreements at December 31, 2014 and 2013, was ($12,968) and ($4,738), respectively, and are included within the liabilities section of the Statements of Net Position. The fair value decrease of $8,230 in 2014, and the fair value increase of $10,226 in 2013 are included in net investment income in the Statements of Revenues, Expenses, and Changes in Net Position. As a result of the agreements, net settlements increased the System's interest expense by $2,069 and $2,385 in 2014 and 2013, respectively.

(Dollars in Thousands)

Note 6. Derivative Instruments (Continued)

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

12/31/2014 Notional Amount	12/31/2013 Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 71,280	$ 71,705	July 28, 2005	February 1, 2035	the System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 23,110	$ 23,925	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 with an initial amortizing notional amount of $74,535. The notional amount is based on the Series 2005 Bond principal repayment schedule that ends in 2035. Per the terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.3% and the counterparty pays 64.2% of the International Swaps and Derivatives Association, Inc. (ISDA) USD five-year swap rate. The original agreement previously required the counterparty to pay 70% of the 3-month USD LIBOR. In 2014, ISDA five-year interest rates ranged between 1.5% and 1.9%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

On March 13, 2003, the System entered into a swap agreement with an amortizing notional amount of $30,545. The amortizing notional amount is based on the Series 2003 Bond principal repayment schedule ending on March 1, 2033. On December 20, 2012 the Series 2003 Bonds were advance refunded with proceeds from the issuance of the Series 2012 Bonds, which maintain an identical repayment schedule. Per terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.5% and the counterparty pays 68.9% of the ISDA USD five-year swap rate. The original agreement previously required the counterparty to pay 75% of the 3-month USD LIBOR rate. Net settlement amounts are exchanged monthly. The System has an early termination option.

Interest rate risk: The System is exposed to interest rate risk on its interest rate swaps. On the pay-fixed receive variable swaps, as the ISDA Swap index decreases, the System's net payment on the swaps increase.

Note 7. Other Long-Term Liabilities

Amounts due to third-party payors: The System has agreements with third-party payors that provide for payment of amounts different from established rates. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined. See Note 1, net patient service revenue, for additional information. As of December 31, 2014 and 2013, the total liability for amounts due to third-party payors was $31,146 and $16,270, respectively.

Accrued vacation and sick leave: System employees earn vacation and sick leave at varying rates depending on job classification and years of service. Employees can accumulate up to three years of their earned vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the System. There is no limit on the amount of sick time earned. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 50% of eligible hours at their current rate of pay. The maximum payout is 800 hours. As of December 31, 2014 and 2013, the total liability for accrued vacation and sick leave was $51,247 and $46,215, respectively.

(Dollars in Thousands)

Note 7. Other Long-Term Liabilities (Continued)

Other long-term liabilities: Other long-term liabilities consist of the following at December 31, 2014 and 2013:

2014	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due to third-party payors	$ 16,270	$ 22,025	$ (7,149)	$ 31,146	$ 5,627
Accrued vacation and sick leave	46,215	48,827	(43,795)	51,247	5,401
Derivative instruments - rate swaps	4,738	8,230	-	12,968	-
	$ 67,223	$ 79,082	$ (50,944)	$ 95,361	$ 11,028

2013	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due to third-party payors	$ 8,303	$ 10,505	$ (2,538)	$ 16,270	$ 5,042
Accrued vacation and sick leave	43,444	44,371	(41,600)	46,215	5,694
Derivative instruments - rate swaps	14,964	-	(10,226)	4,738	-
	$ 66,711	$ 54,876	$ (54,364)	$ 67,223	$ 10,736

Risk management: The System is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System is self-insured for employee health, worker's compensation and professional liability but maintains commercial insurance policies for property and casualty, automobile, aircraft (helicopter and fixed wing) as well as excess coverage for professional liability and employee health claims. For professional liability and worker's compensation, professional actuarial consultants have been retained to determine funding requirements. Amounts funded for professional liability have been placed in an irrevocable self-insurance trust account, which is being administered by a trustee. For the employee health claims, a historical analysis has been performed of incurred but not reported claims to determine the liability at December 31, 2014 and 2013. Settled claims for worker's compensation and professional liability have not exceeded insurance coverage in any of the past three years.

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

(Dollars in Thousands)

Note 7. Other Long-Term Liabilities (Continued)

Losses from asserted claims and from unasserted claims identified under the System's incident reporting systems are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The liability for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and incurred but not reported claims, for 2014, 2013 and 2012 as follows:

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

2013	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 9,295	$ 2,349	$ (2,241)	$ 9,403	$ 2,438
Professional liability	42,368	13,685	(11,942)	44,111	13,553
Employee health	1,834	21,263	(20,609)	2,488	2,488
	$ 53,497	$ 37,297	$ (34,792)	$ 56,002	$ 18,479

2012	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 8,876	$ 2,719	$ (2,300)	$ 9,295	$ 2,874
Professional liability	38,379	16,377	(12,388)	42,368	10,746
Employee health	1,536	17,959	(17,661)	1,834	1,834
	$ 48,791	$ 37,055	$ (32,349)	$ 53,497	$ 15,454

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

The liabilities recorded for worker's compensation and professional liability at December 31, 2014 are discounted liabilities. The discount rate used was 1.5 percent. The undiscounted liabilities are approximately $941 and $2,504 higher for worker's compensation and professional liability, respectively.

The liabilities recorded for worker's compensation and professional liability at December 31, 2013 are discounted liabilities. The discount rate used was 1.5 percent. The undiscounted liabilities are approximately $829 and $2,258 higher for worker's compensation and professional liability, respectively.

(Dollars in Thousands)

Note 8. Operating Leases

The System has entered into operating lease agreements for medical and office space, which expire through 2025. Contract terms range between one and fifteen years and contain rent escalation clauses and renewal options for additional periods ranging from one to five years.

Minimum rental commitments under operating leases extending beyond one year at December 31, 2014, are as follows:

2015	$ 2,233
2016	2,234
2017	2,183
2018	1,841
2019	1,486
2020-2025	1,923
Total	$ 11,900

Rent expense totaled $2,519 in 2014 and $2,708 in 2013.

Note 9. Benefit Plans

Pension: Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (OPERS). The plans are the Traditional Pension Plan — a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan — a defined contribution pension plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings; and the Combined Plan — a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Participants in the Member-Directed Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefits to the OPERS Board of Trustees. The Ohio Public Employees Retirement System issues a stand-alone financial report and may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For the years ended December 31, 2014, 2013, and 2012, the employee contribution rate was 10.0% of covered payroll and the System was required to contribute 14.0% of covered payroll. For 2014, member and employer contribution rates were consistent across all three plans. Employee contributions to OPERS for the years ended December 31, 2014, 2013, 2012 and 2011 were $42,151, $39,208, $38,717 and $37,487, respectively, equal to the required contributions for each year. The System's contributions to OPERS for the years ended December 31, 2014, 2013, 2012, and 2011, were $59,012, $54,891, $54,202, and $52,482, respectively, equal to the required contributions for each year.

Note 9. Benefit Plans (Continued)

Post Retirement benefits: OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits including post employment healthcare coverage.

In order to qualify for post employment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for post-employment healthcare coverage changed for those retiring on and after January 1, 2015. Details of the changes are available in the Plan Statement in the OPERS 2013 CAFR.

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

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

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

The employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2014, the employer contribution was 14.0% of earnable salary. The Ohio Revised Code limits the employer contribution to a rate not to exceed 14.0% of earnable salary. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to healthcare for members in the Traditional Plan and Combined Plan was 2.0% during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0% for both plans, as recommended by OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the healthcare provided. Payment amounts vary depending on the coverage selected and the number of covered dependents. The System's contributions for 2014, 2013, 2012, and 2011 used to fund post retirement healthcare benefits were $8,430, $3,921, $15,485, and $14,994, respectively, which are included in the System's contractually required contribution of $59,012, $54,891, $54,202, and $52,482, for the years ended December 31, 2014, 2013, 2012, and 2011, respectively.

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

(Dollars in Thousands)

Note 10. Restricted, Expendable and Nonexpendable Net Position

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

	2014	2013
Restricted, debt service payments	$ 25,981	$ 25,822
Restricted, capital asset use	3,400	3,400
Total	$ 29,381	$ 29,222

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

	2014	2013
Programmatic activities of The MetroHealth System	$ 27,141	$ 25,164
Time restrictions	781	526
Total	$ 27,922	$ 25,690

The Foundation has restricted, nonexpendable net positions in the amounts of $12,071 and $11,420 at December 31, 2014 and 2013, that are restricted in perpetuity, the income from which is expendable to support the programmatic activities of The MetroHealth System.

Note 11. Related Organizations

The System is the primary beneficiary of The MetroHealth Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the System has reported the Foundation as a discretely presented component unit in the System's 2014 and 2013 financial statements. The System received support from the Foundation in the amount of $3,956 and $2,881 in 2014 and 2013, respectively, which is recorded as grant revenue on the System's Statements of Revenues, Expenses, and Changes in Net Position. The outstanding receivable from the Foundation was $1,577 and $700 at December 31, 2014 and 2013, respectively, which is included in other receivables on the System's Statements of Net Position. The System provided the Foundation in-kind support totaling $1,662 and $1,652 in 2014 and 2013, 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.

Note 11. Related Organizations (Continued)

The System had established restricted funds to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restrictions or that arise as a result of the operations of the System. A review of these restricted funds is performed annually to determine that funds, related to completed clinical trials and certain donated money, should be transferred to the Foundation. Amounts transferred in 2014 and 2013 were $87 and $184, respectively. Additionally in 2013, the System transferred $950 from general funds for the establishment of two endowed professorships.

Note 12. Investment in Blended Component Unit

MHS Holdings LLC (LLC) was formed to acquire and own interests in certain health care businesses. The System is the 99% member of the LLC. During 2011, the System's 40% equity interest in CCF/MHS Renal Care Company, LTD., a joint venture with The Cleveland Clinic Foundation, which provides renal care (dialysis), was transferred to the LLC. Because the LLC is considered to be a blended component unit of the System, its financial activity is reflected within the financial activity of the System on these financial statements. At December 31, 2014 and 2013, the LLC had balances of $7,778 and $9,342, respectively that are included in other assets in the System's Statements of Net Position, which essentially represents the LLC's interest in CCF/MHS Renal Care Company LTD. In 2014 and 2013, the LLC recorded other income of $1,346 and $1,207, respectively, that are included in the System's Statements of Revenues, Expenses, and Changes in Net Position. The LLC holds no other assets, liabilities, equity, revenue or expenses as of and for the years ended December 31, 2014 and 2013. The LLC received distributions in 2014 and 2013 of $2,940 and $1,960, respectively.

MHS Purchasing LLC (MHS) was formed during 2012 to own an interest in Premier Purchasing Partners, L.P. (Premier). Premier is a group purchasing organization that provides the group greater bargaining power for cost of materials. Because MHS is considered to be a blended component unit of the System, its financial activity is reflected within the financial activity of the System on these financial statements. Prior to 2012, this ownership interest was held by the Foundation. At December 31, 2014 and 2013, MHS had a balance of $1,398 and $306 that is included in other assets in the System's Statements of Net Position, which essentially represents MHS's interest in Premier. MHS held no other assets, liabilities, equity, revenue or expenses as of and for the years ended December 31, 2014 and 2013.

Effective October 1, 2013, Premier reorganized to convert to a public company. From this reorganization, MHS received proceeds of $1,221 and Class B units that vest over a seven-year period. As a result of this conversion, MHS recognized a gain of $1,221, a loss on original investment of ($643) and a reduction in medical supplies expense of $306 related to vesting in the Class B units. In 2014, MHS recorded a reduction to medical supplies expense of $1,092, related to vesting of the Class B units, which is included in the System's Statements of Revenues, Expenses, and Changes in Net Position.

Note 13. Conditional Promises to Give

The Foundation: The Foundation received a conditional pledge in the form of a 4-year challenge grant totaling $1,000 commencing in May 2014. The initial payment of $250 was received by the Foundation in December 2014. As it relates to this pledge, these financial statements reflect revenue of $46 and a refundable advance of $204 which represents the portion of the pledge whose conditions had not been met at December 31, 2014. The outstanding pledge balance of $750 at December 31, 2014 is not included as a pledge receivable within these financial statements because the conditions surrounding the pledge had not been met.

Note 14. Commitments and Contingencies

CMS Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. The Centers for Medicare and Medicaid Services (CMS) has rolled out this program nationally.

Purchase Commitments: As of December 31, 2014, the System had contractual commitments for various projects totaling approximately $24,210. Projects with large contractual commitments include $11,190 for campus transformation startup activities, $1,800 for real estate development costs for the new Brecksville satellite location, $1,170 for pharmacy renovations, $1,145 for automated breast ultrasound units, $789 for an information technology network project, $677 for a Middleburg Heights emergency generator, and $652 for cardiac/telemetry monitor upgrades. These projects are being funded with operating funds and bond project funds.

Regulatory Environment Including Fraud and Abuse Matters: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or asserted at this time.

The MetroHealth System
(A Component of Cuyahoga County)

OMB Circular A-133 Requirements

The MetroHealth System
(A Component Unit of Cuyahoga County)

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
U.S. Department of Agriculture:					
Pass-Through Program from:					
Ohio Department of Health	Special Supplemental Nutrition Program for Women, Infants and Children	10.557	1830011WA0714; 1830011WA0815	$	4,526,624
	TOTAL --- U.S. Department of Agriculture			**$**	**4,526,624**
U.S. Department of Education:					
Pass-Through Program from:					
Ohio Department of Health	Special Education - Grants for Infants and Families - HMG Hospital Based Regional Child Find	84.181	1830011HB0714; 1830011HB0815	$	32,057
	TOTAL --- U.S. Department of Education			**$**	**32,057**
U.S. Department of Health & Human Services:					
Direct Programs:	Special Projects of National Significance - HIV: Implementation of a Collaborative Care Model	93.928	H97HA27429-01-00	$	38,878
	Subtotal - U.S. Department of Health & Human Services - Direct			**$**	**38,878**
Pass-Through Program from:					
Western Reserve Area Agency on Aging	Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers - Access Your Benefits Program	93.044	n/a	$	51,705
Cuyahoga County	Project Grants and Cooperative Agreements for Tuberculosis Control Programs - Tuberculosis Prevention & Control	93.116	01810022TB0414; 01810022TB0515		151,567
Ohio Department of Health	Centers for Disease Control & Prevention_Investigations & Technical Assistance - Heart Disease & Stroke Prevention	93.283	01830014HD0815		34,526
Ohio Office of Medical Assistance	Medical Assistance Program - MetroHealth Care Plus	93.778	G-1213-07-0591		969,274
Center for Health Affairs	National Bioterrorism Hospital Preparedness Program - HRSA Emergency Preparedness/ASPR Grant	93.889	01860052RP0714; 01860052RP0815		69,718
Cuyahoga County Board of Health	HIV Emergency Relief Project Grants - Ryan White Part A/Title I	93.914	352239/H89HA23812		1,212,761
Ohio Department of Health	HIV Care Formula Grants - Ryan White Part B/Title II	93.917	01830012RW0414		25,769
	HIV Care Formula Grants - Ryan White Emergency Assistance Funding - Title II	93.917	n/a		9,007
Cleveland Department of Public Health	HIV Prevention Activities_Health Department Based - Linkage to Care	93.940	CT5005SG 2013-167; CT5005SG 2014-033		143,780
Cuyahoga County Board of Health	Maternal and Child Health Services Block Grant to the States - CFHS Cleveland Regional Perinatal Network; Child & Family Health Services	93.994	01810011MC0714; 01810011MC0815		138,847
	Subtotal - U.S. Department of Health & Human Services - Pass-through			**$**	**2,806,954**
	TOTAL --- U.S. Department of Health & Human Services			**$**	**2,845,832**
U.S. Department of Homeland Security:					
Pass-Through Program from:					
Ohio Department of Public Safety	Disaster Grants - Public Assistance (Presidentially Declared Disasters) - Ohio EMA Public Assistance Grant	97.036	PA-05-OH-4098-PW		11,744
	TOTAL --- U.S. Department of Homeland Security			**$**	**11,744**
Research and Development Cluster					
U.S. Department of Health & Human Services:					
Direct Programs:	Child Health & Human Development Extramural Research - Maternal Obesity Depresses Essential Fatty Acid Transport	93.865	4R00HD062841/ 5R00HD062841-04	$	185,765
	Subtotal - U.S. Department of Health & Human Services - Direct			**$**	**185,765**
	Subtotal - Research & Development Cluster - Direct			**$**	**185,765**

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
U.S. Department of Defense:					
Pass-Through Program from:					
American Burn Association/U.S. Army Medical Research	Military Medical Research & Development - Development of an Inhalation Injury Scoring System	12.420	W81XWH-09-2-0194	$	862
Johns Hopkins University / U.S. Army Medical Research	Basic Scientific Research - The Major Extremity Trauma Research Consortium ***** RECOVERY *****	12.431	W81XWH1020090		7,651
	Subtotal - U.S. Department of Defense - Pass Through			**$**	**8,513**
U.S. Department of Health & Human Services:					
Pass-Through Program from:					
Frontier Science	Cancer Treatment Research - Eastern Cooperative Oncology Group	93.395	CA21115		7,402
Frontier Science	Cancer Control - Eastern Cooperative Oncology Group	93.399	CA37403		7,402
Emmes Corporation / NIH-NINDS	Trans-NIH Recovery Act Research Support - Platelet-Oriented Inhibition in New TIA (POINT) ***** RECOVERY*****	93.701	NS062835		6,904
Brigham & Williams / NIH-NHLBI	Cardiovascular Diseases Research - Pre-Determine Biologic Markers & MRI SCD Cohort Study	93.837	620-5346000-600022475		94
Duke Clinical Research/NIH-NHLBI	Cardiovascular Diseases Research - Xanthine Oxidase Inhibition for Hyperuricemic HF Patients	93.837	177494, U10HL08904		23,089
Duke Clinical Research/NIH-NHLBI	Cardiovascular Diseases Research - Renal Optimization Strategies Evaluation in Acute Heart	93.837	177494, HL084904		3,095
Duke Clinical Research/NIH-NHLBI	Cardiovascular Diseases Research - Functional Impact of GLP-1 for Heart (FIGHT)	93.837	193603; HL084904		29,562
Duke Clinical Research / NIH-NHLBI	Cardiovascular Diseases Research - Nitrates Effect on Activity Tolerance in Heart Failure	93.837	200464; U10HL084904		65
Vanderbilt University / NIH-NHLBI	Cardiovascular Diseases Research - Flecanide for Catecholaminergic Polymorphic Ventricular Tachycardia	93.837	VUMC39032; HL108173		426
University of Rochester / NIH-NHLBI	Cardiovascular Diseases Research - Ranolazine ICD Trial (RAID)	93.837	415639-G; U01 HL96610		23,321
Wake Forest Baptist Medical Center / NIH-NHLBI	Cardiovascular Diseases Research - Neuro Outcomes in Diabetics with Heart Surgery	93.837	H1089115; 5R01HL089115-07		99
Duke Clinical Research / NIH-NHLBI	Blood Diseases and Resources Research - Bridging Anticoagulation In Patients Who Require Temporary Interruption of Warfarin Therapy	93.839	U01HL087229		7,387
University of Michigan / NIH-NIAMS	Arthritis, Musculoskeletal and Skin Diseases Research - Surgical Treatment of Elderly Radius Fractures	93.846	R01AR062066		1,412
University of Minnesota / NIH-NIAMS	Arthritis, Musculoskeletal and Skin Diseases Research - Faith Hip Fracture	93.846	N00188516; AR055267		1,800
University of Michigan / NIH-NIDDK	Diabetes, Digestive, and Kidney Diseases Extramural Research - Gastroparesis Clinical Research Consortium (GLUMIT)	93.847	3002688231; 5U01DK073985		19,066
Columbia University / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Warfarin vs. Aspirin in Reduced Cardiac Ejection Fraction	93.853	NS39143		1,284
Yale / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Insulin Resistance Intervention After Stroke Trial	93.853	A06113; NS044876-02		8,365
Cleveland Medical Devices / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Self Abrading Rapidly Applied Electrode	93.853	2R44NS53116-02		4,891
Social & Scientific Systems / NIH-NHLBI	Allergy, Immunology and Transplantation Research - AIDS Clinical Trials Group Network	93.855	UM01 AI068636-07		4,432
	Subtotal - U.S. Department of Health & Human Services - Pass-through			**$**	**150,096**
	Subtotal - Research & Development Cluster - Pass Through			**$**	**158,609**
	TOTAL - Research & Development Cluster			**$**	**344,374**
	TOTAL EXPENDITURES OF FEDERAL AWARDS			**$**	**7,760,631**

See Note to Schedule of Expenditures of Federal Awards.

Note to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Note 1. Basis of Presentation

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

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

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

McGladrey

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of The MetroHealth System (the System) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated March 24, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Continued)

Purpose of this Report

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

McGladrey LLP

Cleveland, Ohio
March 24, 2015

McGladrey

Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance

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

Report on Compliance for Each Major Federal Program

We have audited The MetroHealth System's (the System) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2014. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, The MetroHealth System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each of its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McGladrey LLP

Cleveland, Ohio
March 24, 2015

The MetroHealth System
(A Component Unit of Cuyahoga County)

Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified Opinion			
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified Opinion			
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
Numerous	Research and Development Cluster
93.778	Medical Assistance Program - MetroHealth Care Plus
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
93.914	HIV Emergency Relief Project Grants - Ryan White Part A/Title I

Dollar threshold used to distinguish between Type A and Type B programs:			$ 300,000	
Auditee qualified as a low risk auditee?		Yes	X	No

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2014

Section II - Financial Statement Findings

No findings noted.

Section III - Findings and Questioned Costs for Federal Awards

No findings noted.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2014

Section II – Financial Statement Findings

No findings noted.

Section III - Findings and Questioned Costs for Federal Awards

Finding number: 2013-01

Program description: Medical Assistance Program – MetroHealth Care Plus.

Questioned costs: None.

Summary of prior year finding:

The initial Schedule of Expenditures of Federal Awards (SEFA) provided by management excluded the expenditures associated with the Medical Assistance Program – MetroHealth Care Plus. The SEFA was subsequently adjusted to include the expenditures associated with the Medical Assistance Program – MetroHealth Care Plus.

Corrective Action Take:

Management has established regular monthly meetings between Legal and Finance to validate understanding of any agreements that MetroHealth enters into. The expenditures associated with the Medical Assistance Program were included on the SEFA for the year ended December 31, 2014.

Dave Yost • Auditor of State

THE METROHEALTH SYSTEM

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 2, 2015