The MetroHealth System

Financial Statements as of and for the Years Ended December 31, 2006 and 2005, Supplemental Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2006, and Independent Auditors' Reports

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of The MetroHealth System, Cuyahoga County, prepared by Deloitte & Touche LLP, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

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July 9, 2007

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THE METROHEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
The MetroHealth System:

We have audited the accompanying balance sheets of The MetroHealth System (the "System"), a component unit of Cuyahoga County, Ohio, as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, the MetroHealth Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit for the Foundation, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the System at December 31, 2006 and 2005, and the Foundation at December 31, 2006 and 2005, and the results of their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the System changed its method of accounting for conditional asset retirement obligations in 2005.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

June 8, 2007

MANAGEMENT'S DISCUSSION (4-12)

This section of The MetroHealth System's (the "System") annual financial report presents management's discussion and analysis of the System's financial performance and provides an overall review of the System's financial position and activities as of and for the years ended December 31, 2006 and 2005. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts. The financial statements, footnotes, and this discussion and analysis are the responsibility of the System's management.

Overview of the Financial Statements

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

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

The System is the public health care system for Cuyahoga County, Ohio, (the "County") and was created pursuant to Ohio Revised Code Chapter 339. The System is governed by a Board of Trustees appointed jointly by the Board of County Commissioners of the Board of County of Cuyahoga, and the senior judges of the Probate Court and Common Pleas Court.

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

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

Financial and Operating Highlights for 2006

- The average length of stay decreased 2.5% from the prior year.
- Outpatient levels of activity increased 4.0% from the prior year.
- Emergency room levels of activity increased 7.6% from the prior year.
- Surgical cases increased 6.2% from the prior year.
- Total net assets increased by $22.3 million over the prior year.
- The System received a one-time $10.0 million County appropriation to assist with the renovation and remodeling costs at the new South Campus Senior Health and Wellness Center.
- Upper Payment Limit (UPL) and Hospital Care assurance program revenues decreased by $8.7 million from the prior year.
- The System began phases two and three of the South Campus project. Completion of the project will enable the System to relocate its east side skilled nursing care facility (phase two) and geriatric clinical services (phase three) to a single campus.

Financial and Operating Highlights for 2005

- The average length of stay decreased slightly from the prior year.
- Outpatient levels of activity increased 3.7 % from the prior year.
- Emergency room levels of activity increased 15.3% from the prior year.
- Total net assets increased by $5.5 million over the prior year.
- The MetroHealth Buckeye Health Center, an outpatient medical facility, opened in April.
- The System completed renovations on the first phase in its South Campus location. The System's back office operations and datacenter began moving to the renovated space in October.

Financial Analysis of the System at December 31, 2006 and 2005

Total assets increased by 2.2% to $640.7 million, and total liabilities decreased 2.0% to $396.6 million in 2006. The System's total net assets increased from $221.9 million to $244.2 million in 2006, a 10.0% improvement from a year ago. Table 1 summarizes the balance sheet movement for the last three years.

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

	2006	2005	2004
Assets:			
Current assets	$ 96,443	$ 85,172	$ 94,406
Investments	247,061	230,598	221,253
Restricted assets	31,175	42,046	33,387
Capital assets	259,585	263,261	251,151
Other assets	6,478	5,652	3,881
Total assets	$ 640,742	$ 626,729	$ 604,078
Liabilities and net assets:			
Liabilities:			
Current liabilities	$ 104,739	$ 112,325	$ 108,142
Long-term liabilities	291,850	292,542	279,608
Total liabilities	396,589	404,867	387,750
Net assets:			
Invested in capital assets—net of related debt	60,012	68,571	40,588
Restricted	28,195	39,048	30,579
Unrestricted	155,946	114,243	145,161
Total net assets	244,153	221,862	216,328
Total liabilities and net assets	$ 640,742	$ 626,729	$ 604,078

Current Assets

Total current assets increased $11.3 million in 2006 or 13.2% from 2005. The large increase is primarily related to a higher patient accounts receivable balance. The patient accounts receivable balance increased $12.9 million or 21.8% from 2005. One asset category experiencing a decrease in 2006 was the cash and cash equivalents. Cash decreased $3.1 million from the prior year and is due to higher amounts held in the investment accounts rather than the overnight cash accounts.

In 2005, total current assets decreased $9.2 million or 9.8%. The primary driver for the decrease was the change in UPL receivable of $7.6 million. This is the receivable related to the System's participation in the State of Ohio's supplemental Medicaid program that provides access to available funding up to 100% of the Medicare UPL for inpatient hospital services. The System had UPL receivable balances of $6.4 million and $14.0 million at the end of 2005 and 2004, respectively.

Investments

Investments increased $16.5 million from 2005, or 7.1%. The increase is primarily related to a one-time $10.0 million appropriation to assist with renovation costs at the new South Campus skilled nursing facility, and from investment income. In 2006, the Depreciation Reserve fund increase by $8.7 million and represents the amount the System is required to deposit into the fund and net investment returns. The Board Designated investments grew by $7.7 million in 2006. Restricted assets decreased $10.9 million in 2006 and can be attributed to $11.0 million in Series 2005 bond project fund withdrawals to pay for South Campus renovation and remodeling costs.

Investments increased $9.3 million from 2004, or 4.2%. The Depreciation reserve fund had a net decrease for the year of $13.2 million which represents the difference between a $20.0 million transfer to Board Designated investments to help meet capital needs and the amount the System was required to deposit into the fund in 2005. The Board Designated investments grew by $22.6 million primarily from Upper Payment Limit and Disproportionate Share receipts in the fourth quarter. Restricted assets increased $8.7 million in 2005 and can be attributed to the Series 2005 bond financing that retired the Series 1999 Bonds and the related bond reserve fund of $6.5 million, a decrease in the interest payment fund on the 1999 bonds of $1.0 million and the new project fund that increased the investments by $16.9 million.

Capital Assets

Capital expenditures for 2006 were $28.8 million. Significant capital outlays included $4.0 million to complete the conversion of the former Deaconess Hospital to a support services facility (South Campus phase I); $3.6 million for phases two and three project costs at the new South Campus Senior Health and Wellness Center; $2.6 million for the Electrophysiology Lab; $2.3 million for the Cancer Care Linear Accelerator project; $2.1 million for the Air Handling Unit renovation; and $1.9 million for the Endoscopy suite remodel. Other capital expenditures were for space, equipment and technology upgrades. Proceeds from the Series 2005 Bond issue were used for South Campus project costs and the remaining expenditures were paid with operating funds.

In 2005, capital expenditures for the year totaled $39.3 million. Expenditures for the rehabilitation of the former Deaconess Hospital to back office and data center space totaled $20.1 million. Other large projects included the Endoscopy suite remodel at $1.5 million, the Buckeye Health Center build out at $0.9 million, the Cancer Care Linear Accelerator project at $0.6 million, the Dentistry remodel and expansion at $0.6 million and the Lab Information System upgrade at $0.8 million. The remaining expenditures were for equipment and technology upgrades. The $1.3 million remaining in the 2003 Project fund at the beginning of the year was used to fund construction at the South Campus while the remaining capital expenditures were funded by operations.

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

Current Liabilities

Total Current Liabilities declined by $7.6 million from the prior year. Accounts Payable declined by $2.5 million and is related to a $1.6 million decrease in construction project and retainer liabilities. Accrued payroll increased $2.1 million and is related to the additional accrual day needed in 2006 compared to 2005 and higher 2006 salary and wage costs. The current portion of the self-insurance liability decreased from the prior year by $4.3 million due to improved claim experience and decreased payouts. The current portion of the third party liability decreased $2.2 million and is related to a smaller overall liability and revised current and long-term estimates. Other current liabilities contain the Upper Payment Limit liability which decreased $0.5 million from the prior year.

In 2005, current liabilities increased $4.2 million, or 3.9%, from the prior year. Accounts Payable increased $3.7 million. The payroll and related liabilities increased $2.1 million as the liabilities reflect an additional day over last year (14 days versus 13 days). Estimated amounts due third parties increased by $1.3 million. Other current liabilities decreased by $3.5 million due in large part to the $3.6 million decrease in the Upper Payment Limit liability. The UPL liability is the offset to the receivable for required contributions to the program. Accrued interest payable decreased $1.2 million as the retirement of the Series 1999 bonds reduced this payable (the new bonds pay interest monthly, instead of semi-annually).

Long-Term Liabilities

All of the System's long-term debt relates to the acquisition of capital assets. In 2006, long-term debt decreased by $6.4 million from the previous year. During the year the System made bond principal payments totaling $6.0 million; capital lease and loan principal payments totaling $0.8 million; and amortized bond discounts and deferred losses totaling $0.7 million.

In 2005, long-term debt increased $6.5 million from the prior year. The System issued variable rate bonds in July totaling $74.5 million. The Series 2005 bonds retired the Series 1999 bonds ($57.0 million) and provided additional funds for construction projects. The refinancing transaction generated a loss of $5.2 million that will be amortized over the original remaining life of the Series 1999 bonds. Concurrent with the issuance of the Series 2005 Bonds, the System executed a variable to fixed interest rate swap agreement.

Pursuant to FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations,* the System assessed its possible obligations and determined the need to record a liability for asbestos abatement in its buildings. The total liability for this asset retirement obligation was $5.4 million as of December 31, 2005. In 2006, demolition costs of the Quadrangle building and adjustments to estimates reduced the liability by $1.0 million while normal accretion expenses added $0.2 million. The result is a net asset retirement obligation at December 31, 2006 of $4.6 million, of which $4.3 million is considered to be long-term. More information regarding this obligation is presented in Note 8 of the financial statements.

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

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

	Years Ended December 31,		
	2006	2005	2004
Operating revenues:			
Net patient service revenue	$ 554,797	$ 523,950	$ 498,434
Other revenue	22,807	23,462	21,654
Total operating revenues	577,604	547,412	520,088
Operating expenses:			
Professional care of patients	385,909	357,964	339,830
Dietary	7,398	7,051	6,950
Household and property	27,197	26,121	23,295
Administrative and general	68,010	70,437	73,945
Employee benefits	79,503	73,441	71,037
Provision for bad debts	7,457	7,015	6,049
Depreciation and amortization	30,666	30,009	28,804
Total operating expenses	606,140	572,038	549,910
Operating loss	(28,536)	(24,626)	(29,822)
Non-operating revenues—net	50,100	35,695	23,142
Grants for capital acquisitions	1,087	712	183
Increase (decrease) in net assets	22,651	11,781	(6,497)
Total net assets—Beginning of year	221,862	216,328	222,941
Transfer of net assets	(360)	(1,086)	(116)
Cummulative effect of change in accounting principle		(5,161)	-
Total net assets—End of year	$ 244,153	$ 221,862	$ 216,328

The System's total operating and non-operating revenues in 2006 were $642.1 million while expenses were $619.4 million. This resulted in net assets increasing $22.7 million for the year. This was a $10.9 million net improvement from 2005 that had $598.7 million in revenue and $586.9 in expenses.

Net Patient Service Revenue

Net patient service revenue increased $30.8 million or 5.9% in 2006. This is reflective of the small increases in patient and visit volumes in 2006. Although the gross revenue includes a 4.0% price increase effective January 1, 2006, there was a corresponding increase in contractual allowances. This compares similarly to the $25.5 million or 5.1% increase experience in 2005.

Net patient service revenue also includes revenue the System received as a participant in the State of Ohio Care Assurance (HCAP) ($24.5 million in 2006, $28.2 million in 2005, and $26.0 million in 2004) and Upper Payment Limit (UPL) ($11.1 million in 2006, $16.1 million in 2005, and $17.0 million in 2004) programs. The decrease in HCAP revenue is due to the Ohio Department of Job and Family

Services (ODJFS) reverting back to the 100% OBRA Cap for Public Hospitals. In 2005, public hospitals were paid at 135% of the OBRA Cap. The decrease in UPL revenue is due to the ODJFS correcting its payment formula, making less supplemental funds available. The level of revenue from the HCAP and UPL programs in future years is uncertain.

Charity care increased $32.0 million to $192.1 million in 2006. This was an increase of 20.0% over the previous year. The System's level of charity care continues to reflect the System's status as a safety net facility in Cuyahoga County.

Operating Expenses

The System's total operating expenses increased by $34.1 million or 6.0% from 2005. This percentage is an increase from the 4.0% or $22.1 million increase experienced between 2004 and 2005. Table 3 summarizes the expenses from the last three years.

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

	2006	2005	2004
Operating expenses:			
Salaries and wages	$ 337,756	$ 317,209	$ 304,150
Employee benefits	79,503	73,441	71,037
Medical supplies	35,852	33,352	30,591
Pharmaceuticals	28,184	24,933	23,291
Plant operations	37,126	33,574	31,671
Supplies and other	38,873	37,304	37,240
Liability insurance	10,723	15,201	17,077
Provision for bad debts	7,457	7,015	6,049
Depreciation and amortization	30,666	30,009	28,804
Total operating expenses	$ 606,140	$ 572,038	$ 549,910

Salaries and wages increased $20.5 million from 2005 to 2006, or 6.5%. This is above the 4.3% increase from 2004 to 2005 of $13.1 million. There was a general wage increase of 3.0% in 2006. The remainder of the difference is attributed to a net increase of 143 FTE's, physician incentives and salary recoveries (from resident and research activities).

Employee benefits increased a total of $6.1 million in 2006, or 8.3% from 2005 expense levels. Higher health care costs, workers' compensation claims, and FTE growth pushed benefit expenses upward. Health insurance costs increased $1.6 million or 5.8%, while workers' compensation costs grew by $0.4 million or 15.4%. PERS and Medicare expense increases were consistent with the general salary and wage increase, FTE growth and the PERS contribution rate increase of 0.15%.

Employee benefits increased $2.5 million in 2005 or 3.5%. A $2.5 million decrease in Workers Compensation expenses offset a $2.4 million Health Insurance expense increase. The remainder of benefits expense increases (PERS, Medicare) were consistent with salary and wage increases.

Medical Supplies and Pharmaceuticals increased a combined 9.9% from 2005 to 2006. The increase between 2004 and 2005 was 8.2%.

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

Plant Operation expenses increased $1.9 million or 6.0% in 2005. Increased utilities, primarily natural gas with a $1.4 million increase, accounted for most of the increase. Building rental increased by $1.0 million from the full year effect of the Broadway Health Center and nine months of the new Buckeye Health Center. Construction and remodeling expenses declined by $0.9 million from 2004.

Liability insurance decreased from the prior year by $4.5 million or 29.5%. The decrease was based on better than expected claims experience reflected in this year’s actuarial study. In 2005, Medical malpractice insurance expense decreased by $1.9 million or 11.0% from the prior year.

Non-Operating Revenue and Expenses

Net non-operating revenue increased $14.4 million from the prior year. The bulk of the increase is from the County’s one-time contribution of $10.0 million to assist the System with the costs associated with relocating the east side skilled nursing facility to the South Campus. The County’s 2006 general subsidy to the System was $35.1 million and similar to the 2005 funding level. Also favorably affecting the net non-operating revenue increase was higher investment income of $1.9 million; unrealized gains from changes in investment and interest rate Swap agreement market values of $1.2 million; and lower interest expense of $0.7 million. Interest expense decreased from $10.7 million in 2005 to $10.0 million in 2006. The decline in interest expense is related to the favorable effects of the 1999 Series Bond refunding and 2005 Series Bond issuance that occurred midyear in 2005.

In 2005, net non-operating revenue increased $12.6 million from 2004. The County increased its subsidy to the System by $8.0 million in 2005. Interest expense increased by $2.3 million in 2005. In prior years, interest expense had been favorably affected by interest capitalization and interest SWAP agreements on the 1999 Series bonds. The amount of capitalized interest dropped in 2005 by $1.2 million and the SWAP agreements related to the 1999 Series bonds terminated in February 2005. In 2004 the interest rate swap agreements produced a $2.3 reduction in bond interest expense. Investment income and the mark to market adjustment both improved over the prior year by $3.3 million.

Economic Factors and Next Year's Budget

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

- The System budgeted to receive a $40.0 million appropriation from the County in 2007, 2008 and 2009. This is an increase of approximately $5.0 million from general appropriation amounts received in 2006 and 2005. In 2006, the System also received a one-time $10.0 million County payment to assist with renovation costs at the new South Campus Senior Health and Wellness Center. The System will be in negotiations with the County for Budget year 2010 to obtain an appropriate funding level. The System will continue to explore revenue enhancement and cost reduction (productivity) opportunities.

- At both the Federal and State level, proposed Medicare and Medicaid funding cuts continue to harm System revenues and cash flows as it relies on Medicare and Medicaid for 26% and 32% of net patient revenues respectively. The System will continue to promote Federal and State policy reforms to provide adequate funding to safety net providers.

- Capital funds needed for replacement of depreciated facilities and equipment, and the addition/expansion of vital programs will require use of existing investments or debt as well as anticipated capital funding from the County. The System intends to use unrestricted Reserves for continued operating and Capital needs in 2007. In addition, efforts to obtain appropriate Philanthropy to offset these operational and capital needs will continue in 2007.

- Medical malpractice cost trends will continue to exert upward pressure on related expense and claim payouts.

- In 2005 the federal law as enacted by the Benefits Improvement and Protection Act of 2000 (BIPA), permitted up to a 175% Disproportionate Share Hospital (DSH) payment limit for public hospitals for a two year period beginning in 2005. Anticipating the 175% DSH limit in 2005, the System budgeted $32.0 million in 2005. However, ODJFS only included a 130% DSH payment limit in the 2005 HCAP model and the System netted $28.2 million. In 2006, while OHA recommended a reduction of the DSH payment limit to 110%, CMS notified ODJFS that they erroneously defined the two year BIPA period and only approved the 2006 program at 100%. Because of this, the System only netted $24.5 million in HCAP dollars in 2006. Due to a drop in the OBRA cap which is based on the 2005 submitted cost report, it is estimated the System will net $19.0 million in HCAP dollars in 2007.

- In 2006, the System budgeted $12.5 million in net Upper Payment Limit (UPL) dollars. This estimate was originally made assuming the 2008 uncompensated care levels and OBRA Cap would be comparable to the projected 2007 levels. However, based on the submitted 2005 cost reports and uncompensated care logs, the 2007 level in fact dropped significantly. This allowed the System to net only $11.1 million after the 2006 second half draw. In 2007, with the mandatory movement of Medicaid ABP population to managed care (which do not qualify for UPL monies), it is estimated the System will net only $6.3 million in UPL dollars.

- During 2007, the Skilled East Nursing facility will decrease the occupancy level from 201 patients to 144 patients in preparation for the move to the South Campus facility (144 beds) in the first quarter of 2008.

THE METROHEALTH SYSTEM

BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2006	**2005**	**2006**	**2005**
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,120	$ 4,176	$ 243	$ 205
Accounts receivable	72,062	59,141	2,717	1,469
Allowance for uncollectible accounts	(6,897)	(7,161)	(280)	(118)
Net accounts receivable	65,165	51,980	2,437	1,351
Other receivables	16,643	16,181	97	101
Supplies	6,013	5,876	19	15
Prepaid expenses	7,502	6,959		
Total current assets	96,443	85,172	2,796	1,672
INVESTMENTS:				
General	135,678	127,960	3,227	2,598
Academic funds	37,635	37,575		
Depreciation reserve fund	73,748	65,063		
	247,061	230,598	3,227	2,598
RESTRICTED ASSETS:				
Cash and cash equivalents	163	131	1,035	479
Special purpose investments	5,556	5,556	17,151	15,947
Under bond indenture agreement	25,456	36,359		
	31,175	42,046	18,186	16,426
CAPITAL ASSETS:				
Land and land improvements	17,130	17,180		
Buildings and fixed equipment	480,702	468,331		
Equipment	238,885	227,720		
	736,717	713,231		
Accumulated Depreciation	(485,897)	(463,934)		
	250,820	249,297		
Construction in Progress	8,765	13,964		
	259,585	263,261		
OTHER ASSETS	6,478	5,652		
TOTAL	$ 640,742	$ 626,729	$24,209	$20,696

(Continued)

THE METROHEALTH SYSTEM

BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2006	2005	2006	2005
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	$ 21,980	$ 24,459	$ 1,023	$ 1,613
Accrued payroll and related liabilities	20,537	18,463		
Public Employees Retirement System liability	11,363	10,308		
Accrued interest payable	2,602	2,651	4	5
Self-insurance liabilities	17,702	21,989		
Estimated amounts due to third-party payors	5,986	8,185		
Accrued vacation and sick leave	2,641	2,938		
Note payable	4,500	4,346		
Current installments of long-term liabilities	7,105	6,774	62	80
Other current liabilities	10,323	12,212	380	179
Total current liabilities	104,739	112,325	1,469	1,877
LONG-TERM LIABILITIES—Less current installments:				
Self-insurance liabilities	28,745	24,702		
Estimated amounts due to third-party payors	34,476	35,691		
Accrued vacation and sick leave	26,032	23,220		
Asset retirement obligations	4,369	4,277		
Long-term debt	198,228	204,652	201	301
Total long-term liabilities	291,850	292,542	201	301
Total liabilities	396,589	404,867	1,670	2,178
NET ASSETS:				
Invested in capital assets—net of related debt	60,012	68,571		
Restricted for debt service and projects	25,456	36,359		
Restricted—nonexpendable	-	-	5,706	5,864
Restricted—expendable	2,739	2,689	12,465	8,159
Unrestricted	155,946	114,243	4,368	4,495
Total net assets	244,153	221,862	22,539	18,518
TOTAL	$ 640,742	$ 626,729	$24,209	$20,696

See notes to financial statements. (Concluded)

THE METROHEALTH SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(Dollars in thousands)

	Primary Government The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2006	2005	2006	2005
OPERATING REVENUES:				
Net patient service revenue	$554,797	$523,950	$	$
Other revenue	22,807	23,462		
Total operating revenues	577,604	547,412		
OPERATING EXPENSES:				
Professional care of patients	385,909	357,964		
Dietary	7,398	7,051		
Household and property	27,197	26,121		
Administrative and general	68,010	70,437		
Employee benefits	79,503	73,441		
Provision for bad debts	7,457	7,015		
Total operating expenses before depreciation and amortization	575,474	542,029		
Operating gain before depreciation and amortization	2,130	5,383		
Depreciation and amortization	30,666	30,009		
Operating loss	(28,536)	(24,626)		
NONOPERATING REVENUES (EXPENSES):				
County appropriation	45,098	34,765		
Net investment income	11,730	8,618	2,653	1,672
Other nonoperating revenue	2,918	2,884		
Grants and donations	4,474	4,342	6,014	4,423
Grant expenditures and support	(4,084)	(4,204)	(4,986)	(5,128)
Interest expense	(10,036)	(10,710)		
Total nonoperating revenues — net	50,100	35,695	3,681	967
GAIN BEFORE OTHER CHANGES	21,564	11,069	3,681	967
OTHER CHANGES — Grants for capital acquisitions	1,087	712		
INCREASE IN NET ASSETS	22,651	11,781	3,681	967
TOTAL NET ASSETS — Beginning of year	221,862	216,328	18,518	16,465
Transfer of net assets	(360)	(1,086)	340	1,086
Cumulative effect of change in accounting principle		(5,161)		
TOTAL NET ASSETS — End of year	$244,153	$221,862	$ 22,539	$ 18,518

See notes to financial statements. (Concluded)

THE METROHEALTH SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(Dollars in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Patient service revenue	$ 530,544	$ 529,486
Other operating cash receipts	22,807	23,462
Payments to suppliers	(155,047)	(146,593)
Payments for compensation and benefits	(411,053)	(386,748)
Net cash flows (used in) provided by operating activities	(12,749)	19,607
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County appropriation	45,098	34,765
Proceeds from notes payable	4,500	5,750
Principal payments on notes payable	(4,346)	(5,980)
Interest payments on notes payable	(104)	(84)
Restricted grants and donations	8,479	7,938
Specific-purpose funds expenditures	(4,084)	(4,204)
Transfer of net assets	(360)	(1,086)
Restricted receivables/liabilities	(59)	(93)
Net cash flows provided by noncapital financing activities	49,124	37,006
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits in project funds	(452)	(16,944)
Withdrawals from project funds	11,030	1,281
Acquisitions and construction	(28,836)	(39,317)
Proceeds from long-term debt		73,491
Retirement of long-term debt		(63,251)
Principal payments on long-term debt	(6,772)	(6,326)
Interest payments on long-term debt	(9,644)	(8,974)
Net cash flows used in capital and related financing activities	(34,674)	(60,040)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, net	(15,677)	(3,777)
Interest received and realized gains and losses	10,952	9,084
Net cash flows (used in) provided by investing activities	(4,725)	5,307
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,024)	1,880
CASH AND CASH EQUIVALENTS—Beginning of year	4,307	2,427
CASH AND CASH EQUIVALENTS—End of year	$ 1,283	$ 4,307
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (28,536)	$ (24,626)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	30,666	30,009
Provision for bad debts	7,457	7,015
Changes in assets and liabilities:		
Increase in patient accounts receivable	(20,642)	(954)
(Increase) decrease in other assets	(1,751)	4,724
(Decrease) increase in self-insurance liabilities	(244)	917
(Decrease) increase in accounts payable and other liabilities	(1,129)	954
Increase in long-term liabilities	1,430	1,568
Net cash flows (used in) provided by operating activities	$ (12,749)	$ 19,607

See notes to financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The System is the public health care system for Cuyahoga County, Ohio, and was created pursuant to Ohio Revised Code Chapter 339. The System is governed by a board of trustees appointed jointly by the Board of County Commissioners of the Board of the County of Cuyahoga, and the senior judges of the Probate Court and Common Pleas Court. In order to support the general operations of the System, the County of Cuyahoga, Ohio Commissioners approved an appropriation of $35,098 and $34,765 for 2006 and 2005, respectively. The County also approved for 2006, a one-time appropriation of $10,000, to assist with the renovation and remodeling costs at the South Campus Senior Health and Wellness Center. The County has approved an appropriation of $40,000 for 2007. The System is exempt from federal income taxes as a governmental entity.

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

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

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

- Management's Discussion and Analysis

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

- Notes to the Financial Statements

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

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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets — The System recognizes as operating revenue those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Non-operating revenues include County appropriation, investment income, specific purpose grants and donations, primarily research, and unrealized gains on investments. Non-operating expenses include interest expense and expenditures from specific purpose funds for research related activities.

Net Patient Service Revenue — Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue is reduced by contractual and retroactive adjustments of $702,783 and $598,540 in 2006 and 2005, respectively.

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

Medicare and Medicaid — Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries and Medicare capital costs are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Medicare outpatient claims are reimbursed under the Ambulatory Payment Classification based prospective payment system. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received from Medicare and Medicaid. Medicare utilizes a prospective payment system for inpatient rehabilitation services. The payments are based on patient assessment data classifying patients into one of one hundred case mix groups. In 2005, inpatient psychiatric services moved to a prospectively determined per diem rate, phased in over three years. In 2006, inpatient psychiatric services were reimbursed at 50% of reasonable cost plus 50% of the inpatient psychiatric facility prospective payment system federal rate. Certain outpatient services related to Medicare beneficiaries and capital costs for Medicaid beneficiaries are reimbursed based on a cost-based methodology subject to certain limitations. The System is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare and Medicaid fiscal intermediaries. The System’s classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission are subject to an independent review by a peer review organization. Differences between the estimated amounts accrued at interim and final settlements are reported in the Statement of Revenues, Expenses, and Changes in Net Assets in the year of settlement. The System recorded favorable adjustments of $5,299 and $4,218 in 2006 and 2005, respectively, due to prior year retroactive adjustments to amounts previously estimated.

Net revenue from the Medicare and Medicaid programs accounted for approximately 26% and 32%, respectively, of the System's net patient service revenue for the year ended December 31, 2006 and 25% and 33%, respectively, of the System's net patient service revenue for the year ended December 31, 2005. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

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

Upper Payment Limit — In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Center for Medicare and Medicaid Services. This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. At December 31, 2006 and 2005, $6,000 and $6,400, respectively, were due to the System and recorded on the balance sheets in other receivables; the System's required match to the State of Ohio of $2,414 and $2,957, respectively, is included in other current liabilities. The net amount recorded in net patient service revenue for UPL by the System was $11,106 and $16,119 in 2006 and 2005, respectively.

Disproportionate Share — As a public health care provider, the System renders services to residents of the County and others regardless of ability to pay. The System is classified as a disproportionate share provider by the Medicare and Medicaid programs due to the volume of low income persons it serves. Accordingly, the System receives additional payments from these programs as a result of this status totaling $36,731 and $41,055 in 2006 and 2005, respectively, (including Care Assurance of $24,481 and $28,215 in 2006 and 2005, respectively) which are included in net patient service revenue. The System also provides major trauma services to the region. The ability to continue these levels of service and programs will be contingent upon the various funding sources.

Charity Care — Throughout the admission, billing and collection processes, certain patients are identified by the System as qualifying for charity care. The System provides care to these patients without charge or at amounts less than its established rates. The charges foregone for charity care provided by the System, totaling $192,115 and $160,066, which represents 13.5% and 12.8% of gross charges in 2006 and 2005, respectively, are not reported as revenue. The System accepts certain indigent Ohio residents and all residents from the County regardless of their ability to pay.

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

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

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

Supplies — Supplies are stated at the lower of average cost or market.

Investments — The System records its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on investments are recorded as non-operating revenue-net in the statement of revenues, expenses, and changes in net assets.

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

The net realized gain of $470 in 2006 and net realized loss of $365 in 2005 on investments is the difference between the proceeds received and the amortized cost of investments sold and is included in investment income in the statement of revenues, expenses, and changes in net assets.

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

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

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

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

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

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

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

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

In accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the System created a trust for the assets of the plan for which the System has no fiduciary responsibility. Accordingly, the System does not record in its financial statements the assets and liabilities of this plan.

Bond Discounts and Bond Issuance Costs — Deferred financing costs represent debt issuance expenditures on long-term debt obligations and are amortized over the period the bonds are outstanding on a straight-line basis. The amortization for deferred bond financing costs was $153 in 2006 and $139 in 2005. Amortization expense related to bond discounts was $101 in 2006 and $112 in 2005. These amounts are included in interest expense in the statement of revenues, expenses, and changes in net assets.

Cost of Borrowing — Interest costs associated with funds borrowed and used to finance the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. The capitalized interest amount is calculated by taking the difference between the interest expense incurred during the construction period that bonds relate to and the interest earned on the invested proceeds of specific purpose tax exempt bonds, which cover the same period of time. Capitalized interest income and interest expense on the Series 2003 and 2005 Bonds totaled $400 and $540 in 2006, respectively; $207 and $267 in 2005, respectively. Amortization of capitalized interest is included in depreciation expense.

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

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

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

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

2. CHANGES IN ACCOUNTING PRINCIPLES

In July 2005, the GASB issued Statement No.45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*. This Statement establishes standards for the measurement, recognition, and display of Other Post Employment Benefits expense and related liabilities, note disclosures in the financial reports of state and local governmental employers. The requirements of this Statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after December 15, 2006. The new standard will not have any effect on the System's financial statements but will require additional footnote disclosures.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143.* FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The System adopted the provisions of FIN 47 as of December 31, 2005 for the Systems obligations related to asbestos abatement. At December 31, 2005, the System recorded approximately $5,424 as an asbestos abatement liability. The amount of the asset and liability at the date the obligation was incurred in 1973 totaled $1,434. The amount of interest accretion and depreciation expense charged to net assets, as the cumulative change in accounting principle, for the years 1974 through 2005 totaled $5,161.

3. DEPOSITS AND INVESTMENTS

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

Custodial risk is the risk that, in the event of bank failure, the System's deposits might not be recovered. The System's bank deposits at December 31, 2006 and 2005 totaled $1,173 and $4,198, respectively, and were subject to the following categories of custodial risk:

	2006	2005
Uncollateralized	$ 998	$ 3,921
Collateralized with securities held by the pledging institution's trust department, but not in the System's name	75	77
Total amount subject to custodial risk	1,073	3,998
Amount insured	100	200
Total bank balances	$ 1,173	$ 4,198

***Investments* —**

The System — As of December 31, 2006 and 2005, the fair value of the System's investments were as follows:

	2006	2005
Cash and cash equivalents	$ 98,021	$ 85,686
U.S. Government Agencies	162,166	173,580
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)	3,268	7,988
Collateralized Mortgage Obligations	741	1,064
Corporate Bonds	13,877	4,195
Total investments	$ 278,073	$ 272,513

The System's carrying amounts of the deposits and investments at December 31, 2006 and 2005 are as follows:

	2006	2005
Deposits	$ 1,283	$ 4,307
Investments	278,073	272,513
Total deposits and investments	$ 279,356	$ 276,820

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, 2006 have effective maturity dates of less than five years.

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

Custodial Credit Risk **—** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the System's investments, only the repurchase agreements are exposed to custodial risk. Repurchase agreements (included in the U.S. Government Agencies) at December 31, 2006 totaling $14,425 are uninsured, are not registered in the System's name and are held by the financial institution's trust department.

The Foundation — As of December 31, 2006, the fair value of the Foundation's investments were as follows:

	2006	2005
Mutual funds	$ 19,574	$ 5,155
Common Stock	104	12,667
Premier Purchasing Partners, L.P.	700	723
Total deposits and investments	$ 20,378	$ 18,545

The Foundation's investments had cumulative unrealized gains of $1,221 and $1,828 and cumulative unrealized losses of $164 and $103 at December 31, 2006 and 2005, respectively.

4. CAPITAL ASSETS

The following summarizes the capital assets of the System for the years ended December 31, 2006 and 2005:

2006	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,377	$	$	$ 9,377
Construction in progress	13,964	22,074	(27,273)	8,765
Total non-depreciated capital assets	23,341	22,074	(27,273)	18,142
Depreciable capital assets:				
Land improvements	7,803		(50)	7,753
Buildings and fixed equipment	468,331	17,590	(5,219)	480,702
Equipment	227,720	14,905	(3,740)	238,885
Total depreciable capital assets	703,854	32,495	(9,009)	727,340
Less accumulated depreciation:				
Land improvements	(6,894)	(135)	4	(7,025)
Buildings and fixed equipment	(278,409)	(17,434)	5,075	(290,768)
Equipment	(178,631)	(13,097)	3,624	(188,104)
Total accumulated depreciation	(463,934)	(30,666)	8,703	(485,897)
Total depreciable capital assets—net	239,920	1,829	(306)	241,443
Total capital assets—net	$ 263,261	$ 23,903	$ (27,579)	$ 259,585

2005	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,634	$ -	$ (257)	$ 9,377
Construction in progress	11,093	34,615	(31,744)	13,964
Total non-depreciated capital assets	20,727	34,615	(32,001)	23,341
Depreciable capital assets:				
Land improvements	7,829	119	(145)	7,803
Buildings and fixed equipment	445,697	27,315	(4,681)	468,331
Equipment	223,037	13,291	(8,608)	227,720
Total depreciable capital assets	676,563	40,725	(13,434)	703,854
Less accumulated depreciation:				
Land improvements	(6,860)	(179)	145	(6,894)
Buildings and fixed equipment	(265,162)	(16,758)	3,511	(278,409)
Equipment	(174,117)	(13,072)	8,558	(178,631)
Total accumulated depreciation	(446,139)	(30,009)	12,214	(463,934)
Total depreciable capital assets—net	230,424	10,716	(1,220)	239,920
Total capital assets—net	$ 251,151	$ 45,331	$ (33,221)	$ 263,261

Total depreciation and amortization expense related to capital assets for 2006 and 2005 was $30,666 and $30,009, respectively.

5. LINE OF CREDIT

During 2005, the System entered into an agreement with a bank for a demand line of credit with a maximum amount available of $20,000. For the years ended December 31, 2006 and 2005, the System did not have an outstanding balance on the line of credit.

6. LONG-TERM DEBT

The System — Changes in long-term debt for 2006 and 2005 are as follows:

	2006				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 43,070	$	$ (4,825)	$ 38,245	$ 5,070
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	75,895		(275)	75,620	290
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	29,430		(600)	28,830	625
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	74,535		(305)	74,230	315
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	1,482		(723)	759	759
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	171		(40)	131	42
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	84		(24)	60	4
	224,667		(6,792)	217,875	7,105
Unamortized discount and loss	(13,241)		699	(12,542)	
	211,426		(6,093)	205,333	7,105
Current installments	(6,774)	(7,105)	6,774	(7,105)	
Long-term debt	$204,652	$ (7,105)	$ 681	$198,228	$ 7,105

	2005				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds, Series 1997, bear interest at rates ranging from 3.9% to 5.8% and mature in varying amounts through 2027	$ 47,685	$ -	$ (4,615)	$ 43,070	$4,825
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5% and mature in varying amounts through 2019	76,160	-	(265)	75,895	275
Hospital Improvement Revenue Bonds, Series 1999, bear interest at rates ranging from 6.1% to 6.2% and mature in varying amounts through 2029 (retired 7/28/05)	56,995	-	(56,995)	-	-
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033	30,010	-	(580)	29,430	600
Hospital Improvement and Refunding Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035	-	74,535	-	74,535	305
Equipment obligation, GE Leasing, as defined in the respective lease agreement at an interest rate of 5.0% and matures through 2007	2,294	-	(812)	1,482	723
Equipment obligation, Simplex Grinnell, as defined in the respective lease agreement, matures through 2009	-	218	(47)	171	40
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018	91	-	(7)	84	6
	213,235	74,753	(63,321)	224,667	6,774
Unamortized discount and loss	(8,820)	(5,179)	758	(13,241)	-
	204,415	69,574	(62,563)	211,426	6,774
Current installments	(6,279)	(6,774)	6,279	(6,774)	-
Long-term debt	$198,136	$62,800	$(56,284)	$204,652	$6,774

Effective February 1, 1997, the County issued $70,000 of Hospital Improvement and Refunding Revenue Bonds Series 1997 (The MetroHealth System Project) (Series 1997). The proceeds of the Series 1997 Bonds were used to refund $20,900 of Series 1989 Bonds; to finance the construction of various improvements and additions to The MetroHealth Medical Center; and to pay costs of issuance of the Series 1997 Bonds.

Effective November 1, 1997, the County issued $77,525 of Hospital Refunding Revenue Bonds, Series 1997A (The MetroHealth System Project) (Series 1997A). The proceeds of the Series 1997A Bonds were used to refund $73,725 of Series 1989 Bonds scheduled to mature on February 15, 2019. The 1997 refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $9,753. The unamortized difference ($6,336 at December 31, 2006), reported in the accompanying financial statements, as a reduction from long-term debt, is included as additional interest expense through the year 2019 using the effective interest method.

Effective September 1, 1999, the County issued $56,995 of Hospital Improvement Revenue Bonds, Series 1999 (The MetroHealth System Project) (Series 1999 Bonds). The proceeds of the Series 1999 Bonds were used to finance the construction of a 150-bed long-term care facility and acquire, construct, renovate, equip, and improve operating rooms and other hospital facilities. On July 28, 2005, a portion of the proceeds from the County's 2005 Series Bond Issue was placed in escrow to advance refund the outstanding Series 1999 Bonds. The defeased series 1999 bonds remain outstanding at December 31, 2006.

Effective March 13, 2003, the County issued $30,545 of Hospital Improvement Variable Rate Demand Revenue Bonds, Series 2003 (The MetroHealth System Project) (Series 2003 Bonds). The proceeds of the Series 2003 Bonds are were used to pay costs of constructing and equipping the Critical Care Pavilion and an administrative building. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2033. The interest rate at December 31, 2006 was 3.93%.

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

Effective July 28, 2005, the County issued $74,535 of Hospital Improvement and Refunding Variable Rate Demand Revenue Bonds, Series 2005 (The MetroHealth System Project) (Series 2005 Bonds). Proceeds from the 2005 Series Bonds were used to advance refund $56,995 of the outstanding Series 1999 Bonds scheduled to mature on February 15, 2029; to pay costs of constructing, renovating, furnishing, equipping and improving the South Campus long-term care and skilled nursing facility; and to pay certain costs of issuance of the Series 2005 Bonds. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2035. The interest rate at December 31, 2006 was 3.93%.

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

The July 28, 2005 bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,179. The unamortized difference ($4,866 at December 31, 2006), reported in the accompanying financial statements, as a reduction from long-term debt, is included as an increase to interest expense through the year 2029 using the effective interest method.

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

The terms of the master agreement provide for the establishment of a depreciation reserve fund and maintenance of certain special funds, which are maintained under the control of the bond trustee, and are used for payment of principal and interest on the bonds when due. The revenue bonds and lease obligation payment requirements for fiscal years subsequent to December 31, 2006 are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	$ 805	$ 28	$ 833	$ 6,300	$ 9,884	$ 16,184
2008	48	5	53	6,600	9,602	16,202
2009	49	4	53	6,920	9,264	16,184
2010	4	2	6	7,280	8,899	16,179
2011	5	2	7	7,650	8,512	16,162
2012–2016	27	7	34	44,605	36,078	80,683
2017–2021	12	1	13	47,465	23,737	71,202
2022–2026	-	-	-	43,355	13,862	57,217
2027–2031	-	-	-	32,860	4,887	37,747
2032–2035	-	-	-	13,890	815	14,705
	$ 950	$ 49	$ 999	216,925	$ 125,540	$ 342,465
Unamortized discount				(1,339)		
Unamortized difference between reacquisition price and the net carrying amount of old debt				(11,203)		
Total hospital revenue bonds—net				$ 204,383		

The Bond Reserve Funds, also required under the master trust bond indenture agreement, had balances as of December 31, 2006 and 2005 of $11,869 and $12,014, respectively. The cost value of Hospital Revenue Bonds was $215,586 and $221,490 at December 31, 2006 and 2005, respectively. The fair value of Hospital Revenue Bonds ($219,599 and $226,519 at December 31, 2006 and 2005, respectively) is estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

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

2006	Beginning Balance	Additions/ Reductions	Payments	Ending Balance	Long-term Debt	Due Within One Year
3.96% note payable, due in semi annual installments plus interest, through June 30, 2010 secure by its equity interest in Premier Purchaing Partners, L.P.	$ 381	$ (53)	$ (65)	$ 263	$ 201	$ 62
2005						
3.96% note payable, due in semi annual installments plus interest, through June 30, 2010 secure by its equity interest in Premier Purchaing Partners, L.P.	$ 221	$ 204	$ (44)	$ 381	$ 301	$ 80
Non interest bearing note payable, due in one installment of $75 in May 31, 2005	75		(75)			
	$ 296	$ 204	$ (119)	$ 381	$ 301	$ 80

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

Years Ending December 31	
2007	$ 62
2008	64
2009	67
2010	70
	$ 263

7. DERIVATIVE INSTRUMENTS

The System's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management of the risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, the System entered into various interest rate swap agreements with a total outstanding notional amount of $103,060 and $103,965 at December 31, 2006 and 2005, respectively.

The fair value of the swap agreements based on current settlement prices at December 31, 2006 and 2005 was $2,702 and $2,385, respectively. Such amounts are due from the counterparties and are included in other assets. In 2006 and 2005, the fair value increase of $317 and $961, respectively, are recorded as net investment income in the statement of revenues, expenses, and changes in net assets. As a result of the agreements, the System's interest expense was reduced by $105 in 2006 and increased by $149 in 2005.

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

Year End Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 74,230	July 28, 2005	February 1, 2035	The System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 28,830	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 amortizing notional amount of $74,535. The notional amount is based on the Series 2005 Bond principal repayment schedule that ends in 2035. Per terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.3% and the counterparty pays 64.2% of the International Swap Dealers Association (ISDA) USD five year swap rate. The original agreement previously required the counterparty to pay 70% of the 3-month USD LIBOR rate. In 2006, ISDA five year interest rates ranged between 4.8% and 5.8%. 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. Per terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.5% and the counterparty pays 68.9% of the ISDA USD five year swap rate. The original agreement required the counterparty to pay 75% of the 3-month USD LIBOR rate. Net settlement amounts are exchanged monthly. The System has an early termination option.

8. OTHER LONG TERM LIABILITIES

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

Accrued Vacation and Sick — System employees earn vacation and sick leave at varying rates depending on job classification and years of service. Employees can accumulate up to three years of their earned vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the System. There is no limit on the amount of sick time accrued. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 50% of eligible hours at their current rate of pay. The maximum pay out is 800 hours. As of December 31, 2006 and 2005, the liability for accrued sick and vacation was $28,673 and $26,158, respectively.

Note Payable — The System financed one-year general and professional liability policies with a note payable in 2006 and 2005. The 2006 note payable bears interest at a rate of 5.2%; the 2005 note payable interest rate was 4.8%. In 2005, the System was also advanced $1,000 for patient claims from a health insurance provider. The note was repaid by the System several months later. At December 31, 2006 and 2005, the note payable balance outstanding was $4,500 and $4,346, respectively.

Asset Retirement Obligations — The System adopted the provisions of FIN 47 as of December 31, 2005 for the Systems' obligations related to asbestos abatement. At December 31, 2005, the System recorded approximately $5,424 as an asbestos abatement liability. The amount of the asset and liability at the date the obligation was incurred in 1973 totaled $1,434. The amount of interest accretion and depreciation expense charged to net assets, as the cumulative change in accounting principle, for the years 1974 through 2005 totaled $5,161. The December 31, 2006 total balance for asset retirement obligations totals $4,645 and reflects liability reductions for retired assets of $457, changes in estimates of $558 and an increase for interest accretion expense of $236. The current portion of the asset retirement obligations is included in other current liabilities.

Other Long-Term Liabilities — Other long-term liabilities consist of the following at December 31, 2006 and 2005:

2006	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$43,876	$ (424)	$ (2,990)	$40,462	$ 5,986
Accrued vacation and sick leave	26,158	5,079	(2,564)	28,673	2,641
Asset retirement obligations	5,711	(322)	(631)	4,758	389
Note payable	4,346	4,500	(4,346)	4,500	4,500
	$80,091	$ 8,833	$(10,531)	$78,393	$13,516

2005	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Amounts due third-party payors	$41,435	$ 5,784	$ (3,343)	$43,876	$ 8,185
Accrued vacation and sick leave	25,153	3,857	(2,852)	26,158	2,938
Asset retirement obligations	-	5,711	-	5,711	1,434
Note payable	4,576	5,750	(5,980)	4,346	4,346
	$71,164	$21,102	$(12,175)	$80,091	$16,903

The current portion of the asset retirement obligations is included in other current liabilities.

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

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

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

Losses from asserted claims and from unasserted claims identified under the System's incident reporting systems are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The reserve for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported undiscounted for 2006 and 2005.

2006	**Beginning Balance**	**Claims Incurred**	**Claims Paid**	**Ending Balance**	**Due Within One Year**
Worker's compensation	$ 8,705	$ 3,279	$ (2,717)	$ 9,267	$ 3,123
Self-insurance	37,986	5,825	(6,631)	37,180	14,579
Employee health insurance	3,043	34,336	(35,760)	1,619	1,619
	$49,734	$43,440	$(45,108)	$48,066	$19,321

2005	**Beginning Balance**	**Claims Incurred**	**Claims Paid**	**Ending Balance**	**Due Within One Year**
Worker's compensation	$ 8,489	$ 2,842	$ (2,626)	$ 8,705	$ 3,481
Self-insurance	37,285	9,751	(9,050)	37,986	18,508
Employee health insurance	2,793	32,441	(32,191)	3,043	3,043
	$48,567	$45,034	$(43,867)	$49,734	$25,032

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

9. OPERATING LEASES

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

Minimum rental commitments under operating leases extending beyond one year at December 31, 2006 are as follows:

2007	$ 1,543
2008	1,560
2009	1,479
2010	1,355
2011	996
2012–2016	2,901
2017–2020	1,308
Total	$ 11,142

Rent expense totaled $2,102 in 2006 and $2,064 in 2005. The System leases the Valentine parking garage. The lease had an original five year term with five one-year options to renew. Upon the ultimate expiration of the lease, there are several options available to the System regarding the property which result in different amounts possibly due. One of these is an option to purchase the property. The original term has expired and the System's management has elected to exercise the third one-year option, which expires November 30, 2008. The cost to purchase the property at that time is $11,500. Funds have been allocated within Board Designated investments to make this payment.

10. BENEFIT PLANS

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

The Ohio Public Employees Retirement System issues a stand-alone financial report and may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 9.0% of covered payroll and the System is required to contribute 13.7% of covered payroll. The System's contributions to OPERS for the years ending December 31, 2006, 2005 and 2004 were $42,897, $40,046, and $38,024, respectively, equal to the required contributions for each year.

Postretirement Benefits — OPERS provides postretirement health care coverage to age-and-service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The System's contribution for 2006 and 2005 used to fund postretirement health care benefits was $14,090 and $11,822, respectively, which is included in the System's pension contribution of $42,897 and $40,046 for the years ending December 31, 2006 and 2005, respectively.

Based on the latest OPERS actuarial review as of December 31, 2005, OPERS had $11,100,000 in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were $31,300,000 and $20,200,000, respectively. The number of active contributing participants used in the 2005 actuarial valuation was 358,804. The active number of contributing participants as of December 31, 2006 was 369,214.

Benefits are advance-funded using the entry-age normal actuarial cost method. Assets are valued using a smoothed market value approach with assets adjusted annually to reflect 25% of the unrealized market appreciation or depreciation, not exceeding a 12.0% corridor. Other significant actuarial assumptions include an investment return of 6.5%; no change in the number of active employees; active employee payroll increases of 4.0% compounded annually with additional annual increases ranging between 0.5% to 6.3%; and health care costs increasing between 4.5% and 10.0% over the next nine years and 4.0% thereafter.

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

11. RELATED ORGANIZATIONS

The System is the primary beneficiary of The MetroHealth Foundation, Inc. ("Foundation"). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* the System has reported the Foundation as a component unit in the System's 2006 and 2005 financial statements. The System received support from the Foundation in the amount of $3,032 and $2,091 in 2006 and 2005, respectively, which is recorded as grant revenue on the System's statement of revenues, expenses and changes in net assets. The outstanding receivable from the Foundation was $927 and $1,472 at December 31, 2006 and 2005, respectively. The System also provided the Foundation in-kind support totaling $738 and $875 in 2006 and 2005, respectively. This support covered the direct expenses of the Development department and indirect expenses for the use of space and support departments such as information services and environmental services.

The System had established restricted funds to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restrictions or that arise as a result of the operations of the System. A review of these restricted funds is performed annually to determine that funds related to completed clinical trials and certain donated money should be transferred to the Foundation. The total amounts transferred in 2006 and 2005 were $340 and $1,086, respectively.

12. CONDITIONAL PROMISES TO GIVE

The Foundation — The Foundation received a conditional pledge of $10,000 commencing in 2005 payable over the next 10 years at $1,000 per year. The outstanding balance of $8,000 at December 31, 2006 is not included in these financial statements in accordance with Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations.

13. COMMITMENTS

As of December 31, 2006, the System has contractual commitments for the construction of various projects totaling approximately $27,436. The South Campus renovation project, funded with bond project funds ($6,362 at December 31, 2006), and operating funds, had commitments totaling $22,700. Other projects with large contractual commitments include the Quadrangle Building demolition, $1,327; the Outpatient Pharmacy Automation and Expansion project, $617; the Burn Clinic renovation, $568; and the Lab Information System replacement commitment of $542. These projects are being funded with operating funds.

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SUPPLEMENTAL SCHEDULE

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/ Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Pass-Through Program From:				
State of Ohio	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	18-3-001-1-CL-06; 18-3-001-1-CL-07	$ 4,356,760
			TOTAL — U.S. Department of Agriculture	**4,356,760**
U.S. Department of Education				
Pass-Through Program From:				
Ohio Deparment of Health	HMG Hospital Based Regional Child Fund	84.181	18-3-001-1-HB-06; 18-3-001-1-HB-07	83,892
			TOTAL — U.S. Department of Education	**83,892**
U.S. Department of Health & Human Services				
Direct Program:	Pediatric Intensive Care Unit New Construction & Renovation	93.887	C76HF05977AO	347,371
Direct Program:	Residency Training in General Pediatric Dentistry	93.884	D59HP03538-02; D59HP03538-03	310,007
			Subtotal DHHS Direct	657,378
Pass-Through Programs From:				
Medicaid Assistance Program	Cuyahoga County Community Mental Health Board	93.778	129000	915,656
	Alcohol & Drug Addiction Services Board of Cuyahoga County	93.778	18311-01	157
			Subtotal CFDA No. 93.778	915,813

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

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Health & Human Services				
Pass-Through Program From:				
University Hospital	CFHS Fetal Death FY06 & FY07	93.994	18-1-001-1-MC-06; 18-1-001-1-MC-07	$ 25,394
	Cleveland Regional Perinatal Network	93.994	18-3-002-1-BM-06; 18-3-002-1-BM-07	17,436
			Subtotal CFDA No. 93.994	42,830
Ohio Department of Health	TB Prevention and Control/Outreach	93.118	18-3-001-2-CK-06; 18-3-001-2-CK-07	238,645
	Federal HIV Care (Title II)	93.917	18-3-0011-11-AT-05; 18-3-0011-11-AT-06	116,191
	Ryan White Emergency Assistance Funding - Title II	93.917	n/a	21,730
Center for Community Solutions	Title X - Family Planning	93.217	5FPHPA050520-28-00; 5FPHPA050520-30-00; 5FPHPA050520-31-00	398,072
Grants/Cuyahoga County	Ryan White Title I	93.914	CE0400386-01	969,743
Center for Health Affairs	HRSA Emergency Preparedness/Bioterrorism Grant	93.889	18-6-037-2-HC-07	103,489
Cuyahoga County Board of Health	Immunization Action Plan	93.268	38798	38,713
Wright State University	CCOE: Dual Diagnostics:MMR	93.630	CCOE-FY2006	3,931
	CCOE-MH-ODMH-FY06P	93.958	CCOEBG00070426/FY07	2,618
	Total — U.S. Department of Health & Human Services			**3,509,153**
Research & Development Cluster:				
U.S. Department of Education:				
Direct Programs:				
	P-NORSCIS	84.133	H133N060017	36,473
			Subtotal U.S. Dept of Education - Direct	36,473

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

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
Research & Development Cluster:				
U.S. Department of Health & Human Services				
Direct Programs				
	Role of Molecular Chaperones	93.837	1R01HL71789	$ 311,944
	Subtotal U.S. Dept. of Health & Human Services - Direct			$ 311,944
	Subtotal Research & Development Cluster - Direct			*348,417*
Pass-Through Programs From:				
CSU	Allied Health Geriatric	93.191	HP03155	16,712
University of Maryland	Patients' and Families' Psychological Response to HAT	93.361	NR08550	120
Cleveland Clinic Foundation	P-GOG Trials	93.395	CA-27469	10,035
University of Rochester	LOTS Population Study	93.837	2R01HL033843-16	6,543
Biomec/EBIR Program NIH-HL	LL Epicardial Stimulation	93.837	1R43HL076967-01	5,062
NIH-NIAMS/University of Minnesota	Study to Prospectively Evaluated Reamed Intramedullary Nails	93.846	AR048529	11,800
University of Wisconsin	P-Find Study Family Investigations in Nephropathy in Diabetes	93.849	05-8388	170
Cell Therapeutics	Multicenter Clinical Trial of Focal Glomerulosclerosis	93.849	5 U01 DK63455	533
NIH-NINDS	WARCEF	93.853	NS39143	13,539
NIH-NINDS	P-SWISS Single Rising Dose Study of FK 506 Lipid Comples	93.853	NS39987	46
University of Texas Health Center	P-SPS-3 Prevention of Small Subcorcital Strokes	93.853	NS38529	103,763
NIH-NINDS/Columbia University	Minocycline in ALS	93.853	NS045294	3,606
NIH-NINDS	Insulin Resistance Intervention after Stroke Trial	93.853	NS044876-02	242
DHHS/Rush Presbyterian St. Luke's	Physical Retraints and Therapy Disruption in Hospitals	93.866	AG019715-03	35,391
Center Health Research & Policy	Engaging the African-American Community in Reducing Obesity	93.307	1R24MDOO1794	15,668
Mass General	Validation of an Innovative Approach to Error Reduction	93.226	HS0103099	2,840
Biomec	Clinical Validation of Non-invasive Pheumothorax Detector	93.838	HL65125	2,450
AEHN NIH-NICHD	P-Physician Scientist Award	93.929	K12 HD001097-10	87,718

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

THE METROHEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
NIH-NIAID	CMV Monocolonal Antibody	N/A	AI30025	15
Louis Stokes Cleve DVA Med	P-VA Model Pilot — (VA does not assign CFDA numbers)	N/A	M0501216401	45,000
	Subtotal Research & Development Cluster: Pass Through Programs			361,253
	TOTAL — Research & Development Cluster			**709,670**
	TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 8,659,475**

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

THE METROHEALTH SYSTEM

NOTES TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE A — Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

NOTE B — Medicaid Assistance Program

The amount received from Medicaid Assistance Program in 2006 represents only a portion of the total amount billed by the System. The federal expenditure amount reported represents the actual and accrued receipts times the Federal Financial Participation reimbursement rate for service rendered in 2006.

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

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

We have audited the financial statements of The MetroHealth System (the "System"), as of and for the year ended December 31, 2006, and have issued our report thereon dated June 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the System in a separate letter dated June 8, 2007.

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

Deloitte & Touche LLP

June 8, 2007

Deloitte.

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

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

Compliance

We have audited the compliance of The MetroHealth System (the "System") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

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

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 06-01.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

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

Deloitte & Touche LLP

June 8, 2007

THE METROHEALTH SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Part I — Summary of Auditor's Results

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

2. There were no significant deficiencies in internal control over financial reporting.

3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.

4. There were no significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs disclosed by the audit of the financial statements.

5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.

6. The audit disclosed one finding required to be reported by OMB Circular A-133.

7. The System's major programs were:

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

   U.S. Department of Agricultural — Special Supplemental Nutrition Program for Women, Infants and Children (CFDA No. 10.557)

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

   U.S. Department of Health and Human Services — Pediatric Intensive Care Unit New Construction and Renovation (CFDA No. 93.887)

   U.S. Department of Health and Human Services — Residency Training in General Pediatric Dentistry (CFDA No. 93.884)

   U.S. Department of Health and Human Services — Research and Development Cluster (CFDA-various)

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

2. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II — Financial Statement Findings Section

No matters are reportable.

THE METROHEALTH SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Part III — Federal Award Findings and Questioned Cost Section

Finding Number: 06-01

Program Name: Family Planning - Services

CFDA: 93.217

Compliance Area: Activities Allowed or Unallowed

Condition: Four individual visits classified as being related to Family Planning Title X did not meet qualifications of an allowable billable service under the grant agreement.

Criteria: According to the (*Office of Management and Budget Circular A133 Compliance Supplement*), for Family Planning Services, services that may be funded for a particular project are identified in the grant agreement and may include medical, social, information, and education services, related to family planning. Adherence to the grant agreement is required.

Cause and Effect: Incorrect classification of visits as being related to Family Planning results in a request for reimbursements for activities unallowable under the grant agreement. The System bills maximum allowed amount under the Family Planning Grant. The billing of unallowable activities prevented the System from obtaining reimbursement for allowable visits. As such, there is no impact on total reimbursements to System.

Questioned Costs: None

Context: The incorrect classification of a patient visit as being related to family planning.

Recommendation: To alleviate charging unallowable activities to the Family Planning Grant, the Center for Community Health and the MetroHealth OB/GYN Family Planning clinics should initiate a re-education plan with the staff providing family planning services.

THE METROHEALTH SYSTEM

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

Prior Year Finding Number	Summary of Prior Year Finding	Status
05-1: Medicaid Assistance Program CFDA 93.778	The System overbilled the Cuyahoga County Community Mental Health Board for one service provided to a selected patient, due to the manual nature of recording units of service. No questioned costs applied. However, changes to the billing process should be implemented to reduce the potential for human error in calculating the number of units provided.	Completed/Ongoing: The System explored the possibility of automating the conversion of minutes to the number of units provided. It was determined that the programming and subsequent maintenance involved would be extremely cumbersome, considering the various service/unit combinations. Consequently, the conversion process remains a manual process. However, the System did automate the charge entry process, thus eliminating the potential for human error in calculating the correct charge for the number of units provided for each service. The Department of Psychiatry will continue to provide educational sessions to all service providers, as well as performing random audits.
05-2: Family Planning Services CFDA 93.217	The System overbilled the program by not removing patients from the database that ultimately were determined to have other insurance coverage. No questioned costs applied. However, a process should be implemented that tracks such adjustments, and the appropriate correction should be made when billing Family Planning.	Completed/Ongoing: The System implemented internal control reports during 2006 to identify Family Planning accounts with subsequent payments from third-party payers. If any occur, the information is then communicated to the grant coordinators who correct the funding source on the Clinic Visit Records in the granting agency's computer system. The System is also in the process of developing an automated interface of the Family Planning Clinic Visit Records from the Systems' internal billing system to the granting agency's computer system to alleviate manual input errors to the service type and funding source fields.

MetroHealth

CASE
SCHOOL OF MEDICINE

THE METROHEALTH SYSTEM – A133
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED 12/31/06

Finding 06-1 –
(Family Planning Services CFDA 93.217)

Corrective Action Planned:
To alleviate charging unallowable activities to the Family Planning Grant, the Center for Community Health and the MetroHealth OB/GYN Family Planning clinics will initiate a re-education plan with the staff providing family planning services, which will include the following:

- The Grant Coordinators will request a presentation from the granting agency to designated clinic staff, clarifying allowable activities under the Family Planning grant.
- A "train-the-trainer" model will be utilized to ensure appropriate personnel are re-educated.
- The Clinical Coordinator and/or Medical Director will perform random periodic chart reviews to ensure compliance with allowable activities.
- The Clinical Coordinators will review all Clinic Visit Records prior to submission to the granting agency.

Anticipated Completion Date: May 2007

Contact Persons Responsible for Corrective Action:
Pamela J. Carouse, MEd, LPC – Coordinator, Family Planning,OB/GYN
Barbara Riley – General Manager, Public Health

Nancy Fisher Crum

Nancy Fisher Crum, Vice President and Chief Financial Officer

Mary Taylor, CPA
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
JULY 19, 2007

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