The MetroHealth System
(A Component Unit of Cuyahoga County)

Financial Report
December 31, 2013 and 2012

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The MetroHealth System, Cuyahoga County, prepared by McGladrey LLP, for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

May 19, 2014

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McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The MetroHealth System (the System), a component unit of Cuyahoga County, Ohio, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, The MetroHealth Foundation Inc. (the Foundation) which represents 100% of the assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of The MetroHealth System as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 3 to the financial statements, the System restated net position at January 1, 2013 and 2012 by $2,631,000 and $2,639,000, respectively, and change in net position by $8,000 for the year ended December 31, 2012. This restatement was required to be made for the implementation of GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3–14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 29, 2014 and April 23, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

McGladrey LLP

Cleveland, Ohio
April 29, 2014

Management's Discussion and Analysis

This section of The MetroHealth System's (the System) annual financial report presents management's discussion and analysis (MD&A) of the System's financial performance and provides an overall review of the System's financial position and activities as of and for the years ended December 31, 2013 and 2012. 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

The System's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the GASB. The System is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and are depreciated (except land and construction in progress) over their useful lives. See the *Notes to Financial Statements* for a summary of the System's significant accounting policies.

Following this MD&A are the basic financial statements of the System together with the notes, which are essential to a complete understanding of the data. The System's basic financial statements are designed to provide readers with a broad overview of the System's finances.

The *Statement of Net Position* presents information on all the System's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net amount reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of the System's financial position.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the System's net position changed during each year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future periods.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the System's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the *Statement of Cash Flows* to assist in the understanding of the difference between cash flows from operating activities and operating income or loss.

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

Overview of the Financial Statements (Continued)

The Old Brooklyn Skilled Nursing Facility (144 beds) was closed effective December 14, 2011. In 2012, the System sold 91 bed licenses for $1,247 and the remaining 53 licenses were sold in early 2013 for $668. The building has been converted for use as a rehabilitation facility.

The System is the public health care system for Cuyahoga County, Ohio (the County). It is organized and operated by its board of county hospital trustees (the Board) pursuant to Chapter 339 of the Ohio Revised Code. Until 2010, members of the Board were jointly appointed by the Board of County Commissioners of the County, and the senior judges of the Probate and Common Pleas Courts of the County. Effective January 2011, the County voters established a new form of government by charter (the Charter). Under the Charter, future members of the Board are appointed by the County Executive together with the senior judges of the Probate and Common Pleas Courts of the County, subject to confirmation by the County Council.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* as amended, the System's financial statements are included, as a discretely presented component unit, in the County's Consolidated Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Mark A. Parks, Jr., Acting Fiscal Officer, Reserve Square, 1701 East 12th Street, Lower Level, Cleveland, Ohio 44114.

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

Financial and Operating Highlights for 2013

- Outpatient visits increased 9.3% over prior year levels.
- Hospital patient days increased 1.3% from the prior year.
- Inpatient and outpatient surgical volumes increased 4.9% from 2012 levels.
- Total net position increased by $32,718 for the year.
- Emergency room visits increased 2.8% from the prior year.

Financial and Operating Highlights for 2012

- Outpatient visits increased 3.6% over prior year levels.
- Hospital patient days decreased 0.3% from the prior year.
- Inpatient and outpatient surgical volumes increased 6.2% from 2011 levels.
- Total net position increased by $13,942 for the year.
- Emergency room visits decreased 0.4% from the prior year.
- The MetroHealth Rehabilitation Institute was relocated to the former Old Brooklyn Nursing Facility in late 2012, after renovations.

(Dollars in Thousands)

Financial Analysis of the System at December 31, 2013 and 2012

The System's total assets increased by 5.2% to $818,712, deferred outflows of resources decreased by 11.8% to $6,991 and total liabilities increased 1.4% to $457,054 in 2013. The System's total net position increased $32,718 in 2013, or 9.7% from the prior year. Table 1 summarizes the System's Statements of Net Position on December 31, in years 2013, 2012 and 2011.

Table 1
The MetroHealth System
Statements of Net Position

	2013	2012	2011
Assets:			
Current assets	$ 184,467	$ 149,695	$ 117,403
Investments	286,456	282,343	306,954
Restricted assets	51,381	69,146	79,110
Capital assets	286,059	265,264	261,662
Other assets	10,349	12,107	7,865
Total assets	818,712	778,555	772,994
Deferred outflows of resources:	6,991	7,926	8,869
Liabilities:			
Current liabilities	127,673	114,583	127,286
Long-term liabilities	329,381	335,967	332,588
Total liabilities	457,054	450,550	459,874
Net position:			
Net investment in capital assets	73,029	64,221	54,306
Restricted, debt service payments	25,822	25,706	31,396
Restricted, capital asset use	3,400	-	-
Unrestricted	266,398	246,004	236,287
Total net position	$ 368,649	$ 335,931	$ 321,989

Current Assets

Fiscal year 2013 ended with an increase in total current assets of $34,772 or 23.2% compared to 2012. Cash and cash equivalents increased $122 from normal business activity. Net patient accounts receivable increased $25,873 or 31.6% from the prior year. Other non-patient receivables increased by $6,387 to $58,764 in 2013. A receivable related to the Hospital Care Assurance Program (HCAP) totaling $34,690 was outstanding at the end of 2013 and was received in the first quarter of 2014. Also included in other receivables is $11,991 due to the System for participation in the State of Ohio's supplemental Medicaid program that provides access to available funding up to 100% of the Medicare upper payment limit for inpatient hospital services (UPL Program). The outstanding UPL balance represents an increase of $3,640 or 43.6% from the prior year.

In 2013, medical and non-medical supplies inventories were up 11.6% and prepaid expenses increased by $1,268 to $3,907. The increase in prepaid expenses is related to large unamortized information technology invoices.

Current Assets (Continued)

Fiscal year 2012 ended with an increase in total current assets of $32,292 or 27.5% compared to 2011. Cash and cash equivalents decreased $233 from normal business activity. Net patient accounts receivable increased $4,117 or 5.3% from the prior year. Other non-patient receivables increased by $28,998 to $52,377 in 2012. A receivable related to the Hospital Care Assurance Program (HCAP) totaling $33,424 was outstanding at the end of 2012 and was received in the first quarter of 2013. The balance has historically been received by the end of the fourth quarter. Also included in other receivables is the $8,351 UPL Program receivable. The outstanding UPL balance represents a decrease of $4,145 or 33.2% from the prior year.

In 2012, medical and non-medical supplies inventories were up 3.9% and prepaid expenses decreased $955 to $2,639. The decrease in prepaid expenses is related to large information technology invoices paid prior to 2012 that are nearing the end of their expense amortization schedule. Annual prepaid insurance policies were again processed in January instead of the normal December payment cycle.

Investments

In 2013, total investments increased $4,113 or 1.5% from the prior year. Board designated general investments increased by $13,224 or 10.5%, Academic fund balances decreased by $909 or 3.1% and the Depreciation Reserve fund decreased $8,202 or 6.4%. The Board designated general investments increase is mostly attributed to a large balance transfer from the Depreciation Reserve fund in the fourth quarter.

In 2012, total investments decreased $24,611 or 8.0% from the prior year. Board designated general investments decreased by $32,220 or 20.4%, Academic fund balances decreased by $388 or 1.3% and the Depreciation Reserve fund increased $7,997 or 6.7%. The Board designated general investments decrease of $32,220 is mostly attributed to $33,399 in HCAP payments normally received in the fourth quarter that were received in the first quarter of 2013. The Depreciation Reserve fund increase results from annual funding requirements of $5,873, investment returns of $2,568 and a mark to market adjustment decrease of $532.

Restricted Assets

Restricted Assets includes restricted cash and cash equivalents, special purpose investments, and restricted assets under bond indenture agreements. In 2013, restricted assets decreased by $17,765 to $51,381 and is primarily related to bond project fund draws of $17,954.

In 2012, restricted assets decreased by $9,964 to $69,146 and is related to bond project fund draws of $4,751 and debt service activity.

Capital Assets

In 2013, capital expenditures totaled $52,430, an increase of $22,609 from 2012. Expenditures on the larger projects include $17,776 for the Middleburg Heights Family Health Center, $8,516 for the hospital enterprise software licensing and implementation project, $2,314 for the Imaging Center expansion, $1,651 for anesthesia equipment, $1,207 for intensive care unit bed replacements, and $888 for information technology infrastructure. The System's 2013 capital expenditures were from operating funds and Series 2009B Project Funds.

In 2012, capital expenditures totaled $29,821, an increase of $3,117 from 2011. Expenditures on the larger projects include $4,462 for the Middleburg Heights Family Health Center, $2,888 for the Imaging Center expansion, $1,562 for the hospital enterprise software licensing and implementation project, $1,438 for the replacement of MetroHealth Drive, $1,328 to renovate the Old Brooklyn post acute facility for usage as a rehabilitation center, $1,103 for information technology infrastructure, and $859 for roof replacements. The System's 2012 capital expenditures were from operating funds and Series 2009B Project Funds.

Other Assets

In 2013, other assets totaled $10,349, a decrease of $1,758 from 2012. Included in other assets are the System’s investments in blended component units, long-term prepaid expenses and long-term other receivables. The decrease in other assets is mostly attributed to a $723 decrease in the value of the MHS Holdings LLC investment, and the payment of a $700 long-term receivable. Addition information regarding the System’s blended component units can be found in the notes to the financial statements.

In 2012, other assets totaled $12,107, an increase of $4,242 from 2011. Growth in other assets is attributed to a $3,433 increase in the value of the MHS Holdings LLC investment, and the 2012 transfer of the MetroHealth Foundation’s interest in Premier Purchasing Partners, L.P. to the System. The investment (MHS Purchasing LLC), now held by the System, was valued at $643 at the end of 2012.

Current Liabilities

In 2013, total current liabilities increased $13,090 or 11.4% from the prior year. Current liabilities categories experiencing large increases include accounts payable, accrued payroll and related liabilities, and general and professional liabilities. Accounts payable increased by $4,013 or 11.2%. Accrued payroll and related liabilities increased $5,768 and is related to scheduled payroll payment dates (timing of payments). General and professional liabilities increased $2,371 or 17.4% and is attributed to updated independent actuarial estimates. Accrued vacation and sick leave experienced a decrease of $1,535 or 21.2%.

Current Liabilities (Continued)

In 2012, total current liabilities decreased $12,703 or 10.0% from the prior year. Current liabilities categories experiencing large decreases include accrued payroll and related liabilities, contribution payable to the public employees retirement system (PERS), and current installment of long-term liabilities. Accrued payroll and related liabilities decreased $13,067 and is related to scheduled payroll payment dates (timing of payments). Contribution payable to the PERS category decreased $3,374 and is attributed to larger January 2012 payments from November and December 2011 activity. Normally there is a one month payment lag. Current installments of long-term liabilities decreased $6,097 primarily from a bond refunding escrow payment of $5,888 payable in 2012. Current liabilities categories that experienced large increases include $6,772 in accounts payable, and $5,409 in other current liabilities. The higher accounts payable balance is related to higher capital project accruals and normal business activity. Other current liabilities growth is attributed to accrued amounts payable for state franchise fees and HCAP Program assessments. Growth of these two liabilities totaled $6,510 and is attributed to timing of payments and larger amounts due.

Long-Term Liabilities

In 2013, total long-term liabilities, less current installments, decreased $6,586 or 2.0% from the prior year. Long term estimated amounts due to third party payors increased by $7,131. The accrued vacation and sick leave liability increased by $4,306 or 11.9% from the prior year. Derivative instruments - rate swaps decreased by $10,226 from favorable market adjustments on the System’s two interest SWAP agreements associated with its long-term debt. The general and professional liabilities decreased by $520 or 1.4% from the prior year. Long-term debt decreased by $7,277.

In 2012, total long-term liabilities, less current installments, increased $3,379 or 1.0% from the prior year. Long term general and professional liabilities increased by $6,043 or 18.9% and the accrued vacation and sick leave liability increased by $3,196 or 9.7% from the prior year. The increase in general and professional liabilities is related to higher expected malpractice and workers’ compensation claims per the independent actuarial reports. Long-term debt decreased by $5,729.

(Dollars in Thousands)

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

	Years ended December 31,		
	2013	**2012**	**2011**
Revenues:			
Operating Revenues			
Net patient service revenue	$ 744,123	$ 683,263	$ 665,917
Other revenue	68,992	58,970	60,039
	813,115	742,233	725,956
Non-Operating Revenues			
County funding	36,026	36,029	36,031
Investment income	4,012	4,803	5,611
Net appreciation (depreciation) of fair value	6,554	(934)	(11,664)
Other revenue	5,266	4,620	5,972
Grants and donations	3,597	3,289	3,995
Grants for capital acquisitions	3,683	51	680
	59,138	47,858	40,625
Total revenues	872,253	790,091	766,581
Expenses:			
Operating Expenses			
Salaries and wages	448,584	426,900	419,376
Employee benefits	101,981	96,554	98,201
Purchased services	57,011	41,172	43,515
Medical supplies	57,160	50,607	47,625
Pharmaceuticals	40,200	31,559	32,859
Plant operations	30,512	27,468	27,615
Non-medical supplies	13,858	14,096	14,877
Other expenses	25,765	21,578	17,362
Insurance	15,759	18,606	18,510
Depreciation and amortization	33,113	31,402	31,528
	823,943	759,942	751,468
Non-Operating Expenses			
Grant expenses and support	3,747	3,522	3,890
Interest expense	11,845	12,685	13,731
	15,592	16,207	17,621
Total expenses	839,535	776,149	769,089
Increase (decrease) in net position	32,718	13,942	(2,508)
Total net position - beginning of the year, as restated	335,931	321,989	324,497
Total net position - end of the year	$ 368,649	$ 335,931	$ 321,989

The System's total operating and non-operating revenues in 2013 were $872,253 while operating and non-operating expenses totaled $839,535. This resulted in a net position increase of $32,718 for the year. This compares to the 2012 net position increase of $13,942 from total revenues of $790,091 and total expenses of $776,149.

Operating Revenues

2013 Activity

In 2013, operating revenues increased $70,882 or 9.5% from the prior year. Net patient service revenue increased $60,860 or 8.9% and other operating revenues increased $10,022 or 17.0% from 2012 levels. The strong net patient revenue increase is primarily attributed to higher outpatient volume growth from the MetroHealth Care Plus (MHCP) program, a Medicaid waiver program that provided health coverage for uninsured Cuyahoga County residents. A significant portion of the growth in other operating revenues is also related to revenues generated from the MHCP program, for pharmacy and expense reimbursements. The MHCP program is discussed in further detail in the System's financial statement notes.

The System's patient volumes were mixed when compared to 2012 levels. Hospital patient days increased 1.3%, discharges were down 2.0%, inpatient surgeries decreased 4.4% and deliveries increased 1.6%. Outpatient visits were up 9.3% from 2012 results. Emergency room visits increased 2.8% and outpatient surgical volumes increased 9.8% from the prior year.

The System's level of uncompensated care continues to reflect the System's status as a safety net facility in Cuyahoga County. Hospital Care Assurance (HCAP) and Upper Payment Limit (UPL) program revenues, components of net patient revenue, increased by $4,097 or 6.8% from 2012 levels. HCAP and UPL programs are discussed in further detail in the System's financial statement's notes. Prior year settlement adjustments, also affecting net patient revenue, totaled $976, a decrease of $8,999 from the prior year. In 2012, there were numerous large favorable settlements unlike 2013.

2012 Activity

In 2012, operating revenues increased $16,277 or 2.3% from the prior year. Net patient service revenue increased $17,346 or 2.7% and other operating revenues decreased $1,069 or 1.8% from 2011 levels. The net patient revenue increase in 2012 is attributed to higher outpatient volume growth, strategic pricing and a $4,033 settlement from the Centers for Medicare & Medicaid Services (CMS) for an error in the Rural Budget Neutrality adjustment factor used in 1998.

The System's patient volumes were mixed when compared to 2011 levels. Hospital patient days decreased 0.3%, discharges were up 3.1%, inpatient surgeries increased 5.6% and deliveries increased 1.0%. Outpatient visits were up 3.6% from 2011 results. Emergency room visits decreased 1.0% and outpatient surgical volumes increased 6.6% from the prior year.

Hospital Care Assurance (HCAP) and Upper Payment Limit (UPL) program revenues, components of net patient revenue, increased by $6,495 or 12.1% from 2011 levels. Prior year settlement adjustments, also affecting net patient revenue, totaled $9,975, an increase of $5,984 from the prior year.

Non-Operating Revenues

2013 Activity

In 2013, non-operating revenues totaled $59,138, an increase of $11,280 or 23.6% from the prior year. Non-operating revenues include county appropriation revenue of $36,026, investment income of $4,012, unrealized investment gains of $6,554, other non-operating revenue of $5,226, and grants and donations of $7,280.

Investment income was lower by $791 from the prior year as a result of continued, historically low interest rates. Net appreciation (depreciation) in the fair value of investments increased by $7,488 from the prior year and primarily relates to market value changes in the System's two interest rate SWAP agreements. In 2013, the value of the interest swap agreements decreased by $10,226, rebounding from an unfavorable swing of $11,933 in 2011. Other non-operating revenues and grant revenues increased by $646 and $3,940, respectively from 2012 levels.

2012 Activity

In 2012, non-operating revenues totaled $47,858, an increase of $7,233 or 17.8% from the prior year. Non-operating revenues include county appropriation revenue of $36,029, investment income of $4,803, net appreciation (depreciation) in the fair value of $934, other non-operating revenue of $4,620, and grants and donations of $3,340.

Investment income was lower by $808 from the prior year as a result of continued, historically low interest rates. Unrealized losses on investments decreased by $10,730 from the prior year which relates to stable market value changes in 2012 on the System's two interest rate SWAP agreements, after a large unfavorable swing in 2011. Other non-operating revenues and grant revenues decreased by $1,352 and $1,335, respectively from 2011 levels.

(Dollars in Thousands)

Operating Expenses

The following table summarizes the System's operating expenses in the last three years. The System's total operating expenses increased in 2013 by $64,001 or 8.4% from 2012 and increased in 2012 by $8,474 or 1.1% from 2011.

Table 3
The MetroHealth System
Operating Expenses

	2013	2012	2011
Operating Expenses:			
Salaries and wages	$ 448,584	$ 426,900	$ 419,376
Employee benefits	101,981	96,554	98,201
Purchased services	57,011	41,172	43,515
Medical supplies	57,160	50,607	47,625
Pharmaceuticals	40,200	31,559	32,859
Plant operations	30,512	27,468	27,615
Non-medical supplies	13,858	14,096	14,877
Other expenses	25,765	21,578	17,362
Insurance	15,759	18,606	18,510
Depreciation and amortization	33,113	31,402	31,528
Total operating expenses	$ 823,943	$ 759,942	$ 751,468

2013 Activity

In 2013, salaries and wages were $448,584, an increase of $21,684 or 5.1% from the prior year. The increase between years is attributed to higher FTE's and a 2.0% general wage increase.

Employee benefits expense in 2013 was $101,981, an increase of $5,427 or 5.6% from 2012. Public employee retirement system (PERS) expense increased $2,439 from higher salaries and wages. Health care benefits increased $2,271, and tuition and education expenses increased by $439.

Purchased services expenses were $57,011 in 2013, an increase of $15,839, or 38.5% from 2012. Service contracts for medical and pharmacy services related to the MHCP Medicaid waiver program accounted for $8,923 of the growth in purchased services expenses. Information technology service contracts and software licensing expenses were higher by $1,734 and consulting services increased by $1,880 from the prior year. A significant portion of the MHCP Medicaid waiver program expenses were reimbursable from Medicaid and are included in the System's other operating revenue.

Medical supplies expenses were $57,160 in 2013, an increase of $6,553 or 12.9% from the prior year. Pharmaceutical expenses were $40,200, an increase of $8,641 or 27.4% from 2012.

Plant operations expenses were $30,512, an increase of $3,044 or 11.1% from 2012. Minor equipment purchases were higher by $1,015 from the prior year. Equipment rentals increased by $611 from 2012. Equipment maintenance increased by $429 from the prior year. Telecommunication costs were also higher from the previous year by $747.

Operating Expenses (Continued)

Non-medical supplies totaled $13,858, a decrease of $238 or 1.7%. Department supplies purchases were down $1,226 from the prior year. Food purchases were up by $553 from 2012.

Other expenses were $25,765, an increase of $4,187 or 19.4% from 2012. The state franchise fee expense totaled $10,827 and was $667 higher than in 2012. Advertising expenses increased by $595 and miscellaneous expenses increased by $1,059. The System also recorded a one-time accrual for a MetroHealth Foundation transfer of $950.

Insurance expenses were $15,759, a decrease of $2,847 from the prior year. Depreciation and amortization expenses were $33,113, an increase of $1,711 from the prior year.

2012 Activity

In 2012, salaries and wages were $426,900, an increase of $7,524 or 1.8% from the prior year. The small increase between years is attributed to a 3.0% general wage increase, offset by reductions in FTE's.

Employee benefits expense in 2012 was $96,554, a decrease of $1,647 or 1.7% from 2011. Health care benefits decreased $718, unemployment compensation decreased $1,242 and tuition and education expenses increased by $215.

Purchased services expenses were $41,172 in 2012, a decrease of $2,343, or 5.4% from 2011. Consulting services declined by $3,328 or 46.2% from the prior year. Legal fees were also lower, down by $665, or 69.5% from the prior year. Information technology service contracts, other service contracts and software licensing expenses were higher by $1,293 or 9.0% from the prior year.

Medical supplies expenses were $50,607 in 2012, an increase of $2,982 or 6.3% from the prior year. Pharmaceutical expenses were $31,559, a decrease of $1,300 or 4.0% from 2011.

Plant operations expenses were $27,468, a decrease of $147 or 0.5% from 2011. Utility costs declined by $1,274 from the prior year but were offset by higher helicopter support costs of $462, higher telecommunication costs of $395 and higher leased space costs of $548.

Non-medical supplies totaled $14,096, a decrease of $781 or 5.2%. Department supplies were down $387 from the prior year.

Other expenses were $21,578, an increase of $4,216 or 24.3% from 2011. The 2012 state franchise fee assessment of $10,161 was $2,797 higher than in 2011 and was the largest single contributor of the increase. Advertising increased by $206 and miscellaneous expenses increased by $233.

Insurance expenses were $18,606, an increase of $96 from the prior year. Depreciation and amortization expenses were $31,402, a decrease of $126 from the prior year.

Non-Operating Expenses

Non-operating expenses, which include specific purpose fund expenses (grant expenses) and interest expense, decreased $615 or 3.8% from 2012 levels. Non-operating expenses were $15,592 and $16,207 in 2013 and 2012, respectively.

Interest expense in 2013 decreased by $840 or 6.6% from 2012 and is primarily related to higher capitalized interest. Interest expense in 2012 decreased $1,046 or 7.6% from 2011 and was related to savings from the 2011 debt restructure (Series 2011 Bonds), partially offset by higher swap interest costs of $485, and smaller capitalized interest credits.

Specific purpose fund expenses totaled $3,747, $3,522, and $3,890 in 2013, 2012 and 2011, respectively.

Economic Factors and Next Year's Budget

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

- The System received approval on February 5, 2013 from federal officials to launch MetroHealth Care Plus (MHCP), a Medicaid waiver program that provides a medical home and health coverage for up to 30,000 uninsured Cuyahoga County residents. The MHCP program is the only program in Ohio to provide healthcare coverage to more of the uninsured. Effective January 1, 2014, the State of Ohio adopted Medicaid expansion provisions of the Affordable Care Act thus enabling patients previously covered by the MHCP program to be covered under Medicaid effective January 1, 2014. Additionally, to ensure continuity of healthcare coverage for MHCP members, the program was extended through April 30, 2014, giving MHCP participants four months to apply for Medicaid coverage which would become effective for services provided on or after January 1, 2014.

- The SFY 2014/2015 State budget reauthorizes the Hospital Franchise Fee (HFF), Upper Payment Limit (UPL) and Medicaid Managed Care Incentive Payment programs into the new 2014/2015 biennium. The UPL and Medicaid Managed Care Incentive Payment programs are funded by the state Hospital Franchise Fee (HFF) program. In 2013, the System earned $36,303 in gross inpatient and outpatient UPL dollars which includes approximately $8,678 for Enhanced Medicaid Managed Care Organization (EMMCO) payments. The 2014 inpatient and outpatient UPL programs are expected to remain consistent with the 2013 program as it relates to the methodologies used to determine the distribution of funds.

- Net Hospital Care Assurance Program (HCAP) dollars recorded by the System in 2013 were $28,166, after estimated allowances for audits and lower uncompensated care levels resulting from the MHCP Medicaid Waiver Program. Major changes are anticipated in the State's 2014 HCAP program as a result of State's decision to expand its 2014 Medicaid program. The 2014 HCAP distribution model is also currently under development, with input from the industry, through the Ohio Hospital Association. The System's 2014 net HCAP receipts could range between $11,000 and $17,000 due to lower uncompensated care costs resulting from Medicaid expansion. As a safety net, adult DSH hospital, MetroHealth stands to gain the most from Medicaid expansion, all other variables being held constant, when compared with other hospital types. Thus, the decrease in HCAP funds should be more than offset by the increase in Medicaid reimbursement resulting from Medicaid expansion. The Governor's SFY 2014/2015 State budget reauthorizes the HCAP program until October 2015.

- Capital funds needed for replacement of depreciated equipment and facilities, and vital service-line growth and expansion, will require the use of the remaining Series 2009B project funds and unrestricted investments. In addition, efforts to obtain appropriate philanthropy to offset operational and capital needs will continue in 2014.

- System expects to receive County funding of $40,000 in 2014. This is an increase of approximately $4,000 from 2013 and 2012 levels.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Net Position
December 31, 2013 and 2012
(Dollars in Thousands)

Assets	The MetroHealth System 2013	The MetroHealth System 2012	Component Unit The MetroHealth Foundation, Inc. 2013	Component Unit The MetroHealth Foundation, Inc. 2012
Current Assets:				
Cash and cash equivalents	$ 3,187	$ 3,065	$ 43	$ 161
Accounts receivable	133,941	98,499	2,206	1,551
Allowance for uncollectible accounts	(26,116)	(16,547)	(203)	(136)
	107,825	81,952	2,003	1,415
Other receivables	58,764	52,377	1,160	140
Supplies	10,784	9,662	-	-
Prepaid expenses	3,907	2,639	-	-
Total current assets	184,467	149,695	3,206	1,716
Noncurrent Assets:				
Investments:				
General	138,672	125,448	4,763	3,627
Academic funds	28,151	29,060	-	-
Depreciation reserve fund	119,633	127,835	-	-
	286,456	282,343	4,763	3,627
Restricted Assets:				
Cash and cash equivalents	78	85	2,601	2,689
Special purpose investments	5,556	5,556	32,665	26,559
Under bond indenture agreements	45,747	63,505	-	-
	51,381	69,146	35,266	29,248
Capital Assets:				
Land and construction in progress	27,775	21,361	-	-
Land improvements	12,898	11,649	-	-
Buildings and fixed equipment	566,526	544,631	-	-
Equipment	340,115	317,537	26	26
	947,314	895,178	26	26
Accumulated depreciation	(661,255)	(629,914)	(14)	(5)
	286,059	265,264	12	21
Other assets	10,349	12,107	-	-
Total assets	818,712	778,555	43,247	34,612
Deferred Outflows of Resources:				
Deferred amounts on debt refundings	6,991	7,926	-	-

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Net Position
December 31, 2013 and 2012
(Dollars in Thousands)

	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
Liabilities	**2013**	**2012**	**2013**	**2012**
Current Liabilities:				
Accounts payable	$ 39,847	$ 35,834	$ 1,099	$ 1,508
Accrued payroll and related liabilities	27,194	21,426	-	-
Contribution payable to the Public Employees Retirement System	5,548	5,130	-	-
Accrued interest payable	3,493	3,617	-	-
General and professional liabilities	15,991	13,620	-	-
Estimated amounts due to third-party payors	5,042	4,206	-	-
Accrued vacation and sick leave	5,694	7,229	-	-
Current installments of long-term debt	10,131	9,675	-	-
Other current liabilities	14,733	13,846	415	427
Total current liabilities	127,673	114,583	1,514	1,935
Long-Term Liabilities, less current installments:				
General and professional liabilities	37,523	38,043	-	-
Estimated amounts due to third-party payors	11,228	4,097	-	-
Accrued vacation and sick leave	40,521	36,215	-	-
Derivative instruments - rate swaps	4,738	14,964	-	-
Long-term debt	235,371	242,648	-	-
Total long-term liabilities	329,381	335,967	-	-
Total liabilities	457,054	450,550	1,514	1,935
Net Position				
Net investment in capital assets	73,029	64,221	-	-
Restricted, debt service payments	25,822	25,706	-	-
Restricted, capital asset use	3,400	-	-	-
Restricted, program activities	-	-	23,802	19,266
Restricted, nonspendable	-	-	13,308	9,756
Unrestricted	266,398	246,004	4,623	3,655
Total net position	$ 368,649	$ 335,931	$ 41,733	$ 32,677

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2013 and 2012
(Dollars in Thousands)

	The MetroHealth System		Component Unit The MetroHealth Foundation, Inc.	
	2013	**2012**	**2013**	**2012**
Operating Revenues				
Net patient service revenue	$ 744,123	$ 683,263	$ -	$ -
Other revenue	68,992	58,970	-	-
Total operating revenues	813,115	742,233	-	-
Operating Expenses				
Salaries and wages	448,584	426,900	-	-
Employee benefits	101,981	96,554	-	-
Purchased services	57,011	41,172	-	-
Medical supplies	57,160	50,607	-	-
Pharmaceuticals	40,200	31,559	-	-
Plant operations	30,512	27,468	-	-
Non-medical supplies	13,858	14,096	-	-
Other expenses	25,765	21,578	-	-
Insurance	15,759	18,606	-	-
Depreciation and amortization	33,113	31,402	-	-
Total operating expenses	823,943	759,942	-	-
Operating loss	(10,828)	(17,709)	-	-
Non-Operating Revenues (Expenses)				
County funding	36,026	36,029	-	-
Net investment income	10,566	3,869	5,863	4,025
Other non-operating revenue	5,266	4,620	-	-
Noncapital grants and donations	3,597	3,289	8,894	5,872
Grant expenses and support	(3,747)	(3,522)	(5,701)	(7,054)
Interest expense	(11,845)	(12,685)	-	-
Total non-operating revenues (expenses)	39,863	31,600	9,056	2,843
Income before capital contributions	29,035	13,891	9,056	2,843
Grants for capital acquisitions	3,683	51	-	-
Change in net position	32,718	13,942	9,056	2,843
Total net position - beginning of year, as restated	335,931	321,989	32,677	29,834
Total net position - end of year	$ 368,649	$ 335,931	$ 41,733	$ 32,677

See Notes to Financial Statements.

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Cash Flows
Years Ended December 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Cash Flows From Operating Activities		
Patient service revenue	$ 721,439	$ 652,791
Other operating cash receipts	70,492	54,966
Payments to suppliers	(235,522)	(194,935)
Payments for compensation and benefits	(541,501)	(536,469)
Net cash flows provided by (used in) operating activities	14,908	(23,647)
Cash Flows From Noncapital Financing Activities		
County funding	36,026	36,029
Restricted grants, donations and other	6,833	6,781
Specific purpose funds expenses	(3,747)	(3,527)
Net cash flows provided by noncapital financing activities	39,112	39,283
Cash Flows From Capital and Related Financing Activities		
Grants for capital acquisition	3,683	51
Acquisitions and construction	(52,430)	(29,821)
Proceeds from sale of assets and insurance	313	1,307
Proceeds from long-term debt	-	24,710
Retirement of long-term debt	-	(24,710)
Principal payments on long-term debt	(9,914)	(16,021)
Interest payments on long-term debt	(11,783)	(11,595)
Build America Bond receipts	2,064	2,158
Payments of financing fees on long-term debt	-	(155)
Net cash flows used in capital and related financing activities	(68,067)	(54,076)
Cash Flows From Investing Activities		
Payments for investment purchases and reinvestments	(878,943)	(860,624)
Proceeds from investment sales and maturities	888,918	893,872
Interest received	4,187	4,956
Net cash flows provided by investing activities	14,162	38,204
Net increase (decrease) in cash and cash equivalents	115	(236)
Cash and cash equivalents		
Beginning	3,150	3,386
Ending	$ 3,265	$ 3,150

(Continued)

The MetroHealth System
(A Component Unit of Cuyahoga County)

Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Reconciliation of Operating Loss to Net Cash Flows Provided By (Used in) Operating Activities:		
Operating loss	$ (10,828)	$ (17,709)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	33,113	31,402
Provision for bad debts	91,803	89,965
Changes in assets and liabilities:		
(Increase) in patient accounts receivable	(117,676)	(94,080)
(Increase) in other assets	(7,250)	(33,100)
Increase in self-insurance liabilities	1,851	4,408
Increase (decrease) in accounts payable and other liabilities	12,458	(7,987)
Increase in long-term liabilities	11,437	3,454
Net cash flows provided by (used in) operating activities	$ 14,908	$ (23,647)

Noncash Investing, Capital and Financing Activities:

The System held investments at December 31, 2013 and 2012, with a fair value of $337,759 and $351,404, respectively. During 2013 and 2012, the net change in the fair value of these investments was a decrease of $13,645 and $34,572, respectively.

The System held interest rate swap obligations at December 31, 2013 and 2012, with a fair value of $4,738 and $14,964, respectively. During 2013 and 2012, the net change in the fair value of these swap obligations was a decrease of $10,226 and $389, respectively.

In 2013 and 2012, the System entered into capital leases, acquiring capital assets of $3,075 and $4,178, respectively.

Included in accounts payable at December 31, 2013 and 2012 is $3,131 and $5,202, respectively, of invoices related to unpaid capital acquisitions.

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

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

The Old Brooklyn Nursing Facility (144 beds) was closed effective December 14, 2011. In 2012, the System sold 91 bed licenses for $1,247 and the remaining 53 licenses were sold in early 2013 for $668. The building has been converted for use as a rehabilitation facility.

The System is the public health care system for Cuyahoga County, Ohio (the County). It is organized and operated by its board of county hospital trustees (the Board) pursuant to Chapter 339 of the Ohio Revised Code. Until 2010, members of the Board were jointly appointed by the Board of County Commissioners of the County, and the senior judges of the Probate and Common Pleas Courts of the County. Effective January 2011, the County voters established a new form of government by charter (the Charter). Under the Charter, future members of the Board are appointed by the County Executive together with the senior judges of the Probate and Common Pleas Courts of the County, subject to confirmation by the County Council. In order to support the general operations of the System, the County approved an appropriation of $36,026 and $36,029 for 2013 and 2012, respectively. The County has also approved an appropriation of approximately $40,000 for 2014. The System is exempt from federal income taxes as a governmental entity.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended, the System's financial statements are included, as a discretely presented component unit, in the County's Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Mark A. Parks, Jr., Acting Fiscal Officer, 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, Inc. (Foundation) is included as a discretely presented component unit in a separate column in the System's financial statements to emphasize that it is legally separate from the System. The Foundation is a not-for-profit organization supporting the System. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the System in support of its programs. Although the System does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to support the activities of the System. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the System, it is considered a component unit of the System. Complete financial statements of the Foundation can be obtained by writing to The MetroHealth Foundation, 2500 MetroHealth Drive, Cleveland, Ohio 44109. In addition, MHS Holdings LLC and MHS Purchasing LLC are presented as blended component units whose financial activity is included within the activities of the System. The System owns 99% of MHS Holdings LLC and is the sole member of MHS Purchasing LLC. Although these entities are legally separate from the System, they are reported as if they were part of the System because their sole purpose is to acquire and own investment interests for the System.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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 position: The System recognizes as operating revenues those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care, and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Nonoperating revenues include County appropriations, investment income and special purpose grants and donations, primarily research. Nonoperating expenses include interest expense and expenses from special purpose funds for research related activities.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors, estimated allowances for uncollectible accounts and uncompensated care allowances. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue is reported net of provisions for uncollectible accounts of $91,803 and $89,965 in 2013 and 2012, respectively.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

The System is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare and Medicaid fiscal intermediaries. The System's classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission are subject to an independent review. Differences between the estimated amounts accrued at interim and final settlements are reported in the Statement of Revenues, Expenses, and Changes in Net Position in the year of settlement. The System recorded favorable adjustments to net patient revenue of $976 and $9,975 in 2013 and 2012, respectively, due to prior year retroactive adjustments to amounts previously estimated and changes in estimates. The 2012 amount recorded for retroactive adjustments includes a change in estimate of $4,000 related to a nationwide settlement with the Centers for Medicare & Medicaid Services (CMS) resulting from the resolution of the Rural Budget Neutrality adjustment factor Provider Reimbursement Review Board appeal.

Net revenue from the Medicare and Medicaid programs accounted for approximately 27% and 37%, respectively, of the System's net patient service revenue for the year ended December 31, 2013, and 27% and 27%, respectively, of the System's net patient service revenue for the year ended December 31, 2012. Medicaid revenue in 2013 includes revenue from the MetroHealth Care Plus (MHCP) program (see discussion below). Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

Effective February 5, 2013, the System was notified by the Ohio Department of Medicaid it was approved as a subgrantee of the 1115 Medicaid Waiver program called MetroHealth Care Plus (MHCP). MHCP is a pilot program that essentially serves as an early expansion of Medicaid in Cuyahoga County. MHCP is the only 1115 Waiver program in the state of Ohio. Enrollment in the MHCP program is capped at 30,000 patients and as of December 31, 2013 the enrollment in the program was 28,260. The System recognized approximately $70,000 in Federal Medicaid dollars related to MHCP as net patient service revenue in 2013. Services provided under MHCP are reimbursed on a cost basis. Services provided by entities outside of MetroHealth are recognized in the Statements of Revenues, Expenses and Changes in Net Position as purchased services.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the CMS. This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The State of Ohio FY 2011/2012 budget also included an expansion of the UPL program to outpatient services for the first time. The System received $2,367 in outpatient UPL payments in each of 2013 and 2012. At December 31, 2013 and 2012, $11,991 and $8,351, respectively, was due to the System and recorded in the Statements of Net Position in other receivables. The amount recorded in net patient service revenue for UPL by the System was $36,303 and $31,334 in 2013 and 2012, respectively. The State of Ohio discontinued the Program's required contributing match for participants as of June 30, 2009. Effective July 1, 2009, the State began assessing a franchise fee to hospitals to fund healthcare programs, including the UPL program. The System incurred franchise fee expense of $10,827 and $10,161 in 2013 and 2012, respectively, and recorded the amounts as operating expenses in the other expenses category in the Statements of Revenues, Expenses, and Changes in Net Position. The System's franchise fee liability payable to the State of Ohio at December 31, 2013 and 2012 was $5,616 and $5,403, respectively, and is recorded on the Statements of Net Position in other current liabilities.

Disproportionate share: As a public health care provider, the System renders services to residents of the County and others regardless of ability to pay. The System is classified as a disproportionate share provider by the Medicare and Medicaid programs due to the volume of low-income patients it serves. Accordingly, the System receives additional payments from these programs as a result of this status totaling $40,506 and $45,656 for 2013 and 2012, respectively. These amounts are included in net patient service revenue and include Hospital Care Assurance (HCAP) receipts of $34,766 and $33,399 in 2013 and 2012, respectively, reduced by HCAP assessments paid by the System of $3,783 and $3,486 in 2013 and 2012, respectively. At December 31, 2013 and 2012, the System had a receivable of $34,690 and $33,424, respectively and a payable amount of $3,614 and $3,486, respectively. The receivable and payable are included in other receivables and other current liabilities, respectively, in the Statements of Net Position. The System also provides major trauma services to the region. The ability to continue these levels of service and programs is contingent upon the various continued 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 $131,867 and $267,840, which represents 5.8% and 12.9% of gross charges in 2013 and 2012, respectively, are not reported as revenue. The System accepts certain indigent Ohio residents and all residents from the County regardless of their ability to pay. The decrease in charges foregone for charity care in 2013 is due primarily to enrollment of previously uninsured patients in the MHCP program (see discussion of the MHCP program earlier in Note 1).

Note 1. Summary of Significant Accounting Policies (Continued)

Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid Incentive Programs beginning in Federal fiscal year 2011 for eligible acute care hospitals that are meaningful users of certified EHR technology, as defined by the Federal Register. The System has implemented certified EHR technology that has enabled it to demonstrate its meaningful use and to qualify for the incentive programs. The initial incentive payments received for both the Medicare and Medicaid EHR incentive programs are estimates based upon data from prior year's cost reports. The final settlements will be determined after the submission of the current annual cost reports and subsequent audits by the fiscal intermediary. The EHR Incentive Programs are expected to continue through September 30, 2016, and the incentive payments will be calculated annually. Beginning in 2015, hospitals that are not meaningful users or certified users of EHR technology will be subjected to a potential decrease in their Medicare and Medicaid payments. The System accounts for EHR Incentive funds using the grant accounting model. EHR Incentive funds are included in other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Position and related receivables are included in other receivables in the accompanying Statements of Net Position.

The System successfully registered for the hospital Ohio Medicaid EHR Incentive Program and first completed the attestation process in July, 2011. As of December 31, 2013 and 2012, the System has recorded $1,748 and $2,622, respectively for Medicaid EHR incentive. At December 31, 2013 and 2012, the related receivables are $0.

The System successfully registered for the hospital Medicare EHR Incentive Program in July, 2011. The System first completed the attestation process on September 6, 2012 after demonstrating the ninety days of continuous use as a meaningful user. During the years ended December 31, 2013 and 2012, the System recorded Medicare EHR revenue of $1,621 and $2,170, respectively. At December 31, 2013 and 2012, the related receivables are $0.

The System successfully registered the hospital physicians, on an individual basis, for the physician Ohio Medicaid and Medicare EHR Incentive Program and completed the first attestation process at various points during 2012 and 2013. As of December 31, 2013 and 2012, the System has recorded $4,403 and $3,672, respectively for Medicaid EHR incentive. During the year ended December 31, 2013 and 2012, the System recorded Medicare EHR revenue of $268 and $518, respectively. At December 31, 2013 and 2012, the related receivables for Medicaid EHR are $2,210 and $332, respectively. At December 31, 2013 and 2012, the related receivables for Medicare EHR are $386 and $518, respectively.

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 only the cash in its commercial checking accounts as cash and cash equivalents. Funds in the System's savings / money market accounts are considered Investments. Cash and cash equivalents are stated at cost which is equivalent to fair value.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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 included in net investment income in the Statements of Revenues, Expenses, and Changes in Net Position.

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 (loss) on investments of ($231) and ($469) in 2013 and 2012, respectively, is the difference between the proceeds received and the amortized cost of investments sold and is included in net investment income in the Statements of Revenues, Expenses, and Changes in Net Position.

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

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

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

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

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.

(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Bond discounts Amortization expense related to bond discounts was $18 in 2013 and $17 in 2012. These amounts are included in interest expense in the Statements of Revenues, Expenses, and Changes in Net Position. Accounting guidance requires amounts to be amortized utilizing the effective interest method. The difference between the two amortization methods is immaterial to the financial statements.

Cost of borrowing: Interest costs incurred on debt during the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. Capitalized interest of $767 and $170 was recorded in construction in progress as opposed to interest expense for 2013 and 2012, respectively. Construction in progress is transferred to capital assets when assets are substantially completed and amortization of capitalized interest is accounted for in the same manner as other components of asset cost and included in depreciation expense.

The System has entered into various interest-rate swap agreements. The interest-rate swap agreements are carried at fair value in the Statement of Net Position. These derivative instruments are not effective hedging instruments; therefore, gains and losses are recognized in the Statements of Revenues, Expenses, and Changes in Net Position during the period of change as adjustments to investment income on the related debt (see Note 7).

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Note 2. Changes in Accounting Principles and Recent Accounting Pronouncements

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

Statement No. 61 – *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34,* modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The System implemented the provisions this Statement for the year ended December 31, 2013.

Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows or resources such as changes in the determination of the major fund calculations. The System implemented the provisions of this Statement for the year ended December 31, 2013.

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

Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10. and No. 62*, improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends GASB Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated interest rate differs significantly from a current (normal) servicing fee rate. The System implemented the provisions of this Statement for the year ended December 31, 2013.

There was no significant impact to the financial statements as a result of the application of these standards except for amounts disclosed in Note 3.

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

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

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

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

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

(Dollars in Thousands)

Note 3. Restatement for Implementation of a New Accounting Standard

For the year ended December 31, 2013, the System implemented the provisions of GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Among other changes, this Statement changed the manner in which governments account for most debt issuance costs. Under this Statement, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. As a result of implementing this Statement, the System was required to remove debt issuance costs that had previously been reported as other assets and restate net position to the earliest period presented. The effect of the restatement on net position and change in net position is as follows:

	2013	2012
Net position as previously reported, January 1	$ 338,562	$ 324,628
Adjustment to write-off debt issuance costs	(2,631)	(2,639)
Net position as restated, January 1	$ 335,931	$ 321,989

	2012	2011
Change in net postion, as previously reported	$ 13,934	$ (2,508)
Adjustment to write-off debt issuance costs	8	-
Change in net position, as restated	$ 13,942	$ (2,508)

Note: Change in net position was not restated for the year ended December 31, 2011 as a result of implementation of GASB Statement No. 65.

(Dollars in Thousands)

Note 4. Deposits and Investments

Deposits

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of bank failure, the System's deposits might not be recovered. The FDIC increased insurance through December 31, 2013 for funds held in interest bearing accounts from $100 to $250 per depositor per category of legal ownership. The System's investment policy does not address custodial credit risk. The System's bank deposits at December 31, 2013 and 2012, totaled $34,300 and $19,672, respectively, and were subject to the following categories of custodial credit risk:

	2013	2012
Uncollateralized	$ 34,010	$ 19,373
Collateralized with securities held by the pledging insitution's trust department, but not in the System's name	40	49
Total amount subject to custodial risk	34,050	19,422
Amount insured	250	250
Total bank balances	$ 34,300	$ 19,672

Investments

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

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

(Dollars in Thousands)

Note 4. Deposits and Investments (Continued)

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

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

Derivative instruments: In previous periods, the System entered into two separate and distinct interest rate swap agreements (Swaps) with two counter-parties. The Swaps have notional amounts, maturity schedules, and other features that match the System's two series of underlying variable rate bonds. The Swaps obligate the System to make fixed rate payments to the counter-parties, and obligate the counter-parties to make variable-rate payments to the System. The Swaps are accounted for as "investments" in the System's financial statements pursuant to GASB 53. However, the Swaps were intended, and in fact function, as risk management instruments for current obligations of the System. Consequently, the System does not consider them to be subject to the requirements of the System's investment policy.

As of December 31, 2013 and 2012, the fair values of the System's investments and their ratings by Standard and Poor's were as follows:

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

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

(Dollars in Thousands)

Note 4. Deposits and Investments (Continued)

		Investment Maturities	
	2012	Less than 1 year	1-5 years
U.S. Government Agencies			
AA+	$ 270,865	$ 50,722	$ 220,143
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)			
AA+	65	-	65
Commercial Paper			
A-1	53,744	53,744	-
Money Market			
AAA	10,134	10,134	-
Total investments	$ 334,808	$ 114,600	$ 220,208

Deposits totaling $16,596 were included in investments on the Statement of Net Position at December 31, 2012.

The System's carrying amounts of the deposits and investments at December 31, 2013 and 2012 are as follows:

	2013	2012
Deposits	$ 34,406	$ 19,746
Investments	306,618	334,808
Total deposits and investments	$ 341,024	$ 354,554

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, 2013 and 2012, have effective maturity dates of less than five years.

Credit Risk: The collateralized mortgage obligations and federal mortgage pools are investments that were made according to policy at the time. In the wake of the financial crisis, the nature of these investments changed and no longer conforms to policy. However, these investments are currently illiquid and cannot be exited at this time.

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investments in any single issuer. The System holds 40% of its portfolio in Federal National Mortgage Association (Fannie Mae) issues, 25% in Federal Home Loan Mortgage Corporation (Freddie Mac) issues, 6% in Federal Farm Credit Bank issues and 5% in Korean Development Bank commercial paper.

(Dollars in Thousands)

Note 4. Deposits and Investments (Continued)

The Foundation: As of December 31, 2013 and 2012, the fair values of the Foundation's investments were as follows:

	2013	2012
Exchange traded funds	$ 3,933	$ 3,048
Money market funds	1,782	1,476
Pooled investment fund	1,050	-
Mutual funds	28,647	23,074
Common stock	25	25
Limited Partnership Interest	1,991	2,563
Total investments	$ 37,428	$ 30,186

Net investment income for the years ended December 31, 2013 and 2012 consisted of the following:

	2013	2012
Interest and dividends	$ 925	$ 746
Net realized gains	314	375
Net change in unrealized gains	4,695	2,970
Less investment management fees	(71)	(66)
	$ 5,863	$ 4,025

The Foundation's investments had cumulative unrealized gains of $6,356 and $1,921 and cumulative unrealized losses of $88 and $281 at December 31, 2013 and 2012, respectively.

(Dollars in Thousands)

Note 5. Capital Assets

The following summarizes changes in the capital assets of the System for the years ended December 31, 2013 and 2012:

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

(Dollars in Thousands)

Note 5. Capital Assets (Continued)

	2012			
	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Capital assets not being depreciated				
Land	$ 9,314	$ -	$ -	$ 9,314
Construction in progress	7,087	33,027	(28,067)	12,047
Total nondepreciated capital assets	16,401	33,027	(28,067)	21,361
Depreciable capital assets				
Land improvements	11,619	30	-	11,649
Buildings and fixed equipment	536,007	9,286	(662)	544,631
Equipment	299,919	22,765	(5,147)	317,537
Total depreciable capital assets	847,545	32,081	(5,809)	873,817
Less accumulated depreciation				
Land improvements	(7,342)	(423)	-	(7,765)
Buildings and fixed equipment	(360,608)	(15,964)	239	(376,333)
Equipment	(234,334)	(15,015)	3,533	(245,816)
Total accumulated depreciation	(602,284)	(31,402)	3,772	(629,914)
Total depreciable capital assets, net	245,261	679	(2,037)	243,903
Total capital assets, net	$ 261,662	$ 33,706	$ (30,104)	$ 265,264

Total depreciation and amortization expense related to capital assets for 2013 and 2012 was $33,113 and $31,402, respectively.

(Dollars in Thousands)

Note 6. Long-Term Debt

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

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

(Dollars in Thousands)

Note 6. Long-Term Debt (Continued)

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

Information regarding the System's long-term debt activity and balances as of and for the year ended December 31, 2012 is as follows:

	2012				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Improvement and Refunding Revenue Bonds Series, 1997, bear interest at rates ranging from 4.6% to 5.6% and mature in varying amounts through 2027. Partially refunded in 2011 with Hospital Refunding Revenue Bonds, Series 2011.	$ 17,600	$ -	$ -	$ 17,600	$ -
Hospital Refunding Revenue Bonds, Series 1997A, bear interest at rates ranging from 4.1% to 5.5%. Partially and advance refunded in 2011 with Hospital Refunding Revenue Bonds, Series 2011.	5,730	-	(5,730)	-	-
Hospital Improvement Revenue Bonds, Series 2003, bear variable interest rates and mature in varying amounts through 2033. Refunded with Hospital Refunding Bonds, Series 2012.	25,460	-	(25,460)	-	-
Hospital Improvement and Revenue Bonds, Series 2005, bear variable interest rates and mature in varying amounts through 2035.	72,505	-	(390)	72,115	410
Hospital Facilities Revenue Bonds, Series 2009B, bear interest at 8.2% and mature in varying amounts through 2040.	75,000	-	-	75,000	-

(Dollars in Thousands)

Note 6. Long-Term Debt (Continued)

	2012				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Hospital Refunding Revenue Bonds, Series 2011, bear interest at 3.2% and mature in varying amounts through 2019.	$ 67,455	$ -	$ (8,635)	$ 58,820	$ 7,630
Hospital Refunding Revenue Bonds, Series 2012, bear variable interest rates and mature in varying amounts through 2033.	-	24,710	-	24,710	785
Equipment obligation, GE Leasing, as defined in the respective lease agreement, bears interest at 6.0% and matures through 2014.	23	-	(10)	13	10
Equipment obligation, IBM Leasing, as defined in the respective lease agreement, bears interest at 2.7% and matures through 2014.	606	-	(252)	354	283
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.0% and matures through 2019.	-	417	(41)	376	56
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 3.1% and matures through 2019.	-	2,102	(135)	1,967	277
Equipment obligation, RBS Asset Finance, as defined in the respective lease agreement, bears interest at 2.9% and matures through 2019.	-	1,659	(72)	1,587	219
Loan obligation, Cuyahoga County Sanitary Engineering, as defined in the respective loan agreement, matures through 2018.	40	-	(6)	34	5
	264,419	28,888	(40,731)	252,576	9,675
Unamortized discount	(270)	-	17	(253)	-
Long-term debt	$ 264,149	$ 28,888	$ (40,714)	$ 252,323	$ 9,675

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

Note 6. Long-Term Debt (Continued)

Effective November 1, 1997, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $77,525 of Hospital Refunding Revenue Bonds, Series 1997A (The MetroHealth System Project) (Series 1997A). On February 15, 1998, the proceeds of the Series 1997A Bonds were used to refund the entire $73,725 remaining outstanding balance of the Series 1989 Bonds. The 1997 refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $9,753. The difference was fully amortized as of December 31, 2012. Amortization, is reported in the accompanying financial statements as a reduction from long-term debt and is included as additional interest expense through the year 2012. On November 22, 2011, all outstanding Series 1997A principal amounts maturing on and after February 15, 2012 were refunded or advance refunded using proceeds from the County's Series 2011 Hospital Refunding Revenue Bonds. The Bond refundings totaled $55,170 of which $49,440 was immediately refunded and $5,730 was advance refunded for February 2012.

Effective March 13, 2003, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $30,545 of Hospital Improvement Variable Rate Demand Revenue Bonds, Series 2003 (The MetroHealth System Project) (Series 2003 Bonds). The proceeds of the Series 2003 Bonds were used to pay costs of constructing and equipping the Critical Care Pavilion and an administrative building. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2033. On December 20, 2012, all outstanding Series 2003 Bonds were refunded using proceeds from the County's Series 2012 Hospital Refunding Revenue Bonds issuance. The Bond refundings totaled $24,710.

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 issued by a local bank that expired on March 22, 2010. Effective March 1, 2010, the System entered into a new letter of credit reimbursement agreement ("2003 Letter of Credit") that was due to expire on March 16, 2013.

Commencing June 16, 2010, the System was required to pay the bank a letter of credit fee payable in quarterly installments at variable rates ranging from 95 basis points to 175 basis points depending on the debt rating in effect as of the date the rating report is released. In addition, the System paid to the bank a closing fee of 20 basis points and to the remarketing agent an advisory fee of 7.5 basis points. There were no amounts outstanding on the letters of credit as of December 31, 2011.

This letter of credit was extinguished in conjunction with the refunding of the Series 2003 Bonds and issue of the Series 2012 Bonds on December 20, 2012.

Effective July 1, 2005, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $74,535 of Hospital Improvement and Refunding Variable Rate Demand Revenue Bonds, Series 2005 (The MetroHealth System Project) (Series 2005 Bonds). Proceeds from the 2005 Series Bonds were used to advance refund $56,995 of the outstanding Series 1999 Bonds, to pay costs of constructing, renovating, furnishing, equipping, and improving the Old Brooklyn Campus long-term care and skilled nursing facility; and to pay certain costs of issuance of the Series 2005 Bonds. The bonds bear interest at a variable rate (not to exceed 10.0%) determined weekly as established by the Remarketing Agent based on current market values for similar bond offerings and are due at various dates until 2035. The interest rates at December 31, 2013 and 2012 were 0.05% and 0.11%, respectively.

Note 6. Long-Term Debt (Continued)

In connection with the issuance of the Series 2005 Bonds, the System entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the System entered into an Irrevocable Letter of Credit issued by a local bank that was due to expire on July 16, 2010. Effective June 1, 2010, the System entered into a new letter of credit reimbursement agreement ("2005 Letter of Credit") that was due to expire on July 16, 2013 with PNC Bank (as Administrative Agent) and JPMorgan Chase Bank (collectively referred to as the “Banks”), and PNC Capital Markets as Lead Arranger and Book Runner. Effective December 20, 2012 this agreement was extended and JPMorgan Chase Bank was effectively replaced by Fifth Third Bank. This extension is scheduled to expire on December 16, 2015.

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

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

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

The July 28, 2005, bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,179. The unamortized difference ($3,324 and $3,544 at December 31, 2013 and 2012, respectively), reported in the accompanying financial statements, as a deferred outflow of resources, and is being amortized as an increase to interest expense through the year 2029.

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

Note 6. Long-Term Debt (Continued)

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

The November 8, 2011 bond refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,187. The unamortized difference ($3,667 and $4,382 at December 31, 2013 and 2012, respectively), reported in the accompanying financial statements as a deferred outflow of resources, and is being amortized as an increase to interest expense through the year 2019. The System advance refunded the 1997, 1997A and 2009 Series Bonds to reduce its total debt service payment over the next eight years by $13,646 and to obtain an economic gain of $1,377.

Effective December 20, 2012, Cuyahoga County, acting by and through the Board of Trustees of The MetroHealth System, issued $24,710 of Hospital Refunding Revenue Bonds, Series 2012, (The MetroHealth System), (Series 2012 Bonds). Proceeds from the Series 2012 Bonds were used to refund the entire principal amount of the Series 2003 Bonds maturing on March 1, 2013 through March 1, 2033. The debt service payments required for the Series 2012 do not differ from the debt service payments that were required under the Series 2003 Bonds. The Bonds bear variable rate interest and mature at various dates through 2033. The interest rate at December 31, 2013 was 1.05%.

The Series 1997, 1997A, 1999, 2003, 2005, 2009A, 2009B, 2011 and 2012 Bonds were issued pursuant to a master trust bond indenture agreement between the County, acting by and through the System's Board of Trustees, and the bond trustee. The Series 1997, 1997A, 1999, 2003, 2005, 2009B, 2011 and 2012 Bonds are special obligations issued by the County payable solely from the revenue derived from the operation of the System and other monies available to the System's Board of Trustees. Accordingly, the bond proceeds and indebtedness have been recorded as assets and liabilities of the System.

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

(Dollars in Thousands)

Note 6. Long-Term Debt (Continued)

The revenue bonds and lease obligation payment requirements for years subsequent to December 31, 2013, are as follows:

	Total Lease and Loan Obligations			Total Hospital Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2014	$ 1,016	$ 176	$ 1,192	$ 9,115	$ 11,210	$ 20,325
2015	1,012	145	1,157	9,415	10,928	20,343
2016	1,043	115	1,158	9,725	10,627	20,352
2017	1,074	83	1,157	10,055	10,316	20,371
2018	1,107	50	1,157	10,380	9,994	20,374
2019–2023	1,065	20	1,085	41,850	45,464	87,314
2024–2028	-	-	-	47,290	38,109	85,399
2029–2033	-	-	-	35,640	30,199	65,839
2034–2038	-	-	-	44,605	17,958	62,563
2039–2040	-	-	-	21,345	1,778	23,123
	$ 6,317	$ 589	$ 6,906	239,420	$ 186,583	$ 426,003
Unamortized discount				(235)		
Total hospital revenue bonds, net				$ 239,185		

The cost value of Hospital Revenue Bonds was $239,185 and $247,992 at December 31, 2013 and 2012, respectively.

There are no amounts remaining to be paid to bond holders related to defeased debt at December 31, 2013.

Note 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 $95,630 and $96,825 at December 31, 2013 and 2012, respectively.

The System's swap agreements do not meet the criteria for hedging and are reported as investment derivative instruments. The fair value of the swap agreements based on current settlement prices at December 31, 2013 and 2012, was ($4,738) and ($14,964), respectively. The amounts due to the counterparties are included within the liabilities section of the Statements of Net Position. The fair value increase of $10,226 in 2013 and $389 in 2012 are included in net investment income in the Statements of Revenues, Expenses, and Changes in Net Position. As a result of the agreements, net settlements increased the System's interest expense by $2,385 and $2,606 in 2013 and 2012, respectively.

(Dollars in Thousands)

Note 7. Derivative Instruments (Continued)

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

12/31/2013 Notional Amount	12/31/2012 Notional Amount	Effective Date	Termination Date	Early Termination Option	The System Pays	Counterparty Pays
$ 71,705	$ 72,115	July 28, 2005	February 1, 2035	the System	Fixed 3.3%	64.2% of ISDA 5 Yr. Swap Rate
$ 23,925	$ 24,710	March 13, 2003	March 1, 2033	the System	Fixed 3.5%	68.9% of ISDA 5 Yr. Swap Rate

On July 28, 2005, the System entered into a swap agreement with an initial amortizing notional amount of $74,535. The notional amount is based on the Series 2005 Bond principal repayment schedule that ends in 2035. Per the terms of an amended agreement effective June 1, 2006, the System pays a fixed rate of 3.3% and the counterparty pays 64.2% of the International Swaps and Derivatives Association, Inc. (ISDA) USD five-year swap rate. The original agreement previously required the counterparty to pay 70% of the 3-month USD LIBOR. In 2013, ISDA five-year interest rates ranged between 0.8% and 1.9%. The net amount is exchanged monthly between the two parties. The System has an early termination option.

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

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

Note 8. Other Long-Term Liabilities

Amounts due to third-party payors: The System has agreements with third-party payors that provide for payment of amounts different from established rates. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined. See Note 1, net patient service revenue, for additional information. As of December 31, 2013 and 2012, the total liability for amounts due to third-party payors was $16,270 and $8,303, respectively.

Accrued vacation and sick leave: System employees earn vacation and sick leave at varying rates depending on job classification and years of service. Employees can accumulate up to three years of their earned vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the System. There is no limit on the amount of sick time earned. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 50% of eligible hours at their current rate of pay. The maximum payout is 800 hours. As of December 31, 2013 and 2012, the total liability for accrued vacation and sick leave was $46,215 and $43,444, respectively.

(Dollars in Thousands)

Note 8. Other Long-Term Liabilities (Continued)

Other long-term liabilities: Other long-term liabilities consist of the following at December 31, 2013 and 2012:

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

	2012				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due to third-party payors	$ 8,868	$ 1,915	$ (2,480)	$ 8,303	$ 4,206
Accrued vacation and sick leave	40,438	45,078	(42,072)	43,444	7,229
Derivative instruments - rate swaps	15,353	-	(389)	14,964	-
	$ 64,659	$ 46,993	$ (44,941)	$ 66,711	$ 11,435

Risk management: The System is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System is self-insured for employee health insurance, 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 and employee health insurance. Settled claims for workers compensation and medical malpractice have not exceeded insurance coverage in any of the past three years.

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

The System is self-insured for employee health, medical malpractice and worker’s compensation claims. For the professional and patient care liability and worker’s compensation, 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. For the employee health claims, a historical analysis has been performed of incurred but not reported claims to determine the liability at December 31, 2013 and 2012.

(Dollars in Thousands)

Note 8. Other Long-Term Liabilities (Continued)

Losses from asserted claims and from unasserted claims identified under the System's incident reporting systems are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The liability for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and incurred but not reported claims, for 2013, 2012 and 2011 as follows:

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

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

	2011				
	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance	Due Within One Year
Worker's compensation	$ 8,724	$ 2,823	$ (2,671)	$ 8,876	$ 3,055
Professional insurance	28,596	15,488	(5,705)	38,379	12,200
Employee health	1,517	17,484	(17,465)	1,536	1,536
	$ 38,837	$ 35,795	$ (25,841)	$ 48,791	$ 16,791

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

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

The liabilities recorded for worker's compensation and professional insurance at December 31, 2012 are discounted liabilities. The discount rate used was 1.5 percent. The undiscounted liabilities are approximately $735 and $2,127 higher for worker's compensation and professional insurance, respectively.

(Dollars in Thousands)

Note 9. Operating Leases

The System has entered into operating lease agreements for medical 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, 2013, are as follows:

2014	$	2,147
2015		2,051
2016		1,975
2017		1,664
2018		1,096
2019-2020		895
Total	$	9,828

Rent expense totaled $2,708 in 2013 and $2,428 in 2012.

Note 10. Benefit Plans

Pension: Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (OPERS). The plans are the Traditional Pension Plan — a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan — a defined contribution pension plan in which the members invests both member and employee contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employee contributions plus any investment earnings; and the Combined Plan — a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and post retirement 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. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefits to the OPERS Board of Trustees. The Ohio Public Employees Retirement System issues a stand-alone financial report and may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For the years ended December 31, 2013, 2012, and 2011, the employee contribution rate was 10.0% of covered payroll and the System was required to contribute 14.0% of covered payroll. For 2013, member and employer contribution rates were consistent across all three plans. Employee contributions to OPERS for the years ended December 31, 2013, 2012, 2011 and 2010 were $39,208, $38,717, $37,487, and $35,705, respectively, equal to the required contributions for each year. The System's contributions to OPERS for the years ended December 31, 2013, 2012, 2011, and 2010, were $54,891, $54,202, $52,482, and $49,988, respectively, equal to the required contributions for each year.

Note 10. Benefit Plans (Continued)

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

In order to qualify for post employment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

The employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, the employer contribution was 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB plan.

OPERS’ Post Employment HealthCare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to healthcare for members in the Traditional Plan was 1.0% during calendar year 2013. The portion of employer contributions allocated to health care in the Combined Plan was 1.0% during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0% for both plans, as recommended by the OPERS Actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The System’s contributions for 2013, 2012, 2011, and 2010 used to fund post retirement healthcare benefits were $3,921, $15,485, $14,994, and $18,149, respectively, which are included in the System’s contractually required contribution of $54,891, $54,202, $52,482, and $49,988 for the years ended December 31, 2013, 2012, 2011, and 2010, respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

(Dollars in Thousands)

Note 11. Restricted, Expendable and Nonexpendable Net Position

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

	2013	2012
Restricted, debt service payments	$ 20,266	$ 20,150
Restricted, debt service payments	5,556	5,556
Restricted, capital asset use	3,400	-
Total	$ 29,222	$ 25,706

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

	2013	2012
Programmatic activities of The MetroHealth System	$ 23,276	$ 18,945
Time restrictions	526	321
Total	$ 23,802	$ 19,266

The Foundation has restricted, nonexpendable net positions in the amounts of $13,308 and $9,756 at December 31, 2013 and 2012, that are restricted in perpetuity, the income from which is expendable to support the programmatic activities of The MetroHealth System.

Note 12. Related Organizations

The System is the primary beneficiary of The MetroHealth Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit entity organized for the purpose of supporting the System in the areas of research, community health and continuing professional education. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the System has reported the Foundation as a discretely presented component unit in the System's 2013 and 2012 financial statements. The System received support from the Foundation in the amount of $2,881 and $3,067 in 2013 and 2012, respectively, which is recorded as grant revenue on the System's Statements of Revenues, Expenses, and Changes in Net Position. The outstanding receivable from the Foundation was $700 and $1,200 at December 31, 2013 and 2012, respectively, which is included in other receivables on the System's Statements of Net Position. The System provided the Foundation in-kind support totaling $1,652 and $1,321 in 2013 and 2012, respectively. This support covered the direct expenses of the Development Department and indirect expenses for the use of space and support departments such as information services and environmental services.

Note 12. Related Organizations (Continued)

The System had established restricted funds to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors place no restrictions or that arise as a result of the operations of the System. A review of these restricted funds is performed annually to determine that funds, related to completed clinical trials and certain donated money, should be transferred to the Foundation. Amounts transferred in 2013 and 2012 were $184 and $63, respectively. Additionally in 2013, the System transferred $950 from general funds for the establishment of two endowed professorships.

Note 13. Investment in Blended Component Unit

MHS Holdings LLC (LLC) was formed to acquire and own interests in certain health care businesses. The System is the 99% member of the LLC. During 2011, the System's 40% equity interest in CCF/MHS Renal Care Company, LTD., a joint venture with The Cleveland Clinic Foundation, which provides renal care (dialysis), was transferred to the LLC. Because the LLC is considered to be a blended component unit of the System, its financial activity is reflected within the financial activity of the System on these financial statements. At December 31, 2013 and 2012, the LLC had balances of $9,342 and $10,065, respectively that are included in other assets in the System's Statements of Net Position, which essentially represents the LLC's interest in CCF/MHS Renal Care Company LTD. In 2013 and 2012, the LLC recorded other income of $1,207 and $3,432, respectively, that are included in the System's Statements of Revenue, Expenses, and Changes in Net Position. The LLC holds no other assets, liabilities, equity, revenue or expenses as of and for the years ended December 31, 2013 and 2012. The LLC received $1,960 in distributions in 2013. No distributions were received during 2012.

MHS Purchasing LLC (MHS) was formed during 2012 to own an interest in Premier Purchasing Partners, L.P. (Premier). Premier is a group purchasing organization that provides the group greater bargaining power for cost of materials. Because MHS is considered to be a blended component unit of the System, its financial activity is reflected within the financial activity of the System on these financial statements. Prior to 2012, this ownership interest was held by the Foundation. At December 31, 2013 and 2012, MHS had a balance of $306 and $643 that is included in other assets in the System's Statements of Net Position, which essentially represents MHS's interest in Premier. MHS held no other assets, liabilities, equity, revenue or expenses as of and for the years ended December 31, 2013 and 2012.

In 2012, MHS recorded other income of $643 that is included in the System's Statements of Revenue, Expenses, and Changes in Net Position related to the activity of MHS and the transfer of the investment from the Foundation.

In 2013, MHS recorded other income of $884 that is included in the System's Statements of Revenue, Expenses, and Changes in Net Position related to MHS. Effective October 1, 2013, Premier reorganized to convert to a public company. From this reorganization, MHS received proceeds of $1,221 and Class B units that vest over a seven-year period. As a result of this conversion, MHS recognized a gain of $1,221, a loss on original investment of ($643) and a gain for the vesting in the Class B units of $306.

Note 14. 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 $1,240 and $2,415 at December 31, 2013 and 2012, respectively, is not included in these financial statements in accordance with the Accounting Standards Codifications (ASC) 958, *Not for Profit Entities* due to the fact that the conditions of the grant have not been met.

Note 15. Commitments and Contingencies

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

Purchase Commitments: As of December 31, 2013, the System had contractual commitments for various projects totaling approximately $28,610. Projects with large contractual commitments include $8,500 for the value acceleration strategy project, $3,517 for hospital enterprise software licensing and implementation, $2,461 for Nuclear Medicine renovations, $1,718 for Cancer Center infusion and waiting room renovations, $1,484 for the Middleburg Heights Family Health Center, and $830 for cardiac/telemetry monitor upgrades. These projects are being funded with operating funds and bond project funds.

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

Patient Protection and Affordable Care Reconciliation Act: On March 23, 2010, the most sweeping health care legislation since the advent of Medicare was signed into law. The law promises to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the trend toward value-based payment. The Reconciliation Act amends various provisions of the Patient Protection and Affordable Care Reconciliation Act and adds some new provisions that were not included originally. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the health care delivery system. On June 28, 2012, The United States Supreme Court upheld the constitutionality of components of the Affordable Care Act, allowing the historic overhaul of the health care system to continue. Potential impacts of health care reform include uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation, and significant required investments in health care information technology.

The MetroHealth System
(A Component of Cuyahoga County)

OMB Circular A-133 Requirements

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
U.S. Department of Agriculture:					
Pass-Through Program from:					
Ohio Department of Health	Special Supplement Nutrition Program for Women, Infants and Children	10.557	1830011WA0613; 1830011WA0714	$	4,647,371
	TOTAL --- U.S. Department of Agriculture			**$**	**4,647,371**
U.S. Department of Education:					
Pass-Through Program from:					
Ohio Department of Health	Special Education - Grants for Infants and Families - HMG Hospital Based Regional Child Find	84.181	1830011HB0613; 1830011HB0714	$	30,799
	TOTAL --- U.S. Department of Education			**$**	**30,799**
U.S. Department of Health & Human Services:					
Pass-Through Program from:					
Ohio Office of Medical Assistance	Medical Assistance Program - MetroHealth Care Plus	93.778	G-1213-07-0591	$	69,823,966
Western Reserve Area Agency on Aging	Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers - Access Your Benefits Program	93.044	n/a		7,286
Western Reserve Area Agency on Aging	Medicare Enrollment Assistance Program - Access Your Benefits Program	93.071	09AAOHMIPP		442
Cuyahoga County	Project Grants and Cooperative Agreements for Tuberculosis Control Programs - Tuberculosis Prevention & Control	93.116	01810022TB0313; 01810022TB0414		169,744
Center for Health Affairs	National Bioterrorism Hospital Preparedness Program - HRSA Emergency Preparedness/ASPR Grant	93.889	01860052RP0613; 01860052RP0714		82,968
Cuyahoga County Board of Health	HIV Emergency Relief Project Grants - Ryan White Title I	93.914	n/a		1,643,453
Ohio Department of Health	HIV Care Formula Grants - Ryan White Part B/Title II	93.917	01830012RW0212		32,978
	HIV Care Formula Grants - Ryan White Emergency Assistance Funding - Title II	93.917	n/a		6,505
Cleveland Department of Public Health	HIV Prevention Activities _Health Department Based - Linkage to Care	93.940	CT5005SG 2013-167		82,470
Cuyahoga County Board of Health	Maternal and Child Health Services Block Grant to the States - CFHS Cleveland Regional Perinatal Network; Child & Family Health Services	93.994	01810011MC0613; 01810011MC0714		195,348
	TOTAL --- U.S. Department of Health & Human Services			**$**	**72,045,160**
U.S. Department of Homeland Security:					
Pass-Through Program from:					
Ohio Department of Public Safety	Disaster Grant - Public Assistance (Presidentially Declared Disasters) - Ohio EMA Public Assistance Grant	97.036	PA-05-OH-4098-PW		71,610
Cuyahoga County Department of Public Safety	Port Security Grant Program	97.056	AG1100021-01		20,046
	TOTAL --- U.S. Department of Homeland Security			**$**	**91,656**
Research and Development Cluster					
U.S. Department of Health & Human Services:					
Direct Programs:	Child Health & Human Development Extramural Research - Maternal Obesity Depresses Essential Fatty Acid Transport	93.865	4R00HD062841	$	37,498
	Subtotal - U.S. Department of Health & Human Services - Direct			**$**	**37,498**
	Subtotal - Research & Development Cluster - Direct			**$**	**37,498**
U.S. Department of Defense:					
Pass-Through Program from:					
National Trauma Institute/ Department of Defense U.S. Army Medical Research	Military Medical Research & Development - Splenic Injury Prospective Outcomes Trial	12.420	NTI-NCH-10-020I; W81XWH-11-1-0841	$	3,648
Johns Hopkins University / Department of Defense U.S. Army Medical Research	Basic Scientific Research - The Major Extremity Trauma Research Consortium ****** RECOVERY ******	12.431	W81XWH1020090		24,707
	Subtotal - U.S. Department of Defense - Pass Through			**$**	**28,355**

(Continued)

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor	Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
U.S. Department of Health & Human Services:					
Pass-Through Program from:					
Cleveland Clinic Foundation	Cancer Treatment Research - GOG Trials Gynecologic Oncology Group	93.395	CA27469	$	3,476
Frontier Science	Cancer Treatment Research - Eastern Cooperative Oncology Group	93.395	CA21115		21,134
Frontier Science	Cancer Control - Eastern Cooperative Oncology Group	93.399	CA37403		21,134
Duke Clinical Research / NIAMS	Trans-NIH Recovery Act Research Support - Childhood Arthritis and Research Alliance Network ***** RECOVERY*****	93.701	SPS165191		3,020
Duke Clinical Research / NIH-NHLBI	Trans-NIH Recovery Act Research Support - Prospective Multicenter Imaging Study Evaluation of Chest Pain ***** RECOVERY*****	93.701	DUKE 173530		131
Emmes Corporation / NIH-NINDS	Trans-NIH Recovery Act Research Support - Platelet-Oriented Inhibition in New TIA (POINT) ***** RECOVERY*****	93.701	NS062835		9,443
Brigham & Williams / NIH-NHLBI	Cardiovascular Diseases Research - Pre-Determine Biologic Markers & MRI SCD Cohort Study	93.837	620-5346000-600022475		606
Duke Clinical Research/NIH-NHLBI	Cardiovascular Diseases Research - Xanthine Oxidase Inhibition for Hyperuricemic HF Patients	93.837	177494, U10HL08904		38,482
Duke Clinical Research/NIH-NHLBI	Cardiovascular Diseases Research - Renal Optimization Strategies Evaluation in Acute Heart	93.837	177494, HL084904		40,492
Duke Clinical Research/NIH-NHLBI	Cardiovascular Diseases Research - Functional Impact of GLP-1 for Heart (FIGHT)	93.837	193603; HL084904		576
Vanderbilt University / NIH-NHLBI	Cardiovascular Diseases Research - Flecanide for Catecholaminergic Polymorphic Ventricular Tachycardia	93.837	VUMC39032; HL108173		1,343
University of Rochester / NIH-NHLBI	Cardiovascular Diseases Research - Ranolazine ICD Trial (RAID)	93.837	415639-G; U01 HL96610		16,415
Wake Forest Baptist Medical Center / NIH-NHLBI	Cardiovascular Diseases Research - Neuro Outcomes in Diabetics with Heart Surgery	93.837	H1089115; 5R01HL089115-07		4,851
Duke Clinical Research / NIH-NHLBI	Blood Diseases and Resources Research - Bridging Anticoagulation In Patients Who Require Temporary Interruption of Warfarin Therapy	93.839	U01HL087229		21,865
University of Minnesota / NIH-NIAMS	Arthritis, Musculoskeletal and Skin Diseases Research - Faith Hip Fracture	93.846	N00188516; AR055267		13,400
John Hopkins University Bloomberg / NIH-NIDDK	Diabetes, Digestive, and Kidney Diseases Extramural Research - Gastroparesis Consortium Continuation Data Coordinating Center	93.847	5U01DK074008-07		25,580
University of Michigan / NIH-NIDDK	Diabetes, Digestive, and Kidney Diseases Extramural Research - Gastroparesis Clinical Research Consortium (GLUMIT)	93.847	3002688231; 5U01DK073985		8,780
Columbia University / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Warfarin vs. Aspirin in Reduced Cardiac Ejection Fraction	93.853	NS39143		562
University of British Columbia/ NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Prevention of Small Subcortical Strokes (SPS3)	93.853	NS38529		1,220
Yale / NIH-NINDS	Extramural Research Programs in the Neurosciences and Neurological Disorders - Insulin Resistance Intervention After Stroke Trial	93.853	A06113; NS044876-02		17,578
University of Virginia / NIH-NIGMS	Biomedical Research and Research Training - SIS Multicenter Study of Duration of Antibiotics	93.859	GC11617-13912601; GM081510-05		23,921
Harvard Pilgrim Healthcare / CDC	Vaccine Adverse Events Reporting System (VAERS)	93.unknown	2011-N-13526		30,919
JBS International / CMMS	Support for Evidence Based Adult Immunization & HPV Health Projects	93.unknown	HHSP23320095638WC/HHSP23337012		41,127
New England Research Inst. / NIH-NHLBI	Treatment of Preserved Cardiac Function Heart Failure	93.unknown	N01-HC-45207		987
	Subtotal - U.S. Department of Health & Human Services - Pass-through			**$**	**347,042**
	Subtotal - Research & Development Cluster - Pass Through			**$**	**375,397**
	TOTAL - Research & Development Cluster			**$**	**412,895**
	TOTAL EXPENDITURES OF FEDERAL AWARDS			**$**	**77,227,881**

See Note to Schedule of Expenditures of Federal Awards.

Note to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Note 1. Basis of Presentation

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

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

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

McGladrey

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of The MetroHealth System (the System) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 29, 2014. Our report includes a reference to other auditors who audited the financial statements of The MetroHealth Foundation, Inc. (the Foundation), as described in our report on the System's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Our report also includes a reference to the implementation of *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.*

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

McGladrey LLP

Cleveland, Ohio
April 29, 2014

McGladrey

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

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

Report on Compliance for Each Major Federal Program

We have audited The MetroHealth System's (the System) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the System's major federal program for the year ended December 31, 2013. The System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the System's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, The MetroHealth System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2013-01, that we consider to be a material weakness.

The System's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

McGladrey LLP

Cleveland, Ohio
April 29, 2014

The MetroHealth System
(A Component Unit of Cuyahoga County)

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.778	Medical Assistance Program - Medicaid Waiver (CarePlus) Program

Dollar threshold used to distinguish between Type A and Type B programs:			$ 2,316,836	
Auditee qualified as a low risk auditee?	X	Yes		No

Section II - Financial Statement Findings

No findings noted.

Section III - Findings and Questioned Costs for Federal Awards

Finding 2013-01

U.S. Department of Health & Human Services passed through Ohio Office of Medical Assistance
Medical Assistance Program – MetroHealth Care Plus Program
CFDA #93.778
Grant # G-1213-07-0591

Criteria
Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations states that recipients of federal funds should prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the financial statements that identifies all federal awards expended and the federal programs under which they were received.

Condition
The initial SEFA provided by management excluded the expenditures associated with the Medical Assistance Program. The SEFA was subsequently adjusted to include the expenditures associated with the Medical Assistance Program – MetroHealth Care Plus Program.

Questioned costs
None.

Context
The expenditures associated with the Medical Assistance Program – MetroHealth Care Plus Program amounted to approximately $70 million and were identified as a major program subject to Single Audit testing during the audit of the financial statements.

Effect
The omission of the federal expenditures associated with the Medical Assistance Program – MetroHealth Care Plus Program would have resulted in an incomplete and inaccurate SEFA that would have resulted in a deficient Single Audit for the year ended December 31, 2013.

Cause
The omission was due to the fact that management erroneously concluded that the Medical Assistance Program – MetroHealth Care Plus Program was excluded from Single Audit requirements based on their understanding of the contract terms and conditions.

Recommendation
We recommend that the existing policies and procedures be reviewed in order to ensure an accurate and complete reporting of the Schedule of Expenditures of Federal Awards.

<u>Views of responsible officials and planned corrective actions</u>

Management of The MetroHealth System (MetroHealth) had not included these dollars on the original SEFA provided to McGladrey because Medicaid dollars that they already received in providing patient care (federal Medicaid) is exempt from Single Audit requirements and they felt that there would be no Single Audit requirement to the Medicaid Waiver dollars because this was simply an expansion program and in their mind operationally functioned the same way as the federal Medicaid program. Upon learning of the requirement the SEFA was corrected and documentation provided to McGladrey for auditing. Management's corrective action plan will include the following protocols to enhance our control environment:

Communication – Management has established regular monthly meetings between Legal and Finance to validate understanding of any agreements that MetroHealth enters into. Finance will also work throughout the year with external audit to keep them informed of any new arrangements.

Education – Finance will provide to the Legal department a syllabus of key words that may trigger further investigation by Finance as to the potential accounting impact of any contract or arrangement that is being proposed. Finance will also update and enhance the existing curriculum for new managers with these trigger words. This will be completed by the end of the second quarter.

Policy Review – Finance will undertake to review our existing policies with the Research department to insure compliance, and where possible to strengthen the control environment. This will be completed by the end of the second quarter.

Management believes that by taking these corrective actions, we will insure that all federal awards expended and the federal programs, under which they were received, will be reported.

Summary Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2013

Section II – Financial Statement Findings

Finding Number: 2012-01 and 2011-01

Finding Description: Information Technology

Summary of Prior Year Finding:

The System did not have a process in place to periodically review logical access for billing financial applications. Lawson access was reviewed as part of the conversion of the security model but a regular review for all financial statement applications had not been implemented.

Development of the System's disaster recovery plan and facilities had not been completed and tested for adequacy and sufficiency or reviewed periodically for continued viability.

Status

Management of The MetroHealth System (MetroHealth) has implemented processes in 2013 to correct the 2012 deficiencies:

Reviews of user permissions for all financial applications are performed on a quarterly basis by each department Vice President. Also, the IT department has implemented an annual review of the security levels for all staff that have access to financial applications. Vice Presidents of impacted divisions are required to approve this annual review by the IT department.

Additionally, the disaster recovery plan has been updated. The Disaster Recovery hardware has been moved into an offsite data center, and the hardware, application and databases utilized for the restoration of financial applications and the recovery network are in place and operational.

Section III - Findings and Questioned Costs for Federal Awards

None

Dave Yost • Auditor of State

THE METROHEALTH SYSTEM

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 29, 2014