

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Bay County Medical Care Facility

**Financial Report
with Additional Information
December 31, 2007**

Bay County Medical Care Facility

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Plante & Moran, PLLC
Bridgewater Place
Suite 600
333 Bridge St. N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Bay County Medical Care Facility

We have audited the accompanying balance sheet of Bay County Medical Care Facility (the "Facility"), a component unit of Bay County, as of December 31, 2007 and 2006 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. In addition, we conducted our audits of the financial statements for the year ended December 31, 2007 in accordance with 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay County Medical Care Facility at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we issued our report dated March 31, 2008 on our consideration of the Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit of the financial statements for the year ended December 31, 2007.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

March 31, 2008

Bay County Medical Care Facility

Management's Discussion and Analysis

Our discussion and analysis of Bay County Medical Care Facility's (the "Facility") financial performance provides an overview of the Facility's financial activities for the fiscal years ended December 31, 2007 and 2006. Please read it in conjunction with the Facility's financial statements, which begin on page 6.

Financial Highlights

- The Facility's net assets increased in each of the past two years with a \$249,279 increase in 2007 and \$99,567 increase in 2006.
- The Facility had total operating revenues of \$17,272,221 in 2007 and \$17,298,944 in 2006.
- The Facility's operating expenses decreased by \$158,657 in 2007.
- The Facility reported nonoperating income of \$1,442,072 in 2007 and \$1,424,294 in 2006.

Using this Annual Report

The Facility's financial statements consist of three statements - a balance sheet, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. These financial statements and related notes provide information about the activities of the Facility, including resources held by the Facility but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheet and Statement of Revenue, Expenses, and Changes in Net Assets

Our analysis of the Facility's finances begins on page 6. One of the most important questions asked about the Facility's finances is, "Is the Facility as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenue, expenses, and changes in net assets report information about the Facility's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Facility's net assets and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or financial position. Over time, increases or decreases in the Facility's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Facility's resident base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Facility.

Bay County Medical Care Facility

Management's Discussion and Analysis (Continued)

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Facility's Net Assets

The Facility's net assets are the difference between its assets and liabilities reported in the balance sheet on page 6.

Table I: Assets, Liabilities, and Net Assets

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 6,560,013	\$ 6,066,011
Noncurrent assets	6,477,069	6,973,923
Total assets	13,037,082	13,039,934
Liabilities - Current liabilities	<u>3,254,585</u>	<u>3,506,716</u>
Net Assets		
Invested in capital assets	6,477,069	6,973,923
Unrestricted	3,305,428	2,559,295
Total net assets	<u>\$ 9,782,497</u>	<u>\$ 9,533,218</u>

Operating Results and Changes in the Facility's Net Assets

The Facility's net assets increased in each of the past two years by \$249,279 in 2007 and \$99,567 in 2006. This increase, as shown in Table 2, can be attributed to the Facility's control of operating expenses, inclusion in the State's quality assurance assessment program, and the continued support of county residents through local millage collections of \$1,418,657.

Bay County Medical Care Facility

Management's Discussion and Analysis (Continued)

Table 2: Operating Results and Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Operating Revenue		
Net service revenue	\$ 15,313,507	\$ 14,829,468
Other operating revenue	53,340	56,842
Proportionate share reimbursement	-	300,512
Quality assurance supplement	<u>1,905,374</u>	<u>2,112,122</u>
Total operating revenue	17,272,221	17,298,944
Operating Expenses		
Salaries	8,547,440	8,575,829
Other	<u>9,917,574</u>	<u>10,047,842</u>
Total operating expenses	18,465,014	18,623,671
Nonoperating Revenues (Expenses)		
Interest income	123,081	97,208
Loss on sale of property	(102,732)	-
Tax revenue	1,418,657	1,323,483
Other income	6,915	7,269
Interest expense	<u>(3,849)</u>	<u>(3,666)</u>
Total nonoperating revenue	<u>1,442,072</u>	<u>1,424,294</u>
Change in Net Assets	249,279	99,567
Net Assets - Beginning of year	<u>9,533,218</u>	<u>9,433,651</u>
Net Assets - End of year	<u>\$ 9,782,497</u>	<u>\$ 9,533,218</u>

Capital Asset Administration

As of December 31, 2007, the Facility had \$6,477,069 invested in capital assets, net of accumulated depreciation as detailed in Note 4 to the financial statements. During the next three to five years, the Facility plans to renovate areas of the existing building to allow for conversion of semi-private rooms to private rooms with new bathrooms and showers.

Other Economic Factors

Fiscal year 2008 funding for the Facility looks promising; so far, there are no approved state or federal reimbursement cuts for County medical care facilities. The Facility will be included in the State's quality assurance assessment program and will expect to receive a net benefit of over \$1,000,000. The Facility has a millage renewal proposal of .5 mills for 2008-2011 on the August 4, 2008 primary ballot. This millage will generate nearly \$1,500,000, which is approximately 8 percent of our operating revenue.

Bay County Medical Care Facility

Management's Discussion and Analysis (Continued)

Contacting the Facility's Financial Management

This financial report is designed to provide our residents, suppliers, taxpayers, and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administrator's office at Bay County Medical Care Facility, 564 W. Hampton Rd., Essexville, Michigan 48732.

Bay County Medical Care Facility

Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 442,722	\$ 53,527
Investments (Note 2)	3,026,386	2,517,305
Resident accounts receivable (Note 3)	1,399,326	1,534,482
Taxes receivable	1,468,201	1,361,652
Other current assets	223,378	599,045
Total current assets	6,560,013	6,066,011
Property and Equipment - Net (Note 4)	6,477,069	6,973,923
Total assets	<u>\$ 13,037,082</u>	<u>\$ 13,039,934</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 397,760	\$ 717,937
Funds held for residents	1,683	1,635
Estimated third-party payor settlements	85,586	-
Accrued liabilities and other:		
Accrued compensation and related liabilities	240,080	206,987
Accrued compensated absences	344,421	373,196
Accrued professional and other liability claims (Note 6)	491,520	646,526
Deferred tax revenue	1,502,257	1,407,577
Due to the County	83,452	50,054
Other accrued liabilities	107,826	102,804
Total current liabilities	3,254,585	3,506,716
Net Assets		
Invested in capital assets	6,477,069	6,973,923
Unrestricted	3,305,428	2,559,295
Total net assets	9,782,497	9,533,218
Total liabilities and net assets	<u>\$ 13,037,082</u>	<u>\$ 13,039,934</u>

Bay County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2007	2006
Operating Revenue		
Net service revenue	\$ 15,313,507	\$ 14,829,468
Other operating revenue	53,340	56,842
Proportionate share reimbursement	-	300,512
Quality assurance supplement	1,905,374	2,112,122
Total operating revenue	17,272,221	17,298,944
Operating Expenses		
Salaries	8,547,440	8,575,829
Other	9,917,574	10,047,842
Total operating expenses	18,465,014	18,623,671
Operating Loss	(1,192,793)	(1,324,727)
Nonoperating Income (Expense)		
Interest income	123,081	97,208
Loss on disposal	(102,732)	-
Tax revenue	1,418,657	1,323,483
Other income	6,915	7,269
Interest expense	(3,849)	(3,666)
Total nonoperating income	1,442,072	1,424,294
Increase in Net Assets	249,279	99,567
Net Assets - Beginning of year	9,533,218	9,433,651
Net Assets - End of year	\$ 9,782,497	\$ 9,533,218

Bay County Medical Care Facility

Statement of Cash Flows

	Year Ended	
	December 31, 2007	December 31, 2006
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 15,534,249	\$ 14,904,093
Cash paid to employees and suppliers	(17,062,934)	(16,324,371)
Cash received from Proportionate Share Program	-	300,512
Cash received from Quality Assurance Supplement	1,905,374	2,112,122
Other operating receipts	53,340	56,842
Cash paid for provider tax	(848,367)	(1,363,853)
Net cash used in operating activities	(418,338)	(314,655)
Cash Flows from Noncapital Financing Activities		
Resident trust withdrawals	48	(273)
Contributions	6,915	7,269
Tax revenue	1,406,788	1,364,059
Net cash provided by noncapital financing activities	1,413,751	1,371,055
Cash Flows from Investing Activities		
Purchase of investments	(509,081)	(1,050,047)
Interest received	123,081	97,208
Net cash used in investing activities	(386,000)	(952,839)
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of property and equipment	1,375	-
Interest paid on capital lease obligation	(3,849)	(3,666)
Purchase of property and equipment	(217,744)	(76,684)
Net cash used in capital and related financing activities	(220,218)	(80,350)
Net Increase in Cash and Cash Equivalents	389,195	23,211
Cash and Cash Equivalents - Beginning of year	53,527	30,316
Cash and Cash Equivalents - End of year	\$ 442,722	\$ 53,527

Bay County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2007	December 31, 2006
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (1,192,793)	\$ (1,324,727)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	610,491	535,052
Provision for bad debts	33,158	202,918
Change in assets and liabilities:		
Resident accounts receivable	101,998	(128,293)
Other current assets	375,667	(304,000)
(Decrease) increase in accounts payable	(320,177)	309,886
(Decrease) increase in other accrued expenses	(112,268)	394,509
Increase in third-party settlement payables	85,586	-
Net cash used in operating activities	<u>\$ (418,338)</u>	<u>\$ (314,655)</u>

There were no significant noncash investing, capital, and financing activities for 2007 or 2006

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note I - Nature of Business and Significant Accounting Policies

Bay County Medical Care Facility (the "Facility") is an enterprise fund of Bay County, Michigan. The Facility is a 206-bed, long-term care facility owned and operated by Bay County (the "County"). It is governed by the Bay County Department of Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting.

Enterprise Fund Accounting - Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note I - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

Resident Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of residents. The resident trust liability on the balance sheet represents resident trust fund deposits at December 31, 2007 and 2006.

Compensated Absences - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Net Assets - Net assets of the Facility are classified in two components. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets or restricted.

Service Revenue - The Facility's principal activity is operating a long-term healthcare facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents. Revenue is recorded at standard billing rates and differences between billing rates and amounts paid under these programs are recorded as contractual adjustments. Amounts earned under the Medicaid and Medicare programs make up a significant portion of revenue earned during each year, as follows:

	Percent	
	2007	2006
Medicaid	79	73
Medicare	8	14

The payment methodology and amounts earned related to these programs are based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility.

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Medicaid reimburses the Facility for resident routine service costs, on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, 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.

Proportionate Share Reimbursement Program - During the year ended December 31, 2006, the Facility participated in the final year of this program sponsored by the State of Michigan. Amounts received from this program were recorded to revenue in the year received.

Quality Assurance Supplement - The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Supplement (QAS). The current QAS program was approved by the federal government during 2006 and was made effective retroactive to October 1, 2005. During the year ended December 31, 2007, the Facility received Medicaid revenue relating to QAS totaling \$1,905,374. During the year ended December 31, 2006, the Facility received Medicaid revenue relating to QAS totaling \$2,112,122, of which \$417,015 related to the retroactive period of October 1, 2005 through December 31, 2005.

During the year ended December 31, 2007, the Facility was assessed a "provider tax" totaling \$848,367. During the year ended December 31, 2006, the Facility was assessed a provider tax totaling \$1,363,853, of which \$268,697 related to the retroactive period of October 1, 2005 through December 31, 2005. This provider tax is based on the number of non-Medicare resident days of service provided during 2005 and 2004. During the year ended December 31, 2007, the State billed for the tax on a monthly basis. Therefore, \$61,958 of provider tax was due and is included in accounts payable at December 31, 2007. During the year ended December 31, 2006, the State billed for the tax on a quarterly basis due on the fifth day following the end of a quarter. Therefore, \$289,063 of provider tax was due and was included in accounts payable at December 31, 2006.

During 2007, the State revised the rate structure for the provider tax to a tiered basis, which benefitted the Facility by reducing the tax from approximately \$18 to \$11 per non-Medicare day of care.

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property Taxes - Taxes are levied on December 1 and payable by February 15. The cities and townships within the County bill and collect the property taxes for the County. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at December 31. The facility has had voter approval to levy up to \$0.48 per \$1,000 of assessed valuation for the purpose of general operations of the Facility.

Maintenance of Effort - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. M.O.E. is being paid by the Facility and is recorded in operating expenses. M.O.E. expense amounted to \$453,643 and \$536,642 for the years ended December 31, 2007 and 2006, respectively.

Operating Revenue and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services - the Facility's principal activity. Nonexchange revenue received for purposes other than capital asset acquisition are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Reclassifications - Certain prior year classifications have been changed to correspond with 2007 classifications.

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

	2007		2006	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits:				
County treasurer	\$ 406,405	\$ -	\$ 16,792	\$ -
Bank	35,717	-	36,135	-
Petty cash	600	-	600	-
Investments	-	3,026,386	-	2,517,305
Total	<u>\$ 442,722</u>	<u>\$ 3,026,386</u>	<u>\$ 53,527</u>	<u>\$ 2,517,305</u>

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 2 - Deposits and Investments (Continued)

Cash - County Treasurer - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits.

Michigan Compiled Laws Section 129.1 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrument of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility's deposits and investments are subject to several types of risks including custodial credit risk of bank deposits and investments, interest rate risk, credit risk, and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility's funds as these funds are only a portion of the total County deposits.

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	<u>2007</u>	<u>2006</u>
Resident accounts receivable	\$ 1,679,326	\$ 1,879,893
Less allowance for uncollectible accounts	<u>(280,000)</u>	<u>(345,411)</u>
Net resident accounts receivable	<u>\$ 1,399,326</u>	<u>\$ 1,534,482</u>

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	<u>Percent</u>	
	<u>2007</u>	<u>2006</u>
Medicare	10	12
Medicaid	58	48
Other payors	<u>32</u>	<u>40</u>
Total	<u>100</u>	<u>100</u>

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives at December 31, 2007 are summarized below:

	2006	Additions	Transfers	Retirements	2007	Depreciable Life - Years
Buildings and improvements	\$ 11,366,531	\$ 57,378	\$ -	\$ -	\$ 11,423,909	5-40
Machinery and equipment	413,114	-	-	-	413,114	3-10
Furniture and fixtures	2,657,564	100,759	-	(400,733)	2,357,590	3-20
Vehicles and other	60,002	-	-	-	60,002	5
Construction in progress	-	59,607	-	-	59,607	-
Total	14,497,211	217,744	-	(400,733)	14,314,222	
Less accumulated depreciation:						
Buildings and improvements	4,976,794	506,812	-	(296,626)	5,186,980	
Machinery and equipment	383,578	20,580	-	-	404,158	
Furniture and fixtures	2,102,914	83,099	-	-	2,186,013	
Vehicles and other	60,002	-	-	-	60,002	
Total	7,523,288	610,491	-	(296,626)	7,837,153	
Net carrying amount	\$ 6,973,923	\$ (392,747)	\$ -	\$ (104,107)	\$ 6,477,069	

	2005	Additions	Transfers	Retirements	2006	Depreciable Life - Years
Building and improvements	\$ 5,895,367	\$ 70,863	\$ 5,400,301	\$ -	\$ 11,366,531	5-40
Machinery and equipment	413,114	-	-	-	413,114	3-10
Furniture and fixtures	2,654,843	2,721	-	-	2,657,564	3-20
Vehicles and other	60,002	-	-	-	60,002	5
Construction in progress	5,397,201	3,100	(5,400,301)	-	-	-
Total	14,420,527	76,684	-	-	14,497,211	
Less accumulated depreciation:						
Building and land improvements	4,584,975	391,819	-	-	4,976,794	
Machinery and equipment	361,518	22,060	-	-	383,578	
Furniture and fixtures	1,981,741	121,173	-	-	2,102,914	
Vehicles and other	60,002	-	-	-	60,002	
Total	6,988,236	535,052	-	-	7,523,288	
Net carrying amount	\$ 7,432,291	\$ (458,368)	\$ -	\$ -	\$ 6,973,923	

Note 5 - Retirement Plan

Plan Description - The Facility participates in the Bay County Employees' Retirement System, a single-employer defined benefit pension plan that covers all eligible employees of the Facility through Bay County. The Facility provides retirement, disability, and death benefits to plan members and their beneficiaries.

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 5 - Retirement Plan (Continued)

Funding Policy - The Facility's policy is to fund normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The provisions of the plan require the Facility to contribute at an actuarially determined rate. The current rate is 0 percent, which was determined through an actuarial valuation performed at December 31, 2006. Plan members contribute at a rate of 4 percent of their annual salary. The Facility pays the plan member contributions. Contributions from plan members for the years ended December 31, 2007 and 2006 amounted to \$334,091 and \$334,352, respectively. The plan benefit provisions and contribution requirements of plan members and the County are established and may be amended by the Board of Commissioners. The Bay County Employees' Retirement System Board of Trustees administers the plan, in accordance with County policies, union contracts, and plan provisions.

To show the progress of the Facility's status regarding certain key indicators, three-year trend information is presented below:

Facility Plan

	2006	2005	2004
Actuarial value of assets	\$ 43,193,907	\$ 41,860,925	\$ 41,395,714
Actuarial accrued liability (entry age)	\$ 35,642,143	\$ 34,046,189	\$ 32,645,058
Overfunded actuarial accrued liability (OAAL)	\$ (7,551,764)	\$ (7,814,736)	\$ (8,750,656)
Funded ratio	121.2%	123.0%	126.8%
Covered payroll	\$ 8,727,501	\$ 8,559,919	\$ 8,900,035
OAAL as a percent of covered payroll	(86.53)%	(91.29)%	(98.32)%

Note 6 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Facility has purchased commercial insurance to cover these risks.

The Facility is self-insured for employee injuries (workers' compensation). The Facility is covered by a stop-loss policy that covers individual claims over \$400,000 or total claims in excess of \$1,000,000, to a maximum of \$1,000,000.

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 6 - Risk Management (Continued)

Changes in the estimated liability for the years ended December 31, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 96,526	\$ 339,329
Estimated claims incurred, including changes in estimates	49,725	(9,995)
Claim payments	<u>(54,731)</u>	<u>(232,808)</u>
Estimated liability - End of year	<u>\$ 91,520</u>	<u>\$ 96,526</u>

Beginning July 1, 2006, the Facility is self-insured for healthcare claims. Prior to July 1, 2006, the Facility was partially self-insured for healthcare claims, but also paid a partial premium. The Facility is covered by a stop-loss policy that covers individual claims over \$35,000.

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 550,000	\$ -
Estimated claims incurred, including changes in estimates	2,803,581	3,614,290
Claim payments	<u>(2,953,581)</u>	<u>(3,064,290)</u>
Estimated liability - End of year	<u>\$ 400,000</u>	<u>\$ 550,000</u>

Note 7 - Postemployment Benefits

The Facility participates in a County sponsored retiree health plan through a Voluntary Employees Beneficiary Association (VEBA) trust (the "Plan"). The Plan is a single employer defined benefit public retiree healthcare plan established effective October 1, 2001. The purpose of the plan is to provide medical and healthcare benefits for the welfare of certain retirees of the County and the spouses and dependents of such retirees who are participants in the Bay County Retirement System. Benefits under the plan are provided pursuant to a group contract issued by Blue Cross/Blue Shield of Michigan. The County Board of Commissioners has the authority to establish and amend benefit provisions. Additional information can be found in the Bay County audited financial statements.

Bay County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 7 - Postemployment Benefits (Continued)

The Plan is a contributory defined benefit plan which covers substantially all employees of Bay County Medical Care Facility, as defined above. Contributions to the Plan for the years ended December 31, 2007 and 2006 were approximately \$185,000 and \$247,000, respectively. Currently, the Plan is only accumulating assets; no benefits are eligible to be paid out of the Plan at this time.

The Facility provides postemployment medical and life insurance benefits for retired employees. Substantially all employees may become eligible for the benefits if they reach normal retirement age while working for the Facility. Currently, 118 retirees are receiving the benefits. Included in the Facility's operating expenses is approximately \$1,258,000 and \$1,080,000 for the cost of retirees' health and life insurance benefits for the years ended December 31, 2007 and 2006, respectively.

Note 8 - Upcoming Reporting Changes

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidelines for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. GASB Statement No. 45 generally recommends the actuarially determined contributions be made into a separate legal trust account to fund for those benefits and is effective for the year ending December 31, 2008 for the Facility.

Additional Information



Plante & Moran, PLLC
Bridgewater Place
Suite 600
333 Bridge St. N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

To the Board of Directors
Bay County Medical Care Facility

We have audited the financial statements of Bay County Medical Care Facility as of December 31, 2007 and 2006. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net service revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

March 31, 2008

Bay County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	2007	2006
Skilled Nursing Services		
Net room revenue:		
Medicaid	\$ 12,680,464	\$ 11,287,138
Medicare	748,806	1,230,700
Private pay and other	1,922,038	2,084,939
Total net room revenue	15,351,308	14,602,777
Ancillary revenue:		
Pharmacy	128,491	210,612
Therapy services	493,272	633,850
Other ancillary services	30,680	267,080
Total ancillary revenue	652,443	1,111,542
Net skilled nursing services revenue	16,003,751	15,714,319
Revenue deductions:		
Provision for contractual discounts	(657,086)	(681,933)
Bad debt expense	(33,158)	(202,918)
Total revenue deductions	(690,244)	(884,851)
Net skilled nursing services revenue	15,313,507	14,829,468
Net Service Revenue	\$ 15,313,507	\$ 14,829,468

Bay County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31			
	2007			2006
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 5,060,640	\$ 5,060,640	\$ 4,782,267
Administration	427,191	651,358	1,078,549	875,146
Plant operations	284,059	214,856	498,915	451,694
Utilities	-	419,624	419,624	404,193
Laundry	209,526	48,442	257,968	376,170
Housekeeping	467,211	80,994	548,205	530,916
Dietary	747,786	657,370	1,405,156	1,382,782
Central supplies	83,719	-	83,719	79,595
Medical records	13,495	-	13,495	27,993
Social services	111,097	261	111,358	157,523
Diversional therapy	320,951	36,332	357,283	365,786
Other ancillary services	-	26,106	26,106	56,894
Therapy services	175,820	34,505	210,325	212,940
Pharmacy	-	136,470	136,470	207,246
Nursing	5,688,585	637,278	6,325,863	6,194,088
Provider tax	-	848,367	848,367	1,363,853
Other services	18,000	837	18,837	82,891
Depreciation and amortization	-	610,491	610,491	535,052
Maintenance of effort	-	453,643	453,643	536,642
Total operating expenses	\$ 8,547,440	\$ 9,917,574	\$ 18,465,014	
2006 total		\$ 10,047,842		\$ 18,623,671



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 Members of the Board
Bay County Medical Care Facility

We have audited the financial statements of Bay County Medical Care Facility (the "Facility") as of and for the year ended December 31, 2007 and have issued our report thereon dated March 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We believe the following deficiencies constitute significant deficiencies:

County Reconciliations

During the audit, we noted County cash reconciliations are being performed by the purchasing agent/accountant who is also responsible for posting all manual journal entries. Although the administrator reviews manual journal entries, no one had reviewed the selected bank reconciliation and County cash reconciliation performed by the purchasing agent/accountant.

Accounts Receivable

Monthly reconciliations of subsidiary ledgers are not performed to agree the month-end balances of the accounts receivable subsidiary ledger to the general ledger. We recommend the Facility institute a process by which the purchasing agent/accountant is performing a documented reconciliation of the subsidiary ledger to the general ledger in order to ensure proper and accurate accounting.

In addition, the accounts receivable allowance for doubtful accounts is not being evaluated on a regular basis. We recommend that the Facility begin evaluating the allowance on a regular basis, and at least annually to determine the allowance is adequate and reasonable based on prior history and current conditions.

Accounts Payable

During the audit, we noted that accounts payable is not recorded throughout the year. The Facility is entering invoices into the accounts payable module the same day the invoices are paid, as opposed to entering invoices as they are received. In order to properly reflect the Facility's financial position, the Facility should have recorded all liabilities as of month end in the monthly financial statements. In addition, at year end, an accounts payable listing should be generated from the accounts payable module, which should then reconcile to the general ledger.

Monthly Financial Statements

We noted that the board is reviewing monthly financial statements; however, we noted there is an approximate two-and-a-half-month lag. It is ideal for the board to review the financial statements for the previous month. We recommend that the Facility review its processes and procedures to allow for more timely information.

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

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

Fixed Assets

During the audit, we noted several issues with fixed assets. Reconciliation of the fixed asset system to the general ledger should be performed at least annually; this was not done during the year. In addition, we noted that disposals of assets were made in the fixed asset software, but there was not a corresponding journal entry to remove the assets and record the loss on disposal in the general ledger. Lastly, a disposal report was unable to be produced from the fixed asset system reflecting year-to-date disposals. We recommend that the Facility review the procedures and processes for the recording of fixed assets and make necessary changes in order to properly maintain fixed assets and account for transactions within the general ledger.

Audit Adjustments

As a result of the audit, we identified several adjustments that were presented to management and ultimately recorded by management into the Facility's general ledger. The significant audit adjustments are described in the following results of the audit communication. The net result of the audit adjustments was an increase in revenues of approximately \$111,000.

Other Items for Consideration

Accounts Receivable Aging

The accounting staff was unable to produce an accounts receivable aging as of December 31, 2007. It appears that monthly aging reports are being generated each month; however, the December aging was unable to be located and the system does not allow an accurate aging to be run as of a previous date. The aging is a critical report used to estimate the allowance for doubtful accounts. We recommend that the Facility ensure the aging is run each month and that a copy of the aging is maintained in a secure location.

Private Pay Rate

Due to the Medicaid per diem rate as of October 1, 2007 being increased above the private pay rate, the Facility did not receive the full Medicaid rate for days billed from October to December 2007. Although the Facility will be eligible to receive the additional revenue to recapture the decreased Medicaid reimbursement during the annual settlement process, we recommend that the Facility raise the private rate to cover other potential changes to the Medicaid rate. We are aware of at least one issue which may cause another increase in the Medicaid rate. The effect from the Medicaid audit would include an increase due to the plant cost component. It is always important to maintain a 5 percent to 10 percent mark-up on the private pay rate to avoid restriction of payments on the Medicaid rate.

New Auditing Procedures

As a result of new auditing procedures, which expanded our review of internal controls during the year, we have identified several other controls, policies, and procedures we consider best practices the Facility should consider implementing. We have made available to management a list of internal control observations which will provide opportunity for additional improvements in accounting controls. The list includes controls we would typically expect to see in a similar environment, but it was either not one of the controls you have established or our minimal sample test found it to be ineffective.

Internal Control Observations

	What Could Go Wrong?	Recommended Controls to Add
Cash	Cash account activity and balances are misstated	<p>Cash account reconciliation functions are performed by individuals restricted from accessing cash receipt, cash disbursement, and journal entry functions</p> <p>Independent review of cash activity (bank statements, canceled checks, etc.)</p> <p>Independent review of cash account reconciliations and related accounting entries</p>
Revenue	<p>Revenue is not valid or is recognized in incorrect period</p> <p>Revenue is recognized at incorrect amounts</p>	<p>Written revenue recognition policies exist and are followed</p> <p>Written charity care policy is followed</p> <p>Monthly revenue reasonableness test is performed using rates and days</p> <p>Coders/Billers receive educational training throughout the year</p> <p>Rate setting and recording should be separate from billing</p> <p>Active corporate compliance plan</p>
Accounts receivable	Accounts receivable are not adjusted to net realizable value	Written valuation allowance policies exist and are followed
Accounts payable	Obligations for goods and services received are not recognized in the proper period	<p>Analysis of unmatched invoices and purchase orders on hand as of balance sheet date</p> <p>Formal policies are utilized for identifying and recording obligations for goods and services</p>
Disbursements	<p>Expenditures are classified incorrectly</p> <p>Payments to vendors are applied incorrectly</p>	<p>Independent review of expenditure classifications</p> <p>System only allows application of payments against valid open invoices</p>

Compliance and Other Matters

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

This report is intended solely for the information and use of the board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "J. Eric Conway". The signature is written in a cursive style with a large, stylized initial "J".

J. Eric Conway, CPA, FHFMA
Partner



Plante & Moran, PLLC

Bridgewater Place
Suite 600
333 Bridge St. N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Results of the Audit

To the Members of the Board
Bay County Medical Care Facility

We have audited the financial statements of Bay County Medical Care Facility (the "Facility") for the year ended December 31, 2007 and have issued our report thereon dated March 31, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 6, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Bay County Medical Care Facility. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of Bay County Medical Care Facility's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of Bay County Medical Care Facility's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions within this communication regarding our consideration of Bay County Medical Care Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of Bay County Medical Care Facility, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 31, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bay County Medical Care Facility are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimates for the allowance for uncollectible accounts and the accrued self-insurance liability for health and workers' compensation claims.

Management's estimate of the allowance for uncollectible accounts and estimate for accrued self-insurance are based on accounts receivable aging reports and reports from third-party administrators, respectively. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts and accrued self-insurance liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following significant misstatements were detected as a result of audit procedures. The QAS receivable was reduced and revenue increased by approximately \$80,000. MOE expense and the related liability were reduced by approximately \$70,000. A liability was recorded to reflect the Medicaid 2004 cost report settlement, by reducing revenue by approximately \$209,000. An entry was recorded for fixed asset disposals and related loss on disposal of approximately \$102,000. Accounts payable was increased for expenses that should be included in 2007, thus increasing expenses by approximately \$65,000. An adjustment was made to adjust for the estimated liability for self-insurance health claims which reduced expenses by \$150,000. An entry was made to record a Medicaid receivable for the settlement of the rate difference in effect for the last quarter of 2007, resulting in additional revenue of approximately \$123,000. The last significant adjustment made was to reduce the allowance for uncollectible accounts, thereby reducing expenses by approximately \$65,000. Overall, the net effect of all audit adjustments increased net revenue by \$111,357.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated March 31, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the organization's auditors.

This information is intended solely for the use of the members of the board and management of Bay County Medical Care Facility and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "J. Eric Conway". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

J. Eric Conway, CPA, FHFMA