Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Calhoun County Medical Care Facility	Calhoun

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
December 31, 2007	January 28, 2008	February 22, 2008

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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number
Plante & Moran, PLLC	269-567-4500

Street Address	City	State	Zip
750 Trade Centre Way, Suite 300	Portage	MI	49002

Authorizing CPA Signature	Printed Name	License Number
J. Eric Conway	J. Eric Conway, CPA, FHFMA	1101016760

Calhoun County Medical Care Facility

Financial Report
with Additional Information
December 31, 2007

Calhoun County Medical Care Facility

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Independent Auditor's Report

To the Calhoun County Department
of Human Services Board
Calhoun County Medical Care Facility

We have audited the accompanying balance sheet of Calhoun County Medical Care Facility (a component unit of Calhoun 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. 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 Calhoun 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.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

January 28, 2008

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Calhoun County Medical Care Facility

Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 2,628,173	$ 2,745,614
Resident accounts receivable (Note 3)	1,073,693	927,500
Taxes receivable (Note 4)	802,408	835,050
Other current assets	141,589	140,466
Total current assets	4,645,863	4,648,630
Assets Limited as to Use (Note 2)	3,952,290	12,627,733
Property and Equipment - Net (Note 5)	14,604,622	4,515,287
Total assets	**$ 23,202,775**	**$ 21,791,650**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 260,089	$ 281,618
Construction payable	1,367,458	459,621
Current portion of long-term debt (Note 8)	200,000	116,667
Accrued liabilities and other:		
Accrued compensation and related liabilities	316,699	294,765
Accrued compensated absences	292,922	278,424
Deferred taxes (Note 4)	855,926	835,050
Other accrued liabilities	166,042	282,836
Total current liabilities	3,459,136	2,548,981
Long-term Debt - Net of current portion (Note 8)	7,800,000	8,000,000
Net Assets		
Invested in capital assets - Net of related debt	6,744,557	2,059,787
Donor restricted for specific operating activities	73,903	58,037
Restricted for capital projects	-	6,224,738
Unrestricted	5,125,179	2,900,107
Total net assets	11,943,639	11,242,669
Total liabilities and net assets	**$ 23,202,775**	**$ 21,791,650**

See Notes to Financial Statements.

Calhoun County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2007	2006
Operating Revenue		
Net service revenue	$ 8,807,823	$ 9,035,077
Quality assurance supplement	1,068,173	1,321,017
Other operating revenue	144,532	200,684
Proportionate share reimbursement	-	191,397
Total operating revenue	10,020,528	10,748,175
Operating Expenses		
Salaries	6,013,185	5,809,180
Other expenses	4,606,811	4,684,427
Total operating expenses	10,619,996	10,493,607
Operating (Loss) Income	(599,468)	254,568
Other Income		
Interest income	429,000	400,210
Tax revenue	929,771	917,934
Total other income	1,358,771	1,318,144
Excess of Revenue Over Expenses	759,303	1,572,712
Contribution to Other County Funds (Note 6)	(58,333)	(175,000)
Increase in Net Assets	700,970	1,397,712
Net Assets - Beginning of year	11,242,669	9,844,957
Net Assets - End of year	**$ 11,943,639**	**$ 11,242,669**

See Notes to Financial Statements.

Calhoun County Medical Care Facility

Statement of Cash Flows

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	$ 8,661,630	$ 8,920,867
Cash paid to employees and suppliers	(10,347,950)	(10,276,662)
Cash received from Proportionate Share Program	-	191,397
Other operating receipts	144,532	200,684
Cash received from Quality Assurance Supplement Program	1,068,173	1,321,017
Net cash (used in) provided by operating activities	(473,615)	357,303
Cash Flows from Noncapital Financing Activities - Property taxes	929,771	917,934
Cash Flows from Investing Activities - Interest received	429,000	400,210
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	(9,503,040)	(2,047,097)
Contributions to other County funds	(58,333)	(175,000)
Proceeds from bond issuance	-	8,000,000
Payments on long-term debt	(116,667)	-
Net cash (used in) provided by capital financing activities	(9,678,040)	5,777,903
Net (Decrease) Increase in Cash and Cash Equivalents	(8,792,884)	7,453,350
Cash and Cash Equivalents - Beginning of year	15,373,347	7,919,997
Cash and Cash Equivalents - End of year	**$ 6,580,463**	**$ 15,373,347**
Balance Sheet Classification of Cash and Cash Equivalents		
Current assets	$ 2,628,173	$ 2,745,614
Assets limited as to use	3,952,290	12,627,733
Total cash and cash equivalents	**$ 6,580,463**	**$ 15,373,347**
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	$ (599,468)	$ 254,568
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	321,542	338,919
Provision for bad debts	58	90
Changes in assets and liabilities:		
Resident accounts receivable	(146,251)	(114,300)
Other current assets	31,519	(132,148)
Accounts payable	(21,529)	60,240
Other accrued expenses	(80,362)	(123,218)
Deferred revenue	20,876	73,152
Net cash (used in) provided by operating activities	**$ (473,615)**	**$ 357,303**

See Notes to Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Calhoun County Medical Care Facility (the "Facility"), a component unit of Calhoun County, is a 120-bed, long-term care facility owned and operated by Calhoun County (the "County"). It is governed by the Calhoun 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. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues 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) 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 revenues 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.

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

Assets Limited as to Use - Assets limited as to use primarily include assets set aside by the Calhoun County Department of Human Services Board for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes, as well as assets temporarily restricted by donors for future capital improvements, resident and client services, and scholarships.

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. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs of maintenance and repairs are charged to expense when incurred.

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

Resident Funds - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents.

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 $42,107 and $42,254 for the years ended December 31, 2007 and 2006, respectively.

Proportionate Share Reimbursement Program - During the year ended December 31, 2006, the Facility participated in this program sponsored by the State of Michigan. Revenue was taken into income in the year it was received.

Quality Assurance Program - The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Assessment Program (QAAP). The current QAAP 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 revenues related to QAAP totaling $1,068,173. During the year ended December 31, 2006, the Facility received Medicaid revenues related to QAAP totaling $1,321,017, of which $262,218 related to the retroactive period of October 1, 2005 through December 31, 2005.

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

During the year ended December 31, 2007, the Facility was assessed a "provider tax" totaling $732,452. During the year ended December 31, 2006, the Facility was assessed a provider tax totaling $829,465, of which $165,123 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 the years ended December 31, 2005 and 2004. During the year ending December 31, 2007, the State billed for the tax on a monthly basis. Therefore, approximately $60,000 of provider tax was due and is included in accounts payable at December 31, 2007. The State billed for the tax on a quarterly basis due on the fifth day following the end of a quarter for the year ended December 31, 2006. Therefore, approximately $175,000 of provider tax was due and is included in accounts payable at December 31, 2006.

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. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	Percent	
	2007	2006
Medicaid	76	76
Medicare	6	10

The payment methodology related to these programs is 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 that are subject to review and final approval by Medicare.

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

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

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.

Operating Revenues and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Facility's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. Nonexchange revenues, including taxes, interest, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Interest expense is reported as a nonoperating expense.

Net Assets - Net assets of the Facility are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets. Net assets restricted by donor for specific operating activities consist of noncapital net assets that must be used for a particular purpose, as specified by contributors external to the Facility. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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	$ 2,460,408	$ 3,952,290	$ 2,650,136	$12,627,733
Bank	167,015	-	94,628	-
Petty cash	750	-	850	-
Total	$ 2,628,173	$ 3,952,290	$ 2,745,614	$12,627,733

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.

Michigan Compiled Laws Section 129.91 (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.

Assets limited as to use are designated for the following:

	2007	2006
By board for future capital purchases	$ 3,952,290	$ 6,402,995
By bond documents for construction expenditures	-	6,224,738
Total	$ 3,952,290	$ 12,627,733

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2007	2006
Resident accounts receivable	$ 1,188,693	$ 869,048
Uncollectible accounts	(80,000)	(80,000)
Medicaid payment advances	(35,000)	138,452
Net resident accounts receivable	$ 1,073,693	$ 927,500

Note 3 - Resident Accounts Receivable (Continued)

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:

	Percent	
	2007	2006
Medicare	18	30
Medicaid	52	46
Other payors	30	24
Total	100	100

Note 4 - Taxes Receivable/Deferred Tax Revenue

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. County property tax revenue is recognized when levied to the extent that it results in current receivables within the year budgeted by the board to provide resources for financing budgeted expenditures. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations. Calhoun County Medical Care Facility has voter approval to levy annually (December 1, 2003 through December 1, 2012) approximately $.25 per $1,000 of assessed valuation for the purpose of the general operation of the Facility.

Note 5 - Property and Equipment

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

	2006	Additions	Transfers	Retirements	2007	Depreciable Life - Years
Land and land improvements	$ 116,596	$ -	$ -	$ -	$ 116,596	5-20
Building	6,522,573	32,417	-	-	6,554,990	10-40
Equipment	1,936,076	18,104	-	(23,000)	1,931,180	5-10
Construction in progress	2,455,501	10,360,356	-	-	12,815,857	-
Total	11,030,746	10,410,877	-	(23,000)	21,418,623	
Less accumulated depreciation:						
Land and land improvements	89,187	6,319	-	-	95,506	
Building	4,611,300	195,411	-	-	4,806,711	
Equipment	1,814,972	119,812	-	(23,000)	1,911,784	
Total	6,515,459	321,542	-	(23,000)	6,814,001	
Net carrying amount	$ 4,515,287	$ 10,089,335	$ -	$ -	$ 14,604,622	

Note 5 - Property and Equipment (Continued)

Cost of capital assets and related depreciable lives for December 31, 2006 are summarized below:

	2005	Additions	Transfers	Retirements	2006	Depreciable Life - Years
Land and land improvements	$ 116,596	$ -	$ -	$ -	$ 116,596	5-20
Building	6,518,153	97,605	(93,185)	-	6,522,573	10-40
Equipment	1,889,279	46,797	-	-	1,936,076	5-10
Construction in progress	-	2,362,316	93,185	-	2,455,501	-
Total	8,524,028	2,506,718	-	-	11,030,746	
Less accumulated depreciation:						
Land and land improvements	81,030	8,157	-	-	89,187	
Building	4,387,303	223,997	-	-	4,611,300	
Equipment	1,708,207	106,765	-	-	1,814,972	
Total	6,176,540	338,919	-	-	6,515,459	
Net carrying amount	$ 2,347,488	$ 2,167,799	$ -	$ -	$ 4,515,287	

Construction contracts of approximately $15,000,000 exist for the new building addition and remodeling of the Facility. At December 31, 2007, the remaining commitment on these contracts approximated $3,000,000. Financing for this project has come from the issuance of bonds, which was done by the County in 2006 totaling $8,000,000. The remaining amounts for this project have come from designated funds of the Facility.

Note 6 - Related Party Transactions

As discussed in Note 1, the Facility is a component unit of Calhoun County. To finance a renovation project of the Facility, the County issued bonds in 1992 totaling $1,550,000. To assist with repayment, the Facility has recorded contributions to the County of $58,333 and $175,000 for the years ended December 31, 2007 and 2006, respectively. During the year ended December 31, 2007, the bonds were fully paid. At December 31, 2007 and 2006, the accrued liability to the County was $0 and $116,667, respectively.

During 2006, the County issued bonds totaling $8,000,000 to finance a major building addition and renovation project.

Note 7 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for property, malpractice, workers' compensation, directors' and officers' liability, and employee health claims. The Facility is self-insured for unemployment claims.

Note 8 - Long-term Debt

Long-term liability activity for the year ended December 31, 2007 was as follows:

	2006	Current Year Additions	Current Year Reductions	2007	Amounts Due Within One Year
Bonds	$ 8,000,000	$ -	$ -	$ 8,000,000	$ 200,000

	2005	Current Year Additions	Current Year Reductions	2006	Amounts Due Within One Year
Bonds	$ -	$ 8,000,000	$ -	$ 8,000,000	$ -

The bond payable is summarized as follows:

- General obligation limited tax county bonds, with interest rates ranging from 3.70 percent to 4.00 percent. These bonds are payable in annual installments ranging from $200,000 to $700,000, beginning on April 1, 2008 and ending on April 1, 2026. Interest is to be paid semi-annually beginning on April 1, 2007 and ending on April 1, 2026.

The following is a schedule by years of bond principal and interest as of December 31, 2007:

Years Ending December 31	Principal	Interest
2008	$ 200,000	$ 310,975
2009	200,000	302,975
2010	250,000	293,975
2011	250,000	283,975
2012-2016	1,700,000	1,234,875
2017-2021	2,300,000	847,838
2022-2026	3,100,000	323,725
Total payments	$ 8,000,000	$ 3,598,338

Note 9 - Defined Contribution Retirement Plan

The Facility provides pension benefits to employees who have worked an initial probationary period of 90 to 120 days and have a total of 1,000 hours worked (500 hours for employees of the Facility for more than one year) through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by Calhoun County, for the year ended December 31, 2007, the Facility contributed $1.00 for each $1.00 of voluntary contribution made by the employee up to a maximum of 5 percent of the employee's gross wages. In accordance with these requirements, the Facility contributed $142,237 and $126,425, and the employees contributed $230,387 and $194,526 for the years ended December 31, 2007 and 2006, respectively.

Note 10 - Endowment Funds Held by Third Parties

The Facility is the beneficiary of a trust, which is maintained by an outside trustee, the Battle Creek Community Foundation. Income from the trust, which consists substantially of interest and dividends, is to be used for operations. The balance of the trust, which is not accounted for in the Facility's records, is $320,407 and $310,975 at December 31, 2007 and 2006, respectively. Income received by the Facility from the trust was $31,132 and $27,912 during the years ended December 31, 2007 and 2006, respectively.

Additional Information

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To the Calhoun County Department
of Human Services Board
Calhoun County Medical Care Facility

We have audited the financial statements of Calhoun 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

January 28, 2008

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Calhoun County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	2007	2006
Skilled nursing services:		
Daily net room revenue:		
Medicaid	$ 6,091,310	$ 5,901,480
Medicare	466,015	798,840
Private pay and other	1,486,338	1,114,560
Total daily net room revenue	8,043,663	7,814,880
Ancillary revenue:		
Pharmacy	87,955	127,562
Therapy services	578,503	682,691
Other ancillary services	29,725	57,356
Total skilled nursing services revenue	8,739,846	8,682,489
Revenue deductions:		
Provision for contractual discounts	(749,390)	(472,512)
Bad debt expense	(58)	(90)
Total revenue deductions	(749,448)	(472,602)
Net skilled nursing services revenue	7,990,398	8,209,887
Adult day care service revenue	817,425	825,190
Net service revenue	**$ 8,807,823**	**$ 9,035,077**

Calhoun County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31			
	2007			2006
	Salaries	Other	Total	Total
Fringe benefits	$ -	$ 1,574,912	$ 1,574,912	$ 1,542,796
Administration	577,921	366,244	944,165	881,139
Plant operations	231,749	190,647	422,396	363,140
Utilities	-	218,481	218,481	184,774
Laundry	63,856	173,923	237,779	247,540
Housekeeping	273,709	96,988	370,697	354,650
Dietary	568,508	356,220	924,728	878,977
Medical records	136,771	26,844	163,615	158,770
Social services	126,678	4,170	130,848	117,921
Diversional therapy	281,635	19,683	301,318	295,372
Other ancillary services	-	28,917	28,917	49,579
Therapy services	213,716	46,639	260,355	266,314
Pharmacy	-	92,141	92,141	134,410
Nursing	2,927,068	257,943	3,185,011	3,111,088
Quality assurance assessment	-	732,452	732,452	829,465
Other services	611,574	56,958	668,532	696,499
Depreciation and amortization	-	321,542	321,542	338,919
Maintenance of effort	-	42,107	42,107	42,254
2007 totals	**$ 6,013,185**	**$ 4,606,811**	**$ 10,619,996**	
2006 totals	**$ 5,809,180**	**$ 4,684,427**		**$ 10,493,607**

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January 28, 2008

To the Department of Human Services Board
Calhoun County Medical Care Facility
Battle Creek, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Calhoun County Medical Care Facility as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the 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 the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

- 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 consider the following deficiencies to be significant deficiencies in internal control:

Manual Journal Entries

During the audit, we noted the controller is the only person responsible for posting manual journal entries and no one reviews these journal entries. We recommend the administrator review manual journal entries on a regular basis.

Allowance for Uncollectible Accounts

During the audit, we noted the allowance for uncollectible accounts has not changed for several years and is not evaluated regularly based on historical collections or reasonable allocations of aging categories. We recommend management evaluate the allowance on a regular basis and at least annually.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Account Reconciliations

During the audit, we noted reconciliations are not being performed on significant account balances, specifically the MIP account, cost report settlement accounts, and the Quality Assurance revenue account. We recommend these accounts be reconciled on a monthly basis to ensure propriety and accuracy of these account balances.

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. There were two significant audit adjustments to adjust the MIP account and the Quality Assurance accounts, resulting in an approximate reduction of $92,000 in revenue.

Management's Discussion and Analysis

The financial statements do not include a management's discussion and analysis section which is required of governmental entities. The Facility's financial statements are included within the audited financial statements of the County of Calhoun, which does include the required management's discussion and analysis section.

We also identified the following other items not considered to be significant deficiencies, but which we consider to be control deficiencies.

Bad Debt Write-offs

During the audit, we noted an account that was to be written off to bad debt as approved by the board of directors was not properly recorded in the general ledger account for bad debt expense. The account was written off to two contractual accounts. We recommend procedures be put in place to make sure proper general ledger account numbers are assigned.

Payroll Rate Changes

We noted the payroll clerk updates pay rate changes in the payroll system based on a change form approved by the administrator and department head; however, no one reviews these rates after the change has been entered. Ideally, the person who enters pay rates into the system should be someone different than the person who processes payroll. As an additional control, we recommend an independent review of the pay rates on a random basis.

Cash Receipts Process

During the audit, we noted the receptionist gives the daily checks and cash received to the controller along with the receipts. The controller then makes the deposit and gives the receipt to the AR clerk for entering the receipts into the system. As an additional control, we recommend the receptionist give the receipts to the AR clerk or a copy of the receipt and the checks and cash to the controller.

Cost Reporting Matters

Plant Cost Certification - The Facility will have the opportunity to request an increased Medicaid rate to reflect the capital costs related to the new construction. The earliest opportunity to request would be during the month before the new area will be placed into service. Some information (such as the certificate of occupancy) will need to be provided to the Medicaid auditors subsequent to the initial filing.

Excess Borrowings - Whenever a provider borrows funds to complete a project, Medicaid will review whether the full amount of the borrowings was necessary. If it determines excess borrowings have occurred, the remedy is typically to disallow reimbursement of the interest expense on the excess amount until the entire debt is repaid. Therefore, it will be very important to demonstrate and document a justification of the cash remaining. It may be best to document at the end of the first phase of the project. If you wait until the end of all phases, the cash will also include the reimbursement for the increased plant cost rates and FIDS (if the State ultimately pays) and it may be more difficult to sort through the details.

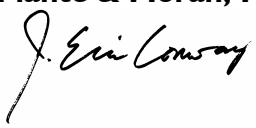
New Audit Procedures

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 attached Attachment A, a list of recommended items. 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.

This communication is intended solely for the information and use of management, members of the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



J. Eric Conway, CPA, FHFMA
Partner

Attachment A - Internal Control Observations

What Could Go Wrong?	Controls
Cash account activity and balances are misstated.	Independent review of cash activity (bank statements, canceled checks, etc.) Independent review of cash account reconciliations and related accounting entries
Revenue is not valid or is recognized in incorrect period.	Written revenue recognition policies exist and are followed.
Revenue is recognized at incorrect amounts.	Monthly revenue reasonableness test is performed using rates and days. Active Corporate Compliance Plan
Accounts receivable are not adjusted to net realizable value.	Written valuation allowance policies exist and are followed.
Incorrect recording of third-party settlements	Written identification, analysis, and recognition policies exist and are followed.
Property and equipment items are not capitalized.	Written capitalization policies exist and are followed.
Period expenses are capitalized in property and equipment accounts.	Written capitalization policies exist and are followed. IT system restricts access to property and equipment account entry.
Depreciation is incorrect.	Written depreciation policies exist and are followed.
Dispositions are not recognized.	Expenditure approval procedures include required disposition identification.
Impairments are not recognized.	Written impairment identification, analysis, and recognition policies exist and are followed.
Obligations for goods and services received are not recognized in the proper period.	Formal policies are utilized for identifying and recording obligations for goods and services.
Payroll expenditures are recorded and distributed at incorrect amounts.	Payroll exception and edit reports are reviewed by qualified individuals that are independent from the processing of payroll.