

Hillsdale County Medical Care Facility

**Financial Report
with Additional Information
December 31, 2008**

Hillsdale County Medical Care Facility

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Independent Auditor's Report

To the Board of Directors
Hillsdale County Medical Care Facility

We have audited the accompanying balance sheet of Hillsdale County Medical Care Facility (a component unit of Hillsdale County) as of December 31, 2008 and 2007 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.

Hillsdale County Medical Care Facility has not determined the cost of its postretirement medical benefits provided to eligible employees in accordance with accounting principles generally accepted in the United States of America, which requires the cost of those employee postretirement benefits to be recognized over the employees' respective service periods and a liability to be recognized for the benefit obligation. The effects of that departure on the financial statements are not reasonably determinable.

In our opinion, except for the effects of not recording the costs of the postretirement medical benefits as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Hillsdale County Medical Care Facility at December 31, 2008 and 2007 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 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

April 27, 2009

Hillsdale County Medical Care Facility

Balance Sheet

	December 31, 2008	December 31, 2007
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 961,340	\$ 2,132,773
Resident accounts receivable (Note 3)	1,699,064	1,166,464
Due from the County	-	46,641
Taxes receivable	811,898	793,551
Other current assets	113,988	101,046
Total current assets	3,586,290	4,240,475
Property and Equipment - Net (Note 4)	11,657,485	2,973,649
Other Assets	6,187	8,662
Total assets	\$ 15,249,962	\$ 7,222,786
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 377,569	\$ 368,432
Current portion of long-term debt (Note 5)	195,000	190,000
Resident trust liability	17,349	16,687
Accrued liabilities and other:		
Accrued compensation and related liabilities	275,029	197,623
Accrued compensated absences	209,594	210,963
Accrued workers' compensation liability (Note 8)	331,931	220,235
Deferred taxes	811,898	793,551
Other accrued liabilities	132,201	133,503
Total current liabilities	2,350,571	2,130,994
Long-term Debt - Net of current portion (Note 5)	1,535,000	1,730,000
Net Assets		
Invested in capital assets - Net of related debt	9,927,485	1,053,649
Unrestricted	1,436,906	2,308,143
Total net assets	11,364,391	3,361,792
Total liabilities and net assets	\$ 15,249,962	\$ 7,222,786

Hillsdale County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2008	December 31, 2007
Operating Revenue		
Net service revenue	\$ 11,476,917	\$ 10,941,809
Other operating revenue	46,959	46,035
Quality assurance supplement	1,726,305	1,574,244
Total operating revenue	13,250,181	12,562,088
Operating Expenses		
Salaries	7,353,759	6,594,157
Other	6,964,168	6,074,321
Total operating expenses	14,317,927	12,668,478
Operating Loss	(1,067,746)	(106,390)
Other Income (Expenses)		
Interest income	12,942	58,531
Contributions	80,145	18,387
Tax revenue	818,385	690,221
Interest expense	(80,555)	(87,909)
Total other income	830,917	679,230
(Decrease) Increase in Net Assets	(236,829)	572,840
Transfer from County	8,239,428	-
Increase in Net Assets	8,002,599	572,840
Net Assets - Beginning of year	3,361,792	2,788,952
Net Assets - End of year	\$ 11,364,391	\$ 3,361,792

Hillsdale County Medical Care Facility

Statement of Cash Flows

	Year Ended	
	December 31, 2008	December 31, 2007
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 10,944,317	\$ 11,079,108
Cash paid to employees and suppliers	(12,567,208)	(11,346,897)
Cash received from Quality Assurance Supplement	1,726,305	1,574,244
Other operating receipts	46,959	46,035
Cash paid for provider tax	(1,022,388)	(931,018)
Net cash (used in) provided by operating activities	(872,015)	421,472
Cash Flows from Noncapital Financing Activities		
Net resident trust deposits (payments)	662	(363)
Contributions	80,145	18,387
Tax revenue	800,038	620,120
Net cash provided by noncapital financing activities	880,845	638,144
Cash Flows from Investing Activities - Interest received	12,942	58,531
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(190,000)	(180,000)
Interest paid on long-term debt	(80,555)	(87,909)
Purchase of property and equipment	(922,650)	(82,348)
Net cash used in capital and related financing activities	(1,193,205)	(350,257)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,171,433)	767,890
Cash and Cash Equivalents - Beginning of year	2,132,773	1,364,883
Cash and Cash Equivalents - End of year	<u>\$ 961,340</u>	<u>\$ 2,132,773</u>

Hillsdale County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2008	December 31, 2007
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (1,067,746)	\$ (106,390)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	480,717	293,257
(Increase) decrease in resident accounts receivable	(532,600)	137,299
Decrease in other current assets	33,699	63,549
Increase (decrease) in accounts payable	9,137	(108,914)
Increase in other accrued expenses	204,778	142,671
Net cash (used in) provided by operating activities	<u>\$ (872,015)</u>	<u>\$ 421,472</u>

Significant noncash capital activities during 2008 consisted of construction additions to the building in the amount of \$8,239,428 which was paid for by the County. There were no significant noncash investing and financing activities for 2008.

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

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies

Hillsdale County Medical Care Facility (the "Facility") is a 160-bed, long-term care facility owned and operated by Hillsdale County (the "County"). The Facility is a component unit of the County of Hillsdale. It is governed by the Hillsdale 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 is 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's 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) 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 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.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

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

Property and Equipment - Property and equipment purchases are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. 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. 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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, 2008 and 2007.

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 net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt 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 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:

	<u>2008</u>	<u>2007</u>
Percent of revenue:		
Medicaid	78 %	79 %
Medicare	14 %	13 %

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

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

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 inpatient 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.

Quality Assurance Supplement - The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Supplement (QAS). During the year ended December 31, 2008, the Facility received Medicaid revenue related to QAS totaling \$1,726,305. During the year ended December 31, 2007, the Facility received Medicaid revenue related to QAS totaling \$1,574,244.

During the year ended December 31, 2008, the Facility was assessed a "provider tax" totaling \$1,022,388. During the year ended December 31, 2007, the Facility was assessed a "provider tax" totaling \$931,018. During the year ended December 31, 2008 and 2007, the State billed for the tax on a monthly basis. Therefore, approximately \$75,000 and \$79,000 of provider tax was due and is included in accounts payable at December 31, 2008 and 2007, respectively.

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 \$.60 per \$1,000 of assessed valuation for the purpose of general operations of the Facility.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

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

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 \$287,665 and \$302,455 for the years ended December 31, 2008 and 2007, respectively.

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. Nonexchange revenues received for purposes other than capital asset acquisition are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Note 2 - Deposits

The Facility's deposits are composed of the following:

	2008	2007
Deposits:		
County treasurer	\$ 943,991	\$ 2,116,086
Bank	17,349	16,687
Total	<u>\$ 961,340</u>	<u>\$ 2,132,773</u>

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 instrumentality 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.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 2 - Deposits (Continued)

The Facility's deposits are subject to several types of risk, 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 County's total deposits.

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	<u>2008</u>	<u>2007</u>
Resident accounts receivable	\$ 1,667,164	\$ 1,317,152
Uncollectible accounts	(95,000)	(95,000)
Medicaid interim payment (advances) receivable	<u>126,900</u>	<u>(55,688)</u>
Net resident accounts receivable	<u>\$ 1,699,064</u>	<u>\$ 1,166,464</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>2008</u>	<u>2007</u>
Medicare	26 %	25 %
Medicaid	65	49
Other payors	<u>9</u>	<u>26</u>
Total	<u>100 %</u>	<u>100 %</u>

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 4 - Property and Equipment

The cost of property and equipment and related depreciable lives for December 31, 2008 are summarized below:

	2007	Additions	Transfers	Retirements	2008	Depreciable Life - Years
Land improvements	\$ 29,524	\$ -	\$ -	\$ -	\$ 29,524	10-25
Building	6,628,829	8,708,280	-	-	15,337,109	10-40
Equipment	543,490	408,635	-	-	952,125	4-20
Construction in progress	-	45,163	-	-	45,163	
Total	7,201,843	9,162,078	-	-	16,363,921	
Less accumulated depreciation:						
Land improvements	29,524	-	-	-	29,524	
Building	3,736,617	384,850	-	-	4,121,467	
Equipment	462,053	93,392	-	-	555,445	
Total	4,228,194	478,242	-	-	4,706,436	
Net carrying amount	<u>\$ 2,973,649</u>	<u>\$ 8,683,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,657,485</u>	

During 2008, the Facility completed a construction project for a building addition. The County has issued bonds of \$8 million to cover the construction and a millage of 0.47 mils was approved by County voters to pay for the bonds. The Bond is being accounted for on the County's books.

The 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:	\$ 29,524	\$ -	\$ -	\$ -	\$ 29,524	10-25
Building	6,579,985	48,844	-	-	6,628,829	10-40
Equipment	509,986	33,504	-	-	543,490	4-20
Total	7,119,495	82,348	-	-	7,201,843	
Less accumulated depreciation:						
Land and land improvements	29,524	-	-	-	29,524	
Building	3,504,096	232,521	-	-	3,736,617	
Equipment	403,792	58,261	-	-	462,053	
Total	3,937,412	290,782	-	-	4,228,194	
Net carrying amount	<u>\$ 3,182,083</u>	<u>\$ (208,434)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,973,649</u>	

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 5 - Long-term Debt

Long-term debt activity for the year ended December 31, 2008 was as follows:

	<u>2007</u>	Current Year Additions	Current Year Reductions	<u>2008</u>	Amounts Due Within One Year
Series 1998	\$ 1,585,000	\$ -	\$ (110,000)	\$ 1,475,000	\$ 115,000
Series 2005	<u>335,000</u>	<u>-</u>	<u>(80,000)</u>	<u>255,000</u>	<u>80,000</u>
Total long-term debt	<u>\$ 1,920,000</u>	<u>\$ -</u>	<u>\$ (190,000)</u>	<u>\$ 1,730,000</u>	<u>\$ 195,000</u>

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

	<u>2006</u>	Current Year Additions	Current Year Reductions	<u>2007</u>	Amounts Due Within One Year
Series 1998	\$ 1,690,000	\$ -	\$ (105,000)	\$ 1,585,000	\$ 110,000
Series 2005	<u>410,000</u>	<u>-</u>	<u>(75,000)</u>	<u>335,000</u>	<u>80,000</u>
Total long-term debt	<u>\$ 2,100,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 1,920,000</u>	<u>\$ 190,000</u>

The bonds payable are summarized as follows:

- The Facility has entered into an agreement with the Hillsdale County Building Authority to make all principal and interest payments on \$2,300,000 in bonds issued during 1998 to construct an addition to the Facility. Principal payments range from \$110,000 in 2008 to \$185,000 in 2018 and interest rates range from 4.60 percent to 4.625 percent annually.
- The Facility has entered into an agreement with the Hillsdale County Building Authority to make all principal and interest payments on \$550,000 in bonds issued during 2005 for capital expenditures. Principal payments range from \$80,000 in 2008 to \$90,000 in 2011 and interest rates range from 3.25 percent to 3.50 percent annually.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 5 - Long-term Debt (Continued)

The following is a schedule by years of bond principal and interest as of December 31, 2008:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 195,000	\$ 74,056
2010	205,000	65,971
2011	220,000	57,331
2012	135,000	48,086
2013	140,000	41,761
2014-2018	835,000	100,399
Total	<u>\$ 1,730,000</u>	<u>\$ 387,604</u>

Note 6 - Retirement Benefits

As disclosed in Note 1, the Facility is a component unit of Hillsdale County. Hillsdale County, including the Facility, participates in the Hillsdale County Employees Retirement Plan, a defined contribution pension plan that covers all employees of the County. The plan provides retirement and death benefits to plan members and their beneficiaries. This information can be requested by writing to the County of Hillsdale, Courthouse, 29 N. Howell, Hillsdale, Michigan, 49242.

The obligation to contribute to and maintain the plan for these employees was established by negotiations with the County's competitive bargaining units and requires a contribution from the employee of 2 percent. The Facility's contribution requirement is 4 percent of employees' gross wages.

Facility contributions for the plan years ended December 31, 2008, 2007, and 2006 were \$256,056, \$229,834, and \$225,846, respectively.

Note 7 - Postretirement Benefits

The Facility provides postretirement medical benefits for retired employees. Employees who reach the age of 62 and have at least eight years of service or reach at least 60 years old and have 15 years of service may become eligible for continuation of their insurance until that employee reaches the age of 65. Currently, 21 retirees are receiving the benefits. Included in the Facility's operating expenses is approximately \$132,000 and \$155,500 for the cost of retirees' health for each of the years ended December 31, 2008 and 2007, respectively.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 8 - 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 is self-insured for workers' compensation claims. Changes in the estimated self-insured liability for the past fiscal years ended December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Estimated liability - Beginning of year	\$ 220,235	\$ 140,000
Estimated claims incurred, including changes in estimates	112,596	117,176
Claim payments	<u>(900)</u>	<u>(36,941)</u>
Estimated liability - End of year	<u>\$ 331,931</u>	<u>\$ 220,235</u>

The Facility participates in the County's insurance plan with the Michigan Municipal Risk Management Authority (the "Authority") risk pool for claims relating to general (including malpractice) and auto liability, auto physical damage, and property loss claims.

The Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

Additional Information

To the Board of Directors
Hillsdale County Medical Care Facility

We have audited the financial statements of Hillsdale County Medical Care Facility as of December 31, 2008 and 2007. 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 required parts 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, except for the effects of not recording the costs of the postretirement medical benefits as discussed in the following paragraph, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hillsdale County Medical Care Facility has not determined the cost of its postretirement medical benefits provided to eligible employees in accordance with accounting principles generally accepted in the United States of America, which requires the cost of those employee postretirement benefits to be recognized over the employees' respective service periods and a liability to be recognized for the benefit obligation. The effects of that departure on the financial statements are not reasonably determinable.

Plante & Moran, PLLC

April 27, 2009

Hillsdale County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended	
	December 31, 2008	December 31, 2007
Skilled Nursing Services		
Daily room revenue:		
Medicaid	\$ 9,514,028	\$ 9,615,378
Medicare	677,386	599,140
Private pay and other	895,714	740,930
Total daily room revenue	11,087,128	10,955,448
Ancillary revenue:		
Pharmacy	174,811	145,773
Therapy services	1,276,300	1,272,900
Other ancillary services	301,618	163,315
Total ancillary revenue	1,752,729	1,581,988
Total skilled nursing services revenue	12,839,857	12,537,436
Revenue Deductions - Provision for contractual discounts	<u>(1,362,940)</u>	<u>(1,595,627)</u>
Net Service Revenue	<u>\$ 11,476,917</u>	<u>\$ 10,941,809</u>

Hillsdale County Medical Care Facility

Schedule of Operating Expenses

	Year Ended			
	December 31,			December 31,
	2008			2007
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 2,349,222	\$ 2,349,222	\$ 2,013,208
Administration	635,625	568,071	1,203,696	1,154,573
Plant operations	162,026	130,044	292,070	266,737
Utilities	-	420,064	420,064	300,644
Laundry	275,463	59,961	335,424	311,387
Housekeeping	443,378	78,793	522,171	384,879
Dietary	778,018	528,027	1,306,045	1,239,755
Medical records	20,109	-	20,109	20,054
Diversional therapy	291,262	18,313	309,575	259,164
Other ancillary services	-	37,323	37,323	29,924
Therapy services	204,269	412,273	616,542	635,434
Pharmacy	-	209,060	209,060	178,649
Nursing	4,543,609	362,247	4,905,856	4,347,340
Provider tax	-	1,022,388	1,022,388	931,018
Depreciation and amortization	-	480,717	480,717	293,257
Maintenance of effort	-	287,665	287,665	302,455
2008 totals	\$ 7,353,759	\$ 6,964,168	\$ 14,317,927	
2007 totals	\$ 6,594,157	\$ 6,074,321		\$ 12,668,478

April 27, 2009

To the Board of Directors
Hillsdale County Medical Care Facility

We have audited the financial statements of Hillsdale County Medical Care Facility (the "Facility") for the year ended December 31, 2008 and have issued our report thereon dated April 27, 2009. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Communications Required Under SAS 112

Section II - Other Recommendations and Related Information

Section III - Communications Required Under SAS 114

Section I includes any deficiencies we observed in the Facility's accounting principles or internal controls that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Facility's accounting policies and internal controls.

Section II presents recommendations related to internal controls, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the Facility in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operating efficiency and effectiveness.

Section III includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of directors of Hillsdale County Medical Care Facility. This report is intended solely for the use of the board of directors and management of Hillsdale County Medical Care Facility and is not intended to be and should not be used by anyone other than these specified parties.

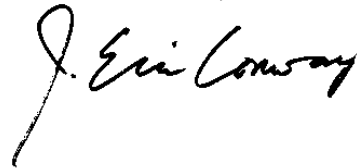
To the Board of Directors
Hillsdale County Medical Care Facility

April 27, 2009

We would like to take this opportunity to thank the Facility's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism were very much appreciated. We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

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, looping initial "J".

J. Eric Conway, CPA, FHFMA

SECTION I - Communications Required Under SAS 112

In planning and performing our audit of the financial statements of Hillsdale County Medical Care Facility as of December 31, 2008 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting (internal control) 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 Facility'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 Facility's financial statements that is more than inconsequential will not be prevented or detected by the Facility's internal control.

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

- **Adjustments to General Ledger** - During year-end fieldwork for the audit, several balances, including quality assurance assessment revenue, accounts payable, worker compensation liability, deferred tax levy for 2009, depreciation expense, addition to building, maintenance of effort, and medicaid intermittent payments were not reconciled to actual as of December 31, 2008. Significant audit adjustments were communicated to the Facility and recorded within the financial statements as of December 31, 2008 to correct the errors that were identified.
- **Reconciliation of Sub-ledgers to General Ledger** - During year-end fieldwork, it was noted the accounts receivable and accounts payable sub-ledgers are not being reconciled to the general ledger. We recommend these sub-ledgers be reconciled to the general ledger as part of the month-end close process and any differences adjusted at that point.
- **Cash Receipts** - The receptionist receives checks and cash while having the ability to post transactions to accounts receivable. We recommend the person who receives the cash not have access to post transactions to accounts receivable as protection for the employee and to avert any temptation to manipulate the receivables.

- **Management Discussion and Analysis** - Governmental Accounting Standards Board requirements include the provision of a management's discussion and analysis with financial statements published for governmental units. The financial statements for Hillsdale County Medical Care Facility do not include the required management's discussion and analysis. The Facility's financial statements are included within the audited financial statements of the County of Hillsdale, which does include the required management's discussion and analysis section.
- **Post Retirement Benefits Other Than Pensions** - The Governmental Accounting Standards Board has recently issued 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 benefit (other than pensions). The new rules 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. Hillsdale County Medical Care Facility is subject to the standard for the year ended December 31, 2008. It was determined during audit procedures performed that the facility did not receive an actuarial calculation to determine the cost in which to recognize over the working life of the employee. We recommend management pursue an actuary during 2009 to perform this calculation and recognize the appropriate expense amounts for 2008 and 2009, as well as future years, in accordance with GASB 45. We would be able to provide a list of actuaries upon management's request.

We consider the following to be control deficiencies:

- **Cash Functions** - During the audit, it was noted the controller prepares bank reconciliations, posts manual journal entries, and also makes deposits with the County. We recommend the person preparing the bank reconciliation not be the same person making deposits.
- **Allowance for Doubtful Accounts** - It was noted management is not formally reviewing the allowance for doubtful accounts periodically to determine if the amount is reasonable based on accounts receivable aging and historical bad debt expense. We recommend accounts receivable be reviewed by management periodically, but at least annually, to verify the amount is appropriate.

SECTION II - Other Recommendations and Related Information

The following recommendations are based on observations made during the course of our audit. Our hope is to provide management with relevant, value-added recommendations.

Rates Charged to Residents - Private pay residents pay \$198 per day for 2009. Medicaid revenue is based on a rate of \$185.78 per day for the year beginning October 1, 2008, plus the quality assurance assessment supplement of \$35.02, bringing the net revenue for a Medicaid day to \$220.80. The Medicaid revenue is providing \$22.80 more per day than private pay. We recommend an increase be considered to the private pay rate to adjust for this difference.

RAC Audits for Medicare - During 2009, Medicare will begin audits of facilities that have received reimbursement under the PPS system. These audits will focus on documentation and appropriate assessments of the reimbursement categories assessed on residents and evaluating these items for possible adjustments to reimbursement previously provided to the Facility. It is important the Facility personnel are aware of these potential audits to ensure documentation and assessments are accurate.

Defined Benefit Pension Plans - During 2008, the investment market experienced one of the worst performances of all times. At the same time, the benefits under the pension plan have improved and the expected life of plan participants continues to grow. These factors are leading to an increasing shortfall of assets to cover future obligations. We recommend contacting your pension provider and actuary to request a calculation of the highest amount of annual funding possible for future years.

Accounts Receivable Aging - It was noted the accounts receivable aging increased compared to prior year relating primarily to the receivables over 210 days old. The main reason for the increase appears to be related to Medicare Advantage. Based on analysis and inquiries performed, it appears there are issues on getting the amounts billed and collected timely. We recommend management monitor this billing and collection to make sure efforts are taken to improve the billing and collection process. If you are not seeing improvement during 2009, we recommend seeking a consultant to review and assist.

Board Approvals - According to the Michigan Department of Treasury, the legislative body (board or council) must approve all invoices prior to payment, unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval. We noted that the Facility's board currently approves check registers after payment has been made. We recommend that the practice be updated to provide approvals prior to disbursements of Facility checks.

SECTION III - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 3, 2009, 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. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform 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 Hillsdale County Medical Care Facility. Such considerations were 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter delivered on November 26, 2008 and further communicated in a phone conversation with Jerry Schultz on February 25, 2009.

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 Hillsdale 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 2008.

We noted no transactions entered into by the Facility 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 estimate affecting the financial statements was the calculation of an allowance for doubtful accounts.

Management's estimate of the allowance for doubtful accounts is based on specific identification by management of expected uncollectible accounts receivable. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

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. The following misstatements detected as a result of audit procedures were not posted by management:

Client: Hillsdale County Medical Care Facility
Y/E: 12/31/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement						Excess of		Expenses
		Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	
KNOWN MISSTATEMENTS:									
A1	To adjust accounts receivable to agree with aging schedule	\$ (22,225)					\$ (22,225)		\$ (22,225)
	To adjust AP GL to agree with AP sub ledger at year end			\$ (53,003)				\$ (53,003)	53,003
ESTIMATE ADJUSTMENTS:									
IMPLIED ADJUSTMENTS:									
Total		<u>\$ (22,225)</u>	<u>\$ -</u>	<u>\$ (53,003)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (22,225)</u>	<u>\$ (53,003)</u>	<u>\$ 30,778</u>

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 April 27, 2009.

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 Facility'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

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.