

Hillsdale County Medical Care Facility

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

Hillsdale County Medical Care Facility

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Independent Auditor's Report

To the Hillsdale County Department
of Human Services Board
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, 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 that 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 Hillsdale 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

March 7, 2008

Hillsdale County Medical Care Facility

Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,132,773	\$ 1,364,883
Resident accounts receivable (Note 3)	1,166,464	1,303,763
Due from the County	46,641	131,776
Taxes receivable	793,551	723,450
Other current assets	101,046	79,460
	<u>4,240,475</u>	<u>3,603,332</u>
Property and Equipment - Net (Note 4)	2,973,649	3,182,083
Other Assets	8,662	11,137
	<u>8,662</u>	<u>11,137</u>
Total assets	<u>\$ 7,222,786</u>	<u>\$ 6,796,552</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 368,432	\$ 477,346
Current portion of long-term debt (Note 5)	190,000	180,000
Resident trust liability	16,687	17,050
Accrued liabilities and other:		
Accrued compensation and related liabilities	197,623	169,225
Accrued compensated absences	210,963	205,567
Accrued workers' compensation liability (Note 8)	220,235	140,000
Deferred taxes	793,551	723,450
Other accrued liabilities	133,503	174,962
	<u>2,130,994</u>	<u>2,087,600</u>
Total current liabilities	2,130,994	2,087,600
Long-term Debt - Net of current portion (Note 5)	1,730,000	1,920,000
Net Assets		
Invested in capital assets - Net of related debt	1,053,649	1,082,083
Unrestricted	2,308,143	1,706,869
	<u>3,361,792</u>	<u>2,788,952</u>
Total net assets	3,361,792	2,788,952
Total liabilities and net assets	<u>\$ 7,222,786</u>	<u>\$ 6,796,552</u>

Hillsdale County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2007	December 31, 2006
Operating Revenue		
Net service revenue	\$ 10,941,809	\$ 10,816,547
Other operating revenue	46,035	43,884
Proportionate share reimbursement	-	256,625
Quality assurance supplement	1,574,244	1,919,785
Total operating revenue	12,562,088	13,036,841
Operating Expenses		
Salaries	6,594,157	6,352,193
Other expenses	6,074,321	6,187,422
Total operating expenses	12,668,478	12,539,615
Operating (Loss) Income	(106,390)	497,226
Other Income (Expenses)		
Interest income	58,531	-
Loss on disposal of property	-	(135,867)
Contributions	18,387	19,662
Tax revenue	690,221	660,288
Interest expense	(87,909)	(94,800)
Total other income	679,230	449,283
Increase in Net Assets	572,840	946,509
Net Assets - Beginning of year	2,788,952	1,842,443
Net Assets - End of year	\$ 3,361,792	\$ 2,788,952

Hillsdale 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	\$ 11,079,108	\$ 10,689,775
Cash paid to employees and suppliers	(11,346,897)	(11,298,374)
Cash received from Proportionate Share Program	-	256,625
Cash received from Quality Assurance Supplement	1,574,244	1,919,785
Other operating receipts	46,035	43,884
Cash paid for provider tax	(931,018)	(1,056,514)
Net cash provided by operating activities	421,472	555,181
Cash Flows from Noncapital Financing Activities		
Resident trust deposits	(363)	(2,729)
Contributions	18,387	19,662
Tax revenue	620,120	660,288
Net cash provided by noncapital financing activities	638,144	677,221
Cash Flows from Investing Activities - Interest received	58,531	-
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(180,000)	(170,000)
Interest paid on long-term debt	(87,909)	(94,800)
Purchase of property and equipment	(82,348)	(68,473)
Net cash used in capital and related financing activities	(350,257)	(333,273)
Net Increase in Cash and Cash Equivalents	767,890	899,129
Cash and Cash Equivalents - Beginning of year	1,364,883	465,754
Cash and Cash Equivalents - End of year	\$ 2,132,773	\$ 1,364,883

Hillsdale County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2007	December 31, 2006
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (106,390)	\$ 497,226
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	293,257	292,980
Decrease (increase) in resident accounts receivable	137,299	(126,772)
Increase (decrease) in other current assets	63,549	(112,624)
(Decrease) increase in accounts payable	(108,914)	235,037
Increase (decrease) in other accrued expenses	142,671	(230,666)
Net cash provided by operating activities	<u>\$ 421,472</u>	<u>\$ 555,181</u>

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

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note I - 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 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, 2007 and 2006

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, 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 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>2007</u>	<u>2006</u>
Percent of revenue:		
Medicaid	79 %	82 %
Medicare	13 %	12 %

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - 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.

Proportionate Share Reimbursement Program - During the year ended December 31, 2006, the Facility participated in 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 related to QAS totaling \$1,574,244. During the year ended December 31, 2006, the Facility received Medicaid revenue related to QAS totaling \$1,919,785, of which \$351,747 related to the retroactive period of October 1, 2005 through December 31, 2005.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

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 \$931,018. During the year ended December 31, 2006, the Facility was assessed a "provider tax" totaling \$1,056,514, of which \$208,734 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 2005 and 2004. During the year ended December 31, 2007, the State billed for the tax on a monthly basis. Therefore, approximately \$79,000 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 \$221,600 of provider tax was due and is included in accounts payable at December 31, 2006.

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 \$.59 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 \$302,455 and \$519,968 for the years ended December 31, 2007 and 2006, 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.

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

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 2 - Deposits

The Facility's deposits are composed of the following:

	<u>2007</u>	<u>2006</u>
Deposits:		
County treasurer	\$ 2,116,086	\$ 1,347,833
Bank	<u>16,687</u>	<u>17,050</u>
Total	<u>\$ 2,132,773</u>	<u>\$ 1,364,883</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.

The Facility's deposits 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 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	\$ 1,317,152	\$ 1,232,331
Uncollectible accounts	(95,000)	(95,000)
Medicaid interim payment (advances) receivable	<u>(55,688)</u>	<u>166,432</u>
Net resident accounts receivable	<u>\$ 1,166,464</u>	<u>\$ 1,303,763</u>

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

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:

	<u>2007</u>	<u>2006</u>
Medicare	25 %	25 %
Medicaid	49 %	54 %
Other payors	<u>26 %</u>	<u>21 %</u>
Total	<u>100 %</u>	<u>100 %</u>

Note 4 - Property and Equipment

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

	<u>2006</u>	Additions	Transfers	Retirements	<u>2007</u>	Depreciable Life - Years
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	<u>7,119,495</u>	<u>82,348</u>	<u>-</u>	<u>-</u>	<u>7,201,843</u>	
Less accumulated depreciation:						
Land improvements	29,524	-	-	-	29,524	
Building	3,504,096	232,521	-	-	3,736,617	
Equipment	403,792	58,261	-	-	462,053	
Total	<u>3,937,412</u>	<u>290,782</u>	<u>-</u>	<u>-</u>	<u>4,228,194</u>	
Net carrying amount	<u>\$ 3,182,083</u>	<u>\$ (208,434)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,973,649</u>	

In 2006, the Facility began a construction project for a building addition with an estimated cost of \$8.8 million. The County has issued bonds of \$8 million to cover the construction and a millage of .44 was approved by County voters to pay for the bonds. The Facility's liability for the project is estimated to be approximately \$800,000. The Facility has incurred certain costs, which the County will reimburse the Facility up to the point the bond project funds are spent, at which time the Facility will fund the remaining project costs. The entire project costs are being recorded by Hillsdale County and will be transferred to the Facility at the completion of the project during 2008.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 4 - 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:	\$ 29,524	\$ -	\$ -	\$ -	\$ 29,524	10-25
Building	6,654,912	67,331	-	(142,258)	6,579,985	10-40
Equipment	508,844	1,142	-	-	509,986	4-20
Total	7,193,280	68,473	-	(142,258)	7,119,495	
Less accumulated depreciation:						
Land and land improvements	29,524	-	-	-	29,524	
Building	3,275,371	235,116	-	(6,391)	3,504,096	
Equipment	348,403	55,389	-	-	403,792	
Total	3,653,298	290,505	-	(6,391)	3,937,412	
Net carrying amount	\$ 3,539,982	\$ (222,032)	\$ -	\$ (135,867)	\$ 3,182,083	

Note 5 - Long-term Debt

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

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

Long-term debt activity for the year ended December 31, 2006 was as follows:

	2005	Current Year Additions	Current Year Reductions	2006	Amounts Due Within One Year
Series 1998	\$ 1,790,000	\$ -	\$ (100,000)	\$ 1,690,000	\$ 105,000
Series 2005	480,000	-	(70,000)	410,000	75,000
Total long-term debt	\$ 2,270,000	\$ -	\$ (170,000)	\$ 2,100,000	\$ 180,000

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 \$105,000 in 2007 to \$185,000 in 2018 and interest rates range from 4.60 percent to 4.625 percent annually.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 5 - Long-term Debt (Continued)

- 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 \$75,000 in 2007 to \$90,000 in 2011 and interest rates range from 2.85 percent to 3.50 percent annually.

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

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 190,000	\$ 81,831
2009	195,000	74,056
2010	205,000	65,971
2011	220,000	57,331
2012	135,000	48,086
2013-2017	790,000	137,883
2018	185,000	4,278
Total	<u>\$ 1,920,000</u>	<u>\$ 469,436</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: County of Hillsdale, Courthouse, 29 N. Howell, Hillsdale, MI 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 employee gross wages.

Facility contributions for the plan years ended December 31, 2007, 2006, and 2005 were \$229,834, \$225,846, and \$215,289, respectively.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 7 - Postretirement Benefits

The Facility provides postretirement 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, 21 retirees are receiving the benefits. Included in the Facility's operating expenses is approximately \$155,500 and \$118,000 for the cost of retirees' health and life insurance for each of the years ended December 31, 2006 and 2005, respectively.

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, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 140,000	\$ 180,000
Estimated claims incurred, including changes in estimates	117,176	114,340
Claim payments	<u>(36,941)</u>	<u>(154,340)</u>
Estimated liability - End of year	<u>\$ 220,235</u>	<u>\$ 140,000</u>

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

The Michigan Municipal Risk Management Authority (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.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 9 - 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. The new pronouncement is effective for the year ending December 31, 2008 for Hillsdale County Medical Care Facility.

Additional Information



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

We have audited the financial statements of Hillsdale 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 7, 2008

Hillsdale County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended	
	December 31, 2007	December 31, 2006
Skilled Nursing Services		
Daily room revenue:		
Medicaid	\$ 9,615,378	\$ 9,499,901
Medicare	599,140	554,700
Private pay and other	740,930	598,435
Total daily room revenue	10,955,448	10,653,036
Ancillary revenue:		
Pharmacy	145,773	126,610
Therapy services	1,272,900	1,124,330
Other ancillary services	163,315	156,341
Total ancillary revenue	1,581,988	1,407,281
Total skilled nursing services revenue	12,537,436	12,060,317
Revenue Deductions - Provision for contractual discounts	(1,595,627)	(1,243,770)
Net Service Revenue	\$ 10,941,809	\$ 10,816,547

Hillsdale County Medical Care Facility

Schedule of Operating Expenses

	Year Ended			
	December 31, 2007			December 31, 2006
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 2,013,208	\$ 2,013,208	\$ 2,027,998
Administration	614,447	540,126	1,154,573	1,061,987
Plant operations	152,839	113,898	266,737	257,430
Utilities	-	300,644	300,644	291,664
Laundry	260,754	50,633	311,387	298,781
Housekeeping	340,732	44,147	384,879	377,417
Dietary	725,014	514,741	1,239,755	1,175,008
Medical records	20,054	-	20,054	20,054
Diversional therapy	241,943	17,221	259,164	280,952
Other ancillary services	-	29,924	29,924	27,111
Therapy services	193,170	442,264	635,434	569,337
Pharmacy	-	178,649	178,649	155,326
Nursing	4,045,204	302,136	4,347,340	4,127,088
Provider tax	-	931,018	931,018	1,056,514
Depreciation and amortization	-	293,257	293,257	292,980
Maintenance of effort	-	302,455	302,455	519,968
2007 totals	\$ 6,594,157	\$ 6,074,321	\$ 12,668,478	
2006 totals	\$ 6,352,193	\$ 6,187,422		\$ 12,539,615



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March 7, 2008

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

We have audited the financial statements of Hillsdale County Medical Care Facility for the year ended December 31, 2007 and have issued our report thereon dated March 7, 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 November 28, 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. 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 conversation about planning matters on March 3, 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 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 the year ended December 31, 2007.

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 estimated allowance for doubtful accounts.

Management's estimate of the allowance for doubtful accounts has not changed the last several years. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We should inform those charged with governance of any serious difficulties encountered in dealing with management related to the performance of the audit. There were no serious difficulties encountered during the 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. The attached schedule (Attachment A) summarizes uncorrected misstatements of the financial statements. 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 detected as a result of audit procedures were corrected by management. One entry was made to adjust the MIP account based on cleared claims and payments received, resulting in a decrease in revenue of \$38,522. A second entry was made to adjust accounts payable for items improperly excluded at year end, resulting in a decrease in revenue of \$97,597. A third entry was made to adjust taxes receivable, resulting in a decrease in revenue of \$33,229. A fourth entry was made to adjust the workers' compensation accrual, resulting in a decrease in revenue of \$80,235. Lastly, an entry was made to adjust interest receivable, resulting in an increase in revenue of \$33,217.

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 7, 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 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.

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

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March 7, 2008

This information is intended solely for the use of members 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.

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

Attachment A

Client: **Hillsdale County Medical Care Facility**

Y/E: **12/31/2007**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The 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	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Income
KNOWN MISSTATEMENTS:									
AI	To record accrued FICA on accrued PTO			\$ 16,139				\$ 16,139	\$ (16,139)
ESTIMATE ADJUSTMENTS:									
	None								
IMPLIED ADJUSTMENTS:									
	None								
		\$ -	\$ -	-	\$ -	\$ -	\$ -	-	-
	Total	\$ -	\$ -	\$ 16,139	\$ -	\$ -	\$ -	\$ 16,139	\$ (16,139)