

**INGHAM COUNTY MEDICAL CARE  
FACILITY  
Okemos, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended  
December 31, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

# INGHAM COUNTY MEDICAL CARE FACILITY

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

June 10, 2008

To the Department of Human Services Board  
Ingham County Medical Care Facility  
Okemos, Michigan

We have audited the accompanying financial statements of the ***Ingham County Medical Care Facility, an enterprise fund of Ingham County, Michigan***, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Ingham County Medical Care Facility management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Ingham County Medical Care Facility and do not purport to, and do not, present fairly the financial position of Ingham County, Michigan, as of December 31, 2007, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ingham County Medical Care Facility as of December 31, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Ingham County Medical Care Facility. Such information has been subjected to the auditing procedures applied in the audit 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.

# **FINANCIAL STATEMENTS**

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Statement of Net Assets**  
**December 31, 2007**

**Assets**

**Current assets**

Pooled cash and investments	\$ 4,557,394
Pooled cash and investments - restricted	7,611,213
Patient receivables, net	2,149,336
Inventory	15,477
Prepaid items	23,686
Total current assets	14,357,106

**Capital assets, net**

6,883,571

**Total assets**

21,240,677

**Liabilities**

**Current liabilities**

Accounts payable	563,113
Accrued expenses	557,930
Compensated absences	308,648
Due to other funds of Ingham County	198,003
Payable from restricted assets - patient trust liability	17,130
Total current liabilities	1,644,824

**Noncurrent liabilities**

Worker's compensation claims	40,438
Provision for contractual losses	175,000
Net other postemployment benefits obligation	530,919
Advances from other funds of Ingham County	636,030
Total noncurrent liabilities	1,382,387

**Total liabilities**

3,027,211

**Net assets**

Invested in capital assets	6,883,571
Restricted	7,594,083
Unrestricted	3,735,812
Total net assets	\$ 18,213,466

The accompanying notes are an integral part of these financial statements.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Statement of Revenues, Expenses and**  
**Changes in Fund Net Assets**  
**For the Year Ended December 31, 2007**

<b>Operating revenues</b>	
Net patient revenues	\$ 17,631,188
Other operating revenues	17,203
	17,648,391
Total operating revenues	17,648,391
<b>Operating expenses</b>	
Salaries	9,046,303
Depreciation expense	531,194
Other expenses	7,945,096
	17,522,593
Total operating expenses	17,522,593
Operating income	125,798
<b>Nonoperating revenues (expenses)</b>	
Investment earnings	689,066
Provider supplement	1,526,515
Provider tax	(1,198,477)
Interest expense	(7,873)
Maintenance of effort payment	(41,553)
	967,678
Total nonoperating revenues	967,678
Net income	1,093,476
Net assets, beginning of year, as restated	17,119,990
<b>Net assets, end of year</b>	<b>\$ 18,213,466</b>

The accompanying notes are an integral part of these financial statements.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2007**

**Cash flows from operating activities**

Receipts from patients and users	\$ 18,059,192
Payments to suppliers	(7,246,912)
Payments to employees	(9,034,848)
Net cash provided by operating activities	1,777,432

**Cash flows from noncapital financing activities**

Provider supplement	1,526,515
Provider tax	(1,198,477)
Maintenance of effort payment	(41,553)
Net cash provided by noncapital financing activities	286,485

**Cash flows from capital and related financing activities**

Acquisition and construction of capital assets	(119,032)
Principal payment on advance from Ingham County	(76,003)
Interest paid on advance from Ingham County	(7,873)
Net cash used in capital and related financing activities	(202,908)

**Cash flows from investing activities**

Interest received	744,713
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**Net increase in cash and cash equivalents**

2,605,722

Cash and cash equivalents, beginning of year

9,562,885

**Cash and cash equivalents, end of year**

\$ 12,168,607

**Reconciliation to the statement of net assets**

Pooled cash and investments	\$ 4,557,394
Pooled cash and investments - restricted	7,611,213
	\$ 12,168,607

continued...

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Statement of Cash Flows (concluded)**  
**For the Year Ended December 31, 2007**

**Reconciliation of operating income to net cash provided by operating activities**

Operating income	\$ 125,798
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	531,194
Change in assets and liabilities:	
Patient receivables	288,048
Inventory	(357)
Prepaid items	18,037
Accounts payable	(67,092)
Accrued expenses	(2,682)
Compensated absences	14,137
Due to other funds of Ingham County	122,753
Patient trust liability	1,239
Worker's compensation claims	(34,562)
Provision for contractual losses	250,000
Net other postemployment benefits obligation	530,919
	530,919
Net cash provided by operating activities	\$ 1,777,432

The accompanying notes are an integral part of these financial statements.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Okemos, Michigan**

**Notes To Financial Statements**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Ingham County Medical Care Facility (ICMCF) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the ICMCF's accounting policies are described below.

**A. Financial Reporting Entity**

The ICMCF is an enterprise fund of Ingham County, Michigan (the "County") that provides long-term skilled care to residents of the County. A three-member board is responsible for establishing policies and oversight. The County appoints two board members and the State of Michigan appoints the third. An administrator manages the ICMCF's daily operations.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation**

The ICMCF uses a fund (i.e., a separate accounting entity with a self-balancing set of accounts) to report its financial position and the changes in financial position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The ICMCF is operated as an enterprise fund, a proprietary fund type, which is used to account for operations that are financed and operated in a manner similar to private business. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The ICMCF has elected not to follow subsequent private-sector guidance.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Okemos, Michigan**

**Notes To Financial Statements**

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Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the ICMCF are charges to patients for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

The ICMCF's pooled cash and investments include cash on hand, demand deposits and deposits in the Ingham County Treasurer's cash management pool. The Treasurer's cash management pool has the general characteristics of a demand deposit in that deposits and withdrawals may be made at any time without prior notice or penalty.

State statutes authorize the ICMCF and the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial paper, repurchase agreements, bankers acceptances and mutual funds composed of otherwise legal investments.

**2. Receivables**

Patient receivables are shown net of Medicaid advance payments and an allowance for uncollectible accounts. Approximately 83% of patient revenues are generated from services to patients covered by Medicare and Medicaid. Retroactive adjustments to the per diem rates established under those programs and by other third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**3. Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between the ICMCF and Ingham County for goods provided or services rendered. Such transactions that are representative of lending/borrowing arrangements outstanding at year-end are referred to as "advances to/from other funds". All other outstanding balances between funds including the current portion of any "advances" are reported as "due to/from other funds" on the statement of net assets.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Okemos, Michigan**

**Notes To Financial Statements**

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**4. *Inventories and Prepaid Items***

Inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**5. *Restricted Assets***

Certain assets are classified as restricted assets on the statement of net assets because their use is limited to specific purposes as mandated by the Ingham County Board of Commissioners, the State of Michigan or third parties. These purposes include capital acquisitions/improvements, donations and patient trust monies.

**6. *Capital Assets***

Capital assets, which include property and equipment, are recorded at cost. Capital assets are defined by the ICMCF as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Donated property and equipment are recorded at their estimated fair value at the date of donation.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend their lives are charged to expense when incurred.

<u>Asset Category</u>	<u>Useful Life in Years</u>
Land improvements	5 to 40
Building	40
Equipment	5 to 20

**7. *Compensated Absences***

ICMCF employees are granted paid time off (PTO) in varying amounts based on length of service and are permitted to accumulate such earned but unused leave time subject to certain limitations.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Okemos, Michigan**

**Notes To Financial Statements**

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**8. Patient Trust Liability**

The Michigan Department of Treasury requires facilities such as the ICMCF to administer and account for certain patient monies. Accordingly, the patient trust liability recorded in the statement of net assets represents those patient monies on deposit with the ICMCF at year-end.

**9. Net Assets**

Restricted net assets are entirely restricted for capital improvements.

**2. DEPOSITS**

At December 31, 2007, the carrying amount of the ICMCF's pooled cash and investments were composed of the following:

	<b><u>Current</u></b> <b><u>Assets</u></b>	<b><u>Restricted</u></b> <b><u>Assets</u></b>	<b><u>Total</u></b>
On deposit with County	\$ 4,545,844	\$ 7,594,083	\$ 12,139,927
On deposit with bank	11,000	16,530	27,530
Cash on hand	<u>550</u>	<u>600</u>	<u>1,150</u>
<b>Total deposits</b>	<b><u>\$ 4,557,394</u></b>	<b><u>\$ 7,611,213</u></b>	<b><u>\$ 12,168,607</u></b>

As of year end, \$211,784 of the Facility's bank balance of \$385,060 (book balance of \$27,530) was exposed to custodial credit risk because it was uninsured and uncollateralized. The bank balance and federal deposit insurance coverage, if any, of the funds "on deposit with County" are not readily determinable inasmuch as those funds are deposited in the Ingham County Treasurer's cash management pool.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
Okemos, Michigan

**Notes To Financial Statements**

**3. PATIENT RECEIVABLES**

The details of patient accounts receivable are as follows at December 31, 2007:

Patient receivables	\$ 2,084,028
Adjust:	
Allowances for uncollectible accounts	(120,000)
Medicaid interim payments	<u>185,308</u>
<b>Patient receivables, net</b>	<b><u>\$ 2,149,336</u></b>

**4. CAPITAL ASSETS**

Changes in the components of the capital assets are summarized as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 132,832	\$ -	\$ -	\$ 132,832
<b>Capital assets, being depreciated:</b>				
Land improvements	267,064	-	(5,495)	261,569
Buildings	13,442,800	84,622	(23,777)	13,503,645
Equipment	592,886	34,410	(56,799)	570,497
<b>Total capital assets being depreciated</b>	<u>14,302,750</u>	<u>119,032</u>	<u>(86,071)</u>	<u>14,335,711</u>
<b>Less accumulated depreciation for:</b>				
Land improvements	(210,433)	(12,678)	5,495	(217,616)
Buildings	(6,552,367)	(473,252)	23,777	(7,001,842)
Equipment	(377,049)	(45,264)	56,799	(365,514)
<b>Total accumulated depreciation</b>	<u>(7,139,849)</u>	<u>(531,194)</u>	<u>86,071</u>	<u>(7,584,972)</u>
<b>Total capital assets being depreciated, net</b>	<u>7,162,901</u>	<u>(412,162)</u>	<u>-</u>	<u>6,750,739</u>
<b>Capital assets, net</b>	<u><b>\$ 7,295,733</b></u>	<u><b>\$ (412,162)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 6,883,571</b></u>

**INGHAM COUNTY MEDICAL CARE FACILITY  
Okemos, Michigan**

**Notes To Financial Statements**

**5. RISK MANAGEMENT**

Through the County, the ICMCF is self-insured for workers' compensation claims up to \$300,000 per occurrence and insured for the amount of claims in excess of that limitation up to a maximum of \$5 million.

The change in the worker's compensation liability amount for the year ended December 31, 2007 is as follows:

	<u>2007</u>	<u>2006</u>
Claims liability at beginning of fiscal year	\$ 75,000	\$ 59,970
Claims and changes in estimates	1,132	216,966
Claim payments	<u>(35,694)</u>	<u>(201,936)</u>
<b>Claims liability at end of year</b>	<b><u>\$ 40,438</u></b>	<b><u>\$ 75,000</u></b>

Also through the County, the ICMCF participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property coverage. Under most circumstances, the maximum loss retention per occurrence is as follows:

<u>Type of Risk</u>	<u>Maximum Retention Per Occurrence</u>
General and automobile liability	\$150,000
Motor vehicle physical damage	\$ 16,000 per vehicle \$ 31,000 per occurrence
Property coverage	\$ 11,000

Further information and disclosures regarding risk management is provided in the County's comprehensive annual financial report.

**6. MAINTENANCE OF EFFORT**

Each month the ICMCF is billed by the State of Michigan for maintenance of effort in an amount equal to a specified rate times the number of Medicaid patient days approved by the State for that month.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Okemos, Michigan**

**Notes To Financial Statements**

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**7. CONTINGENT LIABILITIES**

Amounts received or receivable from third-party payors, in particular Medicare and Medicaid, are subject to audit and adjustment by various intermediaries. The amount of such adjustments cannot be determined at this time although the ICMCF expects such amounts, if any, to be immaterial.

In 1978, the ICMCF received a federal grant under the Hill-Burton Act to help finance construction of the facility. A provision of the grant is that the facility provide free of charge care to qualifying individuals in a total cumulative amount equal to the original grant amount adjusted for inflation. Through December 31, 2007, the ICMCF has not yet satisfied the charitable care obligations of the Hill-Burton Act.

**8. EMPLOYEE RETIREMENT SYSTEM**

ICMCF employees participate, along with other Ingham County employees, in the Michigan Municipal Employees Retirement System. The plan is a multiple employer defined benefit plan, administered by the State of Michigan. During 2007, employer contributions of \$585,930 were made by the ICMCF in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2005.

Further information regarding the Ingham County plan including detailed trend information is presented in the County's 2007 comprehensive annual financial report, which is available to the public.

**9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

ICMCF employees also participate along with other Ingham County employees in the County's Retiree Health Care Plan, a single employer defined benefit healthcare plan administered by the Retiree Health Care Board. During 2007, employer *pay-as-you-go* costs for the plan of \$283,048 were paid by the ICMCF. The actuarially determined annual required contribution (ARC) for the ICMCF, based on an actuarial valuation of the plan as of December 31, 2006, was \$813,967. As a result, a liability for other postemployment benefits was recorded in the accompanying financial statements for \$530,919 or the difference between the ARC and amounts actually paid for benefits.

**INGHAM COUNTY MEDICAL CARE FACILITY**  
Okemos, Michigan

**Notes To Financial Statements**

Further information regarding the Ingham County Retiree Health Care Plan including funding status and trend information is presented in the County's comprehensive annual financial report, which is available to the public.

**10. ADVANCES PAYABLE TO INGHAM COUNTY**

In 1996, ICMCF borrowed \$1.5 million from the County for a capital expansion and renovation project. The loan agreement provides for repayment of the advance over 20 years with interest at one percent (1%) per annum on the outstanding principal balance.

Repayment requirements to maturity are as follows:

<b><u>Year Ending December 31,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2008	\$ 76,003	\$ 7,120
2009	76,763	6,360
2010	77,530	5,593
2011-2015	399,437	16,178
2016	<u>82,300</u>	<u>823</u>
<b>Total</b>	<b><u>\$ 712,033</u></b>	<b><u>\$ 36,074</u></b>

The principal amount due in 2008 (\$76,003) is reported in the statement of net assets with the amounts due to other funds of Ingham County. The principal balance of \$636,030 is reported in the noncurrent liabilities under advances from funds of Ingham County.

**11. COMPENSATED ABSENCES**

Changes in compensated absences for the year ended December 31, 2007, were as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due Within One Year</u></b>
Compensated absences	<b><u>\$ 294,511</u></b>	<b><u>\$ 586,947</u></b>	<b><u>\$ 572,810</u></b>	<b><u>\$ 308,648</u></b>	<b><u>\$ 308,648</u></b>

**INGHAM COUNTY MEDICAL CARE FACILITY  
Okemos, Michigan**

**Notes To Financial Statements**

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**12. RESTATEMENTS**

The beginning net assets were increased by \$98,042 for the following:

Prior year capital asset acquisitions	\$ 130,971
Prior year Medicaid reserve reversal	75,000
Prior year expense not closed to net assets	(4,528)
Prior year audit adjustment not recorded	<u>(103,041)</u>
	<u>\$ 98,402</u>

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**SUPPLEMENTARY FINANCIAL  
INFORMATION**

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Schedule of Net Patient Revenues**  
**For the Year Ended December 31, 2007**

**Daily Room Services**

Medicaid	\$ 8,295,375
Medicare	4,861,040
Other	<u>2,730,715</u>
Total daily room services	<u>15,887,130</u>

**Ancillary Services**

Pharmacy and IV	801,071
Physical therapy	1,157,279
Occupational therapy	1,071,657
Speech therapy	240,440
Medical supplies	<u>64,169</u>
Total ancillary services	<u>3,334,616</u>

Total patient revenue 19,221,746

**Revenue deductions**

Provision for contractual discounts	<u>(1,590,558)</u>
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**Net patient revenues** \$ 17,631,188

**INGHAM COUNTY MEDICAL CARE FACILITY**  
**Schedule of Operating Expenses**  
**For the Year Ended December 31, 2007**

	<u>Salaries</u>	<u>Other</u>	<u>Total</u>
Administration	\$ 374,253	\$ 335,025	\$ 709,278
Human resources	139,197	74,180	213,377
Maintenance	120,523	987,117	1,107,640
Laundry	224,613	20,254	244,867
Housekeeping	266,865	49,241	316,106
Dietary	804,576	462,794	1,267,370
Central supply	42,807	2,129	44,936
Pharmacy	-	651,350	651,350
Nursing	6,344,638	772,479	7,117,117
Physical therapy	-	699,199	699,199
Occupational therapy	-	630,843	630,843
Psychosocial services	407,384	37,396	444,780
Admissions and marketing	143,282	15,580	158,862
Vehicles	-	130	130
Physician services	-	42,000	42,000
Nurse aide training	125,400	16,109	141,509
In-service education	52,765	-	52,765
Speech therapy	-	129,096	129,096
Fringe benefits	-	3,020,174	3,020,174
Depreciation	-	531,194	531,194
<b>Total expenses</b>	<b><u><u>\$ 9,046,303</u></u></b>	<b><u><u>\$ 8,476,290</u></u></b>	<b><u><u>\$ 17,522,593</u></u></b>



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

June 10, 2008

To the Board of Commissioners  
Ingham County Medical Care Facility

We have audited the financial statements of the Ingham County Medical Care Facility (the "Facility"), an enterprise fund of Ingham County, Michigan, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 10, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated January 7, 2008, 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 accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the . Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of 's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 21, 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 the are described in Note 1 to the financial statements.

As reflected in Note 9 to the financial statements, the Facility along with the County adopted Statement of Governmental Accounting Standards (GASB Statement) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The County, and therefore the Facility, also, was required to adopt GASB 45 for 2007. The effect for the Facility of implementing GASB 45 was to record a liability of \$530,919 for the difference between the actuarial required contribution to the retiree healthcare trust and the actual contributions; the implementation also necessitated additional note disclosures but did not result in the restatement of beginning net assets/fund balances.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the collectability of patient receivable from first and third party payers. We evaluated the key factors and assumptions used to develop the allowances for uncollectable accounts in determining that they are reasonable in relation to the basic financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims, for self-insured workers' compensation coverage. We relied upon the work of a third-party administrator and the analysis of the County in determining that the liability is reasonable in relation to the financial statements taken as a whole.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

*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 material misstatements detected as a result of audit procedures were corrected by management:

- To adjust unemployment benefits payable to the actual amount;
- To adjust pooled cash and investments to fair value at year end;
- To adjust the worker's compensation liability to estimated actual at year end;
- To adjust liability for new other postemployment benefits to appropriate level;
- To adjust beginning net assets for prior year entries that had not been recorded; and
- To adjust debt between current and long-term.

*Disagreements with Management*

For purposes 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 Representations*

We have requested certain representations from management that are included in the management representation letter dated June 10, 2008.

*Management 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 Entity'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Ingham 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,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

# Ingham County Medical Care Facility

## Comments and Recommendations

For the Year Ended December 31, 2007

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In planning and performing our audit of the financial statements of the Ingham County Medical Care Facility (the "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 '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 's internal control. Accordingly, we do not express an opinion on the effectiveness of the 's internal control.

Our consideration of internal control was for the limited purpose described in the first 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 material weaknesses.

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.

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

### **Material Weaknesses**

#### **2007-1 – Preparation of Financial Statements in Accordance with GAAP**

**Criteria:** The preparation of financial statements in accordance with GAAP is the responsibility of the Facility's management and requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements including the related footnotes (i.e., external financial reporting.)

# Ingham County Medical Care Facility

## Comments and Recommendations (Continued)

For the Year Ended December 31, 2007

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**Condition:** As is the case with many smaller and medium-sized entities, the Facility has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Facility's ability to prepare financial statements in accordance with GAAP is based, substantially in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Facility's internal controls.

**Cause:** This condition stems from management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Facility to perform this task internally.

**Effect:** As a result of this condition, the Facility lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of  
Responsible**

**Officials:** The Facility has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Facility to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### Audit Adjustments

**Criteria:** The government is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

**Condition:** The audit identified eight adjusting entries that were needed, five of which were in amounts material to the financial statements, in order for the financial statements to be properly stated.

**Cause:** Management did not understand certain prior year entries (and, as such, did not post them) and, for other items, appeared to overlook the need for correction .

**Effect:** Without the audit adjustments, the Facility's financial statements would have been materially misstated.

# Ingham County Medical Care Facility

## Comments and Recommendations (Concluded)

For the Year Ended December 31, 2007

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### View of Responsible

**Officials:** The Facility will ensure that all adjustments are properly posted and will endeavor to completely analyze and adjust balances for next year's closing and audit.

### Other Matters

**Documenting Review and Approval of Bank Reconciliations.** Effective internal control procedures should provide a clear evidence trail of who performed what procedure and when. The Facility is diligent in completing its bank reconciliations on a timely basis. However, the reviewer of the bank reconciliations does not initial and date these schedules to document by whom and when these important internal control procedures are performed. We recommend the preparer and reviewer of each monthly bank reconciliation initial and date the document.

**Payroll Approval Procedures.** Effective internal control procedures should provide a clear evidence trail of who performed what procedure and when. The Facility is diligent in monitoring its payrolls every pay period. However, there is no documentation to substantiate that the total of the paychecks for each payroll are agreed to the payroll register before check distribution and that the deposits to the payroll bank account are compared to the payroll register. Also, no approval was noted on the human resource department timesheets. We recommend the reviewer of each payroll register sign and date the document noting that they compared the total paychecks and the payroll account deposit to the register, and that approval of all timesheets also be documented.

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