

Auditing Procedures Report

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

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

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

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

Lenawee County Medical Care Facility

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

Lenawee County Medical Care Facility

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Independent Auditor's Report

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lenawee 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 13, 2008

Lenawee County Medical Care Facility

Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,055,431	\$ 1,463,263
Resident accounts receivable (Note 3)	726,993	733,428
Other current assets - Prepaid expenses	192,464	177,597
Total current assets	1,974,888	2,374,288
Assets Limited as to Use (Note 2)	2,344,617	3,512,826
Property and Equipment - Net (Note 4)	8,159,460	6,837,777
Deferred Financing Costs	82,104	89,702
Total assets	\$ 12,561,069	\$ 12,814,593
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 364,516	\$ 457,960
Construction payable	67,725	313,038
Current portion of long-term debt (Note 5)	215,000	195,000
Funds held for residents	12,195	3,438
Accrued liabilities and other:		
Accrued compensation and related liabilities	473,380	405,473
Other accrued liabilities	41,133	56,350
Total current liabilities	1,173,949	1,431,259
Long-term Debt - Net of current portion (Note 5)	3,345,000	3,560,000
Net Assets		
Invested in capital assets - Net of related debt	4,599,460	3,082,777
Restricted:		
Debt service	43,872	41,733
Capital acquisitions	14,259	1,549,501
Unrestricted	3,384,529	3,149,323
Total net assets	8,042,120	7,823,334
Total liabilities and net assets	\$ 12,561,069	\$ 12,814,593

Lenawee County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2007	2006
Operating Revenue		
Net service revenue	\$ 8,706,425	\$ 8,467,963
Other operating revenue	35,160	8,502
Proportionate share reimbursement	-	225,566
Quality assurance supplement	1,190,105	1,313,391
Total operating revenue	9,931,690	10,015,422
Operating Expenses		
Salaries	5,107,114	4,900,601
Other expenses	4,794,368	4,581,132
Total operating expenses	9,901,482	9,481,733
Operating Income	30,208	533,689
Other Income (Expense)		
Interest income	118,589	100,443
Loss on sale of property	(50)	-
Contributions	102,869	82
Interest expense	(32,830)	(33,215)
Total other income	188,578	67,310
Increase in Net Assets	218,786	600,999
Net Assets - Beginning of year	7,823,334	7,222,335
Net Assets - End of year	\$ 8,042,120	\$ 7,823,334

Lenawee 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	\$ 8,712,860	\$ 8,249,743
Cash paid to employees and suppliers	(8,573,614)	(8,050,512)
Cash received from proportionate share program	-	225,566
Cash received from quality assurance supplement	1,190,105	1,313,391
Other operating receipts	35,160	8,502
Cash paid for provider tax	(826,570)	(963,212)
Net cash provided by operating activities	537,941	783,478
Cash Flows from Noncapital Financing Activities		
Resident trust deposits (withdrawals)	8,757	(1,410)
Contributions received	102,869	82
Net cash provided by (used in) noncapital financing activities	111,626	(1,328)
Cash Flows from Investing Activities - Interest received	118,589	100,443
Cash Flows from Capital and Related Financing Activities		
Proceeds received on bonds	-	2,595,000
Principal payments on long-term debt	(195,000)	(125,000)
Interest paid on long-term debt	(32,830)	(33,215)
Purchase of property and equipment	(2,116,367)	(1,569,228)
Payment of deferred financing costs	-	(48,199)
Net cash (used in) provided by capital and related financing activities	(2,344,197)	819,358
Net (Decrease) Increase in Cash and Cash Equivalents	(1,576,041)	1,701,951
Cash and Cash Equivalents - Beginning of year	4,976,089	3,274,138
Cash and Cash Equivalents - End of year	\$ 3,400,048	\$ 4,976,089
Balance Sheet Classification of Cash and Cash Equivalents		
Current assets	\$ 1,055,431	\$ 1,463,263
Assets limited as to use	2,344,617	3,512,826
Total cash and cash equivalents	\$ 3,400,048	\$ 4,976,089

Lenawee County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2007	December 31, 2006
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 30,208	\$ 533,689
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	549,321	428,826
Provision for bad debts	1,660	1,222
Deferred financing amortization	7,598	5,188
Changes in assets and liabilities:		
Decrease (increase) in resident accounts receivable	4,775	(219,442)
Increase in prepaid expenses	(14,867)	(80,742)
(Decrease) increase in accounts payable	(93,444)	129,970
Increase in other accrued expenses	67,907	25,017
Decrease in other liabilities	(15,217)	(40,250)
Net cash provided by operating activities	<u>\$ 537,941</u>	<u>\$ 783,478</u>

In 2007, there was one noncash capital and related financing transaction for the loss on disposal of fixed assets in the amount of \$50.

There were no significant noncash investing, capital, or financing activities in 2006.

Lenawee County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - Nature of Business and Significant Accounting Policies

Lenawee County Medical Care Facility (the "Facility") is a component unit of the County of Lenawee (the "County"). The financial statements of the Facility are included in the County's basic financial statements.

The Facility is a 136-bed, medical care facility owned and operated by Lenawee County, providing services primarily to the residents of Lenawee County. It is governed by the Lenawee County Department of Human Services. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected 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.

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

Property and Equipment - Property and equipment purchases are recorded at historical 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.

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

Lenawee County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

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

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 in revenue in the year received.

Quality Assurance Assessment Program - The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Assessment Program (QAAP). The current QAAP program was approved by the federal government during 2006 and was made effective retroactive to October 1, 2005. During the year ended December 31, 2007, the Facility received Medicaid revenue related to QAAP totaling \$1,190,105. During the year ended December 31, 2006, the Facility received Medicaid revenue related to QAAP totaling \$1,313,391, of which \$269,118 related to the retroactive period of October 1, 2005 through December 31, 2005.

During the year ended December 31, 2007, the Facility was assessed a provider tax totaling \$826,570. During the year ended December 31, 2006, the Facility was assessed a provider tax totaling \$963,212, of which \$191,623 related to the retroactive period of October 1, 2005 through December 31, 2005. This provider tax is based on the number of non-Medicare resident days of service provided during the years ended December 31, 2005 and 2004. During the year ended December 31, 2007, the State billed for the tax on a monthly basis. Therefore, approximately \$70,000 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 \$197,000 was due and is included in accounts payable at December 31, 2006.

Service Revenue - The Facility's principal activity is operating a long-term healthcare facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	Percent	
	2007	2006
Percent of revenue:		
Medicaid	81	78
Medicare	4	6

Lenawee 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.

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Operating Revenues and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with all expenses incurred to provide healthcare services, other than financing costs. Nonexchange revenues, including taxes, interest, and contributions 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.

Net Assets - Net assets of the Facility are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Lenawee County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

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

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

Deferred Financing Costs - Bond costs are amortized over the lives of the bonds.

Note 2 - Deposits

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

	2007		2006	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits:				
County treasurer	\$ 1,025,359	\$ 2,344,617	\$ 1,448,231	\$ 3,512,826
Bank	30,072	-	15,032	-
Total	<u>\$ 1,055,431</u>	<u>\$ 2,344,617</u>	<u>\$ 1,463,263</u>	<u>\$ 3,512,826</u>

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrument of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Assets limited as to use are designated for the following:

	2007	2006
By board:		
For future capital purchases	\$ 2,281,698	\$ 1,921,592
For unspent bond proceeds	19,047	1,549,501
For debt service	43,872	41,733
Total	<u>\$ 2,344,617</u>	<u>\$ 3,512,826</u>

Lenawee County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2007	2006
Resident accounts receivable	\$ 872,462	\$ 878,897
Uncollectible accounts	<u>(145,469)</u>	<u>(145,469)</u>
Net resident accounts receivable	<u>\$ 726,993</u>	<u>\$ 733,428</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:

	Percent	
	2007	2006
Medicare	18	17
Medicaid	69	67
Other payors	<u>13</u>	<u>16</u>
Total	<u>100</u>	<u>100</u>

Note 4 - Property and Equipment

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

	2006	Additions	Transfers	Retirements	2007	Depreciable Life - Years
Land and land improvements	\$ 788,414	\$ -	\$ -	\$ -	\$ 788,414	5-20
Building	7,020,792	1,741,967	1,866,984	(611,346)	10,018,397	5-20
Equipment	2,498,938	17,067	-	(366,244)	2,149,761	5-20
Construction in progress	1,866,984	112,020	(1,866,984)	-	112,020	
Total	<u>12,175,128</u>	<u>1,871,054</u>	<u>-</u>	<u>(977,590)</u>	<u>13,068,592</u>	
Less accumulated depreciation:						
Land and land improvements	1,024,089	293,220	-	-	1,317,309	
Building	2,785,773	176,231	-	(611,346)	2,350,658	
Equipment	1,527,489	79,870	-	(366,194)	1,241,165	
Total	<u>5,337,351</u>	<u>549,321</u>	<u>-</u>	<u>(977,540)</u>	<u>4,909,132</u>	
Net carrying amount	<u>\$ 6,837,777</u>	<u>\$ 1,321,733</u>	<u>\$ -</u>	<u>\$ (50)</u>	<u>\$ 8,159,460</u>	

Lenawee 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	\$ 788,414	\$ -	\$ -	\$ -	\$ 788,414	5-20
Building	7,020,792	-	-	-	7,020,792	5-20
Equipment	2,447,824	51,114	-	-	2,498,938	5-20
Construction in progress	35,832	1,831,152	-	-	1,866,984	
Total	10,292,862	1,882,266	-	-	12,175,128	
Less accumulated depreciation:						
Land and land improvements	730,796	293,293	-	-	1,024,089	
Building	2,733,118	52,655	-	-	2,785,773	
Equipment	1,444,611	82,878	-	-	1,527,489	
Total	4,908,525	428,826	-	-	5,337,351	
Net carrying amount	\$ 5,384,337	\$ 1,453,440	\$ -	\$ -	\$ 6,837,777	

During the year ended December 31, 2007, approximately \$115,000 of interest on the Series 2006 bonds was capitalized as part of the facility additions and renovations project.

Note 5 - Long-term Debt

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

	2006	Current Year Additions	Current Year Reductions	2007	Amounts Due Within One Year
General obligation bonds:					
Series 2006	\$ 2,595,000	\$ -	\$ (65,000)	\$ 2,530,000	\$ 85,000
Series 2004	1,160,000	-	(130,000)	1,030,000	130,000
Total	\$ 3,755,000	\$ -	\$ (195,000)	\$ 3,560,000	\$ 215,000

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

	2005	Current Year Additions	Current Year Reductions	2006	Amounts Due Within One Year
General obligation bonds:					
Series 2006	\$ -	\$ 2,595,000	\$ -	\$ 2,595,000	\$ 65,000
Series 2004	1,285,000	-	(125,000)	1,160,000	130,000
Total	\$ 1,285,000	\$ 2,595,000	\$ (125,000)	\$ 3,755,000	\$ 195,000

Lenawee County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 5 - Long-term Debt (Continued)

General obligation bonds Series 2004 and Series 2006 were issued through Lenawee County. Interest on the 2006 bonds ranges from 3.5 percent to 4.0 percent and annual payments range from \$65,000 in 2007 to \$200,000 in 2026. Interest on the 2004 bonds ranges from 2.25 percent to 3.5 percent and annual payments range from \$130,000 in 2007 to \$165,000 in 2014.

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

Year Ending December 31	Long-term Debt	
	Principal	Interest
2008	\$ 215,000	\$ 125,370
2009	225,000	118,826
2010	235,000	111,772
2011	245,000	104,225
2012	260,000	95,982
2013-2017	905,000	362,893
2018-2022	735,000	224,100
2023-2026	740,000	131,400
Total payments	<u>\$ 3,560,000</u>	<u>\$ 1,274,568</u>

Note 6 - Defined Benefit Pension Plan

Plan Description - The Facility participates in the Lenawee County Board of Commissioners Retirement Income Plan, which is a defined benefit pension plan that covers all employees of the County who have completed 1,000 hours or more per year of service and elect to receive coverage. The plan provides retirement benefits, as well as death and disability benefits, to the plan members and their beneficiaries. The Lenawee County Board of Commissioners Retirement Income Plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the plan sponsor at the Lenawee County Board of Commissioners, 301 N. Main Street, Adrian, Michigan 49221.

Lenawee County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 6 - Defined Benefit Pension Plan (Continued)

Funding Policy - The obligation to contribute to and maintain the plan for the covered employees was established in the Lenawee County Board of Commissioners Retirement Income Plan and requires a contribution from nonunion employees of 2.5 percent; no contribution is required for union employees. The funding policy provides for periodic employer contributions at an actuarially determined rate equal to the normal cost, plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liabilities over 17 years. The Facility's contributions to the plan for the plan years ended December 31, 2007, 2006, and 2005 were \$295,233, \$295,262, and \$329,957, respectively, and equal the required contribution for each year.

As of January 1, 2008, the Facility's defined benefit pension plan will be separated from the County. In addition, the employee contribution for nonunion employees will be raised from 2.5 percent to 4.5 percent.

In addition, nonunion employees hired after December 31, 2007 will only be eligible to participate in a new defined contribution plan, in which the employee contribution will be 4.5 percent.

Note 7 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims related to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

The Michigan Municipal Risk Management 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.

Note 8 - Related Party and Affiliation

As discussed in Note 1, the Facility is related to the County of Lenawee.

Borrowings from Other County Funds - See Note 5 for details.

Maintenance of Effort (M.O.E.) - 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. Expenses relating to M.O.E. are not included in the financial statements as they were paid directly by the County.

Lenawee 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 Lenawee County Medical Care Facility.

Additional Information



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

We have audited the financial statements of Lenawee 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 13, 2008

Lenawee County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	2007	2006
Skilled Nursing Services		
Net room revenue:		
Medicaid	\$ 7,032,699	\$ 6,428,166
Medicare	356,850	464,074
Private pay and other	1,301,675	1,387,855
Total net room revenue	8,691,224	8,280,095
Ancillary revenue:		
Pharmacy	111,853	143,972
Therapy services	1,321,191	1,402,860
Other ancillary services	52,586	108,861
Total ancillary revenue	1,485,630	1,655,693
Gross skilled nursing services revenue	10,176,854	9,935,788
Revenue deductions:		
Provision for contractual discounts	(1,468,769)	(1,466,603)
Bad debt expense	(1,660)	(1,222)
Total revenue deductions	(1,470,429)	(1,467,825)
Net Service Revenue	\$ 8,706,425	\$ 8,467,963

Lenawee County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31			
	2007			2006
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,180,406	\$ 1,180,406	\$ 1,087,516
Administration	430,677	329,387	760,064	678,810
Plant operations	110,065	193,913	303,978	331,419
Utilities	-	267,510	267,510	240,201
Laundry	145,722	53,721	199,443	204,962
Housekeeping	326,005	65,800	391,805	343,314
Dietary	519,929	463,265	983,194	853,182
Social services	70,679	-	70,679	110,790
Diversional therapy	50,473	13,171	63,644	93,887
Other ancillary services	60,763	32,649	93,412	112,837
Therapy services	-	284,654	284,654	311,130
Pharmacy	-	102,924	102,924	178,337
Nursing	3,392,801	400,344	3,793,145	3,538,122
Provider tax	-	826,570	826,570	963,212
Barber and beauty	-	23,135	23,135	-
Depreciation and amortization	-	556,919	556,919	434,014
2007 totals	\$ 5,107,114	\$ 4,794,368	\$ 9,901,482	
2006 totals	\$ 4,900,601	\$ 4,581,132		\$ 9,481,733

March 13, 2008

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

We have audited the financial statements of Lenawee County Medical Care Facility for the year ended December 31, 2007 and have issued our report thereon dated March 13, 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 Lenawee 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 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 Lenawee 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 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 in 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.

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

Difficulties Encountered in Performing the Audit

We should inform those charged with governance of any serious difficulties encountered in dealing with management related to the performance of 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. 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 to correct an error made while posting the entry for the current portion of long-term debt account for \$430,000. There was no income effect for this entry. Another audit adjustment was to record approximately \$79,000 for accrued retirement expense that was excluded from the general ledger balance, resulting in an increase in expenses. A third adjustment involved reversing an entry made during the year which removed bond issuance costs. This entry resulted in decreasing expenses by approximately \$90,000. There were six entries related to the construction/renovation project and property and equipment. The net result of the construction entries reduced expenses by approximately \$45,000.

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.

March 13, 2008

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated March 13, 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.

This information is intended solely for the use of the Department of Human Services Board and management of Lenawee 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, looped initial "J".

J. Eric Conway, CPA, FHFMA

Partner

Attachment A

Client: **Lenawee County MCF**

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:									
A1	Accrued interest for bonds			\$ 21,414				\$ 21,414	\$ (21,414)
A2	Cost report settlements - Net receivable			(5,747)			\$ 5,747		5,747
A3	To adjust construction and debt service cash to county confirm	\$ (4,787)						4,787	(4,787)
A4	To adjust operating cash to agree to county confirm	(6,242)						6,242	(6,242)
A5	To adjust to accounts receivable aging detail	5,541					5,541		5,541
ESTIMATE ADJUSTMENTS:									
None									
IMPLIED ADJUSTMENTS:									
None									
		\$ -			\$ -	\$ -			
Total		<u>\$ (5,488)</u>	<u>\$ -</u>	<u>\$ 15,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,288</u>	<u>\$ 32,443</u>	<u>\$ (21,155)</u>