

# 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	

*J. Eric Conway*

# **Meadow Brook Medical Care Facility**

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**Financial Report  
December 31, 2007**

# Meadow Brook Medical Care Facility

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## Independent Auditor's Report

Antrim County Human Services Board  
Meadow Brook Medical Care Facility

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meadow Brook 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 4, 2008

# Meadow Brook Medical Care Facility

## Balance Sheet

	December 31, 2007	December 31, 2006 (Restated)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 2,721,446	\$ 2,378,925
Resident accounts receivable	936,215	790,818
Taxes receivable (Note 4)	1,360,794	1,110,321
Other current assets	31,882	110,253
Total current assets	5,050,337	4,390,317
<b>Assets Limited as to Use</b> (Note 2)	1,596,750	1,817,407
<b>Property and Equipment - Net</b> (Note 3)	2,376,120	2,084,950
Total assets	<b>\$ 9,023,207</b>	<b>\$ 8,292,674</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 301,856	\$ 298,619
Funds held for residents	10,976	12,327
Accrued liabilities and other:		
Accrued compensation and related liabilities	333,304	275,932
Accrued compensated absences	247,786	217,688
Deferred tax revenue (Note 4)	1,358,878	1,108,188
Other accrued liabilities	43,485	33,102
Total current liabilities	2,296,285	1,945,856
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	2,376,120	2,084,950
Restricted - Donor restricted for specific operating activities	439,895	423,084
Unrestricted	3,910,907	3,838,784
Total net assets	6,726,922	6,346,818
Total liabilities and net assets	<b>\$ 9,023,207</b>	<b>\$ 8,292,674</b>

# Meadow Brook Medical Care Facility

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2007	2006 (Restated)
<b>Operating Revenue</b>		
Net service revenue	\$ 8,789,529	\$ 8,816,774
Quality assurance supplement	1,142,560	1,194,645
Other operating revenue	61,576	82,882
Proportionate share reimbursement	-	168,241
Total operating revenue	9,993,665	10,262,542
<b>Operating Expenses</b>		
Salaries and wages	5,996,284	5,387,127
Employee benefits and payroll taxes	1,696,999	1,422,207
Operating supplies and expenses	749,964	731,242
Professional services and consultant fees	471,014	455,286
Repairs and maintenance	156,364	196,278
Utilities	294,684	296,306
Maintenance of effort	134,443	128,748
Depreciation	311,596	310,621
Equipment	183,587	156,476
Quality assurance assessment	623,220	701,595
Other	284,815	286,168
Total operating expenses	10,902,970	10,072,054
<b>Operating (Loss) Income</b>	(909,305)	190,488
<b>Other Income (Loss)</b>		
Interest income	205,357	143,648
Loss on sale of property	(32,763)	-
Contributions	6,206	9,552
Interest earnings on restricted assets	19,462	16,820
Tax revenue (Note 4)	1,091,147	1,040,681
Total other income	1,289,409	1,210,701
<b>Increase in Net Assets</b>	380,104	1,401,189
<b>Net Assets - Beginning of year</b>	6,346,818	4,945,629
<b>Net Assets - End of year</b>	<b>\$ 6,726,922</b>	<b>\$ 6,346,818</b>

# Meadow Brook Medical Care Facility

## Statement of Cash Flows

	Year Ended	
	December 31, 2007	December 31, 2006 (Restated)
<b>Cash Flows from Operating Activities</b>		
Cash received from residents and third-party payors	\$ 9,822,804	\$ 10,018,263
Cash paid to employees and suppliers	(10,449,378)	(9,638,247)
Cash received from proportionate share program	-	168,241
Other operating receipts	61,576	82,882
	<u>                    </u>	<u>                    </u>
Net cash (used in) provided by operating activities	(564,998)	631,139
<b>Cash Flows from Noncapital Financing Activities</b>		
Property taxes	1,091,364	1,041,950
Contributions received	6,206	9,552
	<u>                    </u>	<u>                    </u>
Net cash provided by noncapital financing activities	1,097,570	1,051,502
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	-	306,978
Interest received	224,821	160,468
	<u>                    </u>	<u>                    </u>
Net cash provided by investing activities	224,821	467,446
<b>Cash Flows from Capital and Related Financing Activities -</b>		
Purchase of property and equipment	(635,529)	(176,255)
	<u>                    </u>	<u>                    </u>
<b>Net Increase in Cash and Cash Equivalents</b>	121,864	1,973,832
<b>Cash and Cash Equivalents - Beginning of year</b>	4,196,332	2,222,500
	<u>                    </u>	<u>                    </u>
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 4,318,196</b></u>	<u><b>\$ 4,196,332</b></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Current assets	\$ 2,721,446	\$ 2,378,925
Assets limited as to use	1,596,750	1,817,407
	<u>                    </u>	<u>                    </u>
Total cash and cash equivalents	<u><b>\$ 4,318,196</b></u>	<u><b>\$ 4,196,332</b></u>

# Meadow Brook Medical Care Facility

## Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2007	December 31, 2006 (Restated)
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>		
Operating (loss) income	\$ (909,305)	\$ 190,488
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	311,596	310,621
Provision for bad debts	42,259	14,506
Change in assets and liabilities:		
Resident accounts receivable	(187,656)	(7,662)
Other current assets	78,368	(55,464)
Accounts payable	3,237	122,477
Accrued expenses	96,503	56,173
Net cash (used in) provided by operating activities	<u>\$ (564,998)</u>	<u>\$ 631,139</u>

# Meadow Brook Medical Care Facility

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## Notes to Financial Statements December 31, 2007 and 2006

### Note 1 - Nature of Business and Significant Accounting Policies

Meadow Brook Medical Care Facility (the "Facility") is a 113-bed, long-term care facility owned and operated by Antrim County (the "County"). The Facility is a component unit of the County. It is governed by the Antrim County Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

**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.

**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.

**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 including amounts in assets limited as to use. A portion of these funds is held by Antrim County as detailed in Note 2.

# Meadow Brook Medical Care Facility

## Notes to Financial Statements December 31, 2007 and 2006

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

**Accounts Receivable** - Accounts receivable for residents, insurance companies, and governmental agencies are based on net charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Facility's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

The allowance for doubtful accounts was \$55,000 and \$25,000 at December 31, 2007 and 2006, respectively.

The mix percentage of receivables from residents and third-party payors is as follows:

	2007	2006
Medicare	16	13
Medicaid	67	68
Other payors	17	19
Total	100	100

**Resident Funds** - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses, which are included in cash and cash equivalents. These funds are assets of the residents and are also included as a current liability. At December 31, 2007 and 2006, the funds totaled \$10,976 and \$12,327, respectively.

**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 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 expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Facility. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

# Meadow Brook Medical Care Facility

## Notes to Financial Statements December 31, 2007 and 2006

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

**Service Revenue** - The Facility's principal activity is operating a long-term health care 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 third-party payors and make up a significant portion of revenue earned during each year, as follows:

	2007	2006
Percent of revenue:		
Medicaid	82 %	79 %
Medicare	12 %	14 %

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 in-resident 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.

**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 \$134,443 and \$128,748 for the years ended December 31, 2007 and 2006, respectively.

**Proportionate Share Reimbursement Program** - During the year ended December 31, 2006, the Facility participated in this program sponsored by the State of Michigan. Revenue was taken into income in the year it was received. The program was not continued for 2007.

# Meadow Brook Medical Care Facility

## Notes to Financial Statements December 31, 2007 and 2006

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

**Quality Assurance Program** - The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Assessment Program (QAAP). The current QAAP program was approved by the federal government during 2006 and was made effective retroactive to October 1, 2005. During the years ended December 31, 2007 and 2006, the Facility received Medicaid revenues related to QAAP totaling \$1,142,560 and \$1,194,645, respectively. In 2006, approximately \$234,000 related to the retroactive period of October 1, 2005 through December 31, 2005. During the years ended December 31, 2007 and 2006, the Facility was assessed a provider tax totaling \$623,220 and \$701,595, respectively. In 2006, approximately \$138,000 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. The State bills for the tax on a monthly basis. Approximately \$53,000 and \$148,000 of provider tax was due and is included in accounts payable at December 31, 2007 and 2006, respectively.

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

### Note 2 - Deposits and Investments

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

	2007		2006	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits:				
County Treasurer	\$ 2,707,370	\$ 858,648	\$ 2,363,498	\$ 832,123
Bank	14,076	-	15,427	-
Investments	-	738,102	-	985,284
Total	<u>\$ 2,721,446</u>	<u>\$ 1,596,750</u>	<u>\$ 2,378,925</u>	<u>\$ 1,817,407</u>

**Cash - County Treasurer** - These funds were under the control of the County Treasurer, who deposited these funds with a bank.

# Meadow Brook Medical Care Facility

## Notes to Financial Statements December 31, 2007 and 2006

### Note 2 - Deposits and Investments (Continued)

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.

**Cash - Bank** - The Facility has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Facility's deposits and investment policies are in accordance with statutory authority.

The Facility's deposits and investments are subject to several types of risks including custodial credit risk of bank deposits and investments, interest rate risk, credit risk, and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility's funds as these funds are only a portion of the total County deposits.

Assets limited as to use are designated for the following:

	<u>2007</u>	<u>2006</u>
By board for future capital improvements	\$ 738,102	\$ 985,284
By board for resident needs	418,753	409,039
By donors for specific purposes	<u>439,895</u>	<u>423,084</u>
Total	<u>\$ 1,596,750</u>	<u>\$ 1,817,407</u>

Funds designated for replacement and improvement of property and equipment consist primarily of resources of the Facility that the board has designated for specific purposes.

Funds designated and donor-restricted for resident needs consist primarily of donated resources of the Facility that the board has designated and the donor has restricted for the specific purpose of resident needs.

# Meadow Brook Medical Care Facility

## Notes to Financial Statements December 31, 2007 and 2006

### Note 3 - 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	\$ 213,048	\$ 6,100	\$ -	\$ -	\$ 219,148	5-20
Building	4,370,445	498,298	9,890	(66,680)	4,811,953	5-40
Equipment	1,109,053	29,457	-	(84,761)	1,053,749	3-20
Vehicles	126,720	36,257	-	-	162,977	4
Construction in progress	9,890	65,417	(9,890)	-	65,417	
Total	5,829,156	635,529	-	(151,441)	6,313,244	
Less accumulated depreciation:						
Land and land improvements	98,901	14,668	-	-	113,569	
Building	2,962,021	177,269	-	(41,620)	3,097,670	
Equipment	589,955	107,544	-	(77,058)	620,441	
Vehicles	93,329	12,115	-	-	105,444	
Total	3,744,206	311,596	-	(118,678)	3,937,124	
Net carrying amount	\$ 2,084,950	\$ 323,933	\$ -	\$ (32,763)	\$ 2,376,120	

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	\$ 203,364	\$ 9,684	\$ -	\$ -	\$ 213,048	5-20
Building	4,314,832	55,613	-	-	4,370,445	5-40
Equipment	1,017,260	91,793	-	-	1,109,053	3-20
Vehicles	117,445	9,275	-	-	126,720	4
Construction in progress	-	9,890	-	-	9,890	
Total	5,652,901	176,255	-	-	5,829,156	
Less accumulated depreciation:						
Land and land improvements	85,997	12,904	-	-	98,901	
Building	2,772,825	189,196	-	-	2,962,021	
Equipment	493,193	96,762	-	-	589,955	
Vehicles	81,570	11,759	-	-	93,329	
Total	3,433,585	310,621	-	-	3,744,206	
Net carrying amount	\$ 2,219,316	\$ (134,366)	\$ -	\$ -	\$ 2,084,950	

# **Meadow Brook Medical Care Facility**

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## **Notes to Financial Statements December 31, 2007 and 2006**

### **Note 4 - Taxes Receivable and Deferred Tax Revenue**

Taxes are levied on December 1 and payable by February 15. County property tax revenue is recognized when levied to the extent that it results in current receivables within the year budgeted by the board to provide resources for financing budgeted expenditures. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations. During the year ended December 31, 2002, the residents of Antrim County approved a .75 mill levy for five years to support the operations of the Facility. During 2006, the tax levy was extended for another four years and approved for up to 1 mill, effective December 31, 2007. The Facility has recognized income of \$1,091,147 and \$1,040,681 for the years ended December 31, 2007 and 2006, respectively, related to this tax levy, with the unpaid portion reported as a receivable.

### **Note 5 - 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 workers' compensation claims, and participates in the County's insurance plan with the Michigan Municipal Risk Management 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.

### **Note 6 - Retirement Benefits**

**Plan Description** - The Facility participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Facility through Antrim County. The Facility provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for MMERS. That report may be obtained by writing to MMERS at 447 North Canal Road, Lansing, Michigan 48917.

**Funding Policy** - Benefit provisions of MMERS, as well as employer and employee obligations to contribute, are outlined in Act No. 427 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior-service cost over a 10-year period.

# Meadow Brook Medical Care Facility

## Notes to Financial Statements December 31, 2007 and 2006

### Note 6 - Retirement Benefits (Continued)

**Annual Pension Cost** - The Facility's contributions to the plan amounted to \$373,501, \$321,381, and \$332,245 in 2007, 2006, and 2005, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2006 and 2005.

To show the progress of the Facility's status for each plan regarding certain key indicators, three-year trend information is presented below:

	2007	2006	2005
Annual pension cost (APC)	\$ 373,501	\$ 321,381	\$ 332,245
Percent of APC contributed	100 %	100 %	100 %
Actuarial value of assets	*	\$ 7,580,843	\$ 6,987,005
Actuarial accrued liability (entry age)	*	9,512,086	8,616,212
Unfunded actuarial accrued liability (UAAL)	*	1,931,243	1,629,207
Funded ratio	*	80 %	81 %
Covered payroll	*	\$ 5,175,330	\$ 4,406,541
UAAL as a percent of covered payroll	*	37 %	37 %

\* Information not available

### Note 7 - Prior Period Adjustment

The accompanying financial statements for 2006 have been restated to correct an error for the incorrect classification in the previously issued financial statements. The effect of the restatement on the balance sheet at December 31, 2006 was to increase deferred tax revenue by \$1,108,188. The effect of the restatement on the statement of activities was to decrease the tax revenue by \$56,481 during 2006. The effect of the restatement on the statement of changes in net assets was to decrease unrestricted net assets by \$1,051,707 at the beginning of 2006. There was no change to the cash flow statement.

March 4, 2008

To the Department of Human  
Services Board  
Meadow Brook Medical Care Facility  
Bellaire, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Meadow Brook Medical Care Facility as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

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

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

### **Segregation of Duties**

During the review of internal controls, we noted there was limited segregation of duties in several areas, specifically in the application of payments received on resident receivables, preparation of the bank reconciliation, and posting of manual journal entries. The preparation of the items noted are performed but not reviewed by someone independent of the key procedures.

### **Allowance for Uncollectible Accounts**

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

### **Deferred Tax Revenue**

It was noted during our audit that the Facility was not properly deferring revenue from tax levies for the Facility. Due to the fact that the tax levied during December is to be used to fund operations for the following year, this revenue is to be deferred until it has been earned. Due to the error, a prior period adjustment has been recorded and the financial statements have been restated. Going forward, the Facility should continue to defer the tax levy revenue until earned.

### **Payroll Rate Changes**

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

### **Account Reconciliations and Audit Adjustments**

During the audit, we noted reconciliations are not being performed on numerous account balances, specifically prepaid insurance, taxes receivable, and accrued sick and vacation accounts. As a result of not reconciling these accounts and other adjustments, the adjustments were presented to management and ultimately recorded by management into the Facility's general ledger, resulting in the change of net assets being reduced by approximately \$117,000.

### **Restricted Net Assets**

In review of the classification and description of restricted net assets, it was noted the principal amount of the funds received from donors has not been used for the intended use designated by the donor. Only funds that are specifically identified by donors to be permanently restricted in an endowment fund are required to be held indefinitely. Through review of the supporting documents for the restricted net assets held by the Facility, it was noted the funds are restricted as to their use, but have not been permanently restricted. Therefore, the funds are available to the Facility to use for the intended purpose that the donor has specified.

### **Management's Discussion and Analysis**

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

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

### **Cost Reporting Matters**

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

### **New Audit Procedures**

As a result of new auditing procedures, which expanded our review of internal controls during the year, we have identified several other controls, policies, and procedures we consider best-practices the Facility should consider implementing. We have made available to management a list of internal control observations which will provide opportunity for additional improvements in accounting controls. The list includes controls we would typically expect to see in a similar environment, but it was either not one of the controls you have established or our minimal sample test found it to be ineffective.

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

Very truly yours,

**Plante & Moran, PLLC**



J. Eric Conway, CPA, FHFMA  
Partner

## Internal Control Observations

### Key controls that address items that can go wrong within a senior care organization:

Cycle	What could go wrong?	Control to prevent or detect and correct errors
Cash	Cash account activity and balances are misstated	Cash account reconciliation functions are performed by individuals restricted from accessing cash receipt, cash disbursement, and journal entry functions
Resident revenue and receivables	Revenue is not valid or is recognized in incorrect period	Reconciliation of subsidiary ledger amounts due from residents/patients with general ledger
	Accounts receivable are not adjusted to net realizable value	Valuation allowance established for delinquent accounts at standard amounts based on historical delinquency and collection data
Accounts payable	Obligations for goods and services received are not recognized in the proper period	Analysis of unmatched invoices and purchase orders on hand as of balance sheet date

### General controls that address items that can go wrong within a senior care organization:

Cycle	What could go wrong?	Control to prevent or detect and correct errors
Cash	Cash account activity and balances are misstated	Independent review of cash account reconciliations and related accounting entries
Resident revenue and receivables	Revenue is not valid or is recognized in incorrect period	Written revenue recognition policies exist and are followed
	Revenue is recognized as incorrect amounts	Written charity care policy is followed
	Resident/patient payments are applied incorrectly	Limited users can update applicable rates in system
	Accounts receivable are not adjusted to net realizable value	Individual receiving payments cannot post adjustments to patient/resident accounts
	Incorrect recording of third-party settlements	Written valuation allowance policies exist and are followed
Accounts payable	Obligations for goods and services received are not recognized in the proper period	Written identification, analysis, and recognition policies exist and are followed
	Payments to vendors are applied incorrectly	Formal policies are utilized for identifying and recording obligations for goods and services
Employee compensation	Payroll expenditures are recorded and distributed at incorrect amounts	System only allows application of payments against valid open invoices
Contingent liabilities	Commitments and contingent liabilities are not identified	Payroll exception and edit reports reviewed by qualified individuals that are independent from the processing of payroll
		Written policies regarding communication and disclosure of commitments and contingent liabilities exist and are followed
	Commitments and contingent liabilities are incorrectly measured or valued	A GAAP disclosure checklist is used by the individuals preparing financial statements
		An in-house specialist (i.e., legal, regulatory compliance, risk manager) computes and reviews the valuation
		Management performs a retrospective review of prior year's liability valuation