Reset Form

Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Thornapple Manor	Barry

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
December 31, 2007	March 3, 2008	March 7, 2008

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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
Plante & Moran, PLLC	269-567-4500		
Street Address	**City**	**State**	**Zip**
750 Trade Centre Way, Suite 300	Portage	MI	49002

Authorizing CPA Signature	Printed Name	License Number
J. Eric Conway	J. Eric Conway, CPA, FHFMA	1101016760

Thornapple Manor

Financial Report with Additional Information December 31, 2007

Thornapple Manor

Contents

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Independent Auditor's Report

To the Barry County Department of
Human Services Board
Thornapple Manor

We have audited the accompanying balance sheet of Thornapple Manor (a component unit of Barry County) (the "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 Thornapple Manor at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10 to the financial statements, the Facility early adopted provisions of GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, for the year ended December 31, 2007.

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 3, 2008

Thornapple Manor

Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 221,383	$ 286,990
Resident accounts receivable (Note 3)	772,065	883,430
Due from County (Note 9)	347,775	480,229
Other current assets	78,097	82,759
Total current assets	1,419,320	1,733,408
Assets Limited as to Use (Note 2)	3,292,527	4,141,003
Property and Equipment - Net (Note 4)	18,471,762	3,709,101
Total assets	**$ 23,183,609**	**$ 9,583,512**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 822,102	$ 315,734
Current portion of long-term debt (Note 5)	125,000	125,000
Resident trust liability	13,051	15,250
Estimated third-party payor settlements	399,714	399,714
Accrued liabilities and other:		
Accrued compensation and related liabilities	597,432	548,406
Other accrued liabilities	17,450	19,349
Total current liabilities	1,974,749	1,423,453
Long-term Debt - Net of current portion (Note 5)	1,600,000	1,725,000
Net Assets		
Invested in capital assets - Net of related debt	16,596,762	1,859,101
Unrestricted	3,012,098	4,575,958
Total net assets	19,608,860	6,435,059
Total liabilities and net assets	**$ 23,183,609**	**$ 9,583,512**

See Notes to Financial Statements.

Thornapple Manor

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2007	2006
Operating Revenue		
Net service revenue	$ 8,893,750	$ 8,662,368
Quality assurance supplement	1,094,354	1,295,425
Other operating revenue	346,124	530,990
Proportionate share reimbursement	-	204,801
Total operating revenue	10,334,228	10,693,584
Operating Expenses		
Salaries and wages	5,772,489	5,495,082
Other	5,881,895	5,305,341
Total operating expenses	11,654,384	10,800,423
Operating Loss	(1,320,156)	(106,839)
Other Loss	(253,194)	(1,754)
Excess of Expenses Over Revenue	(1,573,350)	(108,593)
Contribution from County (Note 4)	14,747,151	129,393
Increase in Net Assets	13,173,801	20,800
Net Assets - Beginning of year	6,435,059	6,414,259
Net Assets - End of year	**$ 19,608,860**	**$ 6,435,059**

Thornapple Manor

Statement of Cash Flows

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	$ 9,005,115	$ 8,183,036
Cash received from other operating revenue	346,124	530,990
Cash received from proportionate share program	-	204,801
Cash paid to employees and suppliers	(11,098,852)	(10,697,203)
Cash received from quality assurance supplement	1,094,354	1,295,425
Cash received from the County	132,454	34,630
Net cash used in operating activities	(520,805)	(448,321)
Cash Flows from Noncapital Financing Activities - Contributions	35,070	1,334
Cash Flows from Investing Activities		
Resident trust (withdrawals) deposits	(2,199)	2,163
Interest received	203,000	143,831
Net cash provided by investing activities	200,801	145,994
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(125,000)	(125,000)
Interest paid on long-term debt	(104,788)	(111,600)
Purchase of property and equipment	(15,146,512)	(776,017)
Contribution from the County	14,747,151	129,393
Net cash used in capital and related financing activities	(629,149)	(883,224)
Net Decrease in Cash and Cash Equivalents	(914,083)	(1,184,217)
Cash and Cash Equivalents - Beginning of year	4,427,993	5,612,210
Cash and Cash Equivalents - End of year	**$ 3,513,910**	**$ 4,427,993**
Balance Sheet Classification of Cash		
Current assets	$ 221,383	$ 286,990
Assets limited as to use	3,292,527	4,141,003
Total cash	**$ 3,513,910**	**$ 4,427,993**

	Year Ended December 31, 2007	Year Ended December 31, 2006
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$ (1,320,156)	$ (106,839)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	307,999	256,153
Provision for bad debts	19,826	13,841
Changes in assets and liabilities:		
Decrease (increase) in resident accounts receivable	91,539	(460,461)
Decrease in property tax receivable	-	338,789
Decrease (increase) in prepaids and other current assets	4,662	(23,727)
Decrease in contribution receivable - County	132,454	34,630
Increase (decrease) in accounts payable	195,744	(162,470)
Decrease in other accrued expenses	47,127	33,264
Increase in deferred property tax revenue	-	(338,789)
Increase in third-party settlements	-	(32,712)
Net cash used in operating activities	**$ (520,805)**	**$ (448,321)**

Noncash Investing, Capital, and Financing Activities

At December 31, 2007, there are construction costs totaling $310,624 in both property and equipment and accounts payable.

In addition, during the year ended December 31, 2007, the Facility had $387,948 of disposals related to the renovation projects.

Note 1 - Nature of Business and Significant Accounting Policies

Thornapple Manor (the "Facility") is a component unit of the County of Barry, Michigan. The Facility is a 138-bed, long-term care facility owned and operated by Barry County. It is governed by the Barry County Department of Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

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

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* as amended, the Facility has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

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

Assets Limited as to Use - Assets limited as to use consist of funds designated by the board for future capital purchases.

Property and Equipment - Property and equipment amounts are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation on fixed assets is charged as an expense against the operations on a straight-line basis over the estimated useful lives of the fixed assets.

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

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

Resident Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of the residents. The residents' trust liability on the balance sheet represents resident trust fund deposits.

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 $199,810 and $199,649 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 discontinued during 2006.

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 year ended December 31, 2007, the Facility received Medicaid funds related to QAAP totaling $1,094,354. During the year ended December 31, 2006, the Facility received Medicaid funds related to QAAP totaling $1,295,425, of which $255,194 was 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 $709,294. During the year ended December 31, 2006, the Facility was assessed a provider tax totaling $842,081, of which $168,318 related to the retroactive period of October 1, 2005 through December 31, 2005. This provider tax is based on the number of non-Medicare days of service provided during the years ended December 31, 2007 and 2006. During the year ended December 31, 2007, the State billed for the tax on a monthly basis. Therefore, approximately $60,000 of the 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 $169,000 of provider tax was due and was included in accounts payable at December 31, 2006.

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

Net Assets - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted.

Service Revenue - The Facility's principal activity is operating a long-term healthcare facility for the elderly. Revenue is derived from participation in 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
Medicaid	69	76
Medicare	18	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 pays the Facility for resident 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.

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

Operating Revenues and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Facility's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. Nonexchange revenues, including interest, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues.

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.

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	$ 194,773	$ 3,292,527	$ 255,020	$ 4,141,003
Bank	26,460	-	31,820	-
Petty cash	150	-	150	-
Total	$ 221,383	$ 3,292,527	$ 286,990	$ 4,141,003

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

Deposits - Bank - The deposits are reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit).

Assets Limited as to Use - The assets limited as to use are funds designated by Barry County Department of Human Services Board for future capital purchases.

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 Facility 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.

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.

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2007	2006
Resident accounts receivable	$ 891,689	$ 850,249
Allowance for uncollectible accounts	(50,000)	(50,000)
Medicaid interim (advance) payment receivable	(69,624)	83,181
Net resident accounts receivable	$ 772,065	$ 883,430

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	20	26
Medicaid	51	52
Other payors	29	22
Total	100	100

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	$ 329,140	$ 239,148	$ -	$ (14,109)	$ 554,179	5-25
Building	5,415,562	12,688,454	1,069,262	(1,489,531)	17,683,747	10-40
Equipment	1,205,577	1,879,658	-	(172,066)	2,913,169	5-25
Construction in progress	567,914	501,348	(1,069,262)	-	-	-
Total	7,518,193	15,308,608	-	(1,675,706)	21,151,095	
Less accumulated depreciation:						
Land and land improvements	90,909	17,999	-	(8,146)	100,762	
Building	2,793,221	170,446	-	(1,105,078)	1,858,589	
Equipment	924,962	119,554	-	(174,534)	869,982	
Total	3,809,092	307,999	-	(1,287,758)	2,829,333	
Net carrying amount	$ 3,709,101	$ 15,000,609	$ -	$ (387,948)	$ 18,321,762	

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	$ 178,503	$ -	$ 269,639	$ (119,002)	$ 329,140	5-25
Building and improvements	5,519,786	53,273	(54,990)	(102,507)	5,415,562	10-40
Equipment	1,311,193	171,026	(214,649)	(61,993)	1,205,577	5-25
Construction in progress	16,196	551,718	-	-	567,914	-
Total	7,025,678	776,017	-	(283,502)	7,518,193	
Less accumulated depreciation:						
Land and land improvements	114,322	20,321	47,637	(91,371)	90,909	
Building and improvements	2,756,971	147,717	(80,344)	(31,123)	2,793,221	
Equipment	929,829	88,115	32,707	(125,689)	924,962	
Total	3,801,122	256,153	-	(248,183)	3,809,092	
Net carrying amount	$ 3,224,556	$ 519,864	$ -	$ (35,319)	$ 3,709,101	

Note 4 - Property and Equipment (Continued)

During 2005, the voters of Barry County approved a tax levy to pay principal and interest on bonds issued in 2006 to renovate the Facility. The total estimated cost of the project is approximately $20.1 million. To pay for these renovations, bonds were issued in 2006 totaling $18,850,000. The Facility is responsible for the remaining costs, which are expected to be paid from the depreciation fund and facility assets, which are approximately $4 million as of December 31, 2007. This entire project is being recorded by Barry County and will be transferred to the Facility as each phase is completed. During the year ended December 31, 2007, the County transferred $14,747,151 to the Facility.

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
Bonds payable - Barry County Building Authority	$ 1,850,000	$ -	$ (125,000)	$ 1,725,000	$ 125,000

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
Bonds payable - Barry County Building Authority	$ 1,975,000	$ -	$ (125,000)	$ 1,850,000	$ 125,000

In accordance with an agreement entered into in 1994, by and between the Barry County Building Authority (the "Building Authority") and Barry County, the County is leasing the improvements and additions made to Thornapple Manor financed by the Building Authority. The lease period extends through 2017, at which time the Building Authority shall convey ownership of the property to the County. The principal payments range from $125,000 due in 2008 to $225,000 due in 2017. The interest rates on the outstanding bonds range from 5.6 percent to 6.0 percent at December 31, 2007. The Facility is accounting for these transactions as if they were direct obligations of the Facility.

Note 5 - Long-term Debt (Continued)

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

Years Ending December 31		Bond Payable	Bond Interest
2008		$ 125,000	$ 101,350
2009		150,000	94,350
2010		150,000	85,800
2011		150,000	77,175
2012		175,000	68,475
2013-2017		975,000	182,650
	Total payments	$ 1,725,000	$ 609,800

Note 6 - Endowment Fund Held by Third Party

The Facility is the beneficiary of a trust, which is maintained by an outside trustee, the Barry Community Foundation. The balance in the trust, which is not accounted for in the Facility's records, was $75,883 and $69,000 at December 31, 2007 and 2006, respectively. Of this balance, $53,519 is available for distribution to the Facility.

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, as part of the County, participates in the Michigan Municipal Risk Management Authority (the "Authority") risk pool for claims relating to general and auto liability (including medical malpractice), auto physical damage, and property loss claims. The Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for the losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims to the retention limits, the ultimate liability for those claims remains with the County.

The Facility is insured for workers' compensation claims via a policy with a commercial carrier.

Note 7 - Risk Management (Continued)

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known outstanding or pending claims at December 31, 2007.

The Facility, as part of the County, is self-insured for the employees' medical benefit claims. The Facility is required to make monthly payments based on actuarial determination of projected benefit amounts. Total claims incurred, including estimates, and actual payments made during the year were $1,099,324 and $846,643 for the years ended December 31, 2007 and 2006, respectively.

Note 8 - Defined Benefit Multiple-employer Pension Plan

Plan Description - The Facility participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Facility. MMERS 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 supplemental information for the system. That report may be obtained by writing to MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The Facility's contribution requirement is actuarially determined and is equal to the amount to amortize the unfunded actuarial accrued liability over 30 years. The Facility has made its required contributions to the plan for the plan years ended December 31, 2007 and 2006. Actual contribution amounts were $618,808 and $491,711 for the years ended December 31, 2007 and 2006, respectively.

Note 9 - Related Party Transactions

At December 31, 2007 and 2006, the Facility's balance sheet reflects a receivable from the County of $347,775 and $480,229 for payments made by the Facility on the construction project that are to be reimbursed by the County.

Note 10 - Change in Accounting Principle - Adoption of GASB 49.

During the year ended December 31, 2007, the Facility early adopted provisions of GASB No. 49, *Accounting and Financial Reporting of Pollution Remediation Obligations.* GASB No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The adoption of GASB No. 49 resulted in an additional liability of approximately $89,000 as of December 31, 2007.

Additional Information

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To the Barry County Department of
Human Services Board
Thornapple Manor

We have audited the financial statements of Thornapple Manor 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. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 3, 2008

Schedule of Net Service Revenue

	Year Ended December 31	
	2007	2006
Skilled Nursing Services		
Daily room revenue:		
Medicaid	$ 6,451,730	$ 6,299,666
Medicare	872,224	1,118,792
Private pay and other	1,053,242	820,686
Total daily room revenue	8,377,196	8,239,144
Ancillary revenue:		
Pharmacy	236,370	247,197
Therapy services	842,726	814,207
Other ancillary services	97,677	103,066
Total ancillary revenue	1,176,773	1,164,470
Total skilled nursing services revenue	9,553,969	9,403,614
Revenue deductions:		
Provision for contractual discounts	(660,219)	(766,246)
Bad debt expense	-	25,000
Total revenue deductions	(660,219)	(741,246)
Net Service Revenue	**$ 8,893,750**	**$ 8,662,368**

Thornapple Manor

Schedule of Operating Expenses

	Year Ended December 31			
	2007			2006
	Salaries	Other	Total	Total
Fringe benefits	$ -	$ 2,453,655	$ 2,453,655	$ 2,052,397
Administration	601,210	184,636	785,846	756,141
Plant operations	91,135	527,221	618,356	481,531
Laundry	196,921	30,151	227,072	251,344
Housekeeping	311,117	83,118	394,235	322,254
Dietary	552,930	470,143	1,023,073	955,569
Medical records	-	12,000	12,000	11,020
Diversional therapy	128,004	33,302	161,306	142,899
Therapy services	314,679	13,399	328,078	352,688
Pharmacy	-	226,318	226,318	222,832
Nursing	3,439,505	630,138	4,069,643	3,819,344
Quality assurance tax	-	709,738	709,738	842,081
Other services	-	267	267	611
Inservice education	120,010	-	120,010	109,204
Nurse aide testing	16,978	-	16,978	24,706
Depreciation	-	307,999	307,999	256,153
Maintenance of effort	-	199,810	199,810	199,649
2007 total	**$ 5,772,489**	**$ 5,881,895**	**$ 11,654,384**	
2006 total	**$ 5,495,082**	**$ 5,305,341**		**$ 10,800,423**

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March 3, 2008

To the Department of Human
Services Board
Thornapple Manor
Hastings, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Thornapple Manor (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 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:

Held Checks

During the audit, we noted there were a number of held checks at year end. Proper accounting treatment requires these to be included as cash and accounts payable. An adjustment was proposed and made by management for the amount of the checks held.

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 Barry County, which will include the required management's discussion and analysis section.

The following items are for your information only:

Excess Borrowings - Whenever a provider borrows funds to complete a project, Medicaid will review whether the full amount of the borrowings was necessary. If it determines excess borrowings have occurred, the remedy is typically to disallow reimbursement of the interest expense on the excess amount until the entire debt is repaid. Therefore, it will be very important to demonstrate and document a justification of the cash remaining. It may be best to document at the end of the first phase of the project. If you wait until the end of all phases, the cash will also include the reimbursement for the increased plant cost rates and FIDS (if the State ultimately pays) and it may be more difficult to sort through the details.

Debt Financing Options - Currently, the interest rates on the bonds issued through the Barry County Building Authority are between 5.6 percent to 6 percent. These rates appear higher than the industry average. With the current market conditions, the County could consider the possibility of refinancing these bonds at a lower interest rate. It might also be possible to pay off some of the older bonds earlier to minimize interest costs and possibly help minimize the potential for excess borrowings as discussed above.

New Auditing 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 an 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

J. Eric Conway, CPA, FHFMA
Partner

Internal Control Observations

What Could Go Wrong?	Controls
Cash account activity and balances are misstated.	Independent review of cash activity (bank statements, canceled checks, etc.).
	Independent review of cash account reconciliations and related accounting entries.
Revenue is not valid or is recognized in incorrect period.	Written revenue recognition policies exist and are followed.
Resident/Patient payments are applied incorrectly.	Follow up on old outstanding accounts receivable.
Accounts receivable are not adjusted to net realizable value.	Written valuation allowance policies exist and are followed.
Incorrect recording of third-party settlements.	Written identification, analysis, and recognition policies exist and are followed.
Property and equipment items are not capitalized.	Written capitalization policies exist and are followed.
Period expenses are capitalized in property and equipment accounts.	Written capitalization policies exist and are followed.
	IT system restricts access to property and equipment account entry.
Depreciation is incorrect.	Written depreciation policies exist and are followed.
	Individual that initiates and applies payments is independent from purchasing function.
Impairments are not recognized.	Written impairment identification, analysis, and recognition policies exist and are followed.
Obligations for goods and services received are not recognized in the proper period.	Formal policies are utilized for identifying and recording obligations for goods and services.