

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

Iosco County Medical Care Facility

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

Iosco County Medical Care Facility

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Independent Auditor's Report

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

We have audited the accompanying balance sheet of Iosco County Medical Care Facility (a component unit of Iosco County, Michigan) (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 Iosco County Medical Care Facility 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.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

February 6, 2008

Iosco County Medical Care Facility

Management's Discussion and Analysis

Our discussion and analysis of Iosco County Medical Care Facility's (the "Facility") financial performance provides an overview of the Facility's financial activities for the fiscal years ended December 31, 2007 and 2006. Please read it in conjunction with the Facility's financial statements, which begin on page 6.

Financial Highlights

- The Facility's net assets increased in each of the past two years with a \$702,000, or 7.9 percent, increase in 2007 and a \$643,000, or 7.8 percent, increase in 2006.
- The Facility reported operating income in both 2007 of \$54,328 and 2006 of \$56,846.
- Other income increased by \$61,600, or 10.5 percent, in 2007 compared to 2006. Other income also increased in 2006 by \$81,000, or 16.0 percent, compared to 2005.

Using this Annual Report

The Facility's financial statements consist of three statements - a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

Our analysis of the Facility's finances begins on page 6. One of the most important questions asked about the Facility's finances is, "Is the Facility as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the Facility's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Facility's net assets and the changes in them. One can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or financial position. Over time, increases or decreases in the Facility's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Facility's occupancy and resident mix, as well as local economic factors to assess the overall health of the Facility.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "where did cash come from?", "what was cash used for?", and "what was the change in cash balance during the reporting period?"

The Facility's Net Assets

The Facility's net assets are the difference between its assets and liabilities reported in the balance sheet on page 6. The Facility's net assets increased in each of the past two years by \$702,367 (7.9 percent) in 2007 and \$643,245 (7.8 percent) in 2006, as you can see from Table I.

Iosco County Medical Care Facility

Management's Discussion and Analysis (Continued)

Table I - Assets, Liabilities, and Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Current assets	\$ 3,998,182	\$ 4,018,174	\$ 3,339,375
Noncurrent assets	6,642,405	5,998,207	5,925,421
Total assets	10,640,587	10,016,381	9,264,796
Liabilities - Current liabilities	<u>1,072,157</u>	<u>1,150,318</u>	<u>1,041,978</u>
Net Assets			
Invested in capital assets - Net of related debt	5,061,221	4,690,181	4,799,454
Unrestricted	4,507,209	4,175,882	3,423,364
Total net assets	<u>\$ 9,568,430</u>	<u>\$ 8,866,063</u>	<u>\$ 8,222,818</u>

The Facility ended fiscal year 2007 with an improved financial position. This was evidenced by an increase in net assets of \$700,000. The bulk of the increase can be attributed to the Facility's control of costs during periods of low census, inclusion in the State's quality assurance assessment program (\$250,000), and the continued support of county residents through local millage collections (\$450,000).

Operating Results and Changes in the Facility's Net Assets

In 2007, the Facility's net assets increased by \$702,367, or 7.9 percent, as shown in Table 2. This increase is made up of very different components. It also represents an increase of .3 percent compared with the increase in net assets for 2006 of \$643,245.

Iosco County Medical Care Facility

Management's Discussion and Analysis (Continued)

Table 2 - Operating Results and Changes in Net Assets

	2007	2006	2005
Operating Revenues			
Net service revenue	\$ 5,428,746	\$ 5,238,816	\$ 4,724,245
Other operating revenue	25,966	19,255	42,878
Proportionate share reimbursement	-	124,465	132,144
Quality assurance supplement	678,178	816,927	-
Total operating revenues	6,132,890	6,199,463	4,899,267
Operating Expenses			
Salaries	2,981,866	2,997,281	2,889,673
Other expenses	3,096,696	3,145,336	2,687,844
Total operating expenses	6,078,562	6,142,617	5,577,517
Other Income (Loss)			
Interest income	189,692	159,527	95,114
Gain (loss) on sale of property	-	(3,971)	-
Contributions	444	3,259	1,927
Property tax proceeds	457,903	427,584	408,391
Total other income (loss)	648,039	586,399	505,432
Change in Net Assets	702,367	643,245	(172,818)
Net Assets - Beginning of year	8,866,063	8,222,818	8,395,636
Net Assets - End of year	\$ 9,568,430	\$ 8,866,063	\$ 8,222,818

Operating Results and Changes in Net Assets

Operating income decreased \$2,500 from 2006 to 2007. This is attributable to a 1 percent decrease in operating revenue and a 1 percent decrease in operating expenses in 2007. The Facility controlled costs and endured a low census, causing operating income to remain consistent to 2006. However, with the small decrease in operating income, the Facility was able to increase its net assets by \$702,367. This is primarily attributable to the local millage collections of \$457,903 and interest of \$189,692 received during the year.

Iosco County Medical Care Facility

Management's Discussion and Analysis (Continued)

Capital Asset Administration

Capital Assets

As of December 31, 2007, the Facility had \$5,061,221 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Facility is committed to utilizing its strong financial position to provide the public with quality care in a home-like environment. Within the last few years, all resident rooms have been completely remodeled. The Facility also added a large living area, complete with big screen TV, fireplace, couches, and reclining chairs for residents and visitors alike to enjoy. During fiscal year 2007, the facility dining experience was enhanced with additional restaurant-style seating and a built-in permanent buffet.

Future plans for the Facility include converting the majority of the semiprivate rooms into private rooms via the addition of two 12-bed "greenhouses." The Facility has already signed a contract with an architectural firm to begin the design phase of a \$2,000,000 unit. Assuming approvals for such a unit can be obtained from various state and federal agencies, the Facility is hoping to break ground later this year. The Facility is planning to fund these expansions without any debt obligations for itself or Iosco County.

Other Economic Factors

Fiscal year 2008 funding for the Facility looks promising. The Facility will once again be included in the State's quality assurance assessment program receiving approximately \$200,000. The Facility will also be receiving year two millage proceeds of \$500,000 from a 10-year operational millage approved by the voters of Iosco County. Medicare reimbursement appears to be stable for the upcoming year as well. However, the governor's recently proposed budget would limit the future Medicaid reimbursement to an annual increase not to exceed 2.5 percent for the operating expenses. Additional capital costs are expected to be reimbursed under the existing reimbursement rules.

As always, the federal and state regulatory processes pose the biggest risk to the Facility. It only takes one mistake by an employee or one misfortune involving a resident to lead the Facility into regulatory noncompliance. Regulatory issues can be directly related to financial reimbursement exclusions. Such exclusions could be devastating to a facility's financial position. It is important to note that the management team of this Facility is committed to meeting and exceeding the above-referenced regulations. The team is constantly evaluating and revising its policies and procedures, providing ongoing training to staff, staying engaged in the day-to-day care provided to residents, and hiring the proper professionals to help ensure regulatory compliance.

Contacting the Facility's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility's administrator's office at Iosco County Medical Care Facility, 1201 Harris, Tawas City, MI 48763.

Iosco County Medical Care Facility

Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,855,830	\$ 2,960,914
Resident accounts receivable (Note 3)	541,437	458,323
Taxes receivable	504,138	477,500
Other current assets	96,777	121,437
	<u>3,998,182</u>	<u>4,018,174</u>
Total current assets	3,998,182	4,018,174
Assets Limited as to Use (Note 2)	1,581,184	1,308,026
Property and Equipment - Net (Note 4)	5,061,221	4,690,181
	<u>5,061,221</u>	<u>4,690,181</u>
Total assets	<u>\$ 10,640,587</u>	<u>\$ 10,016,381</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 147,516	\$ 269,633
Funds held for residents	4,343	3,855
Accrued liabilities and other:		
Accrued compensation and related liabilities	104,674	95,685
Accrued compensated absences	236,238	224,540
Deferred tax revenue	504,138	477,500
Other accrued liabilities	75,248	79,105
	<u>1,072,157</u>	<u>1,150,318</u>
Total current liabilities	1,072,157	1,150,318
Net Assets		
Invested in capital assets - Net of related debt	5,061,221	4,690,181
Unrestricted	4,507,209	4,175,882
	<u>9,568,430</u>	<u>8,866,063</u>
Total net assets	9,568,430	8,866,063
Total liabilities and net assets	<u>\$ 10,640,587</u>	<u>\$ 10,016,381</u>

Iosco County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2007	2006
Operating Revenue		
Net service revenue	\$ 5,428,746	\$ 5,238,816
Other operating revenue	25,966	19,255
Proportionate share reimbursement	-	124,465
Quality assurance supplement	678,178	816,927
Total operating revenue	6,132,890	6,199,463
Operating Expenses		
Salaries	2,981,866	2,997,281
Other expenses	3,096,696	3,145,336
Total operating expenses	6,078,562	6,142,617
Operating Income	54,328	56,846
Other Income (Loss)		
Interest income	189,692	159,527
Loss on sale of property	-	(3,971)
Contributions	444	3,259
Tax revenue	457,903	427,584
Total other income	648,039	586,399
Increase in Net Assets	702,367	643,245
Net Assets - Beginning of year	8,866,063	8,222,818
Net Assets - End of year	\$ 9,568,430	\$ 8,866,063

Iosco 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	\$ 5,345,632	\$ 5,168,427
Cash paid to employees and suppliers	(5,913,371)	(5,855,458)
Cash received from Proportionate Share Reimbursement Program	-	124,465
Quality assurance assessment	678,178	816,927
Other operating receipts	25,966	19,255
Net cash provided by operating activities	136,405	273,616
Cash Flows from Noncapital Financing Activities		
Resident trust deposits (withdrawals)	488	(3,077)
Property taxes	457,903	427,584
Contributions and noncapital grants	444	3,259
Net cash provided by noncapital financing activities	458,835	427,766
Cash Flows from Investing Activities - Interest received	189,692	159,527
Cash Flows from Capital and Related Financing Activities - Purchase of property and equipment	(616,858)	(153,792)
Net Increase in Cash and Cash Equivalents	168,074	707,117
Cash and Cash Equivalents - Beginning of year	4,268,940	3,561,823
Cash and Cash Equivalents - End of year	\$ 4,437,014	\$ 4,268,940
Balance Sheet Classification of Cash and Cash Equivalents		
Current assets	\$ 2,855,830	\$ 2,960,914
Assets limited as to use	1,581,184	1,308,026
Total cash and cash equivalents	\$ 4,437,014	\$ 4,268,940

Iosco 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	\$ 54,328	\$ 56,846
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	245,818	259,094
Provision for bad debts	(50,364)	13,547
Changes in assets and liabilities:		
Resident accounts receivable	(32,750)	(83,936)
Other current assets	24,660	(47,720)
(Decrease) increase in accounts payable	(122,117)	138,040
Accrued compensation	20,687	35,547
Other accrued liabilities	(3,857)	(97,802)
Net cash provided by operating activities	<u>\$ 136,405</u>	<u>\$ 273,616</u>

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

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - Nature of Business and Significant Accounting Policies

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

The Facility is an 83-bed, long-term medical care unit owned and operated by Iosco County. It is governed by the Iosco 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 who is appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County's 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. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenue 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.

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.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

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

Assets Limited as to Use - Assets limited as to use include assets set aside by the board of trustees for future capital improvement, over which the board retains control and may, at its discretion, subsequently use for other purposes.

Property and Equipment - Property and equipment amounts are recorded at historical cost. Depreciation is computed on the straight-line method. Costs of maintenance and repairs are charged to expense when incurred.

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

Net Assets - Net assets are classified into 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.

Patient Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of patients. The liability for funds held for residents on the balance sheet represents patient 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 patient day that was approved by the State during that month. M.O.E. expense amounted to \$54,828 and \$56,277 for the years ended December 31, 2007 and 2006, respectively, was paid by the Facility, and is included in operating expenses.

Taxes Receivable/Deferred Tax Revenue - Taxes are levied on December 1 and are payable on February 15. The cities and townships within the County bill and collect the property taxes for the County. County property tax revenue is recognized when levied. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations.

In 2006, the voters of Iosco County approved a levy annually up to \$0.4557 (\$0.4395 rolled back for Headlee) per \$1,000 of assessed valuation for the purpose of general operations of the Facility for 10 years through 2015.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

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

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	74	78
Medicare	9	10

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.

Quality Assurance Program - The Facility's Medicaid revenue have been partially funded by a program called the quality assurance assessment program (QAAP). The current QAAP program was approved by the federal government during 2006 and was made effective October 1, 2005. During the year ended December 31, 2007, the Facility received Medicaid revenue related to the QAAP totaling \$678,178. During the year ended December 31, 2006, the Facility received Medicaid revenue related to the QAAP totaling approximately \$817,000, of which approximately \$165,000 related to the retroactive period from October 1, 2005 through December 31, 2005.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

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

During the year ended December 31, 2007, the Facility was assessed a provider tax totaling \$429,031. During the year ended December 31, 2006, the Facility was assessed a provider tax totaling approximately \$526,000, of which approximately \$100,000 related to the period from 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 \$36,000 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 the quarter for the year ended December 31, 2006. Therefore, approximately \$100,000 of provider tax was due and is included in accounts payable at December 31, 2006.

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.

Operating Revenue and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguished between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing long-term care services. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide long-term care services, other than financing costs.

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	\$ 2,846,733	\$ 1,581,184	\$ 2,951,329	\$ 1,308,026
Bank	9,097	-	9,585	-
Total	<u>\$ 2,855,830</u>	<u>\$ 1,581,184</u>	<u>\$ 2,960,914</u>	<u>\$ 1,308,026</u>

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

Iosco County 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.

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 - Accounts Receivable

The details of resident accounts receivable are as follows:

	<u>2007</u>	<u>2006</u>
Resident accounts receivable	\$ 600,180	\$ 571,066
Allowance for uncollectible accounts	<u>(58,743)</u>	<u>(112,743)</u>
Net resident accounts receivable	<u>\$ 541,437</u>	<u>\$ 458,323</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:

	<u>Percent</u>	
	<u>2007</u>	<u>2006</u>
Medicare	26	26
Medicaid	54	53
Other payors	<u>20</u>	<u>21</u>
Total	<u>100</u>	<u>100</u>

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 4 - Property and Equipment

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

	January 1, 2007	Additions	Transfers	Disposals	December 31, 2007	Depreciable Life - Years
Building	\$ 5,693,160	\$ 592,967	\$ 153,792	\$ -	\$ 6,439,919	10-40
Equipment	1,552,456	22,618	-	(6,864)	1,568,210	5-20
Construction in progress	153,792	1,273	(153,792)	-	1,273	-
Total	7,399,408	616,858	-	(6,864)	8,009,402	
Less accumulated depreciation:						
Building	1,574,721	177,032	-	-	1,751,753	
Equipment	1,134,506	68,786	-	(6,864)	1,196,428	
Total	2,709,227	245,818	-	(6,864)	2,948,181	
Net carrying amount	\$ 4,690,181	\$ 371,040	\$ -	\$ -	\$ 5,061,221	

During 2007, the Facility entered into a contract with an architect for the design of two 12-bed greenhouses.

The cost of property and equipment and related depreciable lives for December 31, 2006 are summarized below:

	January 1, 2006	Additions	Transfers	Disposals	December 31, 2006	Depreciable Life - Years
Building	\$ 5,693,160	\$ -	\$ -	\$ -	\$ 5,693,160	10-40
Equipment	1,573,528	-	-	(21,072)	1,552,456	5-20
Construction in progress	-	153,792	-	-	153,792	-
Total	7,266,688	153,792	-	(21,072)	7,399,408	
Less accumulated depreciation:						
Building	1,400,519	174,202	-	-	1,574,721	
Equipment	1,066,715	84,892	-	(17,101)	1,134,506	
Total	2,467,234	259,094	-	(17,101)	2,709,227	
Net carrying amount	\$ 4,799,454	\$ (105,302)	\$ -	\$ (3,971)	\$ 4,690,181	

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2007 and 2006

Note 5 - Defined Benefit Multiple-employer Pension Plan

As disclosed in Note 1, the Facility is a component unit of Iosco County. Iosco County, including the Facility, participates in the Michigan Municipal Employees' Retirement System. The Michigan Municipal Employees' Retirement System (the "System") is an agent multiple-employer defined benefit pension plan that covers all employees of the County. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. This information can be requested by writing to:

Michigan Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, Michigan 48917
or by calling (800) 767-6377

The obligation to contribute to and maintain the System for these employees was established by negotiations with the County's competitive bargaining units. The Facility's contribution requirement is actuarially determined and is equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

Facility contributions to the plan for the years ended December 31, 2007, 2006, and 2005 were \$233,669, \$216,153, and \$212,574, respectively.

Note 6 - 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 malpractice and general liability claims, workers' compensation, and employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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 were no known outstanding or pending claims at December 31, 2007 and 2006.

Additional Information



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

We have audited the financial statements of Iosco 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. 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 financial statements taken as a whole.

Plante & Moran, PLLC

February 6, 2008

Iosco County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	<u>2007</u>	<u>2006</u>
Skilled Nursing Services		
Daily net room revenue:		
Medicaid	\$ 4,020,270	\$ 4,205,159
Medicare	493,205	531,395
Private pay and other	<u>885,962</u>	<u>663,021</u>
Total daily net room revenue	5,399,437	5,399,575
Ancillary revenue:		
Pharmacy	102,802	137,632
Therapy services	242,337	297,623
Other ancillary services	<u>14,816</u>	<u>15,939</u>
Total ancillary revenue	<u>359,955</u>	<u>451,194</u>
Net skilled nursing services revenue	5,759,392	5,850,769
Revenue deductions:		
Provision for contractual discounts	(381,010)	(598,406)
Bad debt expense	<u>50,364</u>	<u>(13,547)</u>
Net service revenue	<u>\$ 5,428,746</u>	<u>\$ 5,238,816</u>

Iosco County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31			
	2007			2006
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,079,934	\$ 1,079,934	\$ 1,029,878
Administration	332,381	318,000	650,381	615,137
Plant operations	88,775	72,725	161,500	154,845
Utilities	-	186,675	186,675	203,135
Laundry	70,264	34,380	104,644	104,532
Housekeeping	194,601	46,718	241,319	236,997
Dietary	241,486	252,787	494,273	480,007
Diversional therapy	89,561	7,249	96,810	98,992
Other ancillary services	-	43,036	43,036	34,048
Therapy services	102,390	14,327	116,717	124,992
Pharmacy	-	132,282	132,282	151,217
Nursing	1,862,408	178,521	2,040,929	2,067,406
Provider tax	-	429,031	429,031	525,680
Other services	-	385	385	380
Depreciation and amortization	-	245,818	245,818	259,094
Maintenance of effort	-	54,828	54,828	56,277
2007 total	<u>\$ 2,981,866</u>	<u>\$ 3,096,696</u>	<u>\$ 6,078,562</u>	
2006 total				<u>\$ 6,142,617</u>

February 6, 2008

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

We have audited the financial statements of Iosco County Medical Care Facility (the "Facility") for the year ended December 31, 2007 and have issued our report thereon dated February 6, 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 Iosco 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 6, 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 Iosco 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 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 allowance for doubtful accounts.

Management's estimate of the allowance for doubtful accounts was adjusted during the year as a result of an audit recommendation in the prior year. 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 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 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 material misstatements detected as a result of audit procedures were corrected by management. An adjustment was made to remove health insurance expense for January 2008 that was recorded in 2007, amounting to a \$50,500 reduction of expenses. The other adjustment was to account for the quality assurance supplement revenue and provider tax properly. This adjustment increased revenue by \$72,000.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 6, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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 Iosco County Department of Human Services Board and management of Iosco 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

Client: **Iosco County Medical Care Facility**

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

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Income
KNOWN MISSTATEMENTS:									
AI	Noncapitalized expense for new generator	\$ 11,317						\$ (11,317)	\$ 11,317
ESTIMATE ADJUSTMENTS:									
	None								
IMPLIED ADJUSTMENTS:									
	None								
		-	\$ -	\$ -	\$ -	\$ -	\$ -	-	-
	Total	<u>\$ 11,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,317)</u>	<u>\$ 11,317</u>