

# 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	
<input type="checkbox"/> County	<input type="checkbox"/> City	<input type="checkbox"/> Twp	<input type="checkbox"/> Village	<input type="checkbox"/> Other			
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	



# **Pinecrest Medical Care Facility**

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

# **Pinecrest Medical Care Facility**

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## Independent Auditor's Report

To the Department of Human  
Services Board  
Pinecrest Medical Care Facility

We have audited the accompanying combined balance sheet of Pinecrest Medical Care Facility (the "Facility") and affiliated entities (owned and operated jointly by Delta, Dickinson, and Menominee Counties, Michigan) as of December 31, 2007 and 2006 and the related combined statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these combined 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Pinecrest Medical Care Facility at December 31, 2007 and 2006 and the combined 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 accompanying combined 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 combined financial statements.

*Plante & Moran, PLLC*

February 25, 2008

# Pinecrest Medical Care Facility

## Combined Balance Sheet

	December 31, 2007	December 31, 2006
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 1,142,988	\$ 964,907
Resident accounts receivable (Note 3)	1,508,100	1,614,553
Other current assets	121,025	119,153
Total current assets	2,772,113	2,698,613
<b>Assets Limited as to Use</b> (Note 2)	3,940,677	3,680,758
<b>Property and Equipment - Net</b> (Note 4)	13,836,082	13,718,238
Total assets	<b>\$ 20,548,872</b>	<b>\$ 20,097,609</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 242,642	\$ 411,511
Construction payable	126,413	49,186
Accrued liabilities and other:		
Accrued compensation and related liabilities	503,296	457,034
Accrued compensated absences	557,356	489,072
Other accrued liabilities	110,634	134,242
Total current liabilities	1,540,341	1,541,045
<b>Net Assets</b>		
Invested in capital assets	13,836,082	13,718,238
Unrestricted	5,172,449	4,838,326
Total net assets	19,008,531	18,556,564
Total liabilities and net assets	<b>\$ 20,548,872</b>	<b>\$ 20,097,609</b>

# Pinecrest Medical Care Facility

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

	Year Ended December 31	
	2007	2006
<b>Operating Revenue</b>		
Net service revenue	\$ 12,590,781	\$ 11,970,534
Quality assurance supplement	1,474,083	1,870,555
Other operating revenue	248,713	59,703
Proportionate share reimbursement	-	282,407
Total operating revenue	14,313,577	14,183,199
<b>Operating Expenses</b>		
Salaries	8,097,900	7,479,913
Other expenses	6,087,941	5,969,673
Total operating expenses	14,185,841	13,449,586
<b>Operating Income</b>	127,736	733,613
<b>Other Income</b>	324,231	321,499
<b>Increase in Net Assets</b>	451,967	1,055,112
<b>Net Assets - Beginning of year</b>	18,556,564	17,501,452
<b>Net Assets - End of year</b>	<b>\$ 19,008,531</b>	<b>\$ 18,556,564</b>

# Pinecrest Medical Care Facility

## Combined Statement of Cash Flows

	Year Ended	
	December 31, 2007	December 31, 2006
<b>Cash Flows from Operating Activities</b>		
Cash received from residents and third-party payors	\$ 12,697,234	\$ 11,597,262
Other operating receipts	248,713	59,703
Cash received from proportionate share reimbursement program	-	282,407
Cash received from quality assurance supplement	1,474,083	1,870,555
Cash paid to employees and suppliers	(12,297,258)	(11,172,455)
Cash paid for provider tax	(953,440)	(1,121,671)
Net cash provided by operating activities	1,169,332	1,515,801
<b>Cash Flows from Noncapital Financing Activities -</b>		
Contributions received	27,314	102,737
<b>Cash Flows from Investing Activities</b>		
Rental income	55,500	62,925
Interest received	241,417	155,837
Proceeds from sale of investments in assets limited as to use	757,460	643,553
Purchase of investments in assets limited as to use	(230,000)	(54,362)
Net cash provided by investing activities	824,377	807,953
<b>Cash Flows from Capital and Related Financing Activities</b>		
- Purchase of property and equipment	(1,055,563)	(1,688,645)
<b>Net Increase in Cash and Cash Equivalents</b>	965,460	737,846
<b>Cash and Cash Equivalents - Beginning of year</b>	2,342,123	1,604,277
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,307,583</b>	<b>\$ 2,342,123</b>
<b>Balance Sheet Classification of Cash</b>		
Current assets	\$ 1,142,988	\$ 964,907
Assets limited as to use	2,164,595	1,377,216
Total cash	<b>\$ 3,307,583</b>	<b>\$ 2,342,123</b>

# Pinecrest Medical Care Facility

## Combined Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2007	December 31, 2006
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 127,736	\$ 733,613
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	1,014,946	935,632
Bad debts	46,483	23,907
Change in assets and liabilities:		
Decrease (increase) in resident accounts receivable	59,970	(397,179)
Increase in other current assets	(1,872)	(279)
(Decrease) increase in accounts payable	(168,869)	256,435
Increase (decrease) in other accrued expenses	90,938	(36,328)
Net cash provided by operating activities	<u>\$ 1,169,332</u>	<u>\$ 1,515,801</u>

At December 31, 2007 and 2006, property and equipment additions totaling \$126,413 and \$49,186, respectively, were included in a construction payable.

# **Pinecrest Medical Care Facility**

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

### **Note I - Nature of Business and Significant Accounting Policies**

Pinecrest Medical Care Facility (the "Facility") is a 174-bed, long-term medical care facility owned and operated jointly by Delta, Dickinson, and Menominee Counties. The Facility is governed by a nine-member Department of Human Services (DHS) board. This board is made up of six members appointed by participating counties (two each) and three members appointed by the governor of Michigan (one to each county). This board also oversees the operations of Whispering Pines and Powers Activity Center. Whispering Pines operates five residential care facilities for developmentally disabled adults. Whispering Pines also has a contract with an outside provider to provide community-supported living arrangement programs that provide housekeeping, personal care services, and transportation to developmentally disabled adults and senior citizens living on their own. Powers Activity Center is an outpatient mental health facility. As required by accounting principles generally accepted in the United States of America, these combined financial statements present Pinecrest Medical Care Facility and its component units. The individual component units discussed above are included because of the significance of their operational or financial relationships with Pinecrest Medical Care Facility.

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

**Basis for Presentation** - The combined 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 one-line 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 Equivalents** - The Facility considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

# Pinecrest Medical Care Facility

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

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

**Assets Limited as to Use** - Assets limited as to use primarily include cash and cash equivalents and investments set aside by the DHS board for future capital improvements, funding of combined time off, and managed care contracting. Investments are recorded at their fair market values. The board retains control and may, at its discretion, subsequently use such assets for other purposes.

**Property and Equipment** - All property and equipment purchases are recorded at historical cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is charged as an expense against operations on a straight-line basis.

**Compensated Absences** - Employees earn benefit days under the Facility's combined time-off policy. The value of the combined time off is charged to operations when earned. Unused benefits are recorded as a current liability in the combined financial statements.

**Resident Funds** - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents and are included as an asset and a liability within the financial statements.

**Net Patient Service Revenue** - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Approximately 85 percent of the revenue from patient services is received from the Medicare and Medicaid programs. The Facility has agreements with the Medicare and Medicaid programs to provide reimbursement to the Facility at amounts different from its established rates. Contractual adjustments under third-party rates for services and amounts are reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

**Medicare** - 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.

**Medicaid** - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates based on a cost reimbursement methodology.

# Pinecrest Medical Care Facility

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. 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.

**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.

**Quality Assurance Program** - The Facility's Medicaid revenue has been partially funded by a program called quality assurance supplement (QAS). The current QAS 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 revenues related to QAS totaling \$1,474,083. During the year ended December 31, 2006, the Facility received Medicaid revenues related to QAAP totaling \$1,870,555, of which \$390,000 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 \$953,440. During the year ended December 31, 2006, the Facility was assessed a provider tax totaling \$1,121,671, of which \$224,000 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, 2004 and 2005. During the year ended December 31, 2007, the State billed for the tax on a monthly basis. Therefore, approximately \$80,000 of provider tax was due and is included in accounts payable at December 31, 2007. The State billed for the tax on a quarterly basis due on the fifth day following the end of the quarter for the year ended December 31, 2006. Therefore, approximately \$227,000 of provider tax was due and is included in accounts payable at December 31, 2006.

**Charity Care** - The Facility provides care to residents who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Facility does not pursue collection of amounts determined to qualify as charity care, they are not reported as net resident service revenue. Amounts written off to charity care totaled approximately \$6,000 for the years ended December 31, 2006. The Facility's outstanding charity care requirements under their Hill-Burton arrangement were met during 2006 and did not provide any charity care during 2007.

# **Pinecrest Medical Care Facility**

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

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

**Operating Revenues and Expenses** - The Facility's combined 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. Nonexchange revenues, grants, and contributions received for purposes other than capital asset acquisition are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

**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.

### **Note 2 - Deposits and Investments**

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. A 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 has designated three banks and one credit union 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.

# Pinecrest Medical Care Facility

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

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

The Facility's cash and assets limited as to use, including investments that are subject to several types of risk, are examined in more detail below.

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank or credit union failure, the Facility's deposits may not be returned to it. The Facility does not have a deposit policy for custodial credit risk. The Facility had approximately \$300,000 and \$840,000 of bank and credit union deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized as of December 31, 2007 and 2006, respectively. The Facility believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance and National Credit Union Share insurance, it is impractical to insure all deposits. As a result, the Facility evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Facility's investment policy does not restrict investment maturities.

As of December 31, 2007, the Facility had the following cash and assets limited as to use maturities:

	Fair Market Value	Less than One Year	1-5 Years	6-10 Years	More than 10 Years
Cash and cash equivalents	\$ 1,648,946	\$ 1,648,946	\$ -	\$ -	\$ -
Certificates of deposit	515,649	515,649	-	-	-
Total cash and cash equivalents	2,164,595	2,164,595	-	-	-
Government agency securities	658,743	139,978	518,765	-	-
Government securities	1,038,588	199,724	463,547	375,317	-
Mutual funds	78,751	78,751	-	-	-
Total	<u>\$ 3,940,677</u>	<u>\$ 2,583,048</u>	<u>\$ 982,312</u>	<u>\$ 375,317</u>	<u>\$ -</u>

# Pinecrest Medical Care Facility

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

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

As of December 31, 2006, the Facility had the following cash and assets limited as to use maturities:

	Fair Market Value	Less than One Year	1-5 Years	6-10 Years	More than 10 Years
Cash and cash equivalents	\$ 863,025	\$ 863,025	\$ -	\$ -	\$ -
Certificates of deposit	489,753	392,587	97,166	-	-
Money market funds	24,438	24,438	-	-	-
Total cash and cash equivalents	1,377,216	1,280,050	97,166	-	-
Government agency securities	639,589	-	544,683	94,906	-
Government securities	1,614,073	524,174	573,939	515,960	-
Mutual funds	49,880	49,880	-	-	-
Total	\$ 3,680,758	\$ 1,854,104	\$ 1,215,788	\$ 610,866	\$ -

**Component Units** - The component units have designated one credit union for the deposit of their 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 component units' deposits and investment policies are in accordance with statutory authority.

The component units' cash and assets limited as to use are subject to risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, a component unit's deposits may not be returned to it. The component units do not have a deposit policy for custodial credit risk. The component units had approximately \$1,080,000 and \$830,000 of credit union deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized as of December 31, 2007 and 2006, respectively. The component units believe that due to the dollar amounts of cash deposits and the limits of National Credit Union Share insurance, it is impractical to insure all deposits. As a result, the component units evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Pinecrest Medical Care Facility

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

### Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2007	2006
Resident accounts receivable	\$ 1,563,100	\$ 1,669,553
Less allowance for uncollectible accounts	(55,000)	(55,000)
Net resident accounts receivable	<u>\$ 1,508,100</u>	<u>\$ 1,614,553</u>

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percent	
	2007	2006
Medicare	12	17
Medicaid	53	58
Other payors	35	25
Total	<u>100</u>	<u>100</u>

### Note 4 - Property and Equipment

The 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	\$ 22,211	\$ -	\$ -	\$ -	\$ 22,211	NA
Building	19,617,588	319,147	1,652,444	-	21,589,179	10-40
Equipment	2,800,266	79,138	38,433	(169)	2,917,668	4-20
Construction in progress	1,613,850	734,505	(1,690,877)	-	657,478	-
Total	<u>24,053,915</u>	<u>1,132,790</u>	<u>-</u>	<u>(169)</u>	<u>25,186,536</u>	
Less accumulated depreciation:						
Building	8,351,499	864,677	-	-	9,216,176	
Equipment	1,984,178	150,269	-	(169)	2,134,278	
Total	<u>10,335,677</u>	<u>1,014,946</u>	<u>-</u>	<u>(169)</u>	<u>11,350,454</u>	
Net carrying amount	<u>\$ 13,718,238</u>	<u>\$ 117,844</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,836,082</u>	

# Pinecrest Medical Care Facility

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

### Note 4 - Property and Equipment (Continued)

The 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	\$ 22,211	\$ -	\$ -	\$ -	\$ 22,211	N/A
Building	19,527,447	90,141	-	-	19,617,588	10-40
Equipment	2,687,731	112,535	-	-	2,800,266	4-20
Construction in progress	127,881	1,485,969	-	-	1,613,850	-
Total	22,365,270	1,688,645	-	-	24,053,915	
Less accumulated depreciation:						
Building	7,565,510	785,989	-	-	8,351,499	
Equipment	1,834,535	149,643	-	-	1,984,178	
Total	9,400,045	935,632	-	-	10,335,677	
Net carrying amount	<u>\$ 12,965,225</u>	<u>\$ 753,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,718,238</u>	

Construction contracts of approximately \$2,000,000 exist for a second greenhouse. At December 31, 2007, the remaining commitment on these contracts approximated \$1,350,000.

### Note 5 - Related Party Transactions

**Maintenance of Effort** - Maintenance of effort (M.O.E.) payments are county obligations to the State of Michigan. Every month the State bills the counties, at a per diem rate, for each Medicaid patient day at the Facility. All obligations are paid by the counties except for amounts relating to a 14-bed addition, which are the responsibility of the Facility.

### Note 6 - Defined Contribution Pension Plan

The Facility has two defined contribution plans, one for union employees and one for nonunion employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Facility contributes 2 percent of employees' gross earnings for participants of the bargaining units under a collective bargaining agreement and 9 percent of gross earnings for participants in the nonunion plan. The Facility's contributions for each employee (plus interest allocated to the employee's account) are fully vested after 10 years of service. In accordance with these requirements, the Facility contributed approximately \$172,000 and \$200,000 during 2007 and 2006, respectively. There were no employee contributions to the plans in either year.

# Pinecrest Medical Care Facility

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

### Note 7 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, and errors and omissions, as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims and employee medical benefit claims. The Facility is uninsured for workers' compensation 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 are no known, outstanding, or pending claims at December 31, 2007 and 2006.

The Facility records workers' compensation claims as they are processed by the claims administrator. The Facility has also purchased stop-loss insurance for claims that exceed \$275,000. Changes in the estimated liability for the years ended December 31, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 124,170	\$ 46,269
Estimated claims incurred, including changes in estimates	49,749	154,310
Claim payments	<u>(73,087)</u>	<u>(76,409)</u>
Estimated liability - End of year	<u>\$ 100,832</u>	<u>\$ 124,170</u>

## **Additional Information**

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To the Board of Directors  
Pinecrest Medical Care Facility

We have audited the combined financial statements of Pinecrest Medical Care Facility as of December 31, 2007 and 2006. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying schedules, as outlined in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic combined financial statements. The combining and combined information has been subjected to the procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*Plante & Moran, PLLC*

February 25, 2008

# Pinecrest Medical Care Facility

## Combining Balance Sheet December 31, 2007

	Pinecrest Medical Care Facility	Whispering Pines	Powers Activity Center	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 967,309	\$ 144,932	\$ 30,747	\$ 1,142,988
Residents accounts receivable	1,311,686	180,251	16,163	1,508,100
Other current assets	87,649	31,219	2,157	121,025
Total current assets	2,366,644	356,402	49,067	2,772,113
<b>Assets Limited as to Use</b>	3,070,659	322,295	547,723	3,940,677
<b>Property and Equipment - Net</b>	13,420,367	298,786	116,929	13,836,082
Total assets	<b>\$ 18,857,670</b>	<b>\$ 977,483</b>	<b>\$ 713,719</b>	<b>\$ 20,548,872</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 181,142	\$ 37,150	\$ 24,350	\$ 242,642
Construction payable	126,413	-	-	126,413
Accrued liabilities and other:				
Accrued compensation and related liabilities	459,505	40,672	3,119	503,296
Accrued compensated absences	520,022	37,334	-	557,356
Other accrued liabilities	110,634	-	-	110,634
Total current liabilities	1,397,716	115,156	27,469	1,540,341
<b>Net Assets</b>				
Invested in capital assets	13,420,367	298,786	116,929	13,836,082
Unrestricted	4,039,587	563,541	569,321	5,172,449
Total net assets	17,459,954	862,327	686,250	19,008,531
Total liabilities and net assets	<b>\$ 18,857,670</b>	<b>\$ 977,483</b>	<b>\$ 713,719</b>	<b>\$ 20,548,872</b>

# Pinecrest Medical Care Facility

## Combining Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

	Pinecrest Medical Care Facility	Whispering Pines	Powers Activity Center	Total
<b>Operating Revenue</b>				
Net service revenue	\$ 10,209,177	\$ 2,143,627	\$ 237,977	\$ 12,590,781
Quality assurance supplement	1,474,083	-	-	1,474,083
Other operating revenue	248,713	-	-	248,713
Total operating revenue	11,931,973	2,143,627	237,977	14,313,577
<b>Operating Expenses</b>				
Salaries	6,548,402	1,430,281	119,217	8,097,900
Other expenses	5,401,408	626,112	60,421	6,087,941
Total operating expenses	11,949,810	2,056,393	179,638	14,185,841
<b>Operating Income (Loss)</b>	(17,837)	87,234	58,339	127,736
<b>Other Income</b>	291,880	9,949	22,402	324,231
<b>Increase in Net Assets</b>	274,043	97,183	80,741	451,967
<b>Net Assets - Beginning of year</b>	17,185,911	765,144	605,509	18,556,564
<b>Net Assets - End of year</b>	<u>\$ 17,459,954</u>	<u>\$ 862,327</u>	<u>\$ 686,250</u>	<u>\$ 19,008,531</u>

# Pinecrest Medical Care Facility

## Combined Schedule of Net Service Revenue

	Year Ended December 31	
	2007	2006
Skilled nursing services:		
Daily room revenue:		
Medicaid	\$ 8,488,900	\$ 8,596,000
Medicare	583,625	687,750
Private pay and other	1,276,281	659,490
Total daily room revenue	10,348,806	9,943,240
Ancillary revenue:		
Pharmacy	138,574	185,201
Therapy services	933,234	859,255
Other ancillary services	161,658	139,356
Total ancillary revenue	1,233,466	1,183,812
Total skilled nursing services revenue	11,582,272	11,127,052
Revenue deductions:		
Provision for contractual discounts	(1,326,612)	(1,391,028)
Bad debt expense	(46,483)	(23,907)
Total revenue deductions	(1,373,095)	(1,414,935)
Net skilled nursing revenue	10,209,177	9,712,117
Whispering Pines service revenue	2,143,627	2,022,252
Powers Activity Center service revenue	237,977	236,165
Net service revenue	<b>\$ 12,590,781</b>	<b>\$ 11,970,534</b>

# Pinecrest Medical Care Facility

## Combined Schedule of Operating Expenses

	Year Ended December 31			
	2007			2006
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,619,270	\$ 1,619,270	\$ 1,666,424
Administration	588,556	531,277	1,119,833	959,799
Plant operations	320,872	155,501	476,373	408,035
Utilities	-	361,384	361,384	306,897
Laundry	188,444	37,133	225,577	225,433
Housekeeping	274,831	58,539	333,370	300,678
Dietary	562,962	400,063	963,025	919,846
Medical director	-	60,000	60,000	60,000
Diversional therapy	135,719	1,536	137,255	129,974
Other ancillary services	-	34,332	34,332	35,975
Therapy services	339,314	38,991	378,305	333,686
Pharmacy	-	140,627	140,627	177,165
Nursing	4,217,582	369,573	4,587,155	4,125,941
Adult day care - PAC	111,584	10,475	122,059	116,566
Other services	142,041	-	142,041	35,913
Whispering Pines	1,215,995	300,854	1,516,849	1,589,951
Provider tax	-	953,440	953,440	1,121,671
Depreciation and amortization	-	1,014,946	1,014,946	935,632
2007 totals	<b>\$ 8,097,900</b>	<b>\$ 6,087,941</b>	<b>\$ 14,185,841</b>	
2006 totals	<b>\$ 7,479,913</b>	<b>\$ 5,969,673</b>		<b>\$ 13,449,586</b>

February 25, 2008

To the Department of Human  
Services Board  
Pinecrest Medical Care Facility

We have audited the financial statements of Pinecrest Medical Care Facility for the year ended December 31, 2007 and have issued our report thereon dated February 25, 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 29, 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 Pinecrest 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 conversation about planning matters on January 18, 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 Pinecrest Medical Care Facility are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during December 31, 2007.

We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the allowance for doubtful accounts has not changed in the last several years. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

### ***Difficulties Encountered in Performing the Audit***

We should inform those charged with governance of any serious difficulties encountered in dealing with management related to the performance of the audit. There were no serious difficulties encountered during the audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule (Attachment A) summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### ***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's Representations***

We have requested certain representations from management that are included in the management representation letter dated February 25, 2008.

***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

This information is intended solely for the use of members of the board and management of Pinecrest 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: **Pinecrest Medical Care Facility**

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

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The pretax 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
<b>KNOWN MISSTATEMENTS:</b>									
AI	Medicare HMO net realizable balance	\$ 38,910					\$ 38,910		\$ 38,910
<b>ESTIMATE ADJUSTMENTS:</b>									
	None								
<b>IMPLIED ADJUSTMENTS:</b>									
	None								
	Total	<u>\$ 38,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,910</u>	<u>\$ -</u>	<u>\$ 38,910</u>

\_\_\_\_\_  
Gerald Better, Administrator

\_\_\_\_\_  
Jerome Hubbard, Controller