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	LakeView Community Hospital Authority	Van Buren

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
December 31, 2007	May 6, 2008	May 19, 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
[signature]	Michael A. Baker, CPA	1101017229

LakeView Community Hospital Authority

Consolidated Financial Report
with Additional Information
December 31, 2007

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Independent Auditor's Report

To the Board of Directors
LakeView Community Hospital Authority

We have audited the accompanying consolidated balance sheet of LakeView Community Hospital Authority as of December 31, 2007 and March 31, 2007 and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the nine months ended December 31, 2007 and the year ended March 31, 2007. These consolidated financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LakeView Community Hospital Authority at December 31, 2007 and March 31, 2007 and the consolidated results of its revenues, expenses, and changes in net assets and its cash flows for the nine months ended December 31, 2007 and the year ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements do not present the management's discussion and analysis, which would be an analysis of the financial performance for the period. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

As described in Note 10, substantially all assets of the Authority and affiliated entities were sold to, and substantially all liabilities were assumed by, Bronson Healthcare Group (Bronson) effective January 1, 2008. All healthcare operations were assumed by Bronson on that date.

Plante & Moran, PLLC

May 6, 2008

LakeView Community Hospital Authority

Consolidated Balance Sheet

	December 31, 2007	March 31, 2007
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 2,114,620	$ 4,319,653
Accounts receivable (Note 3)	5,830,888	5,751,540
Estimated third-party payor settlements (Note 4)	1,832,212	439,887
Prepaid expenses and other	1,218,631	1,330,356
Total current assets	10,996,351	11,841,436
Assets Limited as to Use - Funded depreciation (Notes 1 and 2)	2,019,586	3,401,677
Assets Limited as to Use - Debt service (Notes 1 and 2)	4,216,352	1,210,384
Property and Equipment - Net (Note 5)	14,391,574	13,791,254
Other Assets	1,121,270	980,862
Total assets	**$ 32,745,133**	**$ 31,225,613**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 6)	$ 673,035	$ 652,310
Payable to Bronson Healthcare Group (Note 10)	2,819,940	-
Accounts payable	4,199,993	3,129,075
Estimated third-party payor settlements (Note 4)	553,119	179,742
Retainage payable	-	152,987
Accrued liabilities and other	1,696,903	1,528,152
Total current liabilities	9,942,990	5,642,266
Long-term Debt - Net of current portion (Note 6)	3,790,546	3,749,032
Total liabilities	13,733,536	9,391,298
Net Assets		
Invested in capital assets - Net of related debt	9,927,993	9,389,912
Restricted for debt service	4,216,352	1,210,384
Unrestricted	4,867,252	11,234,019
Total net assets	19,011,597	21,834,315
Total liabilities and net assets	**$ 32,745,133**	**$ 31,225,613**

LakeView Community Hospital Authority

Consolidated Statement of Revenues, Expenses, and Changes in Net Assets

	Period Ended December 31, 2007	Period Ended March 31, 2007
Operating Revenues		
Net patient service revenue - Net of provision for bad debts of $1,818,081 for the period ended December 31, 2007 and $2,544,844 for the year ended March 31, 2007	$ 37,428,984	$ 49,487,760
Other	389,990	642,932
Total operating revenues	37,818,974	50,130,692
Operating Expenses		
Salaries and wages	17,953,122	23,410,176
Employee benefits and payroll taxes	5,502,108	5,913,986
Operating supplies and expenses	7,212,941	7,710,300
Professional services and consultant fees	3,392,001	4,652,171
Purchased services	349,578	432,740
Utilities	610,750	771,160
Other expenses	3,605,283	4,142,828
Rents and leases	700,875	735,349
Depreciation and amortization	1,573,554	2,062,726
Total operating expenses	40,900,212	49,831,436
Operating (Loss) Income	(3,081,238)	299,256
Other Income (Expenses)		
Interest income	300,107	393,849
Unrealized loss on investments	-	(8,100)
Loss on sale of property	(8,570)	(49,236)
Contributions	26,915	4,490
Gain on joint venture	151,950	328,819
Interest expense	(211,882)	(307,494)
Total other income	258,520	362,328
(Decrease) Increase in Net Assets	(2,822,718)	661,584
Net Assets - Beginning of period	21,834,315	21,172,731
Net Assets - End of period	**$ 19,011,597**	**$ 21,834,315**

Consolidated Statement of Cash Flows

	Period Ended December 31, 2007	Period Ended March 31, 2007
Cash Flows from Operating and Nonoperating Activities		
Cash received from patients and third-party payors	$ 37,349,636	$ 49,434,666
Cash payments to suppliers for services and goods	(36,327,259)	(48,529,698)
Other receipts from operations	389,990	642,932
Net cash provided by operating and nonoperating activities	1,412,367	1,547,900
Cash Flows from Noncapital Financing Activities - Noncapital grants and contributions	26,915	4,490
Cash Flows from Investing Activities		
Investment income	300,107	393,849
Purchase of investments	(4,539,007)	870,326
Proceeds from maturities of investments	1,500,000	-
Net cash (used in) provided by investing activities	(2,738,900)	1,264,175
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,034,743)	(1,393,396)
Proceeds from sale of capital assets	-	51,997
Interest paid on long-term debt	(211,882)	(307,494)
Principal payments on long-term debt	(73,920)	(630,734)
Net cash used in capital and related financing activities	(2,320,545)	(2,279,627)
Net (Decrease) Increase in Cash and Cash Equivalents	(3,620,163)	536,938
Cash and Cash Equivalents - Beginning of year	5,763,327	5,226,389
Cash and Cash Equivalents - End of year	**$ 2,143,164**	**$ 5,763,327**
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	$ 2,114,620	$ 4,319,653
Assets limited as to use - Funded depreciation	28,544	713,177
Assets limited as to use - Debt service	-	730,497
Total	**$ 2,143,164**	**$ 5,763,327**

A reconciliation of operating (loss) income to net cash from operating activities is as follows:

	Period Ended	
	December 31, 2007	March 31, 2007
Cash Flows from Operating Activities		
Operating (loss) income	$ (3,081,238)	$ 299,256
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	1,573,554	2,062,726
Provision for bad debts	1,818,081	2,544,844
Changes in assets and liabilities:		
Increase in patient accounts receivable	(1,897,429)	(2,466,737)
Increase in third-party settlement receivables	(1,392,325)	(581,042)
Decrease (increase) in other current assets	111,725	(77,145)
Increase in accounts payable	3,737,871	478,107
Increase (decrease) in accrued expenses	168,751	(580,908)
Increase (decrease) in third-party settlement payables	373,377	(131,201)
Net cash provided by operating activities	$ 1,412,367	$ 1,547,900

Significant noncash nonoperating, investing, capital, and financing activities for the period ended December 31, 2007 and the year ended March 31, 2007 are as follows:

- Gain on joint venture of $151,950 and $328,819 for the period ended December 31, 2007 and the year ended March 31, 2007, respectively
- Capital lease of $136,159 and $112,125 for the period ended December 31, 2007 and the year ended March 31, 2007, respectively
- Loss on disposal of asset of $8,570 and $49,236 for the period ended December 31, 2007 and the year ended March 31, 2007, respectively
- Unrealized loss on investments of $0 and $8,100 for the period ended December 31, 2007 and the year ended March 31, 2007, respectively

Note 1 - Nature of Business and Significant Accounting Policies

In November 2002, LakeView Community Hospital Authority's (the "Authority") participating cities, townships, and villages voted and approved the Authority to convert its governance from a governmental unit formed under the Joint Hospital Authority Act (Act 47 of the Public Acts of 1945) to a not-for-profit organization (under Section 501(c)(3) of the Internal Revenue Code). To date, LakeView Community Hospital Authority is still considered a governmental entity. The Authority has the ability to levy taxes, but has chosen not to, since the voters approved the change to a not-for-profit organization.

As more fully described in Note 10, substantially all assets of the Authority and affiliated entities were sold to, and substantially all liabilities were assumed by, Bronson Healthcare Group (Bronson) effective January 1, 2008. All healthcare operations were assumed by Bronson on that date.

LakeView Community Hospital Authority and subsidiaries were engaged in providing healthcare services primarily in Van Buren County, Michigan.

LakeView Community Hospital Authority is composed of the following divisions:

- LakeView Community Hospital, which operates a 25-bed acute-care and 10-bed psychiatric hospital
- LakeView Continuing Care Center, which operates a 120-bed skilled-nursing facility
- LakeView Physician Practices, which operates physician practices in Decatur, Marcellus, and Mattawan, Michigan
- Van Buren Healthcare Services, which operates physician practices in Paw Paw and Lawton, Michigan

Prior to April 1, 2007, LakeView Physician Practices and Van Buren Healthcare Services were organized as separate entities which operated as subsidiaries of LakeView Community Hospital Authority. Effective April 1, 2007, these entities were merged with LakeView Community Hospital Authority.

In addition, the Authority is the sole member of LakeView Foundation (the "Foundation") which owns and operates LakeView Pharmacy, LLC through a for-profit member. Also, the Foundation owns a 50 percent interest in a joint venture, Van Buren Emergency Services.

Year End - In connection with the merger with Bronson Healthcare Group (see Note 10), LakeView Community Hospital Authority changed its year end from March 31 to December 31. LakeView Foundation, including LakeView Enterprise, had previously had December 31 year ends. The information presented in this financial report is as of December 31, 2007 and March 31, 2007 and for the nine months ended December 31, 2007 and the year ended March 31, 2007.

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

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

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

Enterprise Fund Accounting - The Authority 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 Fund Accounting*, as amended, the Authority 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.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid instruments, such as money market accounts.

Assets Limited as to Use - Investments included in the consolidated balance sheet are U.S. government securities, government-backed securities, certificates of deposit, and money market accounts. Investments are measured at the fair market value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenue over expenses. Unrealized gains or losses on investments are excluded from income from operations. Investments include assets designated 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 and assets held by trustees under the bond indenture.

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

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Authority's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors developed from current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Maintenance and repairs are charged to expense as incurred.

Compensated Absences - A paid time off (PTO) policy is available to employees in lieu of vacation, sick, and personal time, as well as holidays. PTO is charged to operations when it is earned. Unused benefits are recorded at 90 percent of the total earned time off, per Authority policy, as a current liability on the consolidated financial statements.

Self Insurance - The Authority acts as a self-insurer for health insurance benefits up to limits as provided for in an agreement with its insurance plan administrator. The cost of claims, including an estimate for unprocessed claims, is recognized as an operating expense in the year the service is rendered. Services covered by the plan and those covered by other providers are expensed as healthcare benefits.

Classification of Net Assets - Net assets of the Authority are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted by trustee for debt service consists of net assets set aside for repayment of debt. Unrestricted net assets are the remaining net assets that do not meet the definition of invested in capital net of related debt or restricted for debt purposes.

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

Charity Care - The Authority provides care to patients who meet certain criteria under its charity-care policy without charge or at amounts less than established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as net revenue.

Tax Status - The Authority and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes. LakeView Enterprises is a for-profit corporation and is subject to federal and state income taxes.

Net Patient Service Revenue - The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

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. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

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. 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.

Note 2 - Deposits and Investments (Continued)

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

December 31, 2007

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. The Authority had $2,287,772 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized for the year ended December 31, 2007. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all deposits. As a result, the Authority 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 Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At December 31, 2007, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Federal National Mortgage Association	$ 1,188,181	1.24 years
Federal Home Loan Mortgage Corporation	708,379	.66 years
First American Treasury note	4,216,352	.13 years

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy limits its investment choices to legally permissible instruments. At December 31, 2007, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Federal National Mortgage Association	$ 1,188,181	AAA	Standard & Poor's
Federal Home Loan Mortgage Corporation	708,379	AAA	Standard & Poor's
First American Treasury note	4,216,352	AAA	Standard & Poor's

Note 2 - Deposits and Investments (Continued)

Concentration of Credit Risk - The Authority places no limit on the amount it may invest in any one issuer. As of December 31, 2007, the Authority had the following investments in one issuer that represented 5 percent or more of total investments:

Investment	Fair Value
Federal National Mortgage Association	$ 1,188,181
Federal Home Loan Mortgage Corporation	708,379

March 31, 2007

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. The Authority had $4,001,885 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized for the year ended March 31, 2007. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority 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 Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At March 31, 2007, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Federal National Mortgage Association	$ 1,759,857	1.90 years
Federal Home Loan Mortgage Corporation	560,522	1.76 years
U.S. Treasury note	479,881	.12 years

Note 2 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy limits its investment choices to legally permissible instruments. At March 31, 2007, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Federal National Mortgage Association	$ 1,759,857	AAA	Standard & Poor's
Federal Home Loan Mortgage Corporation	560,522	AAA	Standard & Poor's
First American Treasury notes	355,328	AAA	Standard & Poor's
Merrill Lynch Government Fund	705,837	AAA	Standard & Poor's

Concentration of Credit Risk - The Authority places no limit on the amount it may invest in any one issuer. As of March 31, 2007, the Authority had the following investment in one issuer that represented 5 percent or more of total investments:

Investment	Fair Value
Federal National Mortgage Association	$ 1,759,857
Federal Home Loan Mortgage Corporation	560,522
Merrill Lynch Government Fund	705,837

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	December 31, 2007	March 31, 2007
Patient accounts receivable	$ 12,293,888	$ 12,239,940
Less allowance for uncollectible accounts	(1,766,000)	(1,973,000)
Less allowance for contractual adjustments	(4,697,000)	(4,515,400)
Net patient accounts receivable	$ 5,830,888	$ 5,751,540

Note 3 - Patient Accounts Receivable (Continued)

The Authority's facilities are located in Van Buren County, Michigan. The Authority provides services, without advance payments, to its patients, most of whom are local residents and are insured under the third-party payor agreements. The mix of accounts receivable from patients and third-party payors at December 31, 2007 and March 31, 2007 is as follows:

	Percent	
	December 31, 2007	March 31, 2007
Medicare	26	23
Blue Cross/Blue Shield of Michigan	13	14
Medicaid	3	4
Other	58	59
Total	100	100

Note 4 - Third-party Settlements

The Hospital - Approximately 59 percent of LakeView Community Hospital's (the "Hospital") net patient service revenue is received from the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - The Hospital obtained a critical access hospital (CAH) designation. Under this designation, the Hospital receives 101 percent of cost reimbursement for all acute inpatient and most outpatient services. Some outpatient services are reimbursed at established fee screens.

- **Medicaid** - Inpatient acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Capital costs related to Medicaid inpatients are paid on a cost reimbursement method. Outpatient services are paid on an established fee-for-service methodology.

- **Blue Cross/Blue Shield of Michigan** - Services rendered to Blue Cross/Blue Shield of Michigan subscribers are paid at controlled charges.

LakeView Continuing Care Center - Approximately 76 percent of LakeView Continuing Care Center's (the "Care Center") net patient service revenue is received from the Medicare and Medicaid programs. 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 Care Center that are subject to review and final approval by Medicare.

Note 4 - Third-party Settlements (Continued)

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

The Hospital and the Care Center have agreements with these payors that provide for reimbursement at amounts different from its established charges. Contractual adjustments under third-party reimbursement programs represent the difference between actual charges for services and amounts reimbursed by third-party payors.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Note 5 - Capital Assets

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

	Beginning Balance	Additions	Transfers	Retirements	Ending Balances	Depreciable Life - Years
Land and land improvements	$ 1,213,091	$ 3,053	$ -	$ -	$ 1,216,144	5-20
Building and improvements	21,241,938	1,052,736	882,119	(21,334)	23,155,459	10-40
Equipment	11,498,111	976,963	-	(28,874)	12,446,200	4-20
Capital lease equipment	3,650,979	136,159	-	-	3,787,138	4-10
Construction in progress	882,119	1,991	(882,119)	-	1,991	
Total	38,486,238	$ 2,170,902	$ -	$ (50,208)	40,606,932	
Less accumulated depreciation:						
Land and land improvements	236,619	$ 7,249	-	$ -	243,868	
Building and improvements	12,485,343	721,218	-	(15,886)	13,190,675	
Equipment	11,973,022	833,545	-	(25,752)	12,780,815	
Total	24,694,984	$ 1,562,012	$ -	$ (41,638)	26,215,358	
Net carrying amount	$ 13,791,254				$ 14,391,574	

Note 5 - Capital Assets (Continued)

The cost of capital assets and related depreciable lives for March 31, 2007 are summarized below:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance	Depreciable Life - Years
Land and land improvements	$ 1,186,531	$ 26,560	$ -	$ -	$ 1,213,091	5-20
Building and improvements	20,965,522	424,816	-	(148,400)	21,241,938	10-40
Equipment	11,331,173	440,066	-	(273,128)	11,498,111	4-20
Capital lease equipment	3,538,854	112,125	-	-	3,650,979	4-10
Construction in progress	227,178	654,941	-	-	882,119	
Total	37,249,258	$ 1,658,508	$ -	$ (421,528)	38,486,238	
Less accumulated depreciation:						
Land and land improvements	232,541	$ 4,078	-	$ -	236,619	
Building and improvements	11,638,616	944,939	-	(98,212)	12,485,343	
Equipment	11,094,892	1,100,213	-	(222,083)	11,973,022	
Total	22,966,049	$ 2,049,230	$ -	$ (320,295)	24,694,984	
Net carrying amount	$ 14,283,209				$ 13,791,254	

Note 6 - Long-term Debt

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

	March 31, 2007	Current Year Additions	Current Year Reductions	December 31, 2007	Amounts Due Within One Year
1997 Bonds	$ 4,105,000	$ -	$ -	$ 4,105,000	$ 575,000
Capital lease obligations	296,342	136,159	(73,920)	358,581	98,035
Total long-term debt	$ 4,401,342	$ 136,159	$ (73,920)	$ 4,463,581	$ 673,035

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

	March 31, 2006	Current Year Additions	Current Year Reductions	March 31, 2007	Amounts Due Within One Year
1997 Bonds	$ 4,645,000	$ -	$ (540,000)	$ 4,105,000	$ 575,000
Capital lease obligations	274,951	112,125	(90,734)	296,342	77,310
Total long-term debt	$ 4,919,951	$ 112,125	$ (630,734)	$ 4,401,342	$ 652,310

- Hospital Revenue and Revenue Refunding Bonds, Series 1997, with interest rates ranging from 6.25 percent to 6.30 percent. These bonds are payable in annual installments ranging from $575,000 in 2008 to $805,000 in 2013, plus interest. These bonds are collateralized by net revenue of the Authority.

Note 6 - Long-term Debt (Continued)

- Leases payable, interest at 5.86 percent to 7.84 percent per annum, collateralized by equipment

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

	Long-term Debt		Capital Lease Obligation	
Years Ending December 31	Principal	Interest	Principal	Interest
2008	$ 575,000	$ 230,738	$ 98,035	$ 20,454
2009	615,000	201,906	103,088	14,027
2010	655,000	161,719	82,079	7,686
2011	700,000	119,375	62,988	2,639
2012	755,000	73,906	12,391	204
2013	805,000	25,156	-	-
Total payments	$ 4,105,000	$ 812,800	$ 358,581	$ 45,010

Note 7 - Pension Plan

The Authority has a defined contribution plan covering substantially all Authority employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate in the salary deferral contributions from the date of employment. For discretionary and matching contributions, employees are eligible after one year and 1,000 hours of service. Matching contributions are determined by the board as of the first day of the plan year.

	December 31, 2007	March 31, 2007
Employer contributions	$ 578,587	$ 320,581
Employee contributions	1,166,099	1,082,742

Note 8 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance to address these risks.

Note 8 - Risk Management (Continued)

Health - The Authority is self-insured for medical benefits provided to employees. The Authority has purchased a stop-loss insurance policy to cover individual medical claims. Policy terms include a specific deductible (per person) of $120,000, plus $60,000 aggregating specific deductible. Also, the maximum specific benefit (per person in excess of the specific deductible) is $1,880,000, less any amount applied toward the aggregating specific deductible, for the policy year ended December 31, 2007. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

Changes in the estimated liability for the past two years were as follows:

	December 31, 2007	March 31, 2007
Estimated liability - Beginning of period	$ 1,026,974	$ 373,600
Estimated claims incurred, including changes in estimates	2,883,643	2,474,872
Claim payments	(3,290,617)	(1,821,498)
Estimated liability - End of period	$ 620,000	$ 1,026,974

Malpractice - The Authority is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Authority must pay a deductible toward the cost of litigating or settling any asserted claims. In addition, the Authority bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Authority is involved in certain legal actions arising from services provided to patients. Although the Authority is unable to precisely estimate the ultimate cost of settlements of professional liability claims, provisions are made for management's best estimate of losses of uninsured portions of pending claims and for known incidents that may result in the assertion of additional claims.

The Authority has not recorded accrual for estimated malpractice claims for the nine months ended December 31, 2007 and the year ended March 31, 2007. Management believes, after considering legal counsel's evaluations of all actions and claims, that insurance coverage exceeds potential settlements.

Note 9 - Charity Care

Subsidiaries of the Authority maintain records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies rendered under its charity care policy. The following information measures the level of charity care provided:

	December 31, 2007	March 31, 2007
Charges forgone, based on established rates	$ 213,100	$ 264,800

In addition, under arrangements with various governmental insurance programs, the Authority and subsidiaries provide significant care to the local indigent population for which reimbursement for services rendered is generally less than the cost of providing such services. As part of their obligation to the local communities, the Authority and subsidiaries also provide numerous other services that benefit the communities and are generally performed at no charge.

Note 10 - Subsequent Event

The Authority and affiliated entities and Bronson Healthcare Group (Bronson) have entered into asset purchase agreements, effective January 1, 2008, by which Bronson acquires substantially all the assets and assumes substantially all liabilities of LakeView Community Hospital and the physician practices that are part of the Hospital and a separate agreement for a licensed skilled nursing facility. LakeView Community Hospital Authority received no consideration as part of this transaction and there are no immediate plans to dissolve the Authority. Also effective January 1, 2008, Bronson entered into an asset purchase agreement with LakeView Pharmacy, LLC and VBEMS to acquire a licensed pharmacy and a licensed advanced life support service, all previously owned by LakeView Foundation. The Foundation will operate as a separate entity. Effective January 1, 2008, all healthcare operations have been assumed by Bronson.

During the nine months ended December 31, 2007, Bronson advanced the Authority approximately $2.8 million. These monies were advanced to help pay off the Authority's outstanding 1997 bonds.

The Authority's 1997 bonds totaling $4,105,000 remained outstanding as of January 1, 2008. Also, the Authority had accrued interest expense related to the bonds totaling $111,352 and assets held for debt service totaling $4,216,352 as of January 1, 2008. As of February 29, 2008, the bonds and related interest expense were paid in full. As of February 29, 2008, the Authority no longer holds any assets in excess of $20,000, nor has any outstanding liabilities.

Additional Information

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To the Board of Directors
LakeView Community Hospital Authority

We have audited the consolidated financial statements of LakeView Community Hospital Authority as of December 31, 2007 and March 31, 2007 and for the nine months ended December 31, 2007 and the year ended March 31, 2007. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in the accompanying consolidating balance sheet and statement of operations is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual operating units and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Moran, PLLC

May 6, 2008

LakeView Community Hospital Authority

Consolidating Balance Sheet
December 31, 2007

	LakeView Community Hospital	LakeView Continuing Care Center	LakeView Foundation	Eliminating Entries	Totals
Assets					
Current Assets					
Cash and cash equivalents	$ 588,190	$ 1,196,576	$ 329,854	$ -	$ 2,114,620
Accounts receivable	4,642,594	945,659	242,635	-	5,830,888
Due from related parties	537,188	325,000	65,000	(927,188)	-
Estimated third-party payor settlements	1,832,212	-	-	-	1,832,212
Prepaid expenses and other	900,853	69,975	247,803	-	1,218,631
Total current assets	8,501,037	2,537,210	885,292	(927,188)	10,996,351
Assets Limited as to Use - Funded depreciation	1,910,773	108,813	-	-	2,019,586
Assets Limited as to Use - Debt service	4,216,352	-	-	-	4,216,352
Property and Equipment - Net	11,228,684	3,155,620	7,270	-	14,391,574
Other Assets	78,231	-	1,043,039	-	1,121,270
Total assets	**$ 25,935,077**	**$ 5,801,643**	**$ 1,935,601**	**$ (927,188)**	**$ 32,745,133**

Consolidating Balance Sheet (Continued)
December 31, 2007

	LakeView Community Hospital	Lakeview Continuing Care Center	LakeView Foundation	Eliminating Entries	Totals
Liabilities and Net Assets					
Current Liabilities					
Current portion of long-term debt	$ 648,071	$ 24,964	$ -	$ -	$ 673,035
Payable to Bronson Healthcare Group	2,819,940	-	-	-	2,819,940
Accounts payable	3,787,442	297,687	114,864	-	4,199,993
Estimated third-party payor settlements	510,348	42,771	-	-	553,119
Due to related parties	325,000	64,467	537,721	(927,188)	-
Accrued liabilities and other	1,443,564	249,833	3,506	-	1,696,903
Total current liabilities	9,534,365	679,722	656,091	(927,188)	9,942,990
Long-term Debt - Net of current portion	3,694,819	95,727	-	-	3,790,546
Total liabilities	13,229,184	775,449	656,091	(927,188)	13,733,536
Net Assets					
Invested in capital assets - Net of related debt	6,885,794	3,034,929	7,270	-	9,927,993
Restricted for debt service	4,216,352	-	-	-	4,216,352
Unrestricted	1,603,747	1,991,265	1,272,240	-	4,867,252
Total net assets	12,705,893	5,026,194	1,279,510	-	19,011,597
Total liabilities and net assets	**$ 25,935,077**	**$ 5,801,643**	**$ 1,935,601**	**$ (927,188)**	**$ 32,745,133**

LakeView Community Hospital Authority

Consolidating Statement of Operations
Period Ended December 31, 2007

	LakeView Community Hospital	LakeView Continuing Care Center	LakeView Physician Practices	VanBuren Health Care Services	Lakeview Foundation	Eliminating Entries	Totals
Operating Revenues							
Net patient service revenue	$ 28,923,628	$ 6,750,700	$ -	$ -	$ 2,312,002	$ (557,346)	$ 37,428,984
Other	318,093	-	-	-	107,132	(35,235)	389,990
Total operating revenues	29,241,721	6,750,700	-	-	2,419,134	(592,581)	37,818,974
Operating Expenses							
Salaries and wages	14,411,470	3,336,784	-	-	204,868	-	17,953,122
Employee benefits and payroll taxes	4,715,930	1,289,790	-	-	53,734	(557,346)	5,502,108
Operating supplies and expenses	4,673,106	586,119	-	-	1,953,716	-	7,212,941
Professional services and consultant fees	3,381,863	-	-	-	45,373	(35,235)	3,392,001
Purchased services	115,204	234,374	-	-	-	-	349,578
Utilities	516,536	87,547	-	-	6,667	-	610,750
Other expenses	2,888,167	631,801	-	-	85,315	-	3,605,283
Rents and leases	700,875	-	-	-	-	-	700,875
Depreciation and amortization	1,374,876	197,031	-	-	1,647	-	1,573,554
Total operating expenses	32,778,027	6,363,446	-	-	2,351,320	(592,581)	40,900,212
Operating Income (Loss)	(3,536,306)	387,254	-	-	67,814	-	(3,081,238)
Other Income (Expenses)							
Interest income	246,152	51,748	-	-	2,207	-	300,107
Loss on sale of property	-	(8,570)	-	-	-	-	(8,570)
Contributions	-	26,915	-	-	-	-	26,915
Gain on joint venture	-	-	-	-	151,950	-	151,950
Interest expense	(206,719)	(5,163)	-	-	-	-	(211,882)
Total other income	39,433	64,930	-	-	154,157	-	258,520
(Decrease) Increase in Net Assets	(3,496,873)	452,184	-	-	221,971	-	(2,822,718)
Net Assets (Deficit) - Beginning of period	16,228,874	4,574,010	(91,716)	65,608	1,057,539	-	21,834,315
Transfer from (to) Affiliate	(26,108)	-	91,716	(65,608)	-	-	-
Net Assets - End of period	**$ 12,705,893**	**$ 5,026,194**	**$ -**	**$ -**	**$ 1,279,510**	**$ -**	**$ 19,011,597**

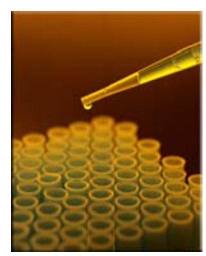
LakeView Community Hospital Authority

Report to the Board of Directors

December 31, 2007





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Significant Deficiencies and Management Letter Comments

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To the Board of Directors
LakeView Community Hospital Authority

We have audited the consolidated financial statements of LakeView Community Hospital Authority as of and for the nine months ended December 31, 2007 and have issued our report thereon dated May 6, 2008, in accordance with auditing standards generally accepted in the United States of America. We considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 consolidated financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We have also summarized some additional areas for management's consideration.

All items are presented for your consideration as outlined below:

Title	Exhibit
Malpractice Accruals - Significant Deficiency	A
Review Processes - Significant Deficiency	B
Accounts Receivable - Significant Deficiency	C
Management's Discussion and Analysis - Significant Deficiency	D
Employee Compensation - Significant Deficiency	E
Cash and Investments	F
Information Technology Controls	G
Medicare Advantage Plans and Medicare Recovery Audits	H
403(b) Pension Plans - New Audit Requirement	I
IRS Form 990 Changes	J

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

Thank you for the opportunity to be of service to the Authority. Should you wish to discuss any of the items included in this report, we would be happy to do so.

Plante & Moran, PLLC

May 6, 2008

Exhibit A
Malpractice Accruals

While completing our review of commitments and contingent liabilities, we noted that the Hospital had not recorded a liability related to malpractice claims. As of December 31, 2007, there were three open cases for which a liability should be recorded.

We recommend that the Authority's risk manager and finance department review each claim and record an estimated accrual for the exposure the Authority has.

Exhibit B
Review Process

During our planning for the December 31, 2007 audit, it was brought to our attention that the Authority had been without a chief financial officer for several months. Due to the position being open, the Authority was exposed to risks related to internal controls regarding the preparation of financial statements. The chief financial officer would typically review items prepared by the controller, including contractual adjustments, settlements, internal financial statements, and journal entries. For the last several months of the year, there was not a review process in place regarding the items noted above.

Exhibit C
Accounts Receivable

During our accounts receivable testing, we noted the accounts receivable system allows the posting of payments to patients without open balances. It was also noted that there is no process in place to review and monitor credit balances as of our audit date. We recommend implementing a formal credit balance policy that includes periodic review of credit balances to ensure they are proper and resolved appropriately.

Secondly, we noted that a receivable account was set up in the previous year relating to self-pay accounts receivable balances previosuly written off, being paid via a payment plan. This account remained unchanged in the general ledger from March 31, 2007 through December 31, 2007. Upon further investigation, it was noted that payments were received on this account during the same period, which should have relieved some of these receivables; however, due to lack of detail for the account, the application of the payments to the correct patient balances was undeterminable and therefore posted to bad debt recoveries. It was determined, as part of the audit, to remove the balance of the old accounts receivable, continue collection efforts on these accounts, and record any future receipts to bad debt recoveries.

Finally, while reviewing cut-off procedures, we were able to establish charges not captured at year end in the proper period. This resulted in a passed audit adjustment totaling approximately $67,000. We recommend, at least annually, to review your exposure for revenue and receivable recording related to dates of service around year end to ensure proper capture of revenues for services provided in the correct period. As an additional control, this process should be documented and reviewed.

Exhibit D
Management's Discussion and Analysis

The Authority is considered a governmental entity and, therefore, is required to present a management's discussion and analysis as supplemental information. The Authority has chosen not to present this information.

Exhibit E
Employee Compensation

During our review of the payroll process, we noted that the individual who processes payroll on a regular basis also inputs and updates wage change information. We recommend either another person or departement update employee information or the accounting department put into practice a review of changes made to the employee files. Often, information technology systems are able to run an edit report to view these changes made. Improving controls surrounding the employee compensation processes would decrease the risk of fraud.

Exhibit F
Cash and Investments

In addition, during our testing of investments, we noted that the investment balances were stated at cost, rather than market value, as required by generally accepted accounting principles (GAAP). Although the difference between cost and market was insignificant as of December 31, 2007, largely due to the type of investments held by the Authority, there is potential for cost to market differences should the Hospital change its investment policy and the types of investments it chooses. We recommend the Authority comply with GAAP and record investments at market value.

Exhibit G

Information Technology Controls

A review of the Authority's information technology controls was performed. Below are improvements that could be made to the system to improve information technology security:

Authentication Controls

Unique user IDs should be in place for all network users. Minimum password length is recommended to be seven characters (alpha and special) and complexity requirements should be enforced. Passwords should expire minimally within 90 days. The network should be set up to lock out users after a set number of unsuccessful logon attempts. A common practice would be to lock out users after three unsuccessful attempts for at least 15 minutes.

Environmental Controls

Environmental controls should be put in place to maintain normal/efficient processing of servers and network devices, including:

- Uninterruptible power supplies to maintain power for critical servers and network infrastructure for at least 20 minutes
- Generators to maintain power for data centers in the event of a commercial power outage
- Fire suppression devices to fight fires
- Servers are protected from water damage by either a raised floor or located at least three feet above the floor level. There are water sensors in the computer room.
- Dedicated A/C units keep the computer room at the desired temperature levels. Temperature levels are monitored.

Third-party Services

Management should request and review the SAS 70 report for all third parties providing critical and financial services to the organization. The SAS 70 report should be reviewed for overall opinion, scope (ensure all controls are included and the location performing the outsourcing service is included in the scope of the SAS 70), exceptions noted, and end-user control considerations. If an SAS 70 is not available, management should assess the internal controls of the third party through a questionnaire, inquiry, or walk-through of its facilities.

Exhibit H
Medicare Advantage Plans and Medicare Recovery Audits

Over the past year, LakeView Community Hospital has seen a significant shift from beneficiaries covered under traditional Medicare to Medicare Advantage plans. Medicare Advantage plans are paid by Medicare based on a monthly premium and then the plans are responsible for the health care received by the beneficiary. This shift from regular Medicare to Medicare Advantage plans can result in additional burdens and cost for providers due to having to bill multiple insurance companies for Medicare services. Unless the provider signs an agreement with the plan stating otherwise, the Medicare Advantage plan is required to reimburse the provider at its normal Medicare rates.

As a critical access provider, LakeView Community Hospital receives more favorable reimbursement than a normal prospective payment provider, although it appears that the Hospital is not always reimbursed at the correct rate by the advantage plans.

We recommend that the Hospital implement a process to review payments received from Medicare Advantage plans to ensure they are correct.

In addition, Medicare bad debts related to patients covered under Medicare Advantage plans are not reimbursed by Medicare on the cost report like patients covered under traditional Medicare. It is imperative that these bad debts not be included on the Medicare bad debt log which is submitted with the cost report as it could have a significant adverse impact on allowable bad debts due to sampling techniques utilized by the intermediaries.

Medicare Recovery Audit Contractors Coming to Michigan

CMS recently completed a three-year demonstration project in Florida, California, and New York which utilized outside contractors (Medicare Recovery Auditors) to review payments to Medicare providers. During this demonstration project, the Medicare Recovery Audits (RAC) identified $371 million of incorrect payments with 96 percent of these payments being overpayments to providers and 4 percent being underpayments. The majority of the overpayments (85 percent) identified were from inpatient hospitals. It should be noted that many of these overpayments identified by the RACs are being appealed by the providers.

Based on the success of this program as determined by CMS, the demonstration project is being made permanent and expended and phased in across the entire nation with Michigan scheduled to be included in 2008. The permanent program included various changes from the demonstration project including, but not limited to, the following:

- RACs will not be allowed to review any claims prior to October 1, 2007 under the permanent program.
- RACs will only be allowed to look back three years (vs. four years under the demonstration project).
- RACs will be now be allowed to review current year claims.
- The permanent program will set limits on medical record requests.
- RACs will have to reimburse the contingency fees received if they lose at any level of appeal. Under the demonstration project, RACs only had to repay their fee if they lost at first level of appeal.
- RACs must use certified coders under the permanent program.

Exhibit I
403(b) Pension Plans - New Audit Requirement

The Department of Labor recently finalized revisions to the 2009 Form 5500. The revised 5500 will require many previously unaudited 403(b) plans to be audited. Currently, there are no Form 5500 filing requirements or a limited filing requirement for 403(b) plans (depending on certain facts and circumstances). The filing, if any, for a 403(b) plan does not require an audit or required schedules. During the past few years, the Internal Revenue Service and Department of Labor have identified problems with 403(b) plans and thus determined a change was needed.

Beginning with the 2009 plan year, organizations subject to the Employee Retirement Income Security Act of 1974 (ERISA) will generally be required to have their 403(b) plan's financial statements audited if they have more than 100 eligible participants as of the beginning of the plan year. These audited financial statements will be a required attachment to the plan's Form 5500.

Although the first audit is not required until the 2009 plan year, Form 5500 requires that the statement of net assets be fully comparative. Thus, the 2008 financial information will need to be included in the plan's 2009 audited financial statements.

Exhibit J
IRS Form 990 Changes

The Internal Revenue Service has recently released the new Form 990, which is the annual return that not-for-profit organizations are required to file. The Hospital and all subsidiaries will be required to file this new form for the year ending December 31, 2008. The new Form 990 format includes the introduction of Schedule H, which tax-exempt hospitals must use to demonstrate community benefit, including charity care, governmental program underpayment, bad debts, and various other community benefits.

The new Form 990 also requires expanded disclosure of executive compensation, including methods used to set executive compensation, as well as disclosure of fringe benefits and perks to executives.

In addition, there will be expanded reporting on compliance with tax-exempt bond issues, including arbitrage calculations, as part of the annual filing.

The new Form 990 requires significantly more information than has been filed in the past. This information will require significant efforts in accumulating various policies, information on bond issues, and community benefit information. The Hospital and all subsidiaries should become familiar with these new requirements and begin accumulating the required information. Additionally, since there are many questions on the new forms that address the existence of numerous policies and since the answers to these policy questions will be open to public scrutiny, the Hospital should consider conducting a detail "inventory" of the policies addressed on the form and the possibility of implementing or revising policies where appropriate.

Engagement Scope

Our audit plan represented an approach responsive to the assessment of risk for LakeView Community Hospital Authority. Specifically, we designed our audit to:

- Express an opinion on the December 31, 2007 consolidated financial statements of the Authority
- Issue a management letter that provides our recommendations regarding internal controls and opportunities for improvement or efficiency, based on observations made during the course of our audit
- Issue the required communications under SAS 114 to assist the board in overseeing management's financial reporting and disclosure process

Required Communications

Statement on Auditing Standards No. 114 (as amended) and other professional standards require the auditor to communicate certain matters to the board that may assist the board in overseeing management's financial reporting and disclosure process. Below, we summarize these required communications as they apply to the Authority:

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS) Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help ensure the proper recording of transactions. The transactions that should be reflected in the accounts and in the consolidated financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the consolidated financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the consolidated financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the consolidated financial statements is confined to the expression of an opinion on them. The consolidated financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States of America to provide reasonable, rather than absolute, assurance that the consolidated financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audit and to determine the nature, timing, and extent of testing performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting. HIPAA and corporate compliance testing are beyond the scope of a financial statement audit.	We have issued an unqualified opinion on the consolidated financial statements of the Authority for the year ended December 31, 2007.
Materiality The concept of materiality is inherent in the work of an independent auditor.	An auditor places greater emphasis on those items that have, on a relative basis, more importance to the consolidated financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.
Critical Accounting Policies and Practices Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	None

Area	Comments
Authority's Accounting Principles We describe our judgments about the quality and acceptability of the accounting policies as applied in the Authority's financial reporting, including the consistency of the accounting policies and their application related to the consolidated financial statements and disclosures.	Management followed a consistent methodology with the prior year related to the establishment and maintenance of accounting policies and the related application of such policies in the preparation of consolidated financial statements. We believe the underlying methodology used by the Authority is reasonable.
Accounting Estimates Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the consolidated financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.	We have provided additional information in the section titled "Areas of Audit Emphasis." The areas of particular significance include: • Net realizable value of patient accounts receivable (contractual and bad debt allowances) • Third-party payor settlements • Professional liability claims
The Adoption of, or a Change in, an Accounting Principle We communicate to the board the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the consolidated financial statements.	None
Significant or Unusual Transactions and Controversial or Emerging Areas We communicate to the board the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	None
Significant Audit Adjustments Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. We communicate to the board the information about adjustments arising from the audit (whether recorded or not) that could, in our judgment, either individually or in the aggregate, have a significant effect on the Authority's consolidated financial statements.	None
Uncorrected Possible Financial Statement Adjustments Considered by Management to be Immaterial Auditing standards also require us to inform the board about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.	There were three unrecorded possible financial statement adjustments identified. First, during our revenue cutoff testing, we noted that net patient service revenue posted to the incorrect period totaled $67,149. This entry would increase net patient service revenue and accounts receivable. Second, no accrual for malpractice claims had been recorded at year end. We estimate this accrual should be $75,000 at year end. The entry would increase accrued liabilities and malpractice expense. Lastly, accrued 403(b) contributions were understated by approximately $83,000 at year end. This entry would increase accrued liabilities and pension expense.

Area	Comments
Fraud and Illegal Acts We report to the board fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the consolidated financial statements.	We are not aware of any matters that require communication.
Material Weaknesses in Internal Control We are required to communicate all material weaknesses in internal control which may have been identified during the course of our audit.	In connection with our audit of the Authority, we reviewed internal controls for the purposes of obtaining a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of tests to be performed, during which no material weaknesses were identified. However, we were not engaged to, and we did not, perform audits of internal control over financial reporting.
Other Information in Documents Containing Audited Consolidated Financial Statements	None
Disagreements with Management on Financial Reporting Matters	None
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None
Major Issues Discussed with Management in Connection with Initial Retention	None
Consultation with Other Accountants	We are not aware of any consultations with other accountants.
Other Material Written Communications with Management	Material written communications include various documents, including these communications. Some of the other significant written communications include the following: • Engagement letter between the Authority and Plante & Moran • Management representation letter
Independence We are required to communicate, at least annually, the following to the board of directors of the Authority: • Disclose, in writing, all relationships between Plante & Moran and the Authority that, in our professional judgment, may reasonably be thought to bear on independence • Confirm in writing that, in our professional judgment, we are independent of the Authority • Discuss with the board any matters that, in our professional judgment, may reasonably be thought to bear on our independence	We are not aware of any relationships between Plante & Moran and the Authority that, in our professional judgment, may reasonably be thought to bear on our independence. Related to our audit of the consolidated financial statements of the Authority as of December 31, 2007 and for the year then ended, we are independent certified public accountants with respect to the Authority within the meaning of the applicable published pronouncements of the Independence Standards Board and under Rule 101 of the American Institute of Certified Public Accounts' Code of Professional Conduct, its interpretations, and rulings.

Areas of Audit Emphasis

Key areas of audit emphasis and our judgments about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting are summarized in the table below:

Area	Accounting Policy	Judgments and Sensitive Estimates	Comments on Quality of Accounting Policy and/or Application
Net Realizable Value of Patient Accounts Receivable	The Authority maintains accounting policies and procedures specifically related to these accounts adjusting amounts to reflect estimated amounts recoverable from patients and third-party payors based on paid claims experience.	Required allowances, reflecting the difference between standard rates and reimbursement, are based on aging and historical payment experience while considering current trends. Balance sheet valuation allowances are established for potential payment disallowances.	Management followed a consistent methodology with the prior year related to the establishment of allowances for doubtful accounts and contractual adjustments. We believe the underlying methodology used by the Authority is reasonable.
Estimated Settlements with Third-party Payors	The Authority establishes current year estimates of cost reports to be filed based on current year data and prior year cost report relationships. Estimates of prior year settlements are updated as additional information (including filed cost reports and interim settlements) become available.	These accounts represent amounts due to Medicare and other payors for the settlement of outstanding cost reports and amounts due to other payors for contract issues. Laws and regulations are complex and these estimates may change by a material amount in the near term. Changes to these amounts will be reflected in the statement of operations in the year of the change.	We believe the underlying methodology used by the Authority is reasonable.
Professional Liability Claims	The Authority establishes an estimate of the ultimate expense based on conclusions reached by independent actuaries, an in-house risk manager, legal counsel, and ongoing discussions related to incidents and reported claims with the Authority's insurance carrier.	Estimates recorded by the Authority are dependent upon underlying methods and analysis used by the insurance carrier and the accuracy of the underlying data.	Management has not accrued for potential losses related to malpractice claims at year end. This item was discussed above as a significant deficiency.

In addition, other areas of audit emphasis included:

- Cash and other investments
- Fixed asset accounting and the applicable depreciation
- Debt and related testing of compliance with covenants

Healthcare Landscape

Office of Inspector General News

Physician Recruitment

OIG provides safe harbors on physician recruitment for corporations designated in a health professional shortage area (HPSA). Information on HPSA can be found at the following website: bphc.hrsa.gov.

OIG Reports on 2006 Achievements

For fiscal year (FY) 2006, the HHS Office of Inspector General (OIG) reported savings and expected recoveries of nearly $38.2 billion for federal healthcare programs: $35.8 billion in implemented recommendations and other actions to put funds to better use, $789.4 million in audit receivables, and $1.6 billion in investigative receivables. Also for FY 2006, OIG reported exclusions of 3,425 individuals and entities for fraud or abuse involving federal healthcare programs and/or their beneficiaries, 472 criminal actions against individuals or entities that engaged in crimes against departmental programs, and 272 civil actions, which include False Claims Act (FCA) and unjust enrichment suits filed in federal district court, civil monetary penalties law (CMPL) settlements, and administrative recoveries related to provider self-disclosure matters. Source: OIG Semiannual Report, December 5, 2006.

Highlights of OIG's 2008 Work Plan

The following items have been highlighted in OIG's 2008 Work Plan:

- Corporation capital payments
- Medicare-dependent corporation program testing
- Medicare disproportionate share payments
- Provider bad debts
- Compliance with Medicare transfer policy
- Inpatient wage index
- Inpatient payments for new technologies
- Medicare secondary payer
- Medical appropriateness and coding of DRGs
- Inappropriate payments for diagnostic x-ray in corporation emergency rooms
- Oversight of Joint Commission Corporation Accreditation process
- Place of services errors
- Medicare payments for selected physician services
- Appropriateness of Medicare payments for polysomnography
- Assignment rules by Medicare providers
- Geographic areas with high utilization of ultrasound services
- Physician reassignment of benefits

Other Developments

Corporations Can Share Health IT with Physicians

In an Internal Revenue Service (IRS) ruling issued in early May 2007, the IRS noted that sharing health information technology with physicians would not jeopardize a not-for-profit corporation's tax-exempt status. Under this ruling, the following requirements must be met:

- Electronic health record arrangement requires that the corporation and the physician comply with electronic health record regulations issued by the Department of Health and Human Services
- The arrangement must grant to the corporation, as permitted by the law, access to all electronic medical records created by the physician
- Participation must be open to all of the corporation's medical staff physicians
- The corporation must provide the same level of subsidy to all of its medical staff physicians unless the level of the subsidy is related to the difference in the healthcare needs of the community and not based on differences in referrals

IRS Initiative Targets Not-for-profit Compensation Practices

Under the new Tax-exempt Compensation Enforcement Project, the IRS will be requesting information from approximately 2,000 charities and foundations to review information and supporting documents on compensation practices and policies for specific executives. The IRS will also be reviewing insider transactions such as leasing arrangements to officers and others in the corporation.

Community Benefit

Numerous activities continue to take place relative to the focus on demonstrating community benefit for not-for-profit healthcare providers. Initiatives range from IRS focus in audits to proposed state and federal legislation. Key areas of continued focus is:

- Minimum levels of charity care
- Enhance pricing transparency
- Limitation on charge levels to the uninsured

Uncompensated Care Update

United States corporations provided $28.8 billion in uncompensated care in 2005, up from $26.9 billion, or 7.1 percent, in 2004. Since 2000, uncompensated care has increased 25 percent, or $5.3 billion. The survey, issued by American Corporation Association, is valued at cost of providing services for all bad debts and charity care and does not include amounts of Medicare and Medicaid reimbursement which are below the cost of providing services to Medicare and Medicaid participants. According to the survey, Medicare and Medicaid underpaid corporations by $15.5 billion and $9.8 billion, respectively.

Accounting and Auditing Update

New Accounting Standards

Health Care Audit Guide - The AICPA Health Care task force is currently evaluating the Health Care Audit Guide as part of a comprehensive overhaul of the 1996 document. A draft of the guide is expected to be released for comments possibly in 2008. Key areas to be addressed include charity care reporting, accounting and reporting of derivatives, contributions, medical malpractice, accounting for transfers between unrelated corporations, and new basic financial statement presentations.

Other New Accounting Rules are as Follows:

FSP FAS 126-1 - Defines a "public" not-for-profit entity to include an entity on whose behalf a governmental entity has issued tax-exempt bonds (Finance Authority). This requires certain additional disclosures to be made in the consolidated financial statements.

SFAS 133 Implementation Guide Issue No. G26 - Provides additional guidance on accounting for hedging instruments for interest rates or cash flows (interest rate swaps). Hedges against variability in interest rates can only use hedge accounting if the swaps are based on the same benchmark index (LIBOR or Treasury obligations).

Business Combinations (Exposure Draft) - The new rules essentially eliminate "pooling of interest" accounting recognition for mergers. All business combinations would be required to use the "acquisition method" (formerly "purchase method") of accounting. Under the new rules, the fair market value of all assets acquired and liabilities assumed is computed. If assets exceed the liabilities assumed and consideration paid, a contribution is recognized by the acquirer. If the consideration and liabilities assumed exceed the market value of the assets, goodwill is recognized. These rules could be effective in 2008.