

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	



LakeView Community Hospital Authority

**Consolidated Financial Report
with Additional Information
March 31, 2007**

LakeView Community Hospital Authority

Contents

Report Letter	1
Consolidated Financial Statements	
Balance Sheet	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4-5
Notes to Consolidated Financial Statements	6-18
Additional Information	19
Report Letter	20
Consolidating Balance Sheet	21-22
Consolidating Statement of Operations	23



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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 March 31, 2007 and 2006 and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. 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 March 31, 2007 and 2006 and the consolidated results of its revenues, expenses, and changes in net assets and its cash flows for the years then ended, 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 year. 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.

Plante & Moran, PLLC

May 4, 2007

LakeView Community Hospital Authority

Consolidated Balance Sheet

	<u>March 31, 2007</u>	<u>March 31, 2006</u>
Assets		
Current Assets		
Cash (Note 2)	\$ 4,319,653	\$ 4,460,379
Short-term investments (Notes 1 and 2)	-	3,662,791
Accounts receivable (Note 3)	5,751,540	5,579,647
Estimated third-party payor settlements (Note 4)	439,887	108,845
Prepaid expenses and other	<u>1,330,356</u>	<u>1,253,211</u>
Total current assets	11,841,436	15,064,873
Assets Limited as to Use - Funded depreciation (Notes 1 and 2)	3,401,677	-
Assets Limited as to Use - Debt service (Notes 1 and 2)	1,210,384	1,148,138
Property and Equipment (Note 5)	13,791,254	14,283,209
Other Assets	<u>980,862</u>	<u>667,433</u>
Total assets	<u>\$ 31,225,613</u>	<u>\$ 31,163,653</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 6)	\$ 652,310	\$ 622,709
Accounts payable	3,129,075	2,650,968
Estimated third-party payor settlements (Note 4)	179,742	310,943
Retainage payable	152,987	-
Accrued liabilities and other	<u>1,528,152</u>	<u>2,109,060</u>
Total current liabilities	5,642,266	5,693,680
Long-term Debt (Note 6)	<u>3,749,032</u>	<u>4,297,242</u>
Total liabilities	9,391,298	9,990,922
Net Assets		
Invested in capital assets - Net of related debt	9,389,912	9,363,258
Restricted for debt service	1,210,384	1,148,138
Unrestricted	<u>11,234,019</u>	<u>10,661,335</u>
Total net assets	<u>21,834,315</u>	<u>21,172,731</u>
Total liabilities and net assets	<u>\$ 31,225,613</u>	<u>\$ 31,163,653</u>

LakeView Community Hospital Authority

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

	Year Ended	
	March 31, 2007	March 31, 2006
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$2,544,844 in 2007 and \$2,969,537 in 2006)	\$ 49,487,760	\$ 52,007,643
Other	642,932	1,000,599
Total operating revenues	50,130,692	53,008,242
Operating Expenses		
Salaries and wages	23,410,176	27,578,895
Employee benefits and payroll taxes	5,913,986	6,591,461
Operating supplies and expenses	7,710,300	8,212,133
Professional services and consultant fees	4,652,171	4,587,222
Purchased services	432,740	463,093
Utilities	771,160	753,807
Other expenses	4,142,828	4,041,803
Rents and leases	735,349	756,825
Depreciation and amortization	2,062,726	1,973,233
Total operating expenses	49,831,436	54,958,472
Operating Income (Loss)	299,256	(1,950,230)
Other Income (Expense)		
Interest income	393,849	295,524
Unrealized loss on investments	(8,100)	(18,168)
Loss on sale of property	(49,236)	(38,456)
Contributions	4,490	3,578
Gain on joint venture	328,819	339,556
Other income	-	775,000
Interest expense	(307,494)	(325,502)
Total other income	362,328	1,031,532
Increase (Decrease) in Net Assets	661,584	(918,698)
Net Assets - Beginning of year	21,172,731	22,091,429
Net Assets - End of year	\$ 21,834,315	\$ 21,172,731

LakeView Community Hospital Authority

Consolidated Statement of Cash Flows

	Year Ended	
	March 31, 2007	March 31, 2006
Cash Flows from Operating and Nonoperating Activities		
Cash received from patients and third-party payors	\$ 49,434,666	\$ 51,244,520
Cash payments to suppliers for services and goods	(48,529,698)	(51,355,332)
Other receipts from operations	642,932	1,000,599
Net cash provided by operating activities	1,547,900	889,787
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions	4,490	3,578
Proceeds from ownership change in Van Buren Healthcare Services	-	775,000
Net cash provided by noncapital financing activities	4,490	778,578
Cash Flows from Investing Activities		
Investment income	393,849	295,524
Purchase of investments	870,326	(1,568,963)
Cash received from VBHS acquisition	-	17,633
Net cash provided by (used in) investing activities	1,264,175	(1,255,806)
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,393,396)	(2,163,088)
Proceeds from sale of capital assets	51,997	-
Interest paid on long-term debt	(307,494)	(325,502)
Principal payments on long-term debt	(630,734)	(805,266)
Net cash used in capital and related financing activities	(2,279,627)	(3,293,856)
Net Increase (Decrease) in Cash and Cash Equivalents	536,938	(2,881,297)
Cash and Cash Equivalents - Beginning of year	5,226,389	8,107,686
Cash and Cash Equivalents - End of year	\$ 5,763,327	\$ 5,226,389
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 4,319,653	\$ 4,460,379
Short-term investments	-	420,618
Assets limited as to use - Funded depreciation	713,177	-
Assets limited as to use - Debt service	730,497	345,392
Total cash and cash equivalents	\$ 5,763,327	\$ 5,226,389

LakeView Community Hospital Authority

Consolidated Statement of Cash Flows (Continued)

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

	Year Ended	
	<u>March 31, 2007</u>	<u>March 31, 2006</u>
Cash Flows from Operating Activities		
Operating income (loss)	\$ 299,256	\$ (1,950,230)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	2,062,726	1,973,233
Provision for bad debts	2,544,844	2,969,537
(Increase) decrease in assets:		
Patient accounts receivable	(2,466,737)	(3,478,936)
Third-party settlement receivables	(581,042)	842,198
Other current assets	(77,145)	444,355
Increase (decrease) in liabilities:		
Accounts payable	478,107	33,047
Accrued expenses	(580,908)	310,307
Third-party settlements	(131,201)	(253,724)
Net cash provided by operating activities	<u>\$ 1,547,900</u>	<u>\$ 889,787</u>

Significant noncash nonoperating, investing, capital, and financing activities for 2007 and 2006 are as follows:

- Gain (loss) on joint venture of \$328,819 and \$339,556 for 2007 and 2006, respectively
- Capital lease of \$112,125 and \$248,527 for 2007 and 2006, respectively
- Retainage payable totaling \$152,987 for 2007
- Loss on disposal of asset of \$49,236 and \$38,456 for 2007 and 2006, respectively
- Unrealized loss on investments of \$8,100 and \$18,168 for 2007 and 2006, respectively

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

Note I - 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.

LakeView Community Hospital Authority and subsidiaries are engaged in providing health care services primarily in Van Buren County, Michigan.

Consolidations - The accounts of LakeView Community Hospital Authority and its wholly owned subsidiaries are included in the consolidated financial statements after eliminations of significant intercompany transactions. The wholly owned subsidiaries include the following:

LakeView Community Hospital Authority

- LakeView Community Hospital
-35-bed acute care facility
- LakeView Continuing Care Center
-120-bed skilled nursing facility
- LakeView Physician Practices
-Three practices in Decatur, Marcellus, and Mattawan, Michigan

LakeView Foundation (the "Foundation")

- 50 percent interest in joint venture, Van Buren Emergency Services
- LakeView Enterprises, a for-profit corporation
- Owns and operates LakeView Pharmacy, LLC

Van Buren Healthcare Services

- Outpatient physician services

Year End - LakeView Community Hospital Authority has a March 31 year end and LakeView Foundation, including LakeView Enterprise, and Van Buren Healthcare Services have December 31 year ends. The information presented in this financial report is for periods ended March 31, 2007 and 2006.

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

Note I - 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. Investments designated by the board of trustees for future capital improvement totaled \$3,401,677 and \$0 for the years ended March 31, 2007 and 2006, respectively. Investments held by trustees under the bond indenture totaled \$1,210,384 and \$1,148,138 for the years ended March 31, 2007 and 2006, respectively.

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

Note I - 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.

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 consist 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.

Tax Status - The Authority, the Foundation, and VanBuren Health Care Services 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 Enterprise operates as a for-profit corporation, and due to net operating loss carryforwards of approximately \$144,289, no income tax expense is applicable.

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

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

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.

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.

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 health care benefits.

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.

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

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:

For the Year Ended 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:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
FNMA	\$ 1,759,857	1.90 years
FHLMC	560,522	1.76 years
U.S. Treasury note	479,881	.12 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 March 31, 2007, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
FNMA	\$ 1,759,857	AAA	Standard & Poor's
FHLMC	560,522	AAA	Standard & Poor's
First American Treasury note	355,328	AAA	Standard & Poor's
Merrill Lynch Government Fund	705,837	AAA	Standard & Poor's

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

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 March 31, 2007, the Authority had the following investment in one issuer that represented 5 or more percent of total investments:

Investment	Fair Value
FNMA	\$ 447,471

For the Year Ended March 31, 2006

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 \$5,819,320 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized for the year ended March 31, 2006. 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, 2006, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
AHA mutual funds	\$ 2,026,387	2.2 years
FNMA	300,000	2.67 years
U.S. Treasury note	487,981	1.12 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 March 31, 2006, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
AHA mutual funds	\$ 2,026,387	AAA	Standard & Poor's
FNMA	300,000	AAA	Standard & Poor's
First American Treasury notes	647,021	AAA	Standard & Poor's
Merrill Lynch Government Fund	116,209	AAA	Standard & Poor's

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

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 March 31, 2006, the Authority had the following investment in one issuer that represented five or more percent of total investments:

Investment	Fair Value
AHA mutual funds	\$ 2,026,387

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2007	2006
Patient accounts receivable	\$ 11,432,840	\$ 11,654,647
Less:		
Allowance for uncollectible accounts	(1,730,000)	(1,301,000)
Allowance for contractual adjustments	(3,951,300)	(4,774,000)
Net patient accounts receivable	\$ 5,751,540	\$ 5,579,647

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 March 31, 2007 and 2006 is as follows:

	2007 (%)	2006 (%)
Medicare	23	44
Blue Cross/Blue Shield of Michigan	14	12
Medicaid	4	2
Other	59	42
Total	100	100

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

Note 4 - Third-party Settlements

Hospital - Approximately 49 percent of the Hospital's 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. CAH receives 101% of cost reimbursement for all acute inpatient and outpatient services.
- **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. The Authority is paid for outpatient services 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.

Continuing Care Center - Approximately 84 percent of the 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.
- **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.

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

Note 5 - Capital Assets

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

	Beginning Balance	Additions	Retirements	Ending Balances	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	

Cost of capital assets and related depreciable lives for March 31, 2006 are summarized below:

	Beginning Balance	Additions	Van Buren Healthcare Services	Retirements	Ending Balance	Depreciable Life - Years
Land and land improvements	\$ 1,115,434	\$ 71,097	\$ -	\$ -	\$ 1,186,531	5-20
Building and improvements	19,809,663	992,646	163,213	-	20,965,522	10-40
Equipment	10,598,207	1,088,336	908,526	(1,263,896)	11,331,173	4-20
Capital lease equipment	3,314,498	224,356	-	-	3,538,854	4-10
Construction in progress	199,699	27,479	-	-	227,178	
Total	35,037,501	\$ 2,403,914	1,071,739	\$ (1,263,896)	37,249,258	
Less accumulated depreciation:						
Land and land improvements	227,005	\$ 5,536	-	\$ -	232,541	
Building and improvements	10,706,389	932,227	-	-	11,638,616	
Equipment	10,575,822	1,020,080	724,430	(1,225,440)	11,094,892	
Total	21,509,216	\$ 1,957,843	724,430	\$ (1,225,440)	22,966,049	
Net carrying amount	\$ 13,528,285		\$ 347,309		\$ 14,283,209	

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

Note 6 - Long-term Debt

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

	<u>2006</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2007</u>	<u>Amounts Due Within One Year</u>
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	<u>\$ 4,919,951</u>	<u>\$ 112,125</u>	<u>\$ (630,734)</u>	<u>\$ 4,401,342</u>	<u>\$ 652,310</u>

Long-term liability activity for the year ended March 31, 2006 was as follows:

	<u>2005</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2006</u>	<u>Amounts Due Within One Year</u>
1997 Bonds	\$ 5,155,000	\$ -	\$ (510,000)	\$ 4,645,000	\$ 540,000
Capital lease obligations	107,774	248,527	(81,350)	274,951	82,709
Total long-term debt	<u>\$ 5,262,774</u>	<u>\$ 248,527</u>	<u>\$ (591,350)</u>	<u>\$ 4,919,951</u>	<u>\$ 622,709</u>

- Hospital Revenue and Revenue Refunding Bonds, Series 1997, with interest rates ranging from 6.15 percent to 6.25 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.
- Leases payable, interest at 6.11 percent to 7.84 percent per annum, collateralized by equipment

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

Years Ending March 31	<u>Long-term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 575,000	\$ 256,850	\$ 77,310	\$ 17,288
2009	615,000	220,625	72,889	12,638
2010	655,000	182,188	77,864	7,662
2011	700,000	141,250	47,282	3,335
2012	755,000	97,500	20,997	406
2013	805,000	50,312	-	-
Total payments	<u>\$ 4,105,000</u>	<u>\$ 948,725</u>	<u>\$ 296,342</u>	<u>\$ 41,329</u>

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

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 of service and 1,000 hours. Matching contributions are determined by the board as of the first day of the plan year.

	<u>2007</u>	<u>2006</u>
Employer contributions	\$ 320,581	\$ 290,113
Employee contributions	1,082,742	1,000,166

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.

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 ending 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:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 373,600	\$ 479,400
Estimated claims incurred, including changes in estimates	2,474,872	2,582,451
Claim payments	<u>(1,821,498)</u>	<u>(2,688,251)</u>
Estimated liability - End of year	<u>\$ 1,026,974</u>	<u>\$ 373,600</u>

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

Note 8 - Risk Management (Continued)

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, provision is 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 both fiscal years ended March 31, 2007 and 2006. Management believes, after considering legal counsel's evaluations of all actions and claims, that insurance coverage exceeds settlements.

Note 9 - Land Lease and Medical/Professional Office Building Agreement

The Authority is leasing land at a nominal annual amount under a 20-year lease agreement to an unrelated entity upon which the unrelated entity has built a medical/professional office building. The medical/professional office building is the property of the unrelated entity until the entity discontinues the land lease. The lease expires on December 31, 2010. Upon termination of the lease, the Authority has the option to purchase the medical/professional office building from the entity for its current fair market value at the time of termination.

The Authority has entered into six month-to-month operating lease agreements for space in the medical/professional office building. Monthly operating lease payments at March 31, 2007 and 2006 were \$10,544 and \$15,786, respectively.

Total rental expense for the years ended March 31, 2007 and 2006 for all operating leases was \$483,523 and \$467,882, respectively.

LakeView Community Hospital Authority

Notes to Consolidated Financial Statements March 31, 2007 and 2006

Note 10 - 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:

	<u>2007</u>	<u>2006</u>
Charges forgone, based on established rates	<u>\$ 264,800</u>	<u>\$ 233,632</u>

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.

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 March 31, 2007 and 2006. 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 4, 2007

LakeView Community Hospital Authority

Consolidating Balance Sheet March 31, 2007

	Lakeview Hospital	Lakeview Continuing Care	Lakeview Physicians	Lakeview Foundation	VanBuren Health Care Services	Eliminating Entries	Totals
Assets							
Current Assets							
Cash	\$ 2,133,068	\$ 1,740,650	\$ 68,741	\$ 304,704	\$ 72,490	\$ -	\$ 4,319,653
Accounts receivable	4,043,515	782,283	357,327	229,823	338,592	-	5,751,540
Due from related parties	1,713,180	-	4,058	228,077	754	(1,946,069)	-
Estimated third-party payor settlements	325,683	-	-	-	114,204	-	439,887
Prepaid expenses and other	942,309	50,255	60,998	265,628	11,166	-	1,330,356
Total current assets	9,157,755	2,573,188	491,124	1,028,232	537,206	(1,946,069)	11,841,436
Assets Limited as to Use - Funded depreciation	3,031,647	370,030	-	-	-	-	3,401,677
Assets Limited as to Use - Debt service	1,210,384	-	-	-	-	-	1,210,384
Property and Equipment	11,029,956	2,474,417	62,595	5,758	218,528	-	13,791,254
Other Assets	89,774	-	-	891,088	-	-	980,862
Total assets	<u>\$24,519,516</u>	<u>\$ 5,417,635</u>	<u>\$ 553,719</u>	<u>\$ 1,925,078</u>	<u>\$ 755,734</u>	<u>\$(1,946,069)</u>	<u>\$31,225,613</u>

LakeView Community Hospital Authority

Consolidating Balance Sheet (Continued) March 31, 2007

	Lakeview Hospital	Lakeview Continuing Care	Lakeview Physicians	Lakeview Foundation	VanBuren Health Care Services	Eliminating Entries	Totals
Liabilities and Net Assets							
Current Liabilities							
Current portion of long-term debt	\$ 643,238	\$ 1,709	\$ -	\$ -	\$ 7,363	\$ -	\$ 652,310
Accounts payable	2,660,519	306,360	24,008	83,335	54,853	-	3,129,075
Estimated third-party payor settlements	97,897	51,700	104,962	-	(74,817)	-	179,742
Due to related parties	-	38,718	467,494	779,683	660,174	(1,946,069)	-
Retainage payable	-	152,987	-	-	-	-	152,987
Accrued liabilities and other	1,139,956	292,148	48,971	4,524	42,553	-	1,528,152
Total current liabilities	4,541,610	843,622	645,435	867,542	690,126	(1,946,069)	5,642,266
Long-term Debt	3,749,032	-	-	-	-	-	3,749,032
Total liabilities	8,290,642	843,622	645,435	867,542	690,126	(1,946,069)	9,391,298
Net Assets							
Invested in capital assets - Net of related debt	6,637,686	2,472,708	62,595	5,758	211,165	-	9,389,912
Restricted for debt service	1,210,384	-	-	-	-	-	1,210,384
Unrestricted	8,380,804	2,101,305	(154,311)	1,051,778	(145,557)	-	11,234,019
Total liabilities and net assets	<u>\$24,519,516</u>	<u>\$ 5,417,635</u>	<u>\$ 553,719</u>	<u>\$ 1,925,078</u>	<u>\$ 755,734</u>	<u>\$(1,946,069)</u>	<u>\$31,225,613</u>

LakeView Community Hospital Authority

Consolidating Statement of Operations Year Ended March 31, 2007

	Lakeview Hospital	Lakeview Continuing Care	Lakeview Physicians	Lakeview Foundation	VanBuren Health Care Services	Eliminating Entries	Totals
Operating Revenues							
Net patient service revenue	\$ 33,669,854	\$ 8,421,150	\$ 2,047,950	\$ 3,039,419	\$ 2,993,279	\$ (683,892)	\$ 49,487,760
Other	425,917	-	44,732	115,402	164,061	(107,180)	642,932
Total operating revenues	34,095,771	8,421,150	2,092,682	3,154,821	3,157,340	(791,072)	50,130,692
Operating Expenses							
Salaries and wages	14,716,531	4,144,575	1,628,758	239,777	2,680,535	-	23,410,176
Employee benefits and payroll taxes	3,946,037	1,526,794	438,268	61,086	625,693	(683,892)	5,913,986
Operating supplies and expenses	3,931,058	695,301	208,293	2,619,967	255,681	-	7,710,300
Professional services and consultant fees	3,990,832	-	236,510	98,589	388,330	(62,090)	4,652,171
Purchased services	151,693	281,047	-	-	-	-	432,740
Utilities	447,232	152,280	46,641	7,456	117,551	-	771,160
Other expenses	2,765,084	787,835	341,811	83,693	164,405	-	4,142,828
Rents and leases	483,523	-	-	-	296,916	(45,090)	735,349
Depreciation and amortization	1,725,424	229,362	17,791	3,738	86,411	-	2,062,726
Total operating expenses	32,157,414	7,817,194	2,918,072	3,114,306	4,615,522	(791,072)	49,831,436
Operating Income (Loss)	1,938,357	603,956	(825,390)	40,515	(1,458,182)	-	299,256
Other Income (Expense)							
Interest income	305,664	87,790	-	395	-	-	393,849
Unrealized loss on investments	(8,100)	-	-	-	-	-	(8,100)
Loss on sale of property	-	(1,188)	(49,000)	-	952	-	(49,236)
Contributions	-	4,490	-	-	-	-	4,490
Gain on joint venture	-	-	-	328,819	-	-	328,819
Interest expense	(305,179)	(357)	-	-	(1,958)	-	(307,494)
Total other income (expense)	(7,615)	90,735	(49,000)	329,214	(1,006)	-	362,328
Excess of Revenue Over (Under) Expenses	1,930,742	694,691	(874,390)	369,729	(1,459,188)	-	661,584
Net Assets - Beginning of year	15,863,806	3,879,319	-	687,810	741,796	-	21,172,731
Transfer from (to) Affiliate	(1,565,674)	-	782,674	-	783,000	-	-
Net Assets (Deficiency) - End of year	\$ 16,228,874	\$ 4,574,010	\$ (91,716)	\$ 1,057,539	\$ 65,608	\$ -	\$ 21,834,315

May 11, 2007

LakeView Board of Directors
LakeView Community Hospital Authority
Paw Paw, MI

Dear Board of Directors:

In planning and performing our audit of the financial statements of LakeView Community Hospital Authority as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Company'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

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

The Authority is considered a governmental entity and therefore is required to present a "Management's Discussion and Analysis" as supplementary information. The Authority has chosen not to present this information. Although this is typical of many governmental healthcare entities, it is considered a significant deficiency under SAS 112, which became effective this year.

This communication is intended solely for the information and use of management, the Board of Directors, and related committees, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,
PLANTE & MORAN, PLLC



Patrick A. Horan, CPA
Partner