

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**ITASCA NURSING HOME**  
**GRAND RAPIDS, MINNESOTA**  
**(D/B/A Grand Village)**

FOR THE YEAR ENDED SEPTEMBER 30, 2010

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA  
(D/B/A Grand Village)**

**For the Year Ended September 30, 2010**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**ORGANIZATION  
SEPTEMBER 30, 2010**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Rusty Eichorn	December 31, 2011
Vice Chair	Mark Mandich	December 31, 2010
Secretary	Jeff Walker	December 31, 2010
Member	Karen Burthwick	December 31, 2010
Member	Lori Dowling	December 31, 2010
Member	Catherine McLynn	December 31, 2011
Member	Chris Reed	December 31, 2011
Administrator	Jacob Goering	Indefinite

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Nursing Home Board  
Itasca Nursing Home

We have audited the accompanying basic financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1.A., the financial statements present only the Itasca Nursing Home Enterprise Fund and are not intended to present fairly the financial position of Itasca County, Minnesota, and the results of its operations and the cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Itasca Nursing Home as of September 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information referred to in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as statistical data in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Itasca Nursing Home. The statistical data has not been audited and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2011, on our consideration of the Itasca Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

March 22, 2011

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **BASIC FINANCIAL STATEMENTS**

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT A**

**STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 1,404,563
Petty cash and change funds	1,560
Accounts receivable - net	1,024,649
Inventories	26,770
Prepaid items	156,408
	<hr/>

**Total current assets** **\$ 2,613,950**

**Restricted assets**

Bond reserve account	
Cash and cash equivalents	\$ 327,233
Restricted for construction	
Cash and cash equivalents	3,044,463
Resident trust funds	13,852
	<hr/>

**Total restricted assets** **\$ 3,385,548**

**Noncurrent assets**

Deferred debt issuance costs	\$ 238,160
Excess other postemployment benefits contributions	95,974
Nondepreciable capital assets	3,617,283
Depreciable capital assets - net of depreciation	6,781,127
	<hr/>

**Total noncurrent assets** **\$ 10,732,544**

**Total Assets** **\$ 16,732,042**

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT A  
(Continued)**

**STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

<u><b>Liabilities</b></u>	
<b>Current liabilities</b>	
Accounts payable	\$ 219,958
Salaries payable	152,443
Accrued vacation payable	177,713
Interest payable	90,211
General obligation refunding bonds payable - current	210,000
Revenue bonds payable - current	90,000
	<hr/>
<b>Total current liabilities</b>	<b>\$ 940,325</b>
<b>Current liabilities payable from restricted assets</b>	
Contracts payable	\$ 461,521
Due to residents	13,852
	<hr/>
<b>Total current liabilities payable from restricted assets</b>	<b>\$ 475,373</b>
<b>Noncurrent liabilities</b>	
General obligation bonds payable - long-term (net of discount of \$12,585)	\$ 6,082,415
General obligation refunding bonds payable - long-term (including premium of \$5,680)	215,680
Revenue bonds payable - long-term	3,880,000
	<hr/>
<b>Total noncurrent liabilities</b>	<b>\$ 10,178,095</b>
<b>Total Liabilities</b>	<b>\$ 11,593,793</b>
 <u><b>Net Assets</b></u>	
Invested in capital assets - net of related debt	\$ 2,503,257
Unrestricted	2,634,992
	<hr/>
<b>Total Net Assets</b>	<b>\$ 5,138,249</b>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT B**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

<b>Operating Revenues</b>	
Patient service revenues	\$ 7,567,925
Miscellaneous	1,601,392
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 9,169,317</b>
<b>Operating Expenses</b>	
Nursing services	\$ 3,346,230
Other care-related	275,991
Ancillary and other services	719,352
Dietary	849,447
Laundry and linen	105,119
Housekeeping	206,040
Plant operations	933,560
Administration	1,020,569
Other property and related costs	72,635
Employee benefits	1,116,403
Other postemployment benefits expense	58,191
Amortization	19,548
Depreciation	401,845
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 9,124,930</b>
<b>Operating Income (Loss)</b>	<b>\$ 44,387</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	\$ 14,694
Miscellaneous revenue	103,670
Contributions and donations	885
Interest expense	(244,865)
Loss on bond refinancing	(7,386)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (133,002)</b>
<b>Change in Net Assets</b>	<b>\$ (88,615)</b>
<b>Net Assets - October 1</b>	<b>5,226,864</b>
	<hr/>
<b>Net Assets - September 30</b>	<b>\$ 5,138,249</b>
	<hr/> <hr/>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT C**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 9,388,170
Cash paid to suppliers	(4,642,247)
Cash paid to employees	(4,120,119)
Miscellaneous nonoperating revenue	103,670
	<hr/>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 729,474</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Cash received from contributions and donations	\$ 885
	<hr/>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Bond proceeds	\$ 6,705,274
Interest subsidy	95,473
Acquisition of capital assets	(2,896,243)
Principal paid on bonds	(890,000)
Interest paid on bonds	(502,523)
Bond issuance costs	(157,694)
Bond administration fees	(3,824)
	<hr/>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ 2,350,463</b>
<b>Cash Flows from Investing Activities</b>	
Interest received	\$ 14,694
	<hr/>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 3,095,516</b>
<b>Cash and Cash Equivalents at October 1</b>	<b>1,680,743</b>
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<b>Cash and Cash Equivalents at September 30</b>	<b>\$ 4,776,259</b>
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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT C  
(Continued)**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
Increase (Decrease) in Cash and Cash Equivalents**

**Reconciliation of Operating Income (Loss) to Net Cash Provided by  
(Used in) Operating Activities**

<b>Operating income (loss)</b>	<b>\$ 44,387</b>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	401,845
Amortization	19,548
Miscellaneous nonoperating revenue	103,670
Change in assets and liabilities	
Accounts receivable	218,853
Inventories	13,940
Prepaid items	(74,266)
Excess other postemployment benefits contributions	(35,730)
Accounts payable	14,964
Salaries payable	6,804
Accrued vacation payable	15,459
	<hr/>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u>\$ 729,474</u></b>

**Noncash Investing, Capital, and Financing Activities**

In 2010, the Nursing Home acquired capital assets of \$461,521, which had not been paid for at year-end. The unpaid amount is shown as contracts payable.

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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1. Summary of Significant Accounting Policies

The financial reporting policies of the Itasca Nursing Home conform to generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Nursing Home has the option to apply FASB pronouncements issued after that date, it has chosen not to do so. The more significant accounting policies established in GAAP and used by the Nursing Home are discussed below.

A. Financial Reporting Entity

The Itasca Nursing Home was organized by the Itasca County Board, pursuant to Minn. Stat. §§ 376.55-.60, to provide long-term care services.

The Itasca Nursing Home Board supervises the Nursing Home operations and consists of seven members: the five County Commissioners and two lay members appointed by the Commissioners. The Itasca Nursing Home Board contracts with Ecumen to manage the Nursing Home. As part of this agreement, Ecumen maintains the general ledger, bill payment, and payroll functions. The management agreement, which was in effect October 1, 2009, through September 30, 2010, calls for a payment of a flat fee of \$300,000.

The Nursing Home's financial statements are included in Itasca County's financial statements as an enterprise fund.

B. Basis of Presentation--Fund Accounting

The Nursing Home's operations are accounted for with a set of self-balancing accounts that comprise the assets, liabilities, equities, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to citizens financed primarily by charges to users of that service and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Nursing Home maintains its financial records on the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

When both restricted and unrestricted resources are available for use, it is the Nursing Home's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets and Liabilities

1. Cash and Cash Equivalents

The Nursing Home has defined cash and cash equivalents to include both restricted and unrestricted cash held with Itasca County as part of its pooled cash and investments account. The Itasca County pooled investment account is treated as a cash equivalent because the Nursing Home can deposit or effectively withdraw cash at any time without prior notice or penalty. Cash equivalents also include petty cash held in a demand deposit account. Resident trust accounts are not considered to be cash equivalents.

2. Deposits and Investments

The Nursing Home's cash balance is combined with Itasca County as part of its pooled cash and investments account. Investments are reported at their fair value at September 30, 2010, based on market prices.

3. Receivables

Accounts receivable are shown net of an allowance for bad debts of \$95,392.

4. Inventories and Prepaid Items

Inventories are valued at cost using the first in/first out method. Inventories are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.



**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

5. Restricted Assets

Certain assets are restricted for payment of principal and interest on bonds. These assets are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

6. Capital Assets and Depreciation

Capital assets are defined by the Nursing Home as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of five or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Nursing Home are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	10 - 40
Machinery, furniture, and equipment	5 - 20

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

7. Accrued Vacation Payable

The liability for accrued vacation payable reported in the financial statements consists of unpaid, accumulated personal leave.

Employees are granted personal leave days that are available for vacation, paid time away from work, and short-term illness. Personal leave days are granted from 11 to 38 days per year, depending on the years of service, and can be accumulated to a maximum balance of 320 hours. The balance of personal leave days is payable to the employee upon termination. The balance of personal leave time earned was \$177,713 at September 30, 2010, and is included on the financial statements.

An extended illness bank is available for long-term illness. Six days per year are accrued for this bank and may accumulate up to 400 hours. Employees are not compensated for their unused extended sick leave bank upon retirement, except that full-time union employees hired prior to July 1, 1994, may use their extended sick leave bank upon retirement to pay continued hospitalization insurance premiums. Unvested sick leave, valued at \$274,389 at September 30, 2010, is available to employees in the event of long-term illness-related absences and is not paid to them at termination. This amount is not recorded in the financial statements.

E. Revenues

Operating revenues, such as patient service revenues, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income and contributions and donations, result from nonexchange transactions or incidental activities.

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Revenues (Continued)

Third-Party Reimbursement Agreements

The Nursing Home participates in the Medicaid program administered by the Minnesota Department of Human Services. The Nursing Home bills the Department of Human Services monthly based on the applicable rate and number of days for every eligible resident. The Department subsequently reimburses the Nursing Home. The Medicaid occupancy was 62 percent for the fiscal year ended September 30, 2010.

Net patient revenue is reported at estimated net realizable amounts from Medicare, a third-party payor. Retroactive adjustment estimates are revised in future periods as adjustments become known.

Revenue from the Medicare and Medicaid programs accounted for 10 percent and 60 percent, respectively, of the Nursing Home's net patient revenues for the year ended September 30, 2010.

Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility the recorded estimates will change by a material amount in the near term. The contractual adjustment for Medicare for the year ended September 30, 2010, resulted in a decrease to net patient service revenue of \$64,810.

The rate system for Medicaid and private-pay residents has 36 rate levels. The following are the ranges of the effective daily rates charged to Medicaid and private-pay residents during the year ended September 30, 2010.

<u>Daily Rates</u>	<u>Period Rates in Effect</u>
\$138.83 to \$243.54	October 1, 2009, to September 30, 2010

F. Use of Estimates

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

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Budget Information

The Itasca Nursing Home Board annually adopts an accrual basis budget. Following is a summary of the operating budget compared with actual operations for the year ended September 30, 2010.

Year Ended September 30, 2010	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 9,602,276	\$ 9,169,317	\$ (432,959)
Operating expenses	9,280,340	9,124,930	155,410
Operating Income (Loss)	\$ 321,936	\$ 44,387	\$ (277,549)
Nonoperating revenues (expenses)	(235,247)	(133,002)	102,245
Change in Net Assets	\$ 86,689	\$ (88,615)	\$ (175,304)

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The Itasca Nursing Home pools its cash and investments with Itasca County.

Itasca County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. Minnesota statutes require that all Nursing Home deposits be covered by insurance, surety bond, or collateral. The County may invest in the types of investments authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Additional disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the Itasca County annual financial report.

The Resident Trust Fund is not included in the County's pooled cash. It is held in an interest-bearing checking account and is fully insured.

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

A summary of changes in capital assets for the year ended September 30, 2010, follows:

	Balance October 1, 2009	Increase	Decrease	Balance September 30, 2010
Capital assets not depreciated				
Land	\$ 22,496	\$ -	\$ -	\$ 22,496
Construction in progress	83,440	3,511,347	-	3,594,787
Total capital assets not depreciated	\$ 105,936	\$ 3,511,347	\$ -	\$ 3,617,283
Capital assets depreciated				
Land improvements	\$ 197,360	\$ -	\$ -	\$ 197,360
Buildings and improvements	10,551,573	-	-	10,551,573
Machinery, furniture, and equipment	1,584,951	50,491	-	1,635,442
Total capital assets depreciated	\$ 12,333,884	\$ 50,491	\$ -	\$ 12,384,375
Less: accumulated depreciation for				
Land improvements	\$ 60,434	\$ 12,676	\$ -	\$ 73,110
Buildings and improvements	4,043,779	276,035	-	4,319,814
Machinery, furniture, and equipment	1,097,190	113,134	-	1,210,324
Total accumulated depreciation	\$ 5,201,403	\$ 401,845	\$ -	\$ 5,603,248
Total capital assets depreciated, net	\$ 7,132,481	\$ (351,354)	\$ -	\$ 6,781,127
Total Capital Assets, Net	\$ 7,238,417	\$ 3,159,993	\$ -	\$ 10,398,410

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance September 30, 2010
Bonds					
2003 Gross Revenue Nursing Home Bonds	2033	\$70,000 - \$305,000	2.50 - 6.25	\$ 4,435,000	\$ 3,970,000
2009A Taxable General Obligation Nursing Home Bonds (Build America Bonds)	2031	\$160,000 - \$375,000	2.35 - 5.75	4,605,000	4,605,000
2009B Taxable General Obligation Nursing Home Bonds (Recovery Zone Economic Development Bonds)	2035	\$340,000 - \$405,000	6.00	1,490,000	1,490,000
2009C General Obligation Refunding Bonds	2012	\$195,000 - \$210,000	2.00	615,000	420,000
Total Bonds				<u>\$ 11,145,000</u>	<u>\$ 10,485,000</u>
Less: unamortized discount					(12,585)
Add: unamortized premium					5,680
Total Bonds, Net					<u>\$ 10,478,095</u>

2. Debt Service Requirements

Debt service requirements at September 30, 2010, were as follows:

Year Ending September 30	Gross Revenue Nursing Home Bonds		General Obligation Refunding Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 90,000	\$ 233,782	\$ 210,000	\$ 6,300
2012	95,000	229,386	210,000	2,100
2013	95,000	224,708	-	-
2014	100,000	219,783	-	-
2015	110,000	214,372	-	-
2016 - 2020	635,000	973,917	-	-
2021 - 2025	850,000	755,325	-	-
2026 - 2030	1,135,000	453,300	-	-
2031 - 2033	860,000	82,813	-	-
Total	<u>\$ 3,970,000</u>	<u>\$ 3,387,386</u>	<u>\$ 420,000</u>	<u>\$ 8,400</u>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

2. Debt Service Requirements (Continued)

Year Ending September 30	Taxable General Obligation Nursing Home Bonds	
	Principal	Interest
2011	\$ -	\$ 316,117
2012	-	316,118
2013	160,000	314,238
2014	165,000	309,924
2015	170,000	304,770
2016 - 2020	950,000	1,416,906
2021 - 2025	1,205,000	1,164,675
2026 - 2030	1,580,000	790,123
2031 - 2035	1,865,000	285,581
Total	<u>\$ 6,095,000</u>	<u>\$ 5,218,452</u>

3. Changes in Long-Term Liabilities

The following is a summary of the changes in long-term debt for the year ended September 30, 2010.

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
Long-Term Liabilities					
Bonds payable					
General Obligation Refunding Bonds	\$ 610,000	\$ 615,000	\$ 805,000	\$ 420,000	\$ 210,000
Gross Revenue Nursing Home Bonds	4,055,000	-	85,000	3,970,000	90,000
Taxable General Obligation Nursing Home Bonds	-	6,095,000	-	6,095,000	-
Less: deferred amounts for issuance discounts	(419)	(13,247)	(1,081)	(12,585)	-
Add: deferred amounts for issuance premiums	-	8,520	2,840	5,680	-
Total Bonds Payable	<u>\$ 4,664,581</u>	<u>\$ 6,705,273</u>	<u>\$ 891,759</u>	<u>\$ 10,478,095</u>	<u>\$ 300,000</u>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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3. Detailed Notes on All Funds

B. Liabilities

3. Changes in Long-Term Liabilities (Continued)

It is anticipated that debt service on these bonds will be repaid from net revenues of the Nursing Home. If revenues are ever insufficient to meet the debt service requirements on the General Obligation Refunding Bond and the Taxable General Obligation Nursing Home Bonds, Itasca County is obligated to pay the maturing principal and interest from another fund and levy a tax to repay the fund from which the advance was made.

The Gross Revenue Nursing Home Bonds are payable solely from net revenues of the Nursing Home. There is no pledge of the taxing power of Itasca County on these bonds.

4. Current Refunding

On October 14, 2009, the Nursing Home issued \$615,000 in General Obligation Refunding Bonds with an interest rate of 2.00 percent to current refund the following outstanding general obligation bond issue:

\$1,880,000	General Obligation Crossover Refunding Bond issue dated April 1, 1998, maturities 2010 - 2012, interest rates of 4.75 to 4.85 percent. Outstanding maturities totaled \$610,000.
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The current refunding reduced total debt service payments over the next three years by \$15,175. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$14,985.

4. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Itasca Nursing Home are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.



**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans

A. Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Itasca Nursing Home makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary.

The Itasca Nursing Home is required to contribute the following percentages of annual covered payroll in 2009 and 2010:

	2009	2010
General Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.75	7.00

The Nursing Home's contributions for the years ending September 30, 2010, 2009, and 2008, for the General Employees Retirement Fund were:

2010	2009	2008
\$ 272,431	\$ 240,806	\$ 233,062

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

5. Postemployment Benefits

A. Plan Description and Funding Policy

The Nursing Home provides health insurance benefits for certain retired employees under a single-employer plan. Employees who were hired before July 1, 1994, are continuously employed until retirement, have at least 15 years of service with the Nursing Home, have participated in the health care insurance program for 15 years prior to retirement, and have met the eligibility requirements of PERA are eligible to receive hospital/medical benefits to the same extent as active employees for the life of the retiree or surviving spouse. The Nursing Home will pay 100 percent of the retiree's

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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5. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

premium and 50 percent of the spouse's premium for those employees who retired before July 1, 1994. For retirements after July 1, 1994, the retiree is responsible for 50 percent of the retiree's premium upon becoming eligible for Medicare and is solely responsible for the spouse's premium. Pre-Medicare retirees are responsible for 100 percent of the premium. The authority to provide this benefit is established in Minn. Stat. § 471.61, subd. 2a. A separate report is not issued for the plan.

Active employees who retire from the Nursing Home when eligible to receive a retirement benefit from PERA, that do not qualify for the aforementioned benefits, and do not participate in any other health benefits program providing coverage similar to that herein described, are eligible to continue coverage with respect to both themselves and their eligible dependents under the Nursing Home's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

As of September 30, 2010, 17 retirees were receiving health benefits under the Nursing Home's health plan. The cost of other postemployment benefits (OPEB) is funded on a "pay-as-you-go" method.

B. Annual OPEB Cost and Excess OPEB Contributions

The Nursing Home's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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5. Postemployment Benefits

B. Annual OPEB Cost and Excess OPEB Contributions (Continued)

The following table shows the components of the Nursing Home's annual OPEB cost for 2010, the amount actually contributed to the plan, and changes in the Nursing Home's net OPEB obligation:

ARC	\$	58,586
Interest on net OPEB obligation		(3,012)
Adjustment to ARC		2,617
		<hr/>
Annual OPEB cost	\$	58,191
Contributions during the year		(93,921)
		<hr/>
Decrease (Increase) in excess OPEB contributions	\$	(35,730)
Excess Contributions - Beginning of Year		(60,244)
		<hr/>
Excess Contributions - End of Year	\$	(95,974)
		<hr/> <hr/>

The Nursing Home's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the excess OPEB contributions for 2010, 2009, and 2008 were as follows:

	Year Ended September 30, 2010	Year Ended September 30, 2009	Year Ended September 30, 2008
	<hr/>	<hr/>	<hr/>
Percentage of annual OPEB cost contributed	161%	159%	148%
Annual OPEB cost	\$ 58,191	\$ 56,880	\$ 55,393
Employer contributions	(93,921)	(90,483)	(82,034)
	<hr/>	<hr/>	<hr/>
Increase in Excess Contributions	\$ (35,730)	\$ (33,603)	\$ (26,641)
Excess Contributions - Beginning of Year	(60,244)	(26,641)	-
	<hr/>	<hr/>	<hr/>
Excess Contributions - End of Year	\$ (95,974)	\$ (60,244)	\$ (26,641)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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5. Postemployment Benefits (Continued)

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at September 30, 2008, the most recent actuarial valuation date, is \$1,138,640. The Nursing Home currently has no assets that have been irrevocably deposited in a trust for future health benefits; thus, the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$3,868,671. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 29.43 percent.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the September 30, 2008, actuarial valuation, the entry age normal level percentage of pay actuarial cost method was used. The actuarial assumptions included a five percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Nursing Home. The annual health care cost trend rate is ten percent initially, reduced incrementally to an ultimate rate of five percent after six years. The UAAL is being amortized as a level dollar amount over 30 years.

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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6. Risk Management

The Nursing Home is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the Nursing Home purchases commercial insurance.

There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

7. Construction Commitments

As of September 30, 2010, the Nursing Home had a remaining construction contract commitment of \$960,320 related to the Nursing Home renovations. The renovation project is expected to be completed by July 2011.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**Schedule 1**

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN  
SEPTEMBER 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
September 30, 2008	\$ -	\$ 1,138,640	\$ 1,138,640	0.00%	\$ 3,868,671	29.43%

Notes to Schedule of Funding Progress

The Itasca Nursing Home currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

The Nursing Home implemented Governmental Accounting Standards Board Statement 45 for the fiscal year ended September 30, 2008. Information for prior years is not available.

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## **STATISTICAL DATA**

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**STATISTICAL DATA  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
(Unaudited)**

**Occupancy**

Licensed beds available at year-end	133
Number of resident days available	51,895
Number of actual resident days	43,221
Number of Medicaid days	26,916
Facility occupancy rate	83.28%
Average daily census	110.8
Average case mix score	1.02

Operating Revenues	\$ 9,169,317
Operating Expenses	<u>9,124,930</u>
<b>Income (Loss) From Operations</b>	<b><u><u>\$ 44,387</u></u></b>

Income per resident day	\$ 212.15
Cost per resident day	<u>211.12</u>
<b>Income (Loss) From Operations Per Resident Day</b>	<b><u><u>\$ 1.03</u></u></b>

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

*Schedule 2*

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Itasca Nursing Home and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Itasca Nursing Home. This decision was based on the availability of the Nursing Home's staff and the cost benefit of using our expertise.

We recommend the Nursing Home Board be mindful that limited staffing causes inherent risks in safeguarding the Nursing Home's assets and the proper reporting of its financial activity. We recommend the Nursing Home Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

*Additional oversight procedures include an audit of business office operations conducted annually by Ecumen consultants. Periodic account reconciliations occur throughout each fiscal year and involve accountants from Ecumen's headquarters in Shoreview, Minnesota; the Itasca County Auditor's Office; and Grand Village business office personnel. Finally, the utilization of Wells Fargo information systems allows for detailed reporting of all financial transactions involving the nursing home account.*

**II. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

10-1 Bidding

Contracts estimated to exceed \$100,000 are required by Minn. Stat. § 475.345 to be solicited by a sealed bid process.

The Nursing Home awarded a contract for \$128,849 for a cabinetry project without obtaining sealed bids as required by the statute. Nursing Home staff obtained quotes for this project as they did not initially expect the project to exceed \$100,000. However, when more items were added to the project, the quotes exceeded the \$100,000 threshold.

We recommend the Nursing Home comply with Minn. Stat. § 475.345 and solicit sealed bids for all contracts expected to exceed \$100,000.

Client's Response:

*The initial work awarded to the contractor was below the \$100,000 requiring solicited sealed bids. The work totaled \$66,893 including fixed kitchen cabinets for the prep kitchens, coffee area, and beauty/barber shop. Upon inquiry, management found that medicine cabinets, dressers, and wardrobes could be purchased from the same vendor for less expense than from large industry furniture suppliers. The \$128,849 reflected both the initial work and later FF&E expenditures.*

10-2 Contract Award Process

In December 2009, the Nursing Home Board awarded a contract for Nursing Home renovations to a contractor who was not the low bidder. Every contract required to be formally bid by the provisions of Minn. Stat. § 471.345 is required by Minn. Stat. § 375.21, subd. 1, to be awarded to the lowest responsible bidder. In addition, government officers must make and preserve “all records necessary to a full and accurate knowledge of their official activity.” Minn. Stat. § 15.17.

When a contract is awarded to a bidder who is not the lowest bidder, the Nursing Home Board should document in the Board minutes reasonable and appropriate reasons for the Board’s determination that the lower bidders were not responsible bidders. While the Board minutes did reflect much discussion regarding the Board’s decision to award the contract to a bidder who was not the lowest bidder, they did not include a clear Board statement noting the reasons the lower bidders were not determined to be responsible bidders. The minutes should include a clear resolution of the Nursing Home Board’s determination, rather than the individual views of individual Board members.

We recommend the Nursing Home Board comply with Minn. Stat. §§ 375.21, subd. 1 and 15.17. If the low bidder or bidders on a project are not determined to be responsible bidders, the Board should pass a resolution which clearly states the Board’s reasons for its determination.

Client’s Response:

*Under Minn. Stat. § 375.21, subd. 1, the bidder must be both (1) the lowest bidder, and (2) a responsible bidder. The Board in good faith and honest judgment may lawfully reject the low bid. The Board reviewed facts concerning the skill, ability, integrity, faithfulness, and judgment of the low bidder, in addition to its pecuniary ability to perform the contract. The discussion was held during a televised public meeting in December 2009.*

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Nursing Home Board  
Itasca Nursing Home

We have audited the financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2010, and have issued our report thereon dated March 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Itasca Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nursing Home's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Nursing Home's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 97-1 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Itasca Nursing Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because it was not applicable.

The results of our tests indicate that, for the items tested, the Itasca Nursing Home complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 10-1 and 10-2.

The Itasca Nursing Home's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Nursing Home's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Nursing Home Board, management, and others within the Itasca Nursing Home and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

March 22, 2011

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR