

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA

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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**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

For the Year Ended September 30, 2010



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

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**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Basic Financial Statements		
Statement of Net Assets	Exhibit A	4
Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit B	5
Statement of Cash Flows	Exhibit C	6
Notes to the Financial Statements		7
Statistical Data		19
Management and Compliance Section		
Schedule of Findings and Recommendations		20
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22

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**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

ORGANIZATION
SEPTEMBER 30, 2010

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Deade Johnson	Indefinite
Vice Chair	Kathy Goedel	Indefinite
Secretary/Treasurer	Rich Sve	December 2013
Member	Paul Bergman	December 2011
Member	Thomas Clifford	December 2013
Member	Rick Goutermont	December 2011
Member	Brad Jones	December 2013
Administrator	Susan Johnson	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
Lake County Nursing Home

We have audited the accompanying basic financial statements of the Lake County 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 Lake County Nursing Home Enterprise Fund and are not intended to present fairly the financial position of Lake County 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Lake County 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.

Our audit was made for the purpose of forming an opinion on the basic 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 basic financial statements of the Lake County 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 April 20, 2011, on our consideration of the Lake County Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 20, 2011

BASIC FINANCIAL STATEMENTS

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**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

EXHIBIT A

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

Assets

Current assets

Cash and cash equivalents	\$ 362,665
Petty cash and change funds	500
Accounts receivable - net	309,609
Inventories	29,758
Prepaid items	46,264
	46,264

Total current assets **\$ 748,796**

Restricted assets

Resident trust funds 6,674

Noncurrent assets

Capital assets - net 1,912,427

Total Assets **\$ 2,667,897**

Liabilities

Current liabilities

Accounts payable	\$ 78,508
Salaries payable	84,997
Accrued vacation payable	59,484
Loans payable	5,688
Capital leases payable - current	2,245
Compensated absences payable - current	37,570
	37,570

Total current liabilities **\$ 268,492**

Current liabilities payable from restricted assets

Due to residents **\$ 6,674**

Noncurrent liabilities

Compensated absences payable - long-term	\$ 65,445
Loans payable - long-term	5,059
Capital leases payable - long-term	3,014
	3,014

Total noncurrent liabilities **\$ 73,518**

Total Liabilities **\$ 348,684**

Net Assets

Invested in capital assets - net of related debt	\$ 1,896,421
Unrestricted	422,792
	422,792

Total Net Assets **\$ 2,319,213**

The notes to the financial statements are an integral part of this statement.

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

EXHIBIT B

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

Operating Revenues	
Patient service revenues	\$ 3,556,978
Ancillary and other services	203,026
Miscellaneous	90,776
	<hr/>
Total Operating Revenues	\$ 3,850,780
Operating Expenses	
Nursing services	\$ 1,413,561
Other care-related	111,773
Ancillary and other services	241,826
Dietary	459,281
Laundry and linen	59,269
Housekeeping	63,530
Plant operations	163,418
Administration	413,028
Other property and related costs	182,912
Employee benefits	531,426
Depreciation	145,890
	<hr/>
Total Operating Expenses	\$ 3,785,914
Operating Income (Loss)	\$ 64,866
Nonoperating Revenues (Expenses)	
Contributions and donations	\$ 100
Interest expense	(1,308)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (1,208)
Change in Net Assets	\$ 63,658
Net Assets - October 1	2,255,555
	<hr/>
Net Assets - September 30	\$ 2,319,213
	<hr/> <hr/>

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

EXHIBIT C

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

Cash Flows from Operating Activities	
Cash received from customers	\$ 4,027,700
Cash paid to suppliers	(1,129,248)
Cash paid to employees	<u>(2,527,399)</u>
Net cash provided by (used in) operating activities	<u>\$ 371,053</u>
Cash Flows from Noncapital Financing Activities	
Cash received from contributions and donations	<u>\$ 100</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	\$ (43,359)
Principal paid on capital lease	(2,107)
Interest paid on capital lease	(407)
Principal paid on loan	(5,821)
Interest paid on loan	<u>(901)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (52,595)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 318,558</u>
Cash and Cash Equivalents at October 1	<u>44,607</u>
Cash and Cash Equivalents at September 30	<u><u>\$ 363,165</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ 64,866
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	145,890
Change in assets and liabilities	
Accounts receivable	176,920
Inventories	(15,701)
Prepaid items	17,862
Accounts payable	(45,325)
Salaries payable	10,913
Compensated absences	8,119
Accrued vacation payable	<u>7,509</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 371,053</u></u>

The notes to the financial statements are an integral part of this statement.

Page 6

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**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The financial reporting policies of the Lake County 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 Lake County Nursing Home (Sunrise Home) was organized in 1979 by Lake County, pursuant to Minn. Stat. §§ 376.55-.60 to provide long-term care services. The 55-bed intermediate care facility opened April 1, 1980, and subsequently became a skilled care nursing facility in 1986. The Lake County Nursing Home Board supervises the Nursing Home's operations and consists of seven members: the five County Commissioners and two lay members appointed by the Commissioners. The Lake County 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 Nursing Home's financial statements are included in Lake 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.

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

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 unrestricted cash held with Lake County as part of its pooled cash and investments account. The Lake 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 Lake 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

The Nursing Home receivables are reported net of an allowance for uncollectible accounts of \$3,532.

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

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.

5. Capital Assets and Depreciation

Capital assets are defined by the Nursing Home as assets with an initial, individual cost equal to or in excess of \$1,000 and an estimated useful life of at least five 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	8 - 10
Buildings and improvements	5 - 40
Furniture and equipment	5 - 15

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

6. Compensated Absences

Nursing Home personnel policies provide that employees may accumulate up to 24 days of vacation leave. The unused accumulated vacation leave is recognized in the financial statements.

Nursing Home employees may accumulate up to 170 days of sick leave. Employees are not compensated for unused sick leave, except upon retirement, and then only if retirement is due to a mandatory age requirement or meets the requirement qualifications of the Public Employees Retirement Association. Compensation is equal to ten percent of the accumulated sick leave; any balance of accumulated sick leave is used to pay single coverage medical insurance for a maximum of two years.

The liability for compensated absences reported in the financial statements consists of vested sick leave and unvested sick leave likely to become vested. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred. The compensated absences liability is recognized in the financial statements for the year ended September 30, 2010, in the amount of \$103,015.

Unvested sick leave of Nursing Home employees at September 30, 2010, is \$70,234, and is not reported as a liability in the financial statements.

E. Revenues

Operating revenues, such as daily 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.

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

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 (DHS) monthly based on the applicable rate and number of days for every eligible resident. DHS subsequently reimburses the Nursing Home. The Medicaid occupancy for these facilities during the fiscal year ended September 30, 2010, was 73 percent.

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 5 percent and 65 percent, respectively, of the Nursing Home's net patient revenues for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid 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 September 30, 2010, net patient service revenue decreased by approximately \$44,288 due to an estimated contractual adjustment for Medicare and decreased by \$35,708 due to an estimated contractual adjustment for Medicaid.

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>
\$140.35 to \$287.95	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.

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budget Information

The Lake County 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	\$ 3,614,698	\$ 3,850,780	\$ 236,082
Operating expenses	3,556,487	3,785,914	(229,427)
Operating Income (Loss)	\$ 58,211	\$ 64,866	\$ 6,655
Nonoperating revenues (expenses)	2,089	(1,208)	(3,297)
Change in Net Assets	\$ 60,300	\$ 63,658	\$ 3,358

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

The 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 Treasurer invests in the types of investment securities authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Additional disclosures required by GASB Statement No. 3, *Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*; and Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the Lake 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.

**LAKE COUNTY NURSING HOME
TWO HARBORS, 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	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets depreciated				
Land improvements	\$ 102,108	\$ -	\$ -	\$ 102,108
Buildings and improvements	3,569,954	37,357	-	3,607,311
Machinery, furniture, and equipment	766,937	6,002	-	772,939
Total capital assets depreciated	\$ 4,438,999	\$ 43,359	\$ -	\$ 4,482,358
Less: accumulated depreciation for				
Land improvements	\$ 86,226	\$ 3,527	\$ -	\$ 89,753
Buildings and improvements	1,748,720	102,429	-	1,851,149
Machinery, furniture, and equipment	604,095	39,934	-	644,029
Total accumulated depreciation	\$ 2,439,041	\$ 145,890	\$ -	\$ 2,584,931
Total capital assets depreciated, net	\$ 1,999,958	\$ (102,531)	\$ -	\$ 1,897,427
Capital Assets, Net	\$ 2,014,958	\$ (102,531)	\$ -	\$ 1,912,427

B. Liabilities

1. Long-Term Liabilities - Compensated Absences

Changes in long-term liabilities for compensated absences in the year ending September 30, 2010, are:

Balance - October 1, 2009	\$ 94,896
Net change	8,119
Balance - September 30, 2010	<u>\$ 103,015</u>
Current portion	\$ 37,570
Long-term portion	65,445
Total	<u>\$ 103,015</u>

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Capital Leases Payable

In January 2008, the Nursing Home entered into a lease agreement to finance a copier. The lease runs for five years with interest at 6.35 percent and monthly payments of \$210. At lease expiration, the copier will become the Nursing Home's property and, as such, it has been recorded as a capital asset. The copier is carried at a cost of \$10,748, less accumulated depreciation of \$4,961.

The present value of future minimum lease payments is shown below:

2011	\$	2,514
2012		2,514
2013		630
		<hr/>
Total	\$	5,658
Less: interest		<hr/> (399)
Present Value of Lease	\$	<hr/> <u>5,259</u>
Current portion	\$	2,245
Long-term portion		<hr/> 3,014
Total	\$	<hr/> <u>5,259</u>

3. Loans Payable

In 2009, the Nursing Home entered into a loan agreement to finance equipment for a senior TV system. The loan was for \$17,000, has an interest rate of six percent, and will be paid in 36 monthly payments of \$517. Payments began September 1, 2009, and will end August 1, 2012.

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

3. Loans Payable (Continued)

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

Year Ending September 30	Loans Payable	
	Principal	Interest
2011	\$ 5,226	\$ 460
2012	5,521	166
Total	<u>\$ 10,747</u>	<u>\$ 626</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital lease	\$ 7,366	\$ -	\$ 2,107	\$ 5,259	\$ 2,245
Loans payable	16,568	-	5,821	10,747	5,688
Compensated absences	94,896	8,119	-	103,015	37,570
Long-Term Liabilities	<u>\$ 118,830</u>	<u>\$ 8,119</u>	<u>\$ 7,928</u>	<u>\$ 119,021</u>	<u>\$ 45,503</u>

4. Pension Plans - Defined Benefit Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of the Lake County 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.

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

4. Pension Plans - Defined Benefit Plans

A. Defined Benefit Plans

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.

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

4. Pension Plans - Defined Benefit Plans

A. Defined Benefit Plans

Plan Description (Continued)

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; 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.

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

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 130,053	\$ 110,763	\$ 93,301

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

**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

5. 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; and natural disasters. The Nursing Home purchases commercial insurance coverage and employee health care coverage to manage these risks. The Nursing Home's risk of loss associated with injuries to employees is covered by Lake County's membership in the Minnesota Counties Intergovernmental Trust (MCIT) Workers' Compensation Division. The risk associated with the Nursing Home's operation has not been separately identified.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

6. Subsequent Events

Subsequent to the date of Lake County Nursing Home's financial statements, September 30, 2010, Lake County entered into an agreement to sell the Nursing Home and all related assets. The sale was completed in December 2010.

STATISTICAL DATA

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**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

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

Occupancy

Licensed beds available at year-end	55
Number of resident days available	20,075
Number of actual resident days	18,862
Number of Medicaid days	13,697
Facility occupancy rate	93.96%
Average daily census	51.7
Average case mix score	0.98

Operating Revenues	\$ 3,850,780
Operating Expenses	<u>3,785,914</u>
Income (Loss) From Operations	<u><u>\$ 64,866</u></u>

Income per resident day	\$ 204.16
Cost per resident day	<u>200.72</u>

Income (Loss) From Operations Per Resident Day	<u><u>\$ 3.44</u></u>
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**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 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 Lake County 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 Lake County 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 Lake County 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 Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The Nursing Home's management is aware of the lack of segregation of the accounting functions. The Administrator will provide oversight and monitor internal control policies and procedures to ensure that they are implemented by the staff.

ITEM ARISING THIS YEAR

10-1 Payment Voucher Approval and Documentation

Our review of the Nursing Home's disbursement process and payment vouchers disclosed deficiencies in both the voucher approval process and documentation for payments.

We selected a sample of 25 payments for testing of internal controls. From this sample, 1 voucher could not be located for review and 3 vouchers were paid prior to being approved for payment by the Board. A proper approval process helps ensure that payment is made only for valid and authorized goods and services.

We recommend the Nursing Home management develop and approve a policy clarifying procedures for processing payments and the approvals required. Required approvals should be obtained prior to making payments. Payment vouchers and supporting documentation should be properly filed and available for inspection.

Client's Response:

The Nursing Home is in the process of updating the payment voucher policy. The accounts payable employee will obtain required approvals prior to making payments. Payment vouchers will be filed properly and will be available for inspection.

PREVIOUSLY REPORTED ITEM RESOLVED

Management Fee Calculation (09-1)

The Nursing Home was overcharged for management service fees for the fiscal year ended September 30, 2009, and this was not detected by Nursing Home personnel. The overcharges were due to incorrect management fee percentages being used in the fee calculation for certain months.

Resolution

The current year management fees reviewed were properly calculated and charged to the Nursing Home in accordance with the management services agreement.



REBECCA OTTO
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
Lake County Nursing Home

We have audited the basic financial statements of the Lake County Nursing Home as of and for the year ended September 30, 2010, and have issued our report thereon dated April 20, 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 Lake County 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 and another deficiency that we consider to be a significant deficiency.

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.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 10-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake County 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 public indebtedness and tax increment financing because they were not applicable.

The results of our tests indicate that, for the items tested, the Lake County Nursing Home complied with the material terms and conditions of applicable legal provisions.

The Lake County Nursing Home's written responses to the internal control 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 Lake County 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 20, 2011