

# 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, 2013**

## **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, 2013**



**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, 2013**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Christopher Reed	December 31, 2014
Vice Chair	Davin Tinquist	December 31, 2014
Secretary	Jeff Walker	December 31, 2013
Member	Rusty Eichorn	December 31, 2016
Member	Terry Snyder	December 31, 2016
Member	Mark Mandich	December 31, 2014
Member	Leo Trunt	December 31, 2014
Administrator	Shawna Jokinen	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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Itasca Nursing Home's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Nursing Home's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

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 accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Itasca Nursing Home's basic financial statements. 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. The statistical data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Itasca Nursing Home's internal control over financial reporting and compliance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

March 27, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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## **BASIC FINANCIAL STATEMENTS**

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

*EXHIBIT 1*

**STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013**

<u>Assets</u>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 2,893,991
Petty cash and change funds	1,560
Accounts receivable - net	1,557,397
Inventories	57,697
Prepaid items	127,836
	<hr/>
<b>Total current assets</b>	<b>\$ 4,638,481</b>
<b>Restricted assets</b>	
Bond reserve account	
Cash and cash equivalents	\$ 327,233
Resident trust funds	14,225
	<hr/>
<b>Total restricted assets</b>	<b>\$ 341,458</b>
<b>Noncurrent assets</b>	
Deferred debt issuance costs	\$ 196,416
Excess other postemployment benefits contributions	214,606
Nondepreciable capital assets	33,722
Depreciable capital assets - net of depreciation	11,263,967
	<hr/>
<b>Total noncurrent assets</b>	<b>\$ 11,708,711</b>
<b>Total Assets</b>	<b>\$ 16,688,650</b>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013**

<u><b>Liabilities</b></u>	
<b>Current liabilities</b>	
Accounts payable	\$ 315,067
Salaries payable	203,961
Accrued vacation payable	208,156
Deferred revenue	62,600
Interest payable	89,115
General obligation bonds payable - current	165,000
Revenue bonds payable - current	100,000
	<hr/>
<b>Total current liabilities</b>	<b>\$ 1,143,899</b>
<b>Current liabilities payable from restricted assets</b>	
Due to residents	\$ 14,225
	<hr/>
<b>Noncurrent liabilities</b>	
General obligation bonds payable - long-term (net of discount of \$10,598)	\$ 5,759,402
Revenue bonds payable - long-term	3,590,000
	<hr/>
<b>Total noncurrent liabilities</b>	<b>\$ 9,349,402</b>
	<hr/>
<b>Total Liabilities</b>	<b>\$ 10,507,526</b>
	<hr/>
<u><b>Net Position</b></u>	
Net investment in capital assets	\$ 1,902,339
Unrestricted	4,278,785
	<hr/>
<b>Total Net Position</b>	<b>\$ 6,181,124</b>
	<hr/> <hr/>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<b>Operating Revenues</b>	
Patient service revenues	\$ 8,647,725
Miscellaneous	2,271,639
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 10,919,364</b>
<b>Operating Expenses</b>	
Nursing services	\$ 3,782,640
Other care-related	304,237
Ancillary and other services	892,546
Dietary	897,773
Laundry and linen	116,452
Housekeeping	212,376
Plant operations	879,878
Administration	1,063,311
Other property and related costs	88,474
Employee benefits	1,257,320
Other postemployment benefits expense	42,212
Amortization	13,526
Depreciation	696,902
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 10,247,647</b>
<b>Operating Income (Loss)</b>	<b>\$ 671,717</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	\$ 2,792
Contributions and donations	5,379
Operating grants	151,455
Interest expense	(424,346)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (264,720)</b>
<b>Change in Net Position</b>	<b>\$ 406,997</b>
<b>Net Position - October 1</b>	<hr/> <b>5,774,127</b>
<b>Net Position - September 30</b>	<hr/> <b>\$ 6,181,124</b>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 10,599,822
Cash paid to suppliers	(5,008,088)
Cash paid to employees	(4,462,003)
	<hr/>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,129,731</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Cash received from contributions and donations	\$ 5,379
Cash received from operating grants	148,090
	<hr/>
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ 153,469</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Interest subsidy	\$ 113,844
Acquisition of capital assets	(119,925)
Principal paid on bonds	(255,000)
Interest paid on bonds	(540,096)
	<hr/>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (801,177)</b>
<b>Cash Flows from Investing Activities</b>	
Interest received	\$ 2,792
	<hr/>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 484,815</b>
<b>Cash and Cash Equivalents at October 1</b>	<b>2,736,409</b>
	<hr/>
<b>Cash and Cash Equivalents at September 30</b>	<b>\$ 3,221,224</b>
	<hr/> <hr/>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b>\$ 671,717</b>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	696,902
Amortization	13,526
Change in assets and liabilities	
Accounts receivable	(319,542)
Inventories	(18,154)
Prepaid items	(30,664)
Excess other postemployment benefits contributions	(31,938)
Accounts payable	84,374
Salaries payable	35,261
Accrued vacation payable	28,249
	<hr/>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 1,129,731</b>
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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2013

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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). 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, 2012, through September 30, 2013, 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, 2013, based on market prices.

3. Receivables

Accounts receivable are shown net of an allowance for bad debts of \$57,110.

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 position 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 300 hours. The balance of personal leave days is payable to the employee upon termination. The balance of personal leave time earned was \$208,156 at September 30, 2013, 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 \$302,978 at September 30, 2013, 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 65 percent for the fiscal year ended September 30, 2013.

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 7 percent and 63 percent, respectively, of the Nursing Home's net patient revenues for the year ended September 30, 2013.

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, 2013, resulted in a decrease to net patient service revenue of \$541,560.

The rate system for Medicaid and private-pay residents has 50 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, 2013.

<u>Daily Rates</u>	<u>Period Rates in Effect</u>
\$171.43 to \$418.27	October 1, 2012, to September 30, 2013

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**

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, 2013.

Year Ended September 30, 2013	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 10,577,735	\$ 10,919,364	\$ 341,629
Operating expenses	10,040,881	10,247,647	(206,766)
Operating Income (Loss)	\$ 536,854	\$ 671,717	\$ 134,863
Nonoperating revenues (expenses)	(267,742)	(264,720)	3,022
Change in Net Position	<u>\$ 269,112</u>	<u>\$ 406,997</u>	<u>\$ 137,885</u>

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, 2013, follows:

	Balance October 1, 2012	Increase	Decrease	Balance September 30, 2013
Capital assets not depreciated				
Land	\$ 22,496	\$ -	\$ -	\$ 22,496
Construction in progress	-	11,226	-	11,226
Total capital asset not depreciated	\$ 22,496	\$ 11,226	\$ -	\$ 33,722
Capital assets depreciated				
Land improvements	\$ 204,624	\$ 2,155	\$ -	\$ 206,779
Buildings and improvements	15,684,636	3,869	-	15,688,505
Machinery, furniture, and equipment	2,654,698	102,675	-	2,757,373
Total capital assets depreciated	\$ 18,543,958	\$ 108,699	\$ -	\$ 18,652,657
Less: accumulated depreciation for				
Land improvements	\$ 97,296	\$ 12,130	\$ -	\$ 109,426
Buildings and improvements	5,073,742	489,601	-	5,563,343
Machinery, furniture, and equipment	1,520,750	195,171	-	1,715,921
Total accumulated depreciation	\$ 6,691,788	\$ 696,902	\$ -	\$ 7,388,690
Total capital assets depreciated, net	\$ 11,852,170	\$ (588,203)	\$ -	\$ 11,263,967
Total Capital Assets, Net	\$ 11,874,666	\$ (576,977)	\$ -	\$ 11,297,689

**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, 2013
Bonds					
2003 Gross Revenue Nursing Home Bonds	2033	\$70,000 - \$305,000	2.50 - 6.25	\$ 4,435,000	\$ 3,690,000
2009A Taxable General Obligation Nursing Home Bonds (Build America Bonds)	2031	\$160,000 - \$375,000	2.35 - 5.75	4,605,000	4,445,000
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
Total Bonds				<u>\$ 10,530,000</u>	\$ 9,625,000
Less: unamortized discount					<u>(10,598)</u>
Total Bonds, Net					<u>\$ 9,614,402</u>

2. Debt Service Requirements

Debt service requirements at September 30, 2013, were as follows:

Year Ending September 30	Gross Revenue Nursing Home Bonds		Taxable General Obligation Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 100,000	\$ 219,783	\$ 165,000	\$ 309,924
2015	110,000	214,372	170,000	304,770
2016	115,000	208,465	175,000	298,813
2017	120,000	202,178	180,000	291,930
2018	125,000	195,500	190,000	284,200
2019 - 2023	755,000	852,354	1,090,000	1,277,946
2024 - 2028	1,010,000	585,135	1,410,000	956,639
2029 - 2033	1,355,000	212,187	1,765,000	499,756
2034 - 2035	-	-	790,000	71,700
Total	<u>\$ 3,690,000</u>	<u>\$ 2,689,974</u>	<u>\$ 5,935,000</u>	<u>\$ 4,295,678</u>

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

The following is a summary of the changes in long-term debt for the year ended September 30, 2013.

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Long-Term Liabilities					
Bonds payable					
Gross Revenue Nursing Home Bonds	\$ 3,785,000	\$ -	\$ 95,000	\$ 3,690,000	\$ 100,000
Taxable General Obligation Nursing Home Bonds	6,095,000	-	160,000	5,935,000	165,000
Less: deferred amounts for issuance discounts	(11,260)	-	(662)	(10,598)	-
Total Bonds Payable	<u>\$ 9,868,740</u>	<u>\$ -</u>	<u>\$ 254,338</u>	<u>\$ 9,614,402</u>	<u>\$ 265,000</u>

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. 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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive 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.

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans

A. 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](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.

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 6.25 percent, respectively, of their annual covered salary.

The Itasca Nursing Home is required to contribute the following percentages of annual covered payroll in 2013:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

The Nursing Home's contributions for the years ending September 30, 2013, 2012, and 2011, for the General Employees Retirement Fund were:

<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 302,436	\$ 282,071	\$ 274,277

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

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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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 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, 2013, 15 retirees were receiving health benefits under the Nursing Home's health plan. The cost of other postemployment benefits is funded on a "pay-as-you-go" method.

B. Annual OPEB Cost and Excess OPEB Contributions

The Nursing Home's annual other postemployment benefits (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 liabilities (or funding excess) over a period not to exceed 30 years.

**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

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 2013, the amount actually contributed to the plan, and changes in the Nursing Home's net OPEB obligation:

ARC	\$	42,754
Interest on net OPEB obligation		(9,133)
Adjustment to ARC		8,591
		8,591
Annual OPEB cost	\$	42,212
Contributions during the year		(74,150)
		(74,150)
Decrease (Increase) in excess OPEB contributions	\$	(31,938)
Excess Contributions - Beginning of Year, as reported		(182,668)
		(182,668)
Excess Contributions - End of Year	\$	(214,606)
		(214,606)

The Nursing Home's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the excess OPEB contributions for 2013, 2012, and 2011 were as follows:

	Year Ended September 30, 2013	Year Ended September 30, 2012	Year Ended September 30, 2011
Percentage of annual OPEB cost contributed	176%	193%	150%
Annual OPEB cost	\$ 42,212	\$ 41,509	\$ 59,308
Employer contributions	(74,150)	(80,017)	(88,999)
	(74,150)	(80,017)	(88,999)
Excess Contributions	\$ (31,938)	\$ (38,508)	\$ (29,691)
Excess Contributions - Beginning of Year	(182,668)	(125,665)	(95,974)
Adjustment to Beginning of Year	-	(18,495)	-
	-	(18,495)	-
Excess Contributions - End of Year	\$ (214,606)	\$ (182,668)	\$ (125,665)
	(214,606)	(182,668)	(125,665)

**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, 2011, the most recent actuarial valuation date, is \$813,558. 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 \$3,868,622. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 21.03 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, 2011, 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 zero percent in the year ended September 30, 2012, seven and one-half percent in the year ending September 30, 2013, graded to five percent over five years. The UAAL is being amortized as a level dollar amount over 30 years from September 30, 2008.

**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.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

***EXHIBIT A-1***

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN  
SEPTEMBER 30, 2013**

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%
September 30, 2011	-	813,558	813,558	0.00	3,868,622	21.03

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.

An actuarial study was performed for the year ended September 30, 2011, which is the most recent available.

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## **STATISTICAL DATA**

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

***EXHIBIT B-1***

**STATISTICAL DATA  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
(Unaudited)**

**Occupancy**

Licensed beds available at year-end	119
Number of resident days available	43,435
Number of actual resident days	40,250
Number of Medicaid days	26,269
Facility occupancy rate	92.67%
Average daily census	110.3
Average case mix score	1.05

Operating Revenues	\$ 10,919,364
Operating Expenses	<u>10,247,647</u>
<b>Income (Loss) From Operations</b>	<b><u><u>\$ 671,717</u></u></b>

Income per resident day	\$ 271.29
Cost per resident day	<u>254.60</u>
<b>Income (Loss) From Operations Per Resident Day</b>	<b><u><u>\$ 16.69</u></u></b>

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**ITASCA NURSING HOME  
GRAND RAPIDS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**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

**Criteria:** 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. 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. Adequate segregation of duties is a key internal control in an organization's accounting system.

**Condition:** The limited number of staff of the Itasca Nursing Home results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. There are inherent risks in safeguarding the Nursing Home's assets and the proper recording of its financial activity.

**Context:** It is not unusual for an organization the size of the Itasca Nursing Home to be limited in the internal control that management can design and implement into the organization.

**Effect:** Inadequate segregation of duties increases the risk of errors or irregularities not being detected timely.

**Cause:** The size and structure of the Nursing Home limit the internal control that management can design and implement into the organization.

**Recommendation:** Management should be aware that segregation of duties is not adequate from an internal control point of view. 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:

*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 the Grand Village business office personnel. Finally, the utilization of Wells Fargo information systems allow for detailed reporting of all financial transactions involving the Nursing Home account.*

## **II. OTHER FINDINGS AND RECOMMENDATIONS**

### MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEM RESOLVED

##### **Contract Compliance (12-1)**

In 2012, the Nursing Home staff made final payment to a contractor for a large renovation project without first receiving documentation from the contractor that the contractor had complied with the state withholding requirements of Minn. Stat. § 290.92.

##### **Resolution**

During fiscal year 2013, there were no contracts or other payments made where the withholding requirements of Minn. Stat. § 290.92 applied.



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***

### Independent Auditor's Report

Nursing Home Board  
Itasca Nursing Home

We have audited, 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, the financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements, and have issued our report thereon dated March 27, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Itasca Nursing Home's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

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. 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 the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 97-1, that we consider to be a significant deficiency.

## **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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that Itasca Nursing Home failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Nursing Home's noncompliance with the above referenced provisions.

## **Other Matters**

The Itasca Nursing Home's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. The Nursing Home's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Nursing Home's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nursing Home's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

March 27, 2014