

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA

FOR THE YEARS ENDED SEPTEMBER 30,
2005 AND 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

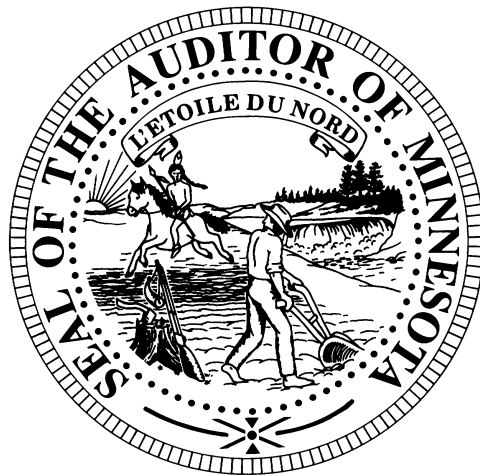
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**For the Years Ended September 30,
2005 and 2004**



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

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

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

ORGANIZATION
SEPTEMBER 30, 2005

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Kathy Goedel	Indefinite
Vice Chair	Deade Johnson	Indefinite
Secretary/Treasurer	Lenore Johnson	December 2009
Member	Willard Clark	December 2007
Member	Rick Goutermont	December 2007
Member	Scott Larson	December 2009
Member	Clair Nelson	December 2009
Administrator	Shawna Jokinen	Indefinite

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Nursing Home Board
Lake County Nursing Home

We have audited the accompanying financial statements of the Lake County Nursing Home as of and for the years ended September 30, 2005 and 2004, 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 audits.

We conducted our audits 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 audits provide 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 financial statements referred to above present fairly, in all material respects, the financial position of the Lake County Nursing Home as of September 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as statistical data in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the 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 a report dated December 1, 2005, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 1, 2005

FINANCIAL STATEMENTS

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

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004**

	2005	2004
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 368,307	\$ -
Petty cash and change funds	500	500
Accounts receivable - net	401,341	602,268
Inventories	17,733	18,313
Prepaid items	32,968	48,381
	\$ 820,849	\$ 669,462
Restricted assets		
Restricted cash, cash equivalents, and investments		
Resident trust funds	\$ 6,055	\$ 7,213
Noncurrent assets		
Capital assets - net	\$ 2,272,105	\$ 2,382,436
	\$ 3,099,009	\$ 3,059,111
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 49,006	\$ 84,027
Salaries payable	36,400	27,953
Accrued vacation payable	57,197	55,961
Due to Lake County	-	25,767
Compensated absences payable - current	35,629	27,260
Capital lease payable - current	1,994	1,805
	\$ 180,226	\$ 222,773
Current liabilities payable from restricted assets		
Due to residents	\$ 6,055	\$ 7,213
Noncurrent liabilities		
Compensated absences payable	\$ 66,847	\$ 71,440
Capital lease payable	4,686	6,680
	\$ 71,533	\$ 78,120
	\$ 257,814	\$ 308,106
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 2,265,425	\$ 2,373,951
Unrestricted	575,770	377,054
	\$ 2,841,195	\$ 2,751,005

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

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

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	2005	2004
Operating Revenues		
Patient services revenues	\$ 3,060,574	\$ 3,069,422
Ancillary and other services	94,510	84,066
Miscellaneous	43,792	43,363
	\$ 3,198,876	\$ 3,196,851
Operating Expenses		
Nursing services	\$ 1,206,363	\$ 1,214,118
Other care related	90,658	93,536
Other services and charges	75,438	54,236
Dietary	361,362	343,746
Laundry	50,784	50,660
Housekeeping	59,184	55,078
Plant operations	205,844	191,028
Administration and fiscal services	308,296	348,908
Property and household	158,152	182,027
Payroll taxes/employee benefits	480,627	472,385
Depreciation	125,206	126,659
	\$ 3,121,914	\$ 3,132,381
Operating Income	\$ 76,962	\$ 64,470
Nonoperating Revenues (Expenses)		
Nursing home payment adjustment	\$ 6,539	\$ 6,540
Miscellaneous revenue	7,456	800
Operating grants	-	2,609
Interest expense	(767)	(937)
	\$ 13,228	\$ 9,012
Change in Net Assets	\$ 90,190	\$ 73,482
Net Assets - October 1	2,751,005	2,677,523
Net Assets - September 30	\$ 2,841,195	\$ 2,751,005

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

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 and 2004**

	2005	2004
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,374,036	\$ 2,855,044
Cash received from miscellaneous sources	7,456	800
Cash paid to suppliers	(946,066)	(879,205)
Cash payments to employees	(2,056,211)	(2,205,372)
Net cash provided by (used in) operating activities	\$ 379,215	\$ (228,733)
Cash Flows from Noncapital Financing Activities		
Nursing Home payment adjustment received	\$ 6,539	\$ 6,540
Operating grants received	-	2,609
Net cash provided by (used in) noncapital financing activities	\$ 6,539	\$ 9,149
Cash Flows from Capital and Related Financing Activities		
Interest expense	\$ (767)	\$ (937)
Acquisition of capital assets	(14,875)	(58,671)
Principal payments on capital lease	(1,805)	(1,634)
Net cash provided by (used in) capital and related activities	\$ (17,447)	\$ (61,242)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 368,307	\$ (280,826)
Cash and Cash Equivalents - October 1	500	281,326
Cash and Cash Equivalents - September 30	\$ 368,807	\$ 500
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Net operating income (loss)	\$ 76,962	\$ 64,470
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	125,206	126,659
Miscellaneous nonoperating revenue	7,456	800
Changes in assets and liabilities		
Decrease (increase) in receivables	200,927	(367,574)
Decrease (increase) in inventories	580	3,364
Decrease (increase) in prepaid items	15,413	(2,130)
Increase (decrease) in accounts payable	(35,021)	(4,179)
Increase (decrease) in due to Lake County	(25,767)	25,767
Increase (decrease) in salaries payable	8,447	(69,237)
Increase (decrease) in compensated absences	3,776	-
Increase (decrease) in vacations payable	1,236	(6,673)
Net Cash Provided by (Used in) Operating Activities	\$ 379,215	\$ (228,733)

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

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.

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, 2005, based on market prices.

3. Receivables

The Nursing Home uses the direct write-off method of accounting for bad debts. An expense is recognized at the time the Board decides an account is uncollectible.

4. Inventories and Prepaid Items

Inventories are valued at cost using the first in/first out (FIFO) 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.

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

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 market 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

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.

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

6. Compensated Absences (Continued)

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 years ended September 30, 2005 and 2004, in the amount of \$102,476 and \$98,700, respectively.

Unvested sick leave of the Nursing Home employees at September 30, 2005 and 2004, is \$72,533 and \$78,470, 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.

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 for these facilities during the fiscal years ended September 30, 2005 and 2004, was 66 and 79 percent, respectively.

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.

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

1. Summary of Significant Accounting Policies

E. Revenues

Third-Party Reimbursement Agreements (Continued)

Revenue from the Medicare and Medicaid programs accounted for 7 percent and 63 percent of the Nursing Home's net patient revenues for the year ended September 30, 2005, and 6 percent and 75 percent for the year ended September 30, 2004, respectively. 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, 2005, net patient service revenue decreased by approximately \$7,445 due to an estimated contractual adjustment for Medicare, while the September 30, 2004, decrease to net patient service revenue was approximately \$12,334.

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 years ended September 30, 2005 and 2004.

<u>Daily Rates</u>	<u>Period Rates in Effect</u>
\$119.14 to \$249.37	October 1, 2003 to September 30, 2005

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.

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 years ended September 30, 2005 and 2004.

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

2. Stewardship, Compliance, and Accountability

Budget Information (Continued)

Year Ended September 30, 2005	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 3,161,980	\$ 3,198,876	\$ 36,896
Operating expenses	3,147,779	3,121,914	25,865
Operating Income (Loss)	\$ 14,201	\$ 76,962	\$ 62,761
Nonoperating revenues (expenses)	5,009	13,228	8,219
Change in Net Assets	\$ 19,210	\$ 90,190	\$ 70,980

Year Ended September 30, 2004	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 3,135,843	\$ 3,196,851	\$ 61,008
Operating expenses	3,105,396	3,132,381	(26,985)
Operating Income (Loss)	\$ 30,447	\$ 64,470	\$ 34,023
Nonoperating revenues (expenses)	15,600	9,012	(6,588)
Change in Net Assets	\$ 46,047	\$ 73,482	\$ 27,435

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.

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County 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. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investment securities available to the County Treasurer.

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

2. Capital Assets

A summary of changes in capital assets for the years ended September 30, 2005 and 2004, follows:

	Balance October 1, 2004	Increase	Decrease	Balance September 30, 2005
Capital assets not depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets depreciated				
Land improvements	\$ 91,983	\$ -	\$ -	\$ 91,983
Buildings and improvements	3,496,787	6,040	-	3,502,827
Machinery, furniture, and equipment	583,104	8,835	-	591,939
Total capital assets depreciated	\$ 4,171,874	\$ 14,875	\$ -	\$ 4,186,749
Less: accumulated depreciation for				
Land improvements	\$ 71,461	\$ 2,852	\$ -	\$ 74,313
Buildings and improvements	1,285,602	91,247	-	1,376,849
Machinery, furniture, and equipment	447,375	31,107	-	478,482
Total accumulated depreciation	\$ 1,804,438	\$ 125,206	\$ -	1,929,644
Total capital assets depreciated, net	\$ 2,367,436	\$ (110,331)	\$ -	\$ 2,257,105
Capital Assets, Net	\$ 2,382,436	\$ (110,331)	\$ -	\$ 2,272,105

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

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

	Balance October 1, 2003	Increase	Decrease	Balance September 30, 2004
Capital assets not depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets depreciated				
Land improvements	\$ 91,983	\$ -	\$ -	\$ 91,983
Buildings and improvements	3,479,881	20,191	3,285	3,496,787
Machinery, furniture, and equipment	547,799	38,480	3,175	583,104
Total capital assets depreciated	\$ 4,119,663	\$ 58,671	\$ 6,460	\$ 4,171,874
Less: accumulated depreciation for				
Land improvements	\$ 68,609	\$ 2,852	\$ -	\$ 71,461
Buildings and improvements	1,198,033	90,854	3,285	1,285,602
Machinery, furniture, and equipment	417,597	32,953	3,175	447,375
Total accumulated depreciation	\$ 1,684,239	\$ 126,659	\$ 6,460	\$ 1,804,438
Total capital assets depreciated, net	\$ 2,435,424	\$ (67,988)	\$ -	\$ 2,367,436
Capital Assets, Net	\$ 2,450,424	\$ (67,988)	\$ -	\$ 2,382,436

B. Liabilities

1. Long-Term Liabilities - Compensated Absences

Changes in long-term liabilities for compensated absences in the years ending September 30, 2005 and 2004, are:

Balance - October 1, 2003	\$ 98,700
Net change	-
Balance - September 30, 2004	\$ 98,700
Net change	3,776
Balance - September 30, 2005	\$ 102,476

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

3. Detailed Notes on All Funds

B. Liabilities

1. Long-Term Liabilities - Compensated Absences (Continued)

Current portion	\$	35,629
Long-term portion		66,847
Total	\$	102,476

2. Capital Leases Payable

In January 2003, the Nursing Home entered into a lease agreement to finance a copier. The lease runs for five years with interest at ten percent and monthly payments of \$214. 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 \$11,000, and there is \$4,400 of accumulated depreciation through September 30, 2005.

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

2006	\$	2,571
2007		2,571
2008		2,571
Total	\$	7,713
Less: interest		(1,033)
Present Value of Lease	\$	6,680
Current portion	\$	1,994
Long-term portion		4,686
Total	\$	6,680

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

4. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Lake County Nursing Home are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public 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.

Public 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.

The 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 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 of service and 1.7 percent for each successive year. Under 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 Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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

A. Plan Description (Continued)

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at 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 investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Nursing Home is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Nursing Home's contributions for the years ending September 30, 2005, 2004, and 2003, were \$75,260, \$78,118, and \$75,206, respectively, equal to the contractually required contributions for each year as set by state statute.

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 Insurance Trust (MCIT) Workers' Compensation Division. The risk associated with the Nursing Home operation has not been separately identified.

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

5. Risk Management (Continued)

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the 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.

STATISTICAL DATA

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

Table 1

**STATISTICAL DATA
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(UNAUDITED)**

	2005	2004
Occupancy		
Licensed beds available at year-end	55	55
Number of resident days available	20,075	20,130
Number of actual resident days	18,732	19,520
Number of Medicaid days	12,451	15,494
Facility occupancy rate	93.31%	96.97%
Average daily census	51.32	53.33
Average case mix score	1.02	0.94
 Operating Revenues and Expenses		
Operating revenues	\$ 3,198,876	\$ 3,196,851
Operating expenses	3,121,914	3,132,381
 Income (Loss) from Operations	 <u>\$ 76,962</u>	 <u>\$ 64,470</u>
 Income per resident day	 \$ 170.77	 \$ 163.77
Cost per resident day	166.66	160.47
 Income (Loss) from Operations Per Resident Day	 <u>\$ 4.11</u>	 <u>\$ 3.30</u>

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Segregation of Duties

Due to the limited number of office personnel within the Lake County Nursing Home, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Nursing Home; however, the Nursing Home's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend the Nursing Home's management be aware of the lack of segregation of the accounting functions and continue oversight procedures to ensure the Nursing Home's internal control policies and procedures are being implemented by staff.

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.

ITEMS ARISING THIS YEAR

05-1 Voucher Documentation

The Nursing Home has implemented controls to be used over their disbursement transactions. Among the controls used by the Nursing Home are the approval of the voucher by both a Board Member and the Nursing Home Administrator, and the cancellation of the voucher by stamping "PAID" on the voucher to help prevent duplicate payment.

In our testing of 40 disbursement transactions for the year, one voucher did not contain the required approvals, and 12 of the vouchers were not stamped "PAID" after being processed.

We recommend the Nursing Home obtain proper approvals on all vouchers prior to making payments, and upon payment, the vouchers are properly cancelled.

Client's Response:

The accounts payable employee is aware that all vouchers are to be stamped "PAID" after being processed. She is doing this. It is our understanding that the 12 vouchers were prior to her employment. She is also aware that all vouchers are to be approved and signed by a member of the Board of Directors and the Administrator. She is doing this also.

PREVIOUSLY REPORTED ITEMS RESOLVED

Resident Trust Funds (04-1)

Nursing home staff maintain records of resident funds deposited and withdrawn for the residents personal needs. In our prior audit, there was insufficient documentation of the deposit and withdrawal transactions. These included missing receipts for deposits and a missing withdrawal slip documenting a withdrawal of resident funds. Receipts that were located were not pre-numbered to help account for the sequence of receipts used.

Resolution

In the current audit, all receipts and withdrawal slips for the items tested were present. The Nursing Home started using pre-numbered receipts for resident deposits on March 4, 2005.

Missing Vouchers (04-2)

During our previous audit, we requested a sample of disbursement vouchers to determine if there were proper supporting documentation and internal controls over the transactions. Many of the vouchers and supporting documentation requested for our testing could not be located.

Resolution

In the current audit, we requested 40 vouchers and their supporting documentation to be tested, and all of the information requested was available for our review.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Prompt Payment (04-3)

Minn. Stat. § 471.425 requires the Nursing Home to make payment on vendor invoices according to the terms of the contract or within 35 days of the receipt of the invoice, whichever is later. In the prior audit, we noted that payment was not made within the 35-day period on four invoices that we tested.

Resolution

In the current audit, we noted no instances of payments not made within the required time periods

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Accounts Receivable (04-4)

The Nursing Home's accounts receivable balance had increased at September 30, 2004, by \$367,574 over the September 30, 2003, accounts receivable balance. This indicates that accounts receivable were not being collected on a timely basis.

Resolution

The Nursing Home has implemented procedures to follow up past due receivables on a more timely basis. This has resulted in a decrease in the receivable balance of \$200,927 at September 30, 2005, from the previous year.

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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING 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 financial statements of the Lake County Nursing Home as of and for the year ended September 30, 2005, and have issued our report thereon dated December 1, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nursing Home's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 97-1 and 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider item 97-1 to be a material weakness.

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 Local Government*, 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 Local Government* 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 study included all of the listed categories, except that we did not test for compliance in public indebtedness because the Lake County Nursing Home has no bonded debt.

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.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 1, 2005