

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEARS ENDED SEPTEMBER 30,
2006 AND 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**For the Years Ended September 30,
2006 and 2005**



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

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introduction		
Organization		1
Financial Section		
Independent Auditor's Report		2
Financial Statements		
Comparative Statement of Net Assets	Exhibit A	4
Comparative Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit B	6
Comparative Statement of Cash Flows	Exhibit C	7
Notes to the Financial Statements		8
Statistical Data	Table 1	22
Management and Compliance Section		
Schedule of Findings and Recommendations		23
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		28

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**ORGANIZATION
SEPTEMBER 30, 2006**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Mary Ives	January 2008
Vice Chair	Rusty Eichorn	January 2009
Secretary	Gerald Eisele	January 2007
Member	John Dimich	January 2007
Member	Russell Klegstad	January 2007
Member	Mark Mandich	January 2007
Member	Catherine McLynn	January 2009
Administrator	Jacob Goering	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Nursing Home Board
Itasca Nursing Home

We have audited the accompanying financial statements of Itasca Nursing Home as of and for the years ended September 30, 2006 and 2005, 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 Itasca Nursing Home Enterprise Fund and are not intended to present fairly the financial position of Itasca County, Minnesota, and the results of its operations and the cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Itasca Nursing Home as of September 30, 2006 and 2005, 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 Itasca Nursing Home. The statistical data has not been audited and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006, on our consideration of Itasca Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 21, 2006

FINANCIAL STATEMENTS

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005**

	2006	2005
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 733,471	\$ 73,929
Petty cash and change funds	1,356	1,560
Accounts receivable - net	1,386,799	1,819,691
Inventories	40,057	31,268
Prepaid items	51,520	109,345
Total current assets	\$ 2,213,203	\$ 2,035,793
Restricted assets		
Bond reserve account		
Cash, cash equivalents, and pooled investments	\$ 327,233	\$ 327,233
Restricted contributions		
Cash, cash equivalents, and pooled investments	19,815	13,269
Resident trust funds	21,614	23,948
Total restricted assets	\$ 368,662	\$ 364,450
Noncurrent assets		
Deferred debt issuance costs	\$ 125,846	\$ 133,332
Capital assets - net	7,863,611	8,165,425
Total noncurrent assets	\$ 7,989,457	\$ 8,298,757
Total Assets	\$ 10,571,322	\$ 10,699,000

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**EXHIBIT A
(Continued)**

**COMPARATIVE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005**

	2006	2005
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 235,660	\$ 249,433
Salaries payable	83,067	70,620
Accrued vacation payable	205,570	206,940
Compensated absences payable - current	98,793	102,870
Due to other governments	26,254	-
Interest payable	50,417	52,069
General obligation bonds payable - current	170,000	160,000
Revenue bonds payable - current	75,000	75,000
	\$ 944,761	\$ 916,932
Current liabilities payable from restricted assets		
Due to residents	\$ 21,614	\$ 23,948
Noncurrent liabilities		
Compensated absences payable - long-term	\$ 321,111	\$ 344,684
General obligation bonds payable - long-term (discount \$863 at 2006 and \$1,011 at 2005)	969,137	1,138,989
Revenue bonds payable - long-term	4,215,000	4,290,000
	\$ 5,505,248	\$ 5,773,673
Total noncurrent liabilities	\$ 5,505,248	\$ 5,773,673
Total Liabilities	\$ 6,471,623	\$ 6,714,553
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 2,632,163	\$ 2,751,629
Restricted for		
Donors projects	19,815	13,269
Unrestricted	1,447,721	1,219,549
	\$ 4,099,699	\$ 3,984,447
Total Net Assets	\$ 4,099,699	\$ 3,984,447

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	2006	2005
Operating Revenues		
Patient services revenues	\$ 7,684,297	\$ 7,817,297
Miscellaneous	1,938,776	1,635,099
	\$ 9,623,073	\$ 9,452,396
Operating Expenses		
Nursing services	\$ 3,401,685	\$ 3,227,670
Other care-related	338,788	325,595
Ancillary and other services	836,019	753,628
Dietary	839,779	848,618
Laundry and linen	114,213	119,597
Housekeeping	213,033	196,873
Plant operations	974,265	904,405
Administration	805,328	725,951
Other property and related costs	60,357	58,853
Employee benefits	1,258,030	1,064,753
Amortization	8,320	7,486
Depreciation	388,189	365,465
	\$ 9,238,006	\$ 8,598,894
Operating Income	\$ 385,067	\$ 853,502
Nonoperating Revenues (Expenses)		
Nursing Home payment adjustment	\$ 18,192	\$ 18,192
Interest income	7,242	568
Contributions and donations	10,437	17,975
Interest expense	(305,686)	(314,970)
	\$ (269,815)	\$ (278,235)
Change in Net Assets	\$ 115,252	\$ 575,267
Net Assets - October 1	3,984,447	3,409,180
Net Assets - September 30	\$ 4,099,699	\$ 3,984,447

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005
Increase (Decrease) in Cash and Cash Equivalents**

	2006	2005
Cash Flows from Operating Activities		
Cash received from customers	\$ 10,082,219	\$ 8,753,812
Cash paid to suppliers	(4,748,961)	(4,278,819)
Cash paid to employees	(4,074,680)	(3,923,128)
Net cash provided by (used in) operating activities	\$ 1,258,578	\$ 551,865
Cash Flows from Noncapital Financing Activities		
Cash received from contributions and donations	\$ 10,437	\$ 17,975
Nursing Home payment adjustment received	18,192	18,192
Net cash provided by (used in) noncapital financing activities	\$ 28,629	\$ 36,167
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	\$ (86,375)	\$ (352,563)
Principal and interest paid on general obligation revenue bonds	(217,140)	(219,110)
Principal and interest paid on revenue bonds	(325,050)	(322,050)
Net cash provided by (used in) capital and related financing activities	\$ (628,565)	\$ (893,723)
Cash Flows from Investing Activities		
Interest received	\$ 7,242	\$ 3,057
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 665,884	\$ (302,634)
Cash and Cash Equivalents at October 1	415,991	718,625
Cash and Cash Equivalents at September 30	\$ 1,081,875	\$ 415,991
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 385,067	\$ 853,502
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	\$ 388,189	\$ 365,465
Amortization	7,486	7,486
Change in assets and liabilities		
Accounts receivable	432,892	(698,584)
Inventories	(8,789)	7,258
Prepaid items	57,825	(11,282)
Accounts payable	(13,773)	93,332
Salaries payable	12,447	17,695
Accrued vacation payable	(1,370)	19,206
Compensated absences	(27,650)	(102,213)
Due to other governments	26,254	-
Total adjustments	\$ 873,511	\$ (301,637)
Net Cash Provided by (Used in) Operating Activities	\$ 1,258,578	\$ 551,865

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

The Itasca Nursing Home Board supervises the Nursing Home operations and consists of seven members: the five County Commissioners and two lay members appointed by the Commissioners. The Itasca Nursing Home Board contracts with Ecumen to manage the Nursing Home. As part of this agreement, Ecumen maintains the general ledger, bill payment, and payroll functions. The management agreement, which was in effect October 1, 2005, through September 30, 2006, calls for a payment of three percent of total Nursing Home operating revenues. The amount paid to Ecumen for the management contract for the fiscal year ended September 30, 2006, was \$300,554.

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

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation--Fund Accounting (Continued)

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.

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, 2006, based on market prices.

3. Receivables

Accounts receivable is shown net of an allowance for bad debts of \$203,975.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

4. Inventories and Prepaid Items

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

5. Restricted Assets

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

6. Capital Assets and Depreciation

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

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

6. Capital Assets and Depreciation (Continued)

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

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated personal leave and sick leave balances. 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.

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 400 hours. The balance of personal leave days is payable to the employee upon termination. The balance of personal leave time earned was \$205,570 at September 30, 2006, and \$206,940 at September 30, 2005, 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. Non-union employees and registered nurses are not compensated for their unused extended sick leave bank upon retirement. Full-time union employees may use their extended sick leave bank upon retirement to pay continued hospitalization insurance premiums. Unvested sick leave, valued at \$127,746 at September 30, 2006, and \$64,853 at

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

7. Compensated Absences (Continued)

September 30, 2005, 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.

Vested sick leave and unvested sick leave likely to become vested are recognized in the financial statements in the amounts of \$419,904 and \$447,554 for the years ended September 30, 2006 and 2005, respectively. This liability is based on assumptions related to the number of current retirees (vested) and the number of future retirees (likely to vest) and their estimated life expectancy.

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.

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, 2006 and 2005, was 61 and 64 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.

Revenue from the Medicare and Medicaid programs accounted for 14 percent and 60 percent of the Nursing Home's net patient revenues for the year ended September 30, 2006, and 14 percent and 62 percent for the year ended September 30,

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Third-Party Reimbursement Agreements (Continued)

2005, 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, 2006, net patient service revenue decreased by approximately \$352,488 due to an estimated contractual adjustment for Medicare, while the September 30, 2005, decrease to net patient service revenue was approximately \$284,103.

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, 2006 and 2005.

<u>Daily Rates</u>	<u>Period Rates in Effect</u>
\$120.23 to \$257.72	August 1, 2004, to September 30, 2005
\$122.72 to \$219.39	October 1, 2005, to September 30, 2006

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 Itasca 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, 2006 and 2005.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budget Information (Continued)

Year Ended September 30, 2006	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 9,847,461	\$ 9,623,073	\$ (224,388)
Operating Expenses	9,141,076	9,238,006	(96,930)
Operating Income (Loss)	\$ 706,385	\$ 385,067	\$ (321,318)
Nonoperating Revenues (Expenses)	(292,199)	(269,815)	22,384
Change in Net Assets	<u>\$ 414,186</u>	<u>\$ 115,252</u>	<u>\$ (298,934)</u>

Year Ended September 30, 2005	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 8,807,378	\$ 9,452,396	\$ 645,018
Operating Expenses	8,243,180	8,598,894	(355,714)
Operating Income (Loss)	\$ 564,198	\$ 853,502	\$ 289,304
Nonoperating Revenues (Expenses)	(286,626)	(278,235)	8,391
Change in Net Assets	<u>\$ 277,572</u>	<u>\$ 575,267</u>	<u>\$ 297,695</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.

Minn. Stat. §§ 118A.02 and 118A.04 authorize Itasca 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.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

2. Capital Assets

A summary of changes in capital assets for the years ended September 30, 2006 and 2005, follows:

	Balance October 1, 2005	Increase	Decrease	Balance September 30, 2006
Capital assets not depreciated				
Land	\$ 22,496	\$ -	\$ -	\$ 22,496
Capital assets depreciated				
Land improvements	\$ 92,586	\$ 4,750	\$ -	\$ 97,336
Buildings and improvements	10,343,653	32,298	-	10,375,951
Machinery, furniture, and equipment	1,321,278	49,327	-	1,370,605
Total capital assets depreciated	\$ 11,757,517	\$ 86,375	\$ -	\$ 11,843,892
Less: accumulated depreciation for				
Land improvements	\$ 31,301	\$ 6,431	\$ -	\$ 37,732
Buildings and improvements	2,956,425	266,233	-	3,222,658
Machinery, furniture, and equipment	626,862	115,525	-	742,387
Total accumulated depreciation	\$ 3,614,588	\$ 388,189	\$ -	\$ 4,002,777
Total capital assets depreciated, net	\$ 8,142,929	\$ (301,814)	\$ -	\$ 7,841,115
Capital Assets, Net	\$ 8,165,425	\$ (301,814)	\$ -	\$ 7,863,611

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

	Balance October 1, 2004	Increase	Decrease	Balance September 30, 2005
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not depreciated				
Land	\$ 22,496	\$ -	\$ -	\$ 22,496
Capital assets depreciated				
Land improvements	\$ 81,619	\$ 10,967	\$ -	\$ 92,586
Buildings and improvements	10,307,179	36,474	-	10,343,653
Machinery, furniture, and equipment	<u>1,224,065</u>	<u>97,213</u>	<u>-</u>	<u>1,321,278</u>
Total capital assets depreciated	<u>\$ 11,612,863</u>	<u>\$ 144,654</u>	<u>\$ -</u>	<u>\$ 11,757,517</u>
Less: accumulated depreciation for				
Land improvements	\$ 26,373	\$ 4,928	\$ -	\$ 31,301
Buildings and improvements	2,681,875	274,550	-	2,956,425
Machinery, furniture, and equipment	<u>540,874</u>	<u>85,988</u>	<u>-</u>	<u>626,862</u>
Total accumulated depreciation	<u>\$ 3,249,122</u>	<u>\$ 365,466</u>	<u>\$ -</u>	<u>\$ 3,614,588</u>
Total capital assets depreciated, net	<u>\$ 8,363,741</u>	<u>\$ (220,812)</u>	<u>\$ -</u>	<u>\$ 8,142,929</u>
Capital Assets, Net	<u>\$ 8,386,237</u>	<u>\$ (220,812)</u>	<u>\$ -</u>	<u>\$ 8,165,425</u>

B. Liabilities

1. Other Postemployment Benefits

In addition to the pension benefits described in Note 4.A., the Nursing Home provides postemployment health care benefits, in accordance with state statutes, to all employees who retire from the Nursing Home and meet age and years-of-service requirements of various employment contracts. Currently, 17 retirees meet those eligibility requirements. The Nursing Home contributes various amounts toward retirees' medical insurance costs depending on contract amounts, retirees' age, and coverage. Expenses for postemployment health care benefits, recognized as medical insurance premiums, are incurred by the Nursing

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

1. Other Postemployment Benefits (Continued)

Home. During the fiscal year ended September 30, 2006, disbursements of \$98,793 were made for postemployment health care. For the fiscal year ended September 30, 2005, disbursements were \$102,870.

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance September 30, 2006
Bonds					
1998 G.O. Crossover Refunding Bonds	2012	\$135,000 - \$210,000	4.10 - 4.85	\$ 1,880,000	\$ 1,140,000
2003 Gross Revenue Nursing Home Bonds	2033	\$70,000 - \$305,000	2.50 - 6.25	4,435,000	4,290,000
Total Bonds				<u>\$ 6,315,000</u>	\$ 5,430,000
Less: unamortized discount					<u>(863)</u>
Total Bonds, Net					<u>\$ 5,429,137</u>

3. Debt Service Requirements

Debt service requirements at September 30, 2006, were as follows:

Year Ending September 30	General Obligation Bonds Crossover Refunding Bonds		Gross Revenue Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 170,000	\$ 49,755	\$ 75,000	\$ 247,612
2008	175,000	41,905	80,000	244,700
2009	185,000	33,532	80,000	241,400
2010	195,000	24,554	85,000	237,787
2011	205,000	15,054	90,000	233,782
2012 - 2016	210,000	5,092	515,000	1,096,714
2017 - 2021	-	-	670,000	936,515
2022 - 2026	-	-	900,000	702,025
2027 - 2031	-	-	1,205,000	380,850
2032 - 2033	-	-	590,000	37,500
Total	<u>\$ 1,140,000</u>	<u>\$ 169,892</u>	<u>\$ 4,290,000</u>	<u>\$ 4,358,885</u>

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Changes in Long-Term Liabilities

The following is a summary of the changes in long-term debt for the years ended September 30, 2006 and 2005. Compensated absences consists of estimated postemployment health care benefits referred to in Note 3.B.1. for both retirees and current employees expected to retire.

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Due Within One Year
Long-Term Liabilities					
Bonds payable					
G.O. Crossover					
Refunding Bonds	\$ 1,300,000	\$ -	\$ 160,000	\$ 1,140,000	\$ 170,000
Gross Revenue Nursing					
Home Bonds	4,365,000	-	75,000	4,290,000	75,000
Less: deferred amounts for issuance discounts	(1,011)	-	(148)	(863)	-
Total bonds payable	\$ 5,663,989	\$ -	\$ 234,852	\$ 5,429,137	\$ 245,000
Compensated absences	447,554	-	27,650	419,904	98,793
Long-Term Liabilities	<u>\$ 6,111,543</u>	<u>\$ -</u>	<u>\$ 262,502</u>	<u>\$ 5,849,041</u>	<u>\$ 343,793</u>

	Balance October 1, 2004	Additions	Reductions	Balance September 30, 2005	Due Within One Year
Long-Term Liabilities					
Bonds payable					
G.O. Crossover					
Refunding Bonds	\$ 1,455,000	\$ -	\$ 155,000	\$ 1,300,000	\$ 160,000
Gross Revenue Nursing					
Home Bonds	4,435,000	-	70,000	4,365,000	75,000
Less: deferred amounts for issuance discounts	(1,159)	-	(148)	(1,011)	-
Total bonds payable	\$ 5,888,841	\$ -	\$ 224,852	\$ 5,663,989	\$ 235,000
Compensated absences	549,767	-	102,213	447,554	102,870
Long-Term Liabilities	<u>\$ 6,438,608</u>	<u>\$ -</u>	<u>\$ 327,065</u>	<u>\$ 6,111,543</u>	<u>\$ 337,870</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 Crossover Refunding 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.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

4. Changes in Long-Term Liabilities (Continued)

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 Itasca Nursing Home are covered by defined benefit 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 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.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

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.

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 internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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 Itasca 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 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. The Itasca Nursing Home is required to contribute the following percentages of annual covered payroll:

In 2006

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

In 2007

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

B. Funding Policy (Continued)

The Nursing Home's contributions for the years ending September 30, 2006, 2005, and 2004, were \$234,850, \$208,336, and \$168,662, 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; or natural disasters. To manage these risks, the Nursing Home's manager, Ecumen, purchases commercial insurance which covers all of the nursing homes managed or owned by Ecumen. The Itasca Nursing Home reimburses Ecumen for its proportionate share of the insurance policies.

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.

STATISTICAL DATA

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

Table 1

**STATISTICAL DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2006
WITH COMPARATIVE DATA FOR THE YEAR ENDED SEPTEMBER 30, 2005
(UNAUDITED)**

	2006	2005
Occupancy		
Licensed beds available at year-end	153	153
Number of resident days available	55,845	55,845
Number of actual resident days	52,014	52,234
Number of Medicaid days	31,932	33,402
Facility occupancy rate	93.1%	93.5%
Average daily census	142.5	143.1
Average case mix score	1.07	1.05
Operating Revenues	\$ 9,623,073	\$ 9,452,396
Operating Expenses	9,238,006	8,598,894
	\$ 385,067	\$ 853,502
Income per resident day	\$ 185.01	\$ 180.96
Cost per resident day	177.62	164.63
	\$ 7.39	\$ 16.33

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

97-1 Segregation of Duties

Due to the limited number of office personnel within Itasca 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 Itasca 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 that Itasca Nursing Home's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the Nursing Home's internal control policies and procedures are being implemented by staff.

Client's Response:

The Management of Itasca Nursing Home is aware of the internal control weakness and has implemented procedures to minimize the risks involved with the lack of adequate internal control.

05-1 Disbursements

During our prior audit, we noted that not all vouchers were properly approved. In our current audit, we tested 17 vouchers for supporting documentation and proper approvals. One of the vouchers tested was not signed as approved by the Nursing Home Administrator. This voucher was signed by the Accounts Payable Clerk only.

Given the small accounting staff at the Nursing Home and the resulting lack of segregation of duties, proper approval of invoices is a key internal control in assuring that all Nursing Home disbursements are authorized.

We recommend the Nursing Home Administrator sign off on all vouchers to indicate approval. The Accounts Payable Clerk who prepares the voucher should also sign off. Supporting documentation should be attached to each voucher.

Client's Response:

It is the policy of Itasca Nursing Home that both the Administrator and the Accounts Payable Clerk will sign off on all invoices. All future payables will be audited to ensure proper approvals before invoices are filed.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

06-1 Meals and Social Events

During our current audit, we noted several occasions where staff on staff meals were paid for by the Nursing Home, including a staff appreciation dinner and an employee picnic. These events were partially funded by proceeds from employee vending machines and donations from the Nursing Home Auxiliary and vendors. However, a portion of the expenses from these events was funded out of the Nursing Home's budget.

The Minnesota Attorney General held in Op. Atty. Gen. 63a-2, May 6, 1965, that there exists no public purpose for a public unit to pay lunch expenses when its employees meet over a lunch hour. Stated another way, public employees who work together cannot go to lunch and charge their employer, even if they do business while eating. Also, it is the Attorney General's position that non-monetary benefits, such as employee social events, must be specifically authorized by law or charter. There is no specific statutory authority for the Nursing Home to use public funds for employee social events, such as a staff appreciation dinner and an employee picnic.

The position of the State Auditor's Office and the Attorney General's Office is that staff-on-staff meals do not meet the "public purpose" standard required by the state constitution.

We recommend the Nursing Home discontinue the practice of paying for meals where only staff attends. Staff appreciation dinners and employee picnics should not be paid for out of public funds. Employees should pool their own resources to fund such events.

Client's Response:

Reimbursement for nursing homes in Minnesota has been lacking in previous years. To recruit and maintain quality staff, Itasca Nursing Home feels that it is very important to recognize its employees. For years Itasca Nursing Home has had an annual appreciation dinner for our long term employees. This is a common industry practice.

PREVIOUSLY REPORTED ITEM RESOLVED

Withholding Affidavit for Contractors Form IC-134 (05-2)

Minn. Stat. § 290.97 requires the Nursing Home to obtain a Withholding Affidavit for Contractors Form IC-134 from each contractor and subcontractor before making final settlement on a contract. This form is a certification from the Minnesota Department of Revenue that the contractor and subcontractors have withheld Minnesota income taxes from the wages of their employees. In the prior year, the Nursing Home did not receive an IC-134 form before making final settlement on the contract for the sub-acute care building.

Resolution

In the current audit period, the Nursing Home did not enter into any construction contracts.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-3 Accounts Receivable - Credit Balances

Credit balances in accounts receivable have increased from \$7,608 at September 30, 2004, to \$48,549 at September 30, 2005, and to \$88,330 at September 30, 2006. This suggests there may be posting errors in some accounts or that refunds may be due.

Because of increased workload and new personnel, sufficient time to research credit balances has not been available. As a result, credit balances in accounts receivable have been steadily increasing.

We recommend that the Nursing Home accounts receivable staff work on resolving the credit balances in accounts receivable. These credit balances should be reviewed to determine whether posting errors have occurred or a refund is due.

Client's Response:

Itasca Nursing Home's personnel focus in the previous year was on collection of receivables over 120 days. Currently accounts receivable staff are reviewing the accounts to resolve the credit balances along with continuing to improve on collections.

PREVIOUSLY REPORTED ITEM RESOLVED

Collection of Accounts Receivable (05-3)

In our prior audit, the Nursing Home's accounts receivable balance had increased by 62 percent from the previous year, and the accounts receivable days in aging increased from 57 days to 72 days. In addition, the accounts receivable balances over 120 days old increased by 500 percent, from \$144,122 at September 30, 2004, to \$865,800 at September 30, 2005. We recommended that the Nursing Home continue its efforts to collect accounts receivable on a more timely basis, especially those receivable over 120 days past due. We also recommended that any accounts receivable identified as uncollectible should be written off with Board approval.

Resolution

The Nursing Home made progress this year in collecting accounts receivable balances over 120 days old. By September 30, 2006, approximately half of the accounts receivable balances over 120 days had been collected. In addition, approximately \$203,000 of the accounts receivable balances over 120 days have been determined to be uncollectible and are shown as an allowance for doubtful accounts. Overall, accounts receivable balances have decreased by 28 percent and days in aging have decreased to approximately 54 days.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans; and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions Plans*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit rate subsidy is considered an OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the Board will need to address in order to comply with the statements are:

- determine if the employees are provided OPEB;
- if OPEB are being provided, the Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Board will have to decide whether to hire an actuary.

If applicable for the Itasca County Nursing Home, d/b/a Grand Village, GASB Statements 43 and 45 would be implemented for the years ended September 30, 2007 and 2008, respectively.

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REBECCA OTTO
STATE AUDITOR

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

Nursing Home Board
Itasca Nursing Home

We have audited the financial statements of Itasca Nursing Home as of and for the year ended September 30, 2006, and have issued our report thereon dated December 21, 2006. 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 Itasca 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 Itasca Nursing Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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.

The results of our tests indicate that, for the items tested, Itasca Nursing Home complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 06-1.

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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 21, 2006