

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA
(DBA Grand Village)

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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**ITASCA NURSING HOME
GRAND RAPIDS, 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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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**ORGANIZATION
SEPTEMBER 30, 2005**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Rusty Eichorn	January 2009
Vice Chair	Mary Ives	January 2006
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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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Nursing Home Board
Itasca Nursing Home

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Itasca Nursing Home as of September 30, 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 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 22, 2005, on our consideration of the Itasca Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 22, 2005

FINANCIAL STATEMENTS

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

EXHIBIT A

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

	2005	2004
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 73,929	\$ 316,870
Petty cash and change funds	1,560	1,021
Accounts receivable - net	1,819,691	1,121,107
Inventories	31,268	38,526
Prepaid items	109,345	98,063
	\$ 2,035,793	\$ 1,575,587
Restricted assets		
Bond reserve account		
Cash, cash equivalents, and pooled investments	\$ 327,233	\$ 327,233
Construction		
Cash, cash equivalents, and pooled investments	-	17,179
Restricted contributions		
Cash, cash equivalents, and pooled investments	13,269	56,322
Accrued interest receivable	-	2,489
Resident trust funds	23,948	18,196
	\$ 364,450	\$ 421,419
Noncurrent assets		
Deferred debt issue costs	\$ 133,332	\$ 140,817
Capital assets - net	8,165,425	8,386,237
	\$ 8,298,757	\$ 8,527,054
Total Assets	\$ 10,699,000	\$ 10,524,060

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**EXHIBIT A
(Continued)**

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

	2005	2004
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 249,433	\$ 156,101
Salaries payable	70,620	52,925
Accrued vacation payable	206,940	187,734
Compensated absences payable - current	102,870	104,916
Contracts payable	-	190,730
Interest payable	52,069	53,407
General obligation bonds payable - current	160,000	155,000
Revenue bonds payable - current	75,000	70,000
Total current liabilities	\$ 916,932	\$ 970,813
Current liabilities payable from restricted assets		
Contracts payable	\$ -	\$ 17,179
Due to residents	23,948	18,196
Total current liabilities payable from restricted assets	\$ 23,948	\$ 35,375
Noncurrent liabilities		
Compensated absences payable - long-term	\$ 344,684	\$ 444,851
General obligation bonds payable - long-term (discount \$1,011 at 2005 and \$1,159 at 2004)	1,138,989	1,298,841
Revenue bonds payable - long-term	4,290,000	4,365,000
Total noncurrent liabilities	\$ 5,773,673	\$ 6,108,692
Total Liabilities	\$ 6,714,553	\$ 7,114,880
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 2,751,629	\$ 2,649,355
Restricted for		
Donors projects	13,269	58,811
Unrestricted	1,219,549	701,014
Total Net Assets	\$ 3,984,447	\$ 3,409,180

**ITASCA NURSING HOME
GRAND RAPIDS, 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	\$ 7,817,297	\$ 6,271,842
Miscellaneous	1,635,099	740,459
	\$ 9,452,396	\$ 7,012,301
Operating Expenses		
Nursing services	\$ 3,227,670	\$ 2,410,774
Other care-related	325,595	274,548
Ancillary and other services	753,628	324,515
Dietary	848,618	741,673
Laundry and linen	119,597	105,376
Housekeeping	196,873	151,355
Plant operations	904,405	765,550
Administration	725,951	651,073
Other property and related costs	58,853	61,204
Employee benefits	1,064,753	904,379
Amortization	7,486	7,486
Depreciation	365,465	273,435
	\$ 8,598,894	\$ 6,671,368
Operating Income	\$ 853,502	\$ 340,933
Nonoperating Revenues (Expenses)		
Nursing home payment adjustment	\$ 18,192	\$ 14,030
Interest income	568	23,468
Contributions and donations	17,975	22,257
Operating grants	-	416
Blandin Foundation bond revenue	-	17,244
Interest expense	(314,970)	(214,410)
	\$ (278,235)	\$ (136,995)
Change in Net Assets	\$ 575,267	\$ 203,938
Net Assets - October 1	3,409,180	3,205,242
Net Assets - September 30	\$ 3,984,447	\$ 3,409,180

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004
Increase (Decrease) in Cash and Cash Equivalents**

	2005	2004
Cash Flows from Operating Activities		
Cash received from customers	\$ 8,753,812	\$ 6,427,013
Cash paid to suppliers	(4,278,819)	(3,532,997)
Cash paid to employees	(3,923,128)	(3,224,382)
	\$ 551,865	\$ (330,366)
Cash Flows from Noncapital Financing Activities		
Cash received from contributions and donations	\$ 17,975	\$ 22,257
Cash received from operating grants	-	416
Nursing Home payment adjustment received	18,192	14,030
	\$ 36,167	\$ 36,703
Cash Flows from Capital and Related Financing Activities		
Blandin Foundation bond revenue	\$ -	\$ 104,016
Acquisition of fixed assets	(352,563)	(3,917,577)
Principal and interest paid on general obligation revenue bonds	(219,110)	(220,745)
Principal and interest paid on revenue bonds	(322,050)	(231,848)
Bond issuance costs	-	(13,387)
	\$ (893,723)	\$ (4,279,541)
Cash Flows from Investing Activities		
Interest received	\$ 3,057	\$ 23,462
	\$ (302,634)	\$ (4,549,742)
Net Increase (Decrease) in Cash and Cash Equivalents		
	\$ (302,634)	\$ (4,549,742)
Cash and Cash Equivalents at October 1	718,625	5,268,367
Cash and Cash Equivalents at September 30	\$ 415,991	\$ 718,625

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

***EXHIBIT C
(Continued)***

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004
Increase (Decrease) in Cash and Cash Equivalents**

	2005	2004
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 853,502	\$ 340,933
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	\$ 365,465	\$ 273,435
Amortization	7,486	7,486
Change in assets and liabilities		
Accounts receivable	(698,584)	(585,288)
Inventories	7,258	(3,441)
Prepaid items	(11,282)	(64,741)
Accounts payable	93,332	(166,252)
Salaries payable	17,695	(81,375)
Accrued vacation payable	19,206	45,501
Compensated absences	(102,213)	(96,624)
Total adjustments	\$ (301,637)	\$ (671,299)
Net Cash Provided by (Used in) Operating Activities	\$ 551,865	\$ (330,366)

Noncash, Investing, Capital, and Financing Activities:

For the Year Ended September 30, 2004

In 2004, the Nursing Home acquired \$207,909 of capital assets related to construction in progress which had not been paid for at year-end. The amount is shown on the financial statements as contracts payable.

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**ITASCA NURSING HOME
GRAND RAPIDS, 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 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 September 9, 2003 through September 30, 2005, calls for a payment of \$116,070 plus 1.75 percent of gross Nursing Home revenues. The amount paid to Ecumen for the management contract for the fiscal year ended September 30, 2005, was \$282,027.

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, then unrestricted resources as they are 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, 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.

**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 is 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 which 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 \$206,940 at September 30, 2005, and \$187,734 at September 30, 2004, 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 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 \$64,853 at September 30, 2005, and \$107,501 at

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

7. Compensated Absences (Continued)

September 30, 2004, 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 \$447,554 and \$549,767 for the years ended September 30, 2005 and 2004, 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 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 64 and 72 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 62 percent of the Nursing Home's net patient revenues for the year ended September 30, 2005, and 11 percent and 70 percent for the year ended September 30, 2004, respectively. Laws and regulations governing the Medicare and Medicaid

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Third-Party Reimbursement Agreements (Continued)

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 \$284,103 due to an estimated contractual adjustment for Medicare, while the September 30, 2004, decrease to net patient service revenue was approximately \$136,737.

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>
\$115.34 to \$251.86	July 1, 2003 to June 30, 2004
\$115.65 to \$252.23	July 1, 2004 to July 31, 2004
\$120.23 to \$257.72	August 1, 2004 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 Itasca Nursing Home Board annually adopts an accrual basis budget. Below is a summary of the operating budget compared with actual operations for the years ended September 30, 2005 and 2004.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budget Information (Continued)

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>

Year Ended September 30, 2004	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 6,953,984	\$ 7,012,301	\$ 58,317
Operating Expenses	6,674,569	6,671,368	3,201
Operating Income (Loss)	\$ 279,415	\$ 340,933	\$ 61,518
Nonoperating Revenues (Expenses)	(135,151)	(136,995)	(1,844)
Change in Net Assets	<u>\$ 144,264</u>	<u>\$ 203,938</u>	<u>\$ 59,674</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 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.

**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, 2005 and 2004, follows:

	Balance October 1, 2004	Increase	Decrease	Balance September 30, 2005
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	1,224,065	97,213	-	1,321,278
Total capital assets depreciated	\$ 11,612,863	\$ 144,654	\$ -	\$ 11,757,517
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	540,874	85,988	-	626,862
Total accumulated depreciation	\$ 3,249,122	\$ 365,466	\$ -	\$ 3,614,588
Total capital assets depreciated, net	\$ 8,363,741	\$ (220,812)	\$ -	\$ 8,142,929
Capital Assets, Net	\$ 8,386,237	\$ (220,812)	\$ -	\$ 8,165,425

**ITASCA NURSING HOME
GRAND RAPIDS, 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	\$ 22,496	\$ -	\$ -	\$ 22,496
Construction in progress	515,732	-	515,732	-
 Total capital assets not depreciated	 \$ 538,228	 \$ -	 \$ 515,732	 \$ 22,496
Capital assets depreciated				
Land improvements	\$ 81,619	\$ -	\$ -	\$ 81,619
Buildings and improvements	6,295,627	4,011,552	-	10,307,179
Machinery, furniture, and equipment	820,261	403,804	-	1,224,065
 Total capital assets depreciated	 \$ 7,197,507	 \$ 4,415,356	 \$ -	 \$ 11,612,863
Less: accumulated depreciation for				
Land improvements	\$ 22,292	\$ 4,081	\$ -	\$ 26,373
Buildings and improvements	2,465,491	216,384	-	2,681,875
Machinery, furniture, and equipment	487,904	52,970	-	540,874
 Total accumulated depreciation	 \$ 2,975,687	 \$ 273,435	 \$ -	 \$ 3,249,122
 Total capital assets depreciated, net	 \$ 4,221,820	 \$ 4,141,921	 \$ -	 \$ 8,363,741
 Capital Assets, Net	 \$ 4,760,048	 \$ 4,141,921	 \$ 515,732	 \$ 8,386,237

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, 19 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 Home. During the

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

1. Other Postemployment Benefits (Continued)

fiscal year ended September 30, 2005, disbursements of \$102,870 were made for postemployment health care. For the fiscal year ended September 30, 2004, disbursements were \$104,916.

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance September 30, 2005
Bonds					
1998 G.O. Crossover Refunding Bonds	2012	\$135,000 - \$210,000	4.10 - 4.85	\$ 1,880,000	\$ 1,300,000
2003 Gross Revenue Nursing Home Bonds	2033	\$70,000 - \$305,000	2.50 - 6.25	<u>4,435,000</u>	<u>4,365,000</u>
Total Bonds				<u>\$ 6,315,000</u>	\$ 5,665,000
Less: unamortized discount					<u>(1,011)</u>
Total Bonds, Net					<u>\$ 5,663,989</u>

3. Debt Service Requirements

Debt service requirements at September 30, 2005, were as follows:

Year Ending September 30	General Obligation Bonds Crossover Refunding Bonds		Gross Revenue Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 160,000	\$ 57,140	\$ 75,000	\$ 250,050
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 - 2015	415,000	20,146	490,000	1,122,031
2016 - 2020	-	-	635,000	973,918
2021 - 2025	-	-	850,000	755,325
2026 - 2030	-	-	1,135,000	453,300
2031 - 2033	-	-	<u>860,000</u>	<u>82,813</u>
Total	<u>\$ 1,300,000</u>	<u>\$ 227,032</u>	<u>\$ 4,365,000</u>	<u>\$ 4,608,936</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, 2005 and 2004. 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, 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>
	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Due Within One Year
Long-Term Liabilities					
Bonds payable					
G.O. Crossover					
Refunding Bonds	\$ 1,605,000	\$ -	\$ 150,000	\$ 1,455,000	\$ 155,000
Gross Revenue Nursing					
Home Bonds	4,435,000	-	-	4,435,000	70,000
Less: deferred amounts for issuance discounts	(1,307)	-	(148)	(1,159)	-
Total bonds payable	\$ 6,038,693	\$ -	\$ 149,852	\$ 5,888,841	\$ 225,000
Compensated absences	646,391	-	96,624	549,767	104,916
Long-Term Liabilities	<u>\$ 6,685,084</u>	<u>\$ -</u>	<u>\$ 246,476</u>	<u>\$ 6,438,608</u>	<u>\$ 329,916</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. 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.

**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 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 Itasca 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 \$208,336, \$168,662, and \$159,437, respectively, equal to the contractually required contributions for each year as set by state statute.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

5. Risk Management

The Nursing Home is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; 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, 2005
WITH COMPARATIVE DATA FOR THE YEAR ENDED SEPTEMBER 30, 2004
(UNAUDITED)**

	2005	2004
Occupancy		
Licensed beds available at year-end	153	153
Number of resident days available	55,845	46,408
Number of actual resident days	52,234	43,652
Number of Medicaid days	33,402	31,457
Facility occupancy rate	93.5%	94.1%
Average daily census	143.1	143.9
Average case mix score	1.05	0.99
Operating Revenues	\$ 9,452,396	\$ 7,012,301
Operating Expenses	8,598,894	6,671,368
	\$ 853,502	\$ 340,933
Income per resident day	\$ 180.96	\$ 160.64
Cost per resident day	164.63	152.84
	\$ 16.33	\$ 7.80

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**ITASCA NURSING HOME
GRAND RAPIDS, 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 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 the 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 the 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 controls.

ITEM ARISING THIS YEAR

05-1 Disbursements

During our current audit, we tested 34 vouchers for supporting documentation and proper approvals. Three of the vouchers tested were not signed as approved by the Nursing Home Administrator or the Assistant Administrator. These vouchers were signed by the Accounts Payable Clerk only. One of the vouchers tested was signed by the Nursing Home Administrator, but not by the Accounts Payable Clerk. For one voucher tested, the supporting invoice could not be located.

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 or the Assistant 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 the Administrator and Accounts Payable Clerk 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

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

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.

The nursing home did not obtain this form from Hawk Construction before making final settlement on the contract for the sub-acute care building. Hawk Construction was not able to get a signed IC-134 form from the Department of Revenue because one of its subcontractors did not comply with the withholding requirements.

We recommend the nursing home obtain the required IC-134 forms before making final settlement on any construction contract.

Client's Response:

Itasca Nursing Home management concurs that it will obtain the required IC-134 before making final settlement on any construction claims hereon.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-3 Collection of Accounts Receivable

Accounts receivable have increased by 62 percent to \$1,819,691 at September 30, 2005. The accounts receivable days in aging increased from 57 days at September 30, 2004, to approximately 72 days at September 30, 2005. Also, the accounts receivable balances over 120 days old increased from \$144,122 at September 30, 2004 to \$865,800 at September 30, 2005, a 500 percent increase. In addition, credit balances in accounts receivable have increased from \$7,608 at September 30, 2004, to \$48,549 at September 30, 2005. This suggests there may be posting errors in some accounts or that refunds may be due.

The failure to collect accounts receivable on a timely basis has resulted in a deficit operating cash balance of \$334,134 at September 30, 2005. Although the nursing home had enough cash on hand in the bond sinking fund to cover the operating cash deficit at September 30, 2005, if past due accounts receivable do not start getting collected, the nursing home may begin to experience cash flow problems.

Accounts receivable collection problems began when new software was implemented shortly before year end September 30, 2004. At the same time, the nursing home opened a new 35-bed sub-acute care unit which substantially increased the billing and collection workload. The collection problems continued throughout 2005, when accounts receivable personnel resigned and new personnel had to be hired and trained. Because of the increased workload and new personnel, sufficient time to follow up on claims rejected by the payors is not available. As a result, accounts receivable balances are becoming increasingly older, which may also make them more uncollectible.

The Nursing Home Administrator and Board are aware of the problem and have committed additional personnel to processing claims and following up on collection problems.

We recommend the Nursing Home Administration continue its efforts to collect accounts receivable, on a more timely basis, especially those receivables over 120 days past due and in danger of becoming uncollectible. Accounts receivable identified to be uncollectible should be written off with Board approval. Also, credit balances should be reviewed to determine whether posting errors have occurred or a refund is due.

Client's Response:

Itasca Nursing Home Administration has focused additional human resources and enacted systems improvements to ensure collection of outstanding receivables. We have estimated A/R at risk of writeoff at just over three percent or \$70,000. We may be able to collect roughly \$46,000 of this at-risk amount leaving bad debt at 1.2 percent.

PREVIOUSLY REPORTED ITEMS RESOLVED

Bond Sinking Cash (04-1)

At September 30, 2004, the nursing home's bond sinking account was carrying cash balances approximating \$200,000 more than was required by bond covenants. We recommended the nursing home Board adopt a policy regarding amounts to be transferred from the operating account to the bond sinking account that would meet both the requirements of the bond covenants and the desires of the Board as to the amounts of any excess cash balances they wished to carry in the Nursing Home bond sinking fund.

Resolution

The nursing home Board passed a resolution in February 2005 setting the amount they wished to transfer monthly into the bond sinking account. This amount is sufficient to meet the current principal and interest payments when due as well as build a balance for future payments.

Accounts Receivable System Implementation (04-2)

The Itasca Nursing Home implemented a new accounts receivable system in 2004. The new system went live in August 2004, near the end of the fiscal year. Problems occurred collecting receivables under the new system due to data entry errors, misunderstandings over where to transmit the claims, and various other errors related to differences in how the new software worked. We recommended that, in future system implementations, the nursing home allow sufficient time for employees to learn and use the system prior to year-end.

Resolution

The nursing home has been using the new software for over a year. No new implementations have occurred.



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

Nursing Home Board
Itasca Nursing Home

We have audited the financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2005, and have issued our report thereon dated December 22, 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 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 the Itasca Nursing Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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, the Itasca Nursing Home complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 05-2.

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 22, 2005