STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

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

YEAR ENDED SEPTEMBER 30, 2016

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 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 650 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
(D/B/A Grand Village)

Year Ended September 30, 2016

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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Introductory Section

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

ORGANIZATION
SEPTEMBER 30, 2016

Office	Name	Term Expires
Chair	Christopher Reed	December 31, 2016
Vice Chair	Leo Trunt	December 31, 2018
Secretary	Davin Tinquist	December 31, 2018
Member	Russell Eichorn	December 31, 2016
Member	Jean Lane	December 31, 2018
Member	Mark Mandich	December 31, 2018
Member	Terry Snyder	December 31, 2016
Executive Director	Kyle Hedlund	Indefinite

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Financial Section

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Nursing Home Board
Itasca Nursing Home
Grand Rapids, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements, as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Nursing Home's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Itasca Nursing Home as of September 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Enterprise Fund of the County

As discussed in Note 1 to the financial statements, the financial statements present only the Itasca Nursing Home and are not intended to present fairly the financial position of Itasca County and the changes in its financial position and cash flows of its proprietary funds in accordance with generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Itasca Nursing Home's basic financial statements. The accompanying financial information listed as statistical data in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statistical data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2017, 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* in considering the Itasca Nursing Home's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 27, 2017

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BASIC FINANCIAL STATEMENTS

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Assets		
Current assets		
Cash and cash equivalents	$	2,696,095
Petty cash and change funds		1,560
Accounts receivable - net		1,390,697
Inventories		35,864
Prepaid items		104,647
Total current assets	**$**	**4,228,863**
Current assets - restricted		
Resident trust funds	**$**	**8,083**
Noncurrent assets		
Excess other postemployment benefits contributions	$	412,446
Nondepreciable capital assets		22,496
Depreciable capital assets - net of depreciation		11,576,820
Total noncurrent assets	**$**	**12,011,762**
Total Assets	**$**	**16,248,708**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**2,763,815**
Liabilities		
Current liabilities		
Accounts payable	$	263,970
Salaries payable		95,590
Accrued vacation payable		192,772
Unearned revenue		53,759
Interest payable		81,660
General obligation bonds payable - current		180,000
Revenue bonds payable - current		260,000
Total current liabilities	**$**	**1,127,751**
Current liabilities payable from restricted assets		
Due to residents	**$**	**8,083**

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

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Liabilities (Continued)		
Noncurrent liabilities		
General obligation bonds payable - long-term	$	5,245,000
Revenue bonds payable - long-term		5,150,000
Net pension liability		6,414,409
Total noncurrent liabilities	**$**	**16,809,409**
Total Liabilities	**$**	**17,945,243**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**696,872**
Net Position		
Net investment in capital assets	$	764,316
Unrestricted		(393,908)
Total Net Position	**$**	**370,408**

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

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Operating Revenues		
Patient service revenues	$	8,786,052
Miscellaneous		2,949,955
Total Operating Revenues	**$**	**11,736,007**
Operating Expenses		
Nursing services	$	4,711,619
Other care-related		337,252
Ancillary and other services		1,164,050
Dietary		944,300
Laundry and linen		102,338
Housekeeping		261,537
Plant operations		823,345
Administration		1,187,000
Other property and related costs		46,003
Employee benefits		2,146,427
Other postemployment benefits expense		43,647
Depreciation		790,928
Total Operating Expenses	**$**	**12,558,446**
Operating Income (Loss)	**$**	**(822,439)**
Nonoperating Revenues (Expenses)		
Interest income	$	3,254
Contributions and donations		6,978
Operating grants		90,330
Interest expense		(325,377)
Total Nonoperating Revenues (Expenses)	**$**	**(224,815)**
Change in Net Position	**$**	**(1,047,254)**
Net Position - October 1		**1,417,662**
Net Position - September 30	**$**	**370,408**

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

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Cash Flows from Operating Activities		
Cash received from customers	$	11,937,732
Cash paid to suppliers		(6,499,706)
Cash paid to employees		(5,075,325)
Net cash provided by (used in) operating activities	**$**	**362,701**
Cash Flows from Noncapital Financing Activities		
Cash received from contributions and donations	$	6,978
Cash received from operating grants		89,193
Net cash provided by (used in) noncapital financing activities	**$**	**96,171**
Cash Flows from Capital and Related Financing Activities		
Interest subsidy	$	124,235
Acquisition of capital assets		(76,359)
Principal paid on bonds		(330,000)
Interest paid on bonds		(451,221)
Net cash provided by (used in) capital and related financing activities	**$**	**(733,345)**
Cash Flows from Investing Activities		
Interest received	**$**	**3,254**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(271,219)**
Cash and Cash Equivalents at October 1		**2,967,314**
Cash and Cash Equivalents at September 30	**$**	**2,696,095**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(822,439)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation		790,928
Change in assets and liabilities		
Accounts receivable		201,725
Inventories		7,385
Prepaid items		64,718
Excess other postemployment benefits contributions		(77,890)
Deferred pension outflows		(2,318,135)
Deferred pension inflows		226,760
Net pension liability		2,610,440
Accounts payable		(207,568)
Salaries payable		(134,256)
Accrued vacation payable		21,033
Net Cash Provided by (Used in) Operating Activities	**$**	**362,701**

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

1. Summary of Significant Accounting Policies

The financial reporting policies of Itasca Nursing Home conform with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Nursing Home are discussed below.

A. Financial Reporting Entity

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

The Itasca Nursing Home Board supervises the Nursing Home operations and consists of seven members: the five County Commissioners and two lay members appointed by the Commissioners. The Itasca Nursing Home Board contracts with Ecumen to manage the Nursing Home on its behalf. As part of this agreement, Ecumen provides an executive director for the facility and maintains the general ledger, bill payment, and payroll functions. The management agreement, which was in effect October 1, 2015, through September 30, 2016, called for the payment of a flat fee of $400,000 to Ecumen by the Nursing Home.

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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to citizens financed primarily by charges to users of that service and activities where the periodic measurement of operating income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Nursing Home maintains its financial records on the full accrual, economic resource 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

1. Cash and Cash Equivalents

The Nursing Home has defined cash and cash equivalents to include both restricted and unrestricted cash held in the Nursing Home's demand deposit accounts. Resident trust accounts are not considered to be cash equivalents.

2. Receivables

Accounts receivable are shown net of an allowance for bad debts of $44,457.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first in/first out method. Inventories are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Certain assets are restricted for payment to reimburse resident deposits. These assets are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

1. Summary of Significant Accounting Policies

D. Assets (Continued)

5. 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 acquisition value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Nursing Home are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	20
Buildings and improvements	10 - 40
Machinery, furniture, and equipment	5 - 20

E. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Currently, the Nursing Home has one item, deferred pension outflows, which qualifies for reporting in this category. Deferred pension outflows consist of changes in actuarial assumptions, the difference between projected and actual investment earnings, changes in proportion, and contributions paid subsequent to the measurement date.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future

1. Summary of Significant Accounting Policies

E. Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Nursing Home has only one type of item, deferred pension inflows, which qualifies for reporting in this category. This amount consists of the differences between expected and actual pension plan economic experience and changes in proportion.

F. Liabilities

1. Accrued Vacation Payable

The liability for accrued vacation payable reported in the financial statements consists of unpaid, accumulated personal leave.

Employees are granted personal leave days for vacation, paid time away from work, and short-term illness. Personal leave days are granted from 11 to 39 days per year, depending on years of service, and can be accumulated to a maximum balance of 300 hours. The balance of personal leave days is payable to the employee upon termination. The balance of personal leave time earned was $192,772 at September 30, 2016, and is included on the financial statements.

An extended illness bank is available for long-term illness. Six days per year are accrued for this bank and may accumulate up to 400 hours. Employees are not compensated for their unused extended sick leave bank upon retirement, except that full-time union employees hired prior to July 1, 1994, may use their extended sick leave bank upon retirement to pay continued hospitalization insurance premiums. Unvested sick leave, valued at $411,319 at September 30, 2016, 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.

2. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as

1. Summary of Significant Accounting Policies

   F. Liabilities

      2. Pension Plan (Continued)

         they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

   G. 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 was 63 percent for the fiscal year ended September 30, 2016.

      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 9.8 percent and 64.0 percent, respectively, of the Nursing Home's net patient revenues for the year ended September 30, 2016.

      Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility the recorded estimates will change by a material amount in the near term. The contractual adjustment for Medicare for the year ended September 30, 2016, resulted in a decrease to net patient service revenue of $1,057,983.

1. Summary of Significant Accounting Policies

G. Revenues (Continued)

The rate system for Medicaid and private-pay residents has 50 rate levels. The following are the ranges of the effective daily rates charged to Medicaid and private-pay residents during the year ended September 30, 2016.

Daily Rates	Period Rates in Effect
$182.75 to $450.07	October 1, 2015, to December 31, 2015
$191.54 to $467.31	January 1, 2016, to September 30, 2016

H. 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, deferred outflows of resources, liabilities, and deferred inflows of resources; 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 year ended September 30, 2016.

Year Ended September 30, 2016	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	$ 11,009,064	$ 11,736,007	$ 726,943
Operating expenses	11,811,356	12,558,446	(747,090)
Operating Income (Loss)	$ (802,292)	$ (822,439)	$ (20,147)
Nonoperating revenues (expenses)	(306,584)	(224,815)	81,769
Change in Net Position	$ (1,108,876)	$ (1,047,254)	$ 61,622

3. Detailed Notes

A. Assets

1. Deposits and Investments

The Itasca Nursing Home is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Nursing Home's Board. Minnesota statutes require that all Nursing Home deposits be covered by insurance, surety bond, or collateral. The Nursing Home may invest in the types of investments authorized by Minn. Stat. §§ 118A.04 and 118A.05. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Nursing Home's deposits may not be returned to it. It is the Nursing Home's policy that collateral or bonds will be required for all uninsured amounts on deposit, and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. As of September 30, 2016, the Nursing Home's deposits were not exposed to custodial credit risk.

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.

3. Detailed Notes

A. Assets (Continued)

2. Capital Assets

A summary of changes in capital assets for the year ended September 30, 2016, follows:

	Balance October 1, 2015	Increase	Decrease	Balance September 30, 2016
Capital assets not depreciated				
Land	$ 22,496	$ -	$ -	$ 22,496
Construction in progress	600,287	33,202	633,489	-
Total capital asset not depreciated	$ 622,783	$ 33,202	$ 633,489	$ 22,496
Capital assets depreciated				
Land improvements	$ 220,185	$ 15,949	$ -	$ 236,134
Buildings and improvements	17,132,074	524,744	-	17,656,818
Machinery, furniture, and equipment	3,098,994	135,953	-	3,234,947
Total capital assets depreciated	$ 20,451,253	$ 676,646	$ -	$ 21,127,899
Less: accumulated depreciation for				
Land improvements	$ 132,356	$ 11,739	$ -	$ 144,095
Buildings and improvements	6,560,254	593,339	-	7,153,593
Machinery, furniture, and equipment	2,067,541	185,850	-	2,253,391
Total accumulated depreciation	$ 8,760,151	$ 790,928	$ -	$ 9,551,079
Total capital assets depreciated, net	$ 11,691,102	$ (114,282)	$ -	$ 11,576,820
Total Capital Assets, Net	$ 12,313,885	$ (81,080)	$ 633,489	$ 11,599,316

3. Detailed Notes (Continued)

B. Liabilities

1. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance September 30, 2016
Bonds					
2009A Taxable General Obligation Nursing Home Bonds (Build America Bonds)	2031	$160,000 - $375,000	2.35 - 5.75	$ 4,605,000	$ 3,935,000
2009B Taxable General Obligation Nursing Home Bonds (Recovery Zone Economic Development Bonds)	2035	$340,000 - $405,000	6.00	1,490,000	1,490,000
2014 General Obligation Nursing Home Revenue Refunding Bonds	2034	$120,000 - $235,000	2.00 - 3.60	3,335,000	3,060,000
2015A General Obligation Nursing Home Revenue Bonds	2036	$100,000 - $155,000	1.15 - 3.60	2,350,000	2,350,000
Total Bonds				$ 11,780,000	$ 10,835,000

2. Debt Service Requirements

Debt service requirements at September 30, 2016, were as follows:

Year Ending September 30	General Obligation Nursing Home Revenue and Refunding Bonds		Taxable General Obligation Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2017	$ 260,000	$ 149,418	$ 180,000	$ 291,930
2018	260,000	145,068	190,000	284,200
2019	265,000	140,443	200,000	275,615
2020	270,000	135,493	205,000	266,348
2021	275,000	130,243	215,000	256,423
2022 - 2026	1,450,000	545,065	1,270,000	1,100,515
2027 - 2031	1,680,000	308,977	1,675,000	698,041
2032 - 2036	950,000	69,930	1,490,000	185,400
Total	$ 5,410,000	$ 1,624,637	$ 5,425,000	$ 3,358,472

3. Detailed Notes

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

The following is a summary of the changes in long-term debt for the year ended September 30, 2016.

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Long-Term Liabilities					
Bonds payable					
Taxable General Obligation Nursing Home Bonds	$ 5,600,000	$ -	$ 175,000	$ 5,425,000	$ 180,000
General Obligation Nursing Home Revenue Refunding Bonds	3,215,000	-	155,000	3,060,000	160,000
General Obligation Nursing Home Revenue Bonds	2,350,000	-	-	2,350,000	100,000
Total Bonds Payable	$ 11,165,000	$ -	$ 330,000	$ 10,835,000	$ 440,000

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 Nursing Home Revenue Refunding Bonds, General Obligation Nursing Home Revenue Bonds, and the Taxable General Obligation Nursing Home Bonds, Itasca County is obligated to pay the maturing principal and interest from another fund and levy a tax to repay the fund from which the advance was made.

4. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of the Itasca Nursing Home are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

4. Defined Benefit Pension Plan

A. Plan Description (Continued)

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Nursing Home employees belong to the Basic Plan or the Minneapolis Employees Retirement Fund.

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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 General Employees Retirement Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit

4. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2016.

In 2016, the Nursing Home was required to contribute the following percentage of annual covered salary:

General Employees Retirement Plan	
Coordinated Plan members	7.50%

The employee and employer contribution rates did not change from the previous year.

The Nursing Home's contributions for the General Employees Retirement Plan for the year ended September 30, 2016, were $370,680. The contributions are equal to the contractually required contributions as set by state statute.

4. Defined Benefit Pension Plan (Continued)

D. Pension Costs

At September 30, 2016, the Nursing Home reported a liability of $6,414,409 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Nursing Home's proportion of the net pension liability was based on the Nursing Home's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Nursing Home's proportion was 0.0790 percent. It was 0.0734 percent measured as of June 30, 2015. The Nursing Home recognized pension expense of $840,509 for its proportionate share of the General Employees Retirement Plan's pension expense.

The Nursing Home also recognized $24,969 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

Nursing Home's proportionate share of the net pension liability	$	6,414,409
State of Minnesota's proportionate share of the net pension liability associated with the Nursing Home		83,741
Total	$	6,498,150

4. Defined Benefit Pension Plan

D. Pension Costs (Continued)

The Nursing Home reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 511,321
Changes in actuarial assumptions	1,255,947	-
Difference between projected and actual investment earnings	1,196,877	-
Changes in proportion	217,666	185,551
Contributions paid to PERA subsequent to the measurement date	93,325	-
Total	$ 2,763,815	$ 696,872

The $93,325 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 528,405
2018	528,405
2019	685,108
2020	231,700

4. Defined Benefit Pension Plan (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables. The cost of living benefit increases for retirees is assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

4. Defined Benefit Pension Plan (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

4. Defined Benefit Pension Plan (Continued)

H. Pension Liability Sensitivity

The following presents the Nursing Home's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Nursing Home's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 9,110,361
Current	7.50	6,414,409
1% Increase	8.50	4,193,677

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

5. Postemployment Benefits

A. Plan Description and Funding Policy

The Nursing Home provides health insurance benefits for certain retired employees under a single-employer plan. Employees who were hired before July 1, 1994, are continuously employed until retirement, have at least 15 years of service with the Nursing Home, have participated in the health care insurance program for 15 years prior to retirement, and have met the eligibility requirements of PERA, are eligible to receive hospital/medical benefits to the same extent as active employees for the life of the retiree or surviving spouse. The Nursing Home will pay 100 percent of the retiree's

5. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

premium and 50 percent of the spouse's premium for those employees who retired before July 1, 1994. For retirements after July 1, 1994, the retiree is responsible for 50 percent of the retiree's premium upon becoming eligible for Medicare and is solely responsible for the spouse's premium. Pre-Medicare retirees are responsible for 100 percent of the premium. The authority to provide this benefit is established in Minn. Stat. § 471.61, subd. 2a. A separate report is not issued for the plan.

Active employees who retire from the Nursing Home when eligible to receive a retirement benefit from PERA, who do not qualify for the aforementioned benefits, and do not participate in any other health benefits program providing coverage similar to that herein described, are eligible to continue coverage with respect to both themselves and their eligible dependents under the Nursing Home's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

As of September 30, 2016, 14 retirees were receiving health benefits under the Nursing Home's health plan. The cost of other postemployment benefits is funded on a "pay-as-you-go" method.

B. Annual OPEB Cost and Excess OPEB Contributions

The Nursing Home's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

5. Postemployment Benefits

B. Annual OPEB Cost and Excess OPEB Contributions (Continued)

The following table shows the components of the Nursing Home's annual OPEB cost for 2016, the amount actually contributed to the plan, and changes in the Nursing Home's net OPEB obligation:

ARC	$	44,640
Interest on net OPEB obligation		(16,728)
Adjustment to ARC		15,735
Annual OPEB cost	$	43,647
Contributions during the year		(121,537)
Decrease (Increase) in excess OPEB contributions	$	(77,890)
Excess Contributions - Beginning of Year, as reported		(334,556)
Excess Contributions - End of Year	$	(412,446)

The Nursing Home's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the excess OPEB contributions for 2016, 2015, and 2014 were as follows:

	Year Ended September 30, 2016	Year Ended September 30, 2015	Year Ended September 30, 2014
Percentage of annual OPEB cost contributed	278%	261%	217%
Annual OPEB cost	$ 43,647	$ 43,340	$ 42,841
Employer contributions	(121,537)	(113,087)	(93,044)
Excess Contributions	$ (77,890)	$ (69,747)	$ (50,203)
Excess Contributions - Beginning of Year	(334,556)	(264,809)	(214,606)
Excess Contributions - End of Year	$ (412,446)	$ (334,556)	$ (264,809)

5. Postemployment Benefits (Continued)

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at September 30, 2014, the most recent actuarial valuation date, is $824,494. The Nursing Home currently has no assets that have been irrevocably deposited in a trust for future health benefits, thus the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is $4,865,927. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 16.94 percent.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the September 30, 2014, actuarial valuation, the entry age normal level percentage of pay actuarial cost method was used. The actuarial assumptions included a four percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Nursing Home. The annual health care cost trend rate was 0.0 percent in the year ended September 30, 2014, 8.5 percent in the year ending September 30, 2015, graded to 5.0 percent over six years. The UAAL is being amortized as a level dollar amount over 30 years from September 30, 2008.

6. Risk Management

The Nursing Home is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the Nursing Home purchases commercial insurance.

There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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REQUIRED SUPPLEMENTARY INFORMATION

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS PLAN
SEPTEMBER 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
September 30, 2008	$ -	$ 1,138,640	$ 1,138,640	0.00%	$ 3,868,671	29.43%
September 30, 2011	-	813,558	813,558	0.00	3,868,622	21.03
September 30, 2014	-	824,494	824,494	0.00	4,865,927	16.94

The notes to the required supplementary information are an integral part of this schedule.

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT A-2

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
SEPTEMBER 30, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Nursing Home (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0790%	$ 6,414,409	$ 83,741	$ 6,498,150	$ 4,839,067	132.55%	68.91%
2015	0.0734	3,803,969	N/A	3,803,969	4,807,423	79.13	78.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

The notes to the required supplementary information are an integral part of this schedule.

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT A-3

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
SEPTEMBER 30, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 370,680	$ 370,680	$ -	$ 4,942,400	7.50%
2015	361,683	322,020	(39,663)	4,822,441	6.68

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The Itasca Nursing Home's year-end is September 30.

The notes to the required supplementary information are an integral part of this schedule.

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Notes to Schedule of Funding Progress - Other Postemployment Benefits Plan

The Itasca Nursing Home currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

The Nursing Home implemented Governmental Accounting Standards Board Statement 45 for the fiscal year ended September 30, 2008.

An actuarial study was performed for the year ended September 30, 2014, which is the most recent available.

Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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STATISTICAL DATA

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT B-1

STATISTICAL DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(Unaudited)

Occupancy		
Licensed beds available at year-end		119
Number of resident days available		43,554
Number of actual resident days		37,572
Number of Medicaid days		23,616
Facility occupancy rate		86.27%
Average daily census		102.66
Average case mix score		1.09
Operating Revenues	$	11,736,007
Operating Expenses		12,558,446
Income (Loss) From Operations	**$**	**(822,439)**
Income per resident day	$	312.36
Cost per resident day		334.25
Income (Loss) From Operations Per Resident Day	**$**	**(21.89)**

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Management and Compliance Section

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

Independent Auditor's Report

Nursing Home Board
Itasca Nursing Home
Grand Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements, and have issued our report thereon dated April 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Itasca Nursing Home's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nursing Home's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Nursing Home's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Itasca Nursing Home's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Nursing Home's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because there were no contracts bid out during the year. We also did not test compliance with the provisions for tax increment financing because the Nursing Home does not administer any tax increment financing districts. Deposits and investments was tested in conjunction with the audit of the financial statements of Itasca County.

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

Purpose of This Report

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 27, 2017

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

PREVIOUSLY REPORTED ITEM RESOLVED

1997-001 Internal Control/Segregation of Duties

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REPRESENTATION OF THE ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Finding Number: 1997-001
Finding Title: Internal Control/Segregation of Duties

Summary of Condition: Due to the small number of office personnel within the Itasca Nursing Home, segregation of the accounting functions necessary to ensure internal accounting control is limited.

Summary of Corrective Action Previously Reported: Periodic account reconciliations are being performed throughout each fiscal year and involve accountants from Ecumen's headquarters in Shoreview, Minnesota; the Itasca County Auditor's office; as well as the Grand Village business office personnel. In addition, the utilization of Wells Fargo information systems allow for detailed reporting of all financial transactions involving the Nursing Home account.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___