

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA

FOR THE YEARS ENDED SEPTEMBER 30,
2008 AND 2007

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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

**For the Years Ended September 30,
2008 and 2007**



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

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

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

ORGANIZATION
SEPTEMBER 30, 2008

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Deade Johnson	Indefinite
Vice Chair	Kathy Goedel	Indefinite
Secretary/Treasurer	Lenore Johnson	December 2009
Member	Paul Bergman	December 2011
Member	Thomas Clifford	December 2009
Member	Rick Goutermont	December 2011
Member	Scott Larson	December 2009
Administrator	Susan Johnson	Indefinite

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REBECCA OTTO
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STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Nursing Home Board
Lake County Nursing Home

We have audited the accompanying basic financial statements of the Lake County Nursing Home as of and for the years ended September 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1.A., the financial statements present only the Lake County Nursing Home Enterprise Fund and are not intended to present fairly the financial position of Lake County and the results of its operations and the cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lake County Nursing Home as of September 30, 2008 and 2007, 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 basic 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 basic financial statements of the Lake County Nursing Home. The statistical data has not been audited and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2009, on our consideration of the Lake County Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 2, 2009

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008 AND 2007**

	2008	2007
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ -	\$ 44,993
Petty cash and change funds	500	500
Accounts receivable - net	527,255	241,942
Inventories	11,104	13,240
Prepaid items	49,489	64,055
	\$ 588,348	\$ 364,730
Restricted assets		
Resident trust funds	5,770	6,404
Noncurrent assets		
Capital assets - net	2,039,962	2,116,571
	\$ 2,634,080	\$ 2,487,705
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 93,643	\$ 106,245
Due to Lake County	102,435	-
Salaries payable	56,431	41,179
Accrued vacation payable	51,479	52,526
Compensated absences payable - current	32,417	32,804
Capital lease payable - current	1,978	2,484
	\$ 338,383	\$ 235,238
Current liabilities payable from restricted assets		
Due to residents	\$ 5,770	\$ 6,404
Noncurrent liabilities		
Compensated absences payable	\$ 50,960	\$ 79,240
Capital lease payable	7,366	-
	\$ 58,326	\$ 79,240
	\$ 402,479	\$ 320,882
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 2,030,618	\$ 2,114,086
Unrestricted	200,983	52,737
	\$ 2,231,601	\$ 2,166,823

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

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

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	2008	2007
Operating Revenues		
Patient services revenues	\$ 3,050,571	\$ 2,418,447
Ancillary and other services	131,970	96,805
Miscellaneous	52,755	48,792
	\$ 3,235,296	\$ 2,564,044
Operating Expenses		
Nursing services	\$ 1,250,945	\$ 1,129,208
Other care-related	94,266	96,698
Other services and charges	84,160	60,686
Dietary	349,979	329,812
Laundry	56,320	53,828
Housekeeping	71,338	61,438
Plant operations	167,611	152,702
Administration and fiscal services	346,175	425,049
Property and household	176,535	177,944
Payroll taxes/employee benefits	461,853	470,590
Depreciation	124,647	122,326
	\$ 3,183,829	\$ 3,080,281
Operating Income (Loss)	\$ 51,467	\$ (516,237)
Nonoperating Revenues (Expenses)		
Nursing Home payment adjustment	\$ 6,189	\$ 6,539
Grants	7,692	-
Miscellaneous revenue	-	5,723
Interest expense	(570)	(369)
	\$ 13,311	\$ 11,893
Change in Net Assets	\$ 64,778	\$ (504,344)
Net Assets - October 1	2,166,823	2,671,167
Net Assets - September 30	\$ 2,231,601	\$ 2,166,823

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

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,949,983	\$ 2,566,237
Cash received from miscellaneous sources	-	5,723
Cash paid to suppliers	(784,634)	(843,702)
Cash payments to employees	(2,182,475)	(2,055,899)
Net cash provided by (used in) operating activities	\$ (17,126)	\$ (327,641)
Cash Flows from Noncapital Financing Activities		
Nursing Home payment adjustment received	\$ 6,189	\$ 6,539
Grants received	7,692	132,222
Net cash provided by (used in) noncapital financing activities	\$ 13,881	\$ 138,761
Cash Flows from Capital and Related Financing Activities		
Interest paid	\$ (570)	\$ (369)
Acquisition of capital assets	(37,291)	(57,732)
Principal payments on capital lease	(3,887)	(2,202)
Net cash provided by (used in) capital and related financing activities	\$ (41,748)	\$ (60,303)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (44,993)	\$ (249,183)
Cash and Cash Equivalents - October 1	45,493	294,676
Cash and Cash Equivalents - September 30	\$ 500	\$ 45,493
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Net operating income (loss)	\$ 51,467	\$ (516,237)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	124,647	122,326
Miscellaneous nonoperating revenue	-	5,723
Changes in assets and liabilities		
Decrease (increase) in receivables	(285,313)	2,193
Decrease (increase) in inventories	2,136	3,227
Decrease (increase) in prepaid items	14,566	4,644
Increase (decrease) in accounts payable	(12,602)	49,891
Increase (decrease) in due to other governments	102,435	-
Increase (decrease) in salaries payable	15,252	2,023
Increase (decrease) in compensated absences	(28,667)	(8,542)
Increase (decrease) in vacations payable	(1,047)	7,111
Net Cash Provided by (Used in) Operating Activities	\$ (17,126)	\$ (327,641)

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The Lake County Nursing Home (Sunrise Home) was organized in 1979 by Lake County pursuant to Minn. Stat. §§ 376.55-.60 to provide long-term care services. The 55-bed intermediate care facility opened April 1, 1980, and subsequently became a skilled care nursing facility in 1986. The Lake County Nursing Home Board supervises the Nursing Home's operations and consists of seven members: the five County Commissioners and two lay members appointed by the Commissioners. The Lake County Nursing Home Board contracts with Ecumen to manage the Nursing Home. As part of this agreement, Ecumen maintains the general ledger, bill payment, and payroll functions.

The Nursing Home's financial statements are included in Lake County's financial statements as an enterprise fund.

B. Basis of Presentation - Fund Accounting

The Nursing Home's operations are accounted for with a set of self-balancing accounts that comprise the assets, liabilities, equities, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to citizens financed primarily by charges to users of that service and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Nursing Home maintains its financial records on the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Assets and Liabilities

1. Cash and Cash Equivalents

The Nursing Home has defined cash and cash equivalents to include unrestricted cash held with Lake County as part of its pooled cash and investments account. The Lake County pooled investment account is treated as a cash equivalent because the Nursing Home can deposit or effectively withdraw cash at any time without prior notice or penalty. Cash equivalents also include petty cash held in a demand deposit account. Resident trust accounts are not considered to be cash equivalents.

2. Deposits and Investments

The Nursing Home's cash balance is combined with Lake County as part of its pooled cash and investments account. Investments are reported at their fair value at September 30, 2008, based on market prices.

3. Receivables

The Nursing Home receivables are reported net of an allowance for uncollectible accounts of \$31,083.

4. Inventories and Prepaid Items

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

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

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

5. Capital Assets and Depreciation

Capital assets are defined by the Nursing Home as assets with an initial, individual cost equal to or in excess of \$1,000 and an estimated useful life of at least five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Land improvements	8 - 10
Buildings and improvements	5 - 40
Furniture and equipment	5 - 15

6. Compensated Absences

Nursing Home personnel policies provide that employees may accumulate up to 24 days of vacation leave. The unused accumulated vacation leave is recognized in the financial statements.

Nursing Home employees may accumulate up to 170 days of sick leave. Employees are not compensated for unused sick leave, except upon retirement, and then only if retirement is due to a mandatory age requirement or meets the requirement qualifications of the Public Employees Retirement Association. Compensation is equal to ten percent of the accumulated sick leave; any balance of accumulated sick leave is used to pay single coverage medical insurance for a maximum of two years.

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

6. Compensated Absences (Continued)

The liability for compensated absences reported in the financial statements consists of vested sick leave and unvested sick leave likely to become vested. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred. The compensated absences liability is recognized in the financial statements for the years ended September 30, 2008 and 2007, in the amount of \$83,377 and \$112,044, respectively.

Unvested sick leave of Nursing Home employees at September 30, 2008 and 2007, is \$73,725 and \$64,825, and is not reported as a liability in the financial statements.

E. Revenues

Operating revenues, such as daily service revenues, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income and contributions and donations, result from nonexchange transactions or incidental activities.

Third-Party Reimbursement Agreements

The Nursing Home participates in the Medicaid program administered by the Minnesota Department of Human Services. The Nursing Home bills the Department of Human Services monthly based on the applicable rate and number of days for every eligible resident. The Department subsequently reimburses the Nursing Home. The Medicaid occupancy for these facilities during the fiscal years ended September 30, 2008 and 2007, was 70 and 74 percent, respectively.

Net patient revenue is reported at estimated net realizable amounts from Medicare, a third-party payor. Retroactive adjustment estimates are revised in future periods as adjustments become known.

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

1. Summary of Significant Accounting Policies

E. Revenues

Third-Party Reimbursement Agreements (Continued)

Revenue from the Medicare and Medicaid programs accounted for 5 percent and 62 percent of the Nursing Home's net patient revenues for the year ended September 30, 2008, and 6 percent and 69 percent for the year ended September 30, 2007, respectively. Laws and regulations governing the Medicare and Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility the recorded estimates will change by a material amount in the near term. The September 30, 2008, net patient service revenue decreased by approximately \$13,663 due to an estimated contractual adjustment for Medicare, while the September 30, 2007, decrease to net patient service revenue was approximately \$28,985.

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, 2008 and 2007.

<u>Daily Rates</u>	<u>Period Rates in Effect</u>
\$125.99 to \$267.83	October 1, 2006, to September 30, 2007
\$130.18 to \$274.86	October 1, 2007, to September 30, 2008

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.

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

2. Stewardship, Compliance, and Accountability

Budget Information

The Lake County Nursing Home Board annually adopts an accrual basis budget. Following is a summary of the operating budget compared with actual operations for the years ended September 30, 2008 and 2007.

Year Ended September 30, 2008	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 3,668,021	\$ 3,235,296	\$ (432,725)
Operating expenses	3,401,109	3,183,829	217,280
Operating Income (Loss)	\$ 266,912	\$ 51,467	\$ (215,445)
Nonoperating revenues (expenses)	-	13,311	13,311
Change in Net Assets	\$ 266,912	\$ 64,778	\$ (202,134)

Year Ended September 30, 2007	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 3,232,658	\$ 2,564,044	\$ (668,614)
Operating expenses	3,344,403	3,080,281	264,122
Operating Income (Loss)	\$ (111,745)	\$ (516,237)	\$ (404,492)
Nonoperating revenues (expenses)	-	11,893	11,893
Change in Net Assets	\$ (111,745)	\$ (504,344)	\$ (392,599)

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The Lake County Nursing Home pools its cash and investments with Lake County.

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. Minnesota statutes require that all Nursing Home deposits be covered by insurance, surety bond, or collateral. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investment securities available to the County Treasurer.

Additional disclosures required by GASB Statement No. 3, *Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*; and Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the Lake County annual financial report.

The Resident Trust Fund is not included in the County's pooled cash. It is held in an interest-bearing checking account and is fully insured.

2. Capital Assets

A summary of changes in capital assets for the years ended September 30, 2008 and 2007, follows:

	Balance October 1, 2007	Increase	Decrease	Balance September 30, 2008
Capital assets not depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets depreciated				
Land improvements	\$ 91,983	\$ -	\$ -	\$ 91,983
Buildings and improvements	3,531,543	19,410	-	3,550,953
Machinery, furniture, and equipment	653,144	28,628	-	681,772
Total capital assets depreciated	\$ 4,276,670	\$ 48,038	\$ -	\$ 4,324,708

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

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

	Balance October 1, 2007	Increase	Decrease	Balance September 30, 2008
Less: accumulated depreciation for				
Land improvements	\$ 80,017	\$ 2,851	\$ -	\$ 82,868
Buildings and improvements	1,560,104	92,893	-	1,652,997
Machinery, furniture, and equipment	534,978	28,903	-	563,881
Total accumulated depreciation	\$ 2,175,099	\$ 124,647	\$ -	\$ 2,299,746
Total capital assets depreciated, net	\$ 2,101,571	\$ (76,609)	\$ -	\$ 2,024,962
Capital Assets, Net	<u>\$ 2,116,571</u>	<u>\$ (76,609)</u>	<u>\$ -</u>	<u>\$ 2,039,962</u>

	Balance October 1, 2006	Increase	Decrease	Balance September 30, 2007
Capital assets not depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets depreciated				
Land improvements	\$ 91,983	\$ -	\$ -	\$ 91,983
Buildings and improvements	3,513,677	17,866	-	3,531,543
Machinery, furniture, and equipment	613,279	43,942	4,077	653,144
Total capital assets depreciated	\$ 4,218,939	\$ 61,808	\$ 4,077	\$ 4,276,670
Less: accumulated depreciation for				
Land improvements	\$ 77,165	\$ 2,852	\$ -	\$ 80,017
Buildings and improvements	1,468,319	91,785	-	1,560,104
Machinery, furniture, and equipment	507,289	27,689	-	534,978
Total accumulated depreciation	\$ 2,052,773	\$ 122,326	\$ -	\$ 2,175,099
Total capital assets depreciated, net	\$ 2,166,166	\$ (60,518)	\$ 4,077	\$ 2,101,571
Capital Assets, Net	<u>\$ 2,181,166</u>	<u>\$ (60,518)</u>	<u>\$ 4,077</u>	<u>\$ 2,116,571</u>

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

3. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Long-Term Liabilities - Compensated Absences

Changes in long-term liabilities for compensated absences in the years ending September 30, 2008 and 2007, are:

Balance - October 1, 2006	\$	104,933
Net change		7,111
Balance - September 30, 2007	\$	112,044
Net change		(28,667)
Balance - September 30, 2008	\$	83,377
Current portion	\$	32,417
Long-term portion		50,960
Total	\$	83,377

2. Capital Leases Payable

In January 2008, the Nursing Home entered into a lease agreement to finance a copier. The lease runs for five years with interest at 6.35 percent and monthly payments of \$210. At lease expiration, the copier will become the Nursing Home's property and, as such, it has been recorded as a capital asset. The copier is carried at a cost of \$10,748.

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

2009	\$	2,514
2010		2,514
2011		2,514
2012		2,514
2013		630
Total	\$	10,686
Less: interest		(1,342)
Present Value of Lease	\$	9,344
Current portion	\$	1,978
Long-term portion		7,366
Total	\$	9,344

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

4. Pension Plans - Defined Benefit Plans

A. Plan Description

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

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 defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

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

4. Pension Plans - Defined Benefit Plans

A. Plan Description (Continued)

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 the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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 were required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

The Nursing Home is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75

The Nursing Home's contributions for the years ending September 30, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

2008	2007	2006
\$ 93,301	\$ 82,702	\$ 88,922

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

**LAKE COUNTY NURSING HOME
TWO HARBORS, 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; and natural disasters. The Nursing Home purchases commercial insurance coverage and employee health care coverage to manage these risks. The Nursing Home's risk of loss associated with injuries to employees is covered by Lake County's membership in the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation Division. The risk associated with the Nursing Home's operation has not been separately identified.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

STATISTICAL DATA

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

**STATISTICAL DATA
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)**

	<u>2008</u>	<u>2007</u>
Occupancy		
Licensed beds available at year-end	55	55
Number of resident days available	20,130	20,075
Number of actual resident days	17,348	14,295
Number of Medicaid days	12,208	10,638
Facility occupancy rate	86.18%	71.21%
Average daily census	47.40	39.16
Average case mix score	0.95	0.94
 Operating Revenues and Expenses		
Operating revenues	\$ 3,235,296	\$ 2,564,044
Operating expenses	<u>3,183,829</u>	<u>3,080,281</u>
Income (Loss) from Operations	<u><u>\$ 51,467</u></u>	<u><u>\$ (516,237)</u></u>
Income per resident day	\$ 186.49	\$ 179.37
Cost per resident day	<u>183.53</u>	<u>215.48</u>
 Income (Loss) from Operations Per Resident Day	 <u><u>\$ 2.96</u></u>	 <u><u>\$ (36.11)</u></u>

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

97-1 Segregation of Duties

Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Lake County Nursing Home and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Lake County Nursing Home. This decision was based on the availability of the Nursing Home's staff and the cost-benefit of using our expertise.

We recommend the Lake County Nursing Home Board be mindful that limited staffing causes inherent risks in safeguarding the Nursing Home's assets and the proper reporting of its financial activity. We recommend the Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The Nursing Home's management is aware of the lack of segregation of the accounting functions. The Administrator will provide oversight and monitor internal control policies and procedures to ensure that they are implemented by the staff.

05-1 Voucher Documentation

The Nursing Home has implemented controls to be used over disbursement transactions. Among the controls used by the Nursing Home are the approval of the invoice by both a Board member and the Nursing Home Administrator and cancelation of each invoice by stamping them "PAID" upon payment. Some recurring payments, according to the Nursing Home's processing procedures, are authorized to be paid prior to approval by the Board member and Administrator to expedite the payment process, and these are later approved and signed.

In our testing of 40 disbursement transactions for the year, all were approved by both the authorized Board member and the Nursing Home Administrator, but 20 of the 40 transactions reviewed were paid prior to the invoices being approved and did not fall into the recurring payment exception. Also, 5 of the 40 transactions contained invoices that were not effectively canceled with the "PAID" stamp. Paying bills prior to reviewing and approving them could lead to unauthorized or improper expenditures going through the system before they can be caught. Noncancelation of invoices leads to an increased chance of duplicate payment of the invoice.

We recommend the Nursing Home staff implement timing procedures to ensure that invoices to be paid are properly approved prior to the payment. We also recommend that all invoices are properly canceled upon payment.

Client's Response:

The Accounts Payable employee will make sure that all invoices are approved by the Administrator or the Board Member prior to payment. The payment exceptions will be reviewed, updated, and approved at a future board meeting. The Accounts Payable employee will stamp "paid" on all invoices after they have been paid.

ITEM ARISING THIS YEAR

08-1 Resident Trust Fund

The Nursing Home follows a Resident Trust Fund policy that has not been updated in many years. According to the policy, when a trust fund withdrawal is requested, a business office representative will complete a disbursement slip and obtain an authorizing signature approving the withdrawal from the resident and/or his or her designee.

In our testing of the trust fund activity of five residents for the year, we found 18 withdrawals from resident trust accounts where the withdrawal slip did not contain an authorizing signature by the resident or their designee. Not requiring these signatures is a violation of policy and increases the opportunity for unauthorized withdrawals and abuse of residents' funds.

We recommend the Nursing Home staff review and update the policies and procedures over resident trust funds. All withdrawals from resident accounts should have proper approvals by the resident or an authorized representative.

Client's Response:

The Business Office will make sure that all withdrawals from resident accounts will have proper approval by the resident or an authorized representative.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Prompt Payment of Invoices (07-1)

In 5 of 32 disbursement transactions tested, payment was not made to the vendor within the 35-day limit as required by Minn. Stat. § 471.425.

Resolution

All disbursements tested in the current year were paid within the statutory limits.

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REBECCA OTTO
STATE AUDITOR

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

Nursing Home Board
Lake County Nursing Home

We have audited the basic financial statements of the Lake County Nursing Home as of and for the year ended September 30, 2008, and have issued our report thereon dated July 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lake County Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nursing Home's ability to initiate, authorize,

record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Nursing Home's financial statements that is more than inconsequential will not be prevented or detected by the Nursing Home's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 97-1, 05-1, and 08-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lake County Nursing Home's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 97-1 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the Lake County Nursing Home has no bonded debt.

The results of our tests indicate that, for the items tested, the Lake County Nursing Home complied with the material terms and conditions of applicable legal provisions.

Lake County Nursing Home's written responses to the significant deficiencies and material weakness identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Nursing Home's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 2, 2009