

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA

FOR THE YEAR ENDED SEPTEMBER 30, 2009

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 Year Ended September 30, 2009



**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, 2009

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Kathy Goedel	Indefinite
Vice Chair	Deade Johnson	Indefinite
Secretary/Treasurer	Rich Sve	December 2013
Member	Paul Bergman	December 2011
Member	Thomas Clifford	December 2013
Member	Rick Goutermont	December 2011
Member	Brad Jones	December 2013
Administrator	Susan Johnson	Indefinite

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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
Lake County Nursing Home

We have audited the accompanying basic financial statements of the Lake County Nursing Home as of and for the year ended September 30, 2009, 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 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 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 audit provides 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, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was 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 March 25, 2010, 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

March 25, 2010

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009**

Assets

Current assets

Cash and cash equivalents	\$ 44,107
Petty cash and change funds	500
Accounts receivable - net	486,529
Inventories	14,057
Prepaid items	64,126
	64,126

Total current assets **\$ 609,319**

Restricted assets

Resident trust funds	5,560
----------------------	-------

Noncurrent assets

Capital assets - net	2,014,958
	2,014,958

Total Assets **\$ 2,629,837**

Liabilities

Current liabilities

Accounts payable	\$ 123,833
Salaries payable	74,084
Accrued vacation payable	51,975
Loans payable	5,359
Capital leases payable - current	2,107
Compensated absences payable - current	39,189
	39,189

Total current liabilities **\$ 296,547**

Current liabilities payable from restricted assets

Due to residents	\$ 5,560
	5,560

Noncurrent liabilities

Compensated absences payable - long-term	\$ 55,707
Loans payable - long-term	11,209
Capital leases payable - long-term	5,259
	5,259

Total noncurrent liabilities **\$ 72,175**

Total Liabilities **\$ 374,282**

Net Assets

Invested in capital assets - net of related debt	\$ 1,991,153
Unrestricted	264,402
	264,402

Total Net Assets **\$ 2,255,555**

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

EXHIBIT B

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Operating Revenues	
Patient service revenues	\$ 3,387,773
Ancillary and other services	130,769
Miscellaneous	41,312
	<hr/>
Total Operating Revenues	\$ 3,559,854
Operating Expenses	
Nursing services	\$ 1,378,594
Other care-related	93,141
Ancillary and other services	89,950
Dietary	401,107
Laundry and linen	53,073
Housekeeping	68,981
Plant operations	190,525
Administration	469,370
Other property and related costs	175,439
Employee benefits	501,004
Depreciation	139,295
	<hr/>
Total Operating Expenses	\$ 3,560,479
Operating Income (Loss)	\$ (625)
Nonoperating Revenues (Expenses)	
Contributions and donations	\$ 3,150
Miscellaneous - from Lake County	22,050
Interest expense	(621)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 24,579
Change in Net Assets	\$ 23,954
Net Assets - October 1	2,231,601
	<hr/>
Net Assets - September 30	\$ 2,255,555
	<hr/> <hr/>

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

EXHIBIT C

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from customers	\$ 3,600,580
Cash paid to suppliers	(1,113,868)
Cash paid to employees	(2,367,483)
	<hr/>
Net cash provided by (used in) operating activities	\$ 119,229
Cash Flows from Noncapital Financing Activities	
Cash received from contributions and donations	\$ 25,200
	<hr/>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	\$ (114,291)
Principal paid on capital lease	(1,978)
Interest paid on capital lease	(536)
Proceeds from loan	17,000
Principal paid on loan	(432)
Interest paid on loan	(85)
	<hr/>
Net cash provided by (used in) capital and related financing activities	\$ (100,322)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 44,107
Cash and Cash Equivalents at October 1	500
	<hr/>
Cash and Cash Equivalents at September 30	\$ 44,607
	<hr/> <hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (625)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	139,295
Change in assets and liabilities	
Accounts receivable	40,726
Inventories	(2,953)
Prepaid items	(14,637)
Accounts payable	30,190
Due to other governments	(102,435)
Salaries payable	17,653
Compensated absences	11,519
Accrued vacation payable	496
	<hr/>
Net Cash Provided by (Used in) Operating Activities	\$ 119,229
	<hr/> <hr/>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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.

When both restricted and unrestricted resources are available for use, it is the Nursing Home's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets and Liabilities

1. Cash and Cash Equivalents

The Nursing Home has defined cash and cash equivalents to include 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, 2009, based on market prices.

3. Receivables

The Nursing Home receivables are reported net of an allowance for uncollectible accounts of \$23,508.

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

4. Inventories and Prepaid Items

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

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

5. 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 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.

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

6. Compensated Absences (Continued)

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.

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 year ended September 30, 2009, in the amount of \$94,896.

Unvested sick leave of Nursing Home employees at September 30, 2009, is \$61,356, 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.

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

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

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 (DHS) monthly based on the applicable rate and number of days for every eligible resident. DHS subsequently reimburses the Nursing Home. The Medicaid occupancy for these facilities during the fiscal year ended September 30, 2009, was 72 percent.

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 5 percent and 70 percent, respectively, of the Nursing Home's net patient revenues for the year ended September 30, 2009. 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, 2009, net patient service revenue decreased by approximately \$3,922 due to an estimated contractual adjustment for Medicare.

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 year ended September 30, 2009.

<u>Daily Rates</u>	<u>Period Rates in Effect</u>
\$136.72 to \$285.79	October 1, 2008, to September 30, 2009

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 year ended September 30, 2009.

Year Ended September 30, 2009	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 3,648,540	\$ 3,559,854	\$ (88,686)
Operating expenses	3,465,660	3,560,479	(94,819)
Operating Income (Loss)	\$ 182,880	\$ (625)	\$ (183,505)
Nonoperating revenues (expenses)	996	24,579	23,583
Change in Net Assets	\$ 183,876	\$ 23,954	\$ (159,922)

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.

The County 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 County Treasurer. Minnesota statutes require that all Nursing Home deposits be covered by insurance, surety bond, or collateral. The County Treasurer invests in the types of investment securities authorized by Minn. Stat. §§ 118A.04 and 118A.05.

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.

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

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

A summary of changes in capital assets for the year ended September 30, 2009, follows:

	Balance October 1, 2008	Increase	Decrease	Balance September 30, 2009
Capital assets not depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets depreciated				
Land improvements	\$ 91,983	\$ 10,125	\$ -	\$ 102,108
Buildings and improvements	3,550,953	19,001	-	3,569,954
Machinery, furniture, and equipment	681,772	85,165	-	766,937
Total capital assets depreciated	\$ 4,324,708	\$ 114,291	\$ -	\$ 4,438,999
Less: accumulated depreciation for				
Land improvements	\$ 82,868	\$ 3,358	\$ -	\$ 86,226
Buildings and improvements	1,652,997	95,723	-	1,748,720
Machinery, furniture, and equipment	563,881	40,214	-	604,095
Total accumulated depreciation	\$ 2,299,746	\$ 139,295	\$ -	\$ 2,439,041
Total capital assets depreciated, net	\$ 2,024,962	\$ (25,004)	\$ -	\$ 1,999,958
Capital Assets, Net	\$ 2,039,962	\$ (25,004)	\$ -	\$ 2,014,958

B. Liabilities

1. Long-Term Liabilities - Compensated Absences

Changes in long-term liabilities for compensated absences in the year ending September 30, 2009, are:

Balance - October 1, 2008	\$ 83,377
Net change	11,519
Balance - September 30, 2009	\$ 94,896
Current portion	\$ 39,189
Long-term portion	55,707
Total	\$ 94,896

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

3. Detailed Notes on All Funds

B. Liabilities (Continued)

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, less accumulated depreciation of \$2,480.

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

2010	\$	2,514
2011		2,514
2012		2,514
2013		630
		630
Total	\$	8,172
Less: interest		(806)
Present Value of Lease	\$	7,366
Current portion	\$	2,107
Long-term portion		5,259
Total	\$	7,366

3. Loans Payable

In 2009, the Nursing Home entered into a loan agreement to finance equipment for a senior TV system. The loan was for \$17,000, has an interest rate of six percent, and will be paid in 36 monthly payments of \$517. Payments began September 1, 2009, and will end August 1, 2012.

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

3. Detailed Notes on All Funds

B. Liabilities

3. Loans Payable (Continued)

Debt service requirements at September 30, 2009, were as follows:

<u>Year Ending September 30</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 5,359	\$ 845
2011	5,688	516
2012	5,521	166
Total	<u>\$ 16,568</u>	<u>\$ 1,527</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital lease	\$ 9,344	\$ -	\$ 1,978	\$ 7,366	\$ 2,107
Loans payable	-	17,000	432	16,568	5,359
Compensated absences	83,377	11,519	-	94,896	39,189
Long-Term Liabilities	<u>\$ 92,721</u>	<u>\$ 28,519</u>	<u>\$ 2,410</u>	<u>\$ 118,830</u>	<u>\$ 46,655</u>

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 a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

4. Pension Plans - Defined Benefit Plans

A. Plan Description (Continued)

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. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. 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.

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.

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

4. Pension Plans - Defined Benefit Plans (Continued)

B. Funding Policy

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. 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 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75

The Nursing Home's contributions for the years ending September 30, 2009, 2008, and 2007, for the Public Employees Retirement Fund were:

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 110,763	\$ 93,301	\$ 82,702

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

5. Risk Management

The Nursing Home is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Nursing Home purchases commercial insurance coverage and employee health care coverage to manage these risks. The Nursing Home's risk of loss associated with injuries to employees is covered by Lake County's membership in the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation Division. The risk associated with the Nursing Home's operation has not been separately identified.

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

5. Risk Management (Continued)

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 \$430,000 per claim in 2009. 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 YEAR ENDED SEPTEMBER 30, 2009
(Unaudited)**

Occupancy

Licensed beds available at year-end	55
Number of resident days available	20,075
Number of actual resident days	18,611
Number of Medicaid days	13,320
Facility occupancy rate	92.71%
Average daily census	51.0
Average case mix score	0.95

Operating Revenues	\$ 3,559,854
Operating Expenses	<u>3,560,479</u>
Income (Loss) From Operations	<u><u>\$ (625)</u></u>

Income per resident day	\$ 191.28
Cost per resident day	<u>191.31</u>

Income (Loss) From Operations Per Resident Day	<u><u>\$ (0.03)</u></u>
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**LAKE COUNTY NURSING HOME
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 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.

ITEM ARISING THIS YEAR

09-1 Management Fee Calculation

The Nursing Home was overcharged for management service fees during the year, and this was not detected by Nursing Home personnel.

Lake County Nursing Home has entered into an "Agreement to Provide Management Services" with a management company providing various accounting and consulting services for the Nursing Home. In accordance with the agreement, the management fee charged to the Nursing Home is based on annual operating revenues as defined in the agreement. The fee to be charged is 3.50 percent of annual operating revenues if the monthly accounts receivable of the Nursing Home in aging is greater than 40 days, or 3.75 percent if less than 40 days. During the year, there were seven months that had accounts receivable aging of greater than 40 days and five months of less than 40 days. The average for the year was 44 days. The Nursing Home was charged management fees of 3.75 percent for the entire year, which resulted in excess charges to the Nursing Home of \$4,936.

We recommend the Nursing Home administration implement procedures to verify that management fees charged are in accordance with agreed-upon rates. Overcharges from the year under review should be discussed with the management service provider and be refunded.

Client's Response:

The Nursing Home has requested from Ecumen that the monthly bill show if we are being charged the 3.5 percent or 3.75 percent on the monthly bill.

PREVIOUSLY REPORTED ITEMS RESOLVED

Voucher Documentation (05-1)

Our testing of vouchers last year showed that many vouchers were paid before the invoices were approved, and others contained invoices not effectively canceled upon payment.

Resolution

Management updated the disbursement process in January 2009 to allow for invoices to be reviewed and approved by a responsible official prior to payment being made. Procedures also call for a review of invoices for cancelation upon payment to help prevent duplicate payment. Per our review in the current year, invoices were being properly approved prior to payment and canceled upon payment.

Resident Trust Fund (08-1)

The Resident Trust Fund Policy was outdated, and many of the transactions reviewed in the prior year were not in compliance with the policy in regards to obtaining proper authorizing signatures for the trust fund withdrawals.

Resolution

Nursing Home management updated the Resident Trust Fund Policy to more clearly define procedures to be applied in the receipt and withdrawal of the resident's funds. Current year review of the transactions showed the updated procedures were being followed.

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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, 2009, and have issued our report thereon dated March 25, 2010. 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 and 09-1 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 25, 2010