STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

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

FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

For the Year Ended September 30, 2012

Audit Practice Division
Office of the State Auditor
State of Minnesota

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

TABLE OF CONTENTS

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Introductory Section

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

ORGANIZATION
SEPTEMBER 30, 2012

Office	Name	Term Expires
Chair	Christopher Reed	December 31, 2012
Vice Chair	Davin Tinquist	December 31, 2014
Secretary	Jeff Walker	December 31, 2013
Member	Rusty Eichorn	December 31, 2012
Member	Catherine McLynn	December 31, 2012
Member	Mark Mandich	December 31, 2014
Member	Leo Trunt	December 31, 2014
Administrator	Shawna Jokinen	Indefinite

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Financial Section

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Nursing Home Board
Itasca Nursing Home

We have audited the accompanying basic financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2012, 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 Itasca Nursing Home Enterprise Fund and are not intended to present fairly the financial position of Itasca County, Minnesota, and the results of its operations and the cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Itasca Nursing Home as of September 30, 2012, 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.

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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted 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. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2013, 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 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 8, 2013

BASIC FINANCIAL STATEMENTS

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Assets		
Current assets		
Cash and cash equivalents	$	2,190,124
Petty cash and change funds		1,560
Accounts receivable - net		1,237,855
Inventories		39,543
Prepaid items		97,172
Total current assets	**$**	**3,566,254**
Restricted assets		
Bond reserve account		
Cash and cash equivalents	$	327,233
Restricted for construction		
Cash and cash equivalents		219,052
Resident trust funds		12,656
Total restricted assets	**$**	**558,941**
Noncurrent assets		
Deferred debt issuance costs	$	208,792
Excess other postemployment benefits contributions		182,668
Nondepreciable capital assets		22,496
Depreciable capital assets - net of depreciation		11,852,170
Total noncurrent assets	**$**	**12,266,126**
Total Assets	**$**	**16,391,321**

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 ASSETS
SEPTEMBER 30, 2012

Liabilities		
Current liabilities		
Accounts payable	$	230,693
Salaries payable		168,700
Accrued vacation payable		179,907
Deferred revenue		65,965
Interest payable		90,533
General obligation bonds payable - current		160,000
Revenue bonds payable - current		95,000
Total current liabilities	**$**	**990,798**
Current liabilities payable from restricted assets		
Due to residents	**$**	**12,656**
Noncurrent liabilities		
General obligation bonds payable - long-term (net of discount of $11,260)	$	5,923,740
Revenue bonds payable - long-term		3,690,000
Total noncurrent liabilities	**$**	**9,613,740**
Total Liabilities	**$**	**10,617,194**
Net Assets		
Invested in capital assets - net of related debt	$	2,224,978
Unrestricted		3,549,149
Total Net Assets	**$**	**5,774,127**

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Operating Revenues		
Patient service revenues	$	8,040,277
Miscellaneous		2,034,901
Total Operating Revenues	**$**	**10,075,178**
Operating Expenses		
Nursing services	$	3,304,644
Other care-related		285,049
Ancillary and other services		808,809
Dietary		860,395
Laundry and linen		87,949
Housekeeping		202,815
Plant operations		853,022
Administration		1,016,570
Other property and related costs		84,267
Employee benefits		1,134,232
Other postemployment benefits expense		41,509
Amortization		16,690
Depreciation		685,171
Total Operating Expenses	**$**	**9,381,122**
Operating Income (Loss)	**$**	**694,056**
Nonoperating Revenues (Expenses)		
Interest income	$	2,396
Contributions and donations		28,346
Operating grants		145,268
Interest expense		(424,377)
Total Nonoperating Revenues (Expenses)	**$**	**(248,367)**
Change in Net Assets	**$**	**445,689**
Net Assets - October 1		**5,328,438**
Net Assets - September 30	**$**	**5,774,127**

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, 2012
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Cash received from customers	$	10,110,105
Cash paid to suppliers		(4,584,618)
Cash paid to employees		(4,100,340)
Net cash provided by (used in) operating activities	**$**	**1,425,147**
Cash Flows from Noncapital Financing Activities		
Cash received from contributions and donations	$	28,346
Cash received from operating grants		168,315
Net cash provided by (used in) noncapital financing activities	**$**	**196,661**
Cash Flows from Capital and Related Financing Activities		
Interest subsidy	$	119,581
Acquisition of capital assets		(790,063)
Principal paid on bonds		(305,000)
Interest paid on bonds		(544,736)
Net cash provided by (used in) capital and related financing activities	**$**	**(1,520,218)**
Cash Flows from Investing Activities		
Interest received	**$**	**2,396**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**103,986**
Cash and Cash Equivalents at October 1		**2,632,423**
Cash and Cash Equivalents at September 30	**$**	**2,736,409**

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

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 3
(Continued)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**694,056**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation		685,171
Amortization		16,690
Change in assets and liabilities		
Accounts receivable		34,927
Inventories		3,156
Prepaid items		(8,911)
Excess other postemployment benefits contributions		(57,003)
Accounts payable		57,709
Salaries payable		5,071
Accrued vacation payable		(5,719)
Net Cash Provided by (Used in) Operating Activities	**$**	**1,425,147**

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2012

1. Summary of Significant Accounting Policies

The financial reporting policies of the Itasca Nursing Home conform to generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Nursing Home has the option to apply FASB pronouncements issued after that date, 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 Itasca Nursing Home was organized by the Itasca County Board, pursuant to Minn. Stat. §§ 376.55-.60, to provide long-term care services.

The Itasca Nursing Home Board supervises the Nursing Home operations and consists of seven members: the five County Commissioners and two lay members appointed by the Commissioners. The Itasca Nursing Home Board contracts with Ecumen to manage the Nursing Home. As part of this agreement, Ecumen maintains the general ledger, bill payment, and payroll functions. The management agreement, which was in effect October 1, 2011, through September 30, 2012, calls for a payment of a flat fee of $300,000.

The Nursing Home’s financial statements are included in Itasca County’s financial statements as an enterprise fund.

B. Basis of Presentation--Fund Accounting

The Nursing Home’s operations are accounted for with a set of self-balancing accounts that comprise the assets, liabilities, equities, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to citizens financed primarily 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.

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

2. Deposits and Investments

The Nursing Home's cash balance is combined with Itasca County as part of its pooled cash and investments account. Investments are reported at their fair value at September 30, 2012, based on market prices.

3. Receivables

Accounts receivable are shown net of an allowance for bad debts of $73,832.

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.

1. Summary of Significant Accounting Policies

   D. Assets and Liabilities (Continued)

      5. Restricted Assets

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

      6. Capital Assets and Depreciation

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

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

7. 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 that are available for vacation, paid time away from work, and short-term illness. Personal leave days are granted from 11 to 38 days per year, depending on the years of service, and can be accumulated to a maximum balance of 300 hours. The balance of personal leave days is payable to the employee upon termination. The balance of personal leave time earned was $179,907 at September 30, 2012, 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 $265,508 at September 30, 2012, 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.

E. Revenues

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

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 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 57 percent for the fiscal year ended September 30, 2012.

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 8 percent and 58 percent, respectively, of the Nursing Home's net patient revenues for the year ended September 30, 2012.

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, 2012, resulted in a decrease to net patient service revenue of $416,902.

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, 2012.

Daily Rates	Period Rates in Effect
$156.24 to $383.87	October 1, 2011, to September 30, 2012

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Budget Information

The Itasca Nursing Home Board annually adopts an accrual basis budget. Following is a summary of the operating budget compared with actual operations for the year ended September 30, 2012.

Year Ended September 30, 2012	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	$ 10,093,524	$ 10,075,178	$ (18,346)
Operating expenses	9,187,296	9,381,122	(193,826)
Operating Income (Loss)	$ 906,228	$ 694,056	$ (212,172)
Nonoperating revenues (expenses)	(421,134)	(248,367)	172,767
Change in Net Assets	$ 485,094	$ 445,689	$ (39,405)

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Itasca 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 may invest in the types of investments authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Additional disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the Itasca County annual financial report.

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

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, 2012, follows:

	Balance October 1, 2011	Increase	Decrease	Balance September 30, 2012
Capital assets not depreciated				
Land	$ 22,496	$ -	$ -	$ 22,496
Capital assets depreciated				
Land improvements	$ 200,336	$ 4,288	$ -	$ 204,624
Buildings and improvements	15,201,553	483,083	-	15,684,636
Machinery, furniture, and equipment	2,578,417	76,281	-	2,654,698
Total capital assets depreciated	$ 17,980,306	$ 563,652	$ -	$ 18,543,958
Less: accumulated depreciation for				
Land improvements	$ 85,329	$ 11,967	$ -	$ 97,296
Buildings and improvements	4,593,968	479,774	-	5,073,742
Machinery, furniture, and equipment	1,327,320	193,430	-	1,520,750
Total accumulated depreciation	$ 6,006,617	$ 685,171	$ -	$ 6,691,788
Total capital assets depreciated, net	$ 11,973,689	$ (121,519)	$ -	$ 11,852,170
Total Capital Assets, Net	$ 11,996,185	$ (121,519)	$ -	$ 11,874,666

3. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance September 30, 2012
Bonds					
2003 Gross Revenue Nursing Home Bonds	2033	$70,000 - $305,000	2.50 - 6.25	$ 4,435,000	$ 3,785,000
2009A Taxable General Obligation Nursing Home Bonds (Build America Bonds)	2031	$160,000 - $375,000	2.35 - 5.75	4,605,000	4,605,000
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
Total Bonds				$ 10,530,000	$ 9,880,000
Less: unamortized discount					(11,260)
Total Bonds, Net					$ 9,868,740

2. Debt Service Requirements

Debt service requirements at September 30, 2012, were as follows:

Year Ending September 30	Gross Revenue Nursing Home Bonds		Taxable General Obligation Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2013	$ 95,000	$ 224,708	$ 160,000	$ 314,238
2014	100,000	219,783	165,000	309,924
2015	110,000	214,372	170,000	304,770
2016	115,000	208,465	175,000	298,813
2017	120,000	202,178	180,000	291,930
2018 - 2022	710,000	896,098	1,040,000	1,328,213
2023 - 2027	955,000	645,313	1,335,000	1,031,192
2028 - 2032	1,275,000	303,765	1,720,000	600,934
2033 - 2035	305,000	9,531	1,150,000	106,200
Total	$ 3,785,000	$ 2,924,213	$ 6,095,000	$ 4,586,214

3. Detailed Notes on All Funds

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, 2012.

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Long-Term Liabilities					
Bonds payable					
General Obligation Refunding Bonds	$ 210,000	$ -	$ 210,000	$ -	$ -
Gross Revenue Nursing Home Bonds	3,880,000	-	95,000	3,785,000	95,000
Taxable General Obligation Nursing Home Bonds	6,095,000	-	-	6,095,000	160,000
Less: deferred amounts for issuance discounts	(11,922)	-	(662)	(11,260)	-
Add: deferred amounts for issuance premiums	2,840	-	2,840	-	-
Total Bonds Payable	$ 10,175,918	$ -	$ 307,178	$ 9,868,740	$ 255,000

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 Refunding Bond 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.

The Gross Revenue Nursing Home Bonds are payable solely from net revenues of the Nursing Home. There is no pledge of the taxing power of Itasca County on these bonds.

4. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Itasca Nursing Home are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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.

General 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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive 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 General 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.

4. Pension Plans

A. Plan Description (Continued)

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 General 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. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Itasca Nursing Home makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

The Itasca Nursing Home is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

The Nursing Home's contributions for the years ending September 30, 2012, 2011, and 2010, for the General Employees Retirement Fund were:

2012	2011	2010
$ 282,071	$ 274,277	$ 272,431

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

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 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, that 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, 2012, 10 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 2012, the amount actually contributed to the plan, and changes in the Nursing Home's net OPEB obligation:

ARC	$	42,332
Interest on net OPEB obligation		(6,283)
Adjustment to ARC		5,460
Annual OPEB cost	$	41,509
Contributions during the year		(80,017)
Decrease (Increase) in excess OPEB contributions	$	(38,508)
Excess Contributions - Beginning of Year as reported		(125,665)
Adjustment to Beginning of Year due to new actuarial		(18,495)
Excess Contributions - End of Year	$	(182,668)

The Nursing Home's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the excess OPEB contributions for 2012, 2011, and 2010 were as follows:

	Year Ended September 30, 2012		Year Ended September 30, 2011		Year Ended September 30, 2010	
Percentage of annual OPEB cost contributed		193%		150%		161%
Annual OPEB cost	$	41,509	$	59,308	$	58,191
Employer contributions		(80,017)		(88,999)		(93,921)
Excess Contributions	$	(38,508)	$	(29,691)	$	(35,730)
Excess Contributions - Beginning of Year		(125,665)		(95,974)		(60,244)
Adjustment to Beginning of Year		(18,495)		-		-
Excess Contributions - End of Year	$	(182,668)	$	(125,665)	$	(95,974)

5. Postemployment Benefits (Continued)

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at September 30, 2011, the most recent actuarial valuation date, is $813,558. 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 $3,868,622. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 21.03 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, will present 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, 2011, actuarial valuation, the entry age normal level percentage of pay actuarial cost method was used. The actuarial assumptions included a five 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 is zero percent in the year ended September 30, 2012, seven and one-half percent in the year ending September 30, 2013, graded to five percent over five 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, 2012

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

Notes to Schedule of Funding Progress

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. Information for prior years is not available.

A new actuarial study was performed for the year ended September 30, 2011, but was not available in time for inclusion in the prior year financial report, year ended September 30, 2011.

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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, 2012
(Unaudited)

Occupancy		
Licensed beds available at year-end		119
Number of resident days available		43,554
Number of actual resident days		40,820
Number of Medicaid days		23,418
Facility occupancy rate		93.72%
Average daily census		111.5
Average case mix score		1.05
Operating Revenues	$	10,075,178
Operating Expenses		9,381,122
Income (Loss) From Operations	**$**	**694,056**
Income per resident day	$	246.82
Cost per resident day		229.82
Income (Loss) From Operations Per Resident Day	**$**	**17.00**

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Management and Compliance Section

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Internal Control/Segregation of Duties

Criteria: 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. 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. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: The limited number of staff of the Itasca Nursing Home results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. There are inherent risks in safeguarding the Nursing Home's assets and the proper recording of its financial activity.

Context: It is not unusual for an organization the size of the Itasca Nursing Home to be limited in the internal control that management can design and implement into the organization.

Effect: Inadequate segregation of duties increases the risk of errors or irregularities not being detected timely.

Cause: The Nursing Home does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the 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 Nursing Home Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

Additional oversight procedures include an audit of business office operations conducted annually by Ecumen consultants. Periodic account reconciliations occur throughout each fiscal year and involve accountants from Ecumen's headquarters in Shoreview, Minnesota; the Itasca County Auditor's Office; and Grand Village business office personnel. Finally, the utilization of Wells Fargo information systems allows for detailed reporting of all financial transactions involving the nursing home account.

PREVIOUSLY REPORTED ITEM RESOLVED

Preparation of Financial Statements (part of comment 97-1)

The Nursing Home needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

Resolution

The Nursing Home provides a general ledger, a trial balance, accruals, and other supporting schedules and information necessary for preparing the financial statements. The Nursing Home has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

12-1 Contract Compliance

Criteria: As provided by Minn. Stat. § 270C.66, the Nursing Home should not make final payment to a contractor under a contract requiring wages until the contractor provides documentation that the contractor and any subcontractors have complied with the provisions of Minn. Stat. § 290.92, which covers payroll taxes withheld.

Condition: In 2012, the Nursing Home paid Hawk Construction final payment on a large renovation project without properly obtaining a certificate by the Commissioner of Revenue that the contractor or subcontractor had complied with the withholding requirements of Minn. Stat. § 290.92.

Context: The documentation to be obtained should be either a Form IC134 or a Contractor's Withholding Affidavit Confirmation.

Effect: This final payment to the contractor was not in compliance with Minnesota Statutes.

Cause: The Nursing Home staff were not aware of this requirement as they seldom have contracts of this magnitude. The contractor said it did not supply the information because it was not requested.

Recommendation: We recommend the Itasca Nursing Home management establish procedures to ensure any officials involved in the contracting process be informed of the statutory requirements in closing out construction projects to ensure compliance with the requirements of Minn. Stat. § 270C.66 that are applicable for all future contracts.

Client's Response:

On future projects Grand Village conducts we will be aware of Minn. Stat. § 270C.66 and will comply with any statutory requirements on all applicable future contracts.

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

Nursing Home Board
Itasca Nursing Home

We have audited the basic financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2012, and have issued our report thereon dated April 8, 2013. 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

Management of the Itasca Nursing Home is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Itasca 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.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Recommendations as item 97-1, that we consider to be a significant deficiency in internal control over financial reporting. 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 attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Itasca Nursing Home complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 12-1.

The Itasca Nursing Home's written responses to the internal control finding and legal compliance finding 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 Itasca 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

April 8, 2013