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, 2014

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 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, 2014

Audit Practice Division
Office of the State Auditor
State of Minnesota

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

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Introductory Section

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

ORGANIZATION
SEPTEMBER 30, 2014

Office	Name	Term Expires
Chair	Christopher Reed	December 31, 2014
Vice Chair	Davin Tinquist	December 31, 2014
Secretary	Jeffrey Walker	December 31, 2015
Member	Russell Eichorn	December 31, 2016
Member	Terry Snyder	December 31, 2016
Member	Mark Mandich	December 31, 2014
Member	Leo Trunt	December 31, 2014
Executive Director	Shawna Jokinen	Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Nursing Home Board
Itasca Nursing Home
Grand Rapids, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements, as listed in the table of contents.

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

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Itasca Nursing Home as of September 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the Itasca Nursing Home adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Enterprise Fund of the County

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

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015, on our consideration of the Itasca Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Itasca Nursing Home's internal control over financial reporting and compliance.

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

March 31, 2015

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BASIC FINANCIAL STATEMENTS

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Assets		
Current assets		
Cash and cash equivalents	$	2,137,408
Petty cash and change funds		1,560
Accounts receivable - net		1,492,788
Inventories		47,402
Prepaid items		147,781
Total current assets	**$**	**3,826,939**
Restricted assets		
Resident trust funds	**$**	**12,857**
Noncurrent assets		
Excess other postemployment benefits contributions	$	264,809
Nondepreciable capital assets		950,222
Depreciable capital assets - net of depreciation		10,785,603
Total noncurrent assets	**$**	**12,000,634**
Total Assets	**$**	**15,840,430**
Liabilities		
Current liabilities		
Accounts payable	$	675,169
Salaries payable		222,324
Accrued vacation payable		185,805
Unearned revenue		48,594
Interest payable		77,814
General obligation bonds payable - current		170,000
Revenue bonds payable - current		120,000
Total current liabilities	**$**	**1,499,706**
Current liabilities payable from restricted assets		
Due to residents	**$**	**12,857**
Noncurrent liabilities		
General obligation bonds payable - long-term	$	5,600,000
Revenue bonds payable - long-term		3,215,000
Total noncurrent liabilities	**$**	**8,815,000**
Total Liabilities	**$**	**10,327,563**

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

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Net Position		
Net investment in capital assets	$	2,630,825
Unrestricted		2,882,042
Total Net Position	**$**	**5,512,867**

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

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Operating Revenues		
Patient service revenues	$	8,160,119
Miscellaneous		2,411,140
Total Operating Revenues	**$**	**10,571,259**
Operating Expenses		
Nursing services	$	4,017,657
Other care-related		321,906
Ancillary and other services		966,122
Dietary		916,436
Laundry and linen		83,258
Housekeeping		261,097
Plant operations		906,502
Administration		1,065,959
Other property and related costs		45,017
Employee benefits		1,375,960
Other postemployment benefits expense		42,841
Depreciation		677,563
Total Operating Expenses	**$**	**10,680,318**
Operating Income (Loss)	**$**	**(109,059)**
Nonoperating Revenues (Expenses)		
Interest income	$	3,141
Contributions and donations		17,500
Operating grants		108,884
Bond issuance costs		(72,747)
Interest expense		(408,962)
Total Nonoperating Revenues (Expenses)	**$**	**(352,184)**
Change in Net Position	**$**	**(461,243)**
Net Position - October 1, as restated (Note 1)		**5,974,110**
Net Position - September 30	**$**	**5,512,867**

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, 2014
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Cash received from customers	$	10,635,868
Cash paid to suppliers		(4,840,567)
Cash paid to employees		(4,865,927)
Net cash provided by (used in) operating activities	**$**	**929,374**
Cash Flows from Noncapital Financing Activities		
Cash received from contributions and donations	$	17,500
Cash received from operating grants		94,878
Net cash provided by (used in) noncapital financing activities	**$**	**112,378**
Cash Flows from Capital and Related Financing Activities		
Interest subsidy	$	108,960
Bond proceeds - net		3,262,253
Acquisition of capital assets		(1,115,699)
Principal paid on bonds		(3,855,000)
Interest paid on bonds		(529,223)
Net cash provided by (used in) capital and related financing activities	**$**	**(2,128,709)**
Cash Flows from Investing Activities		
Interest received	**$**	**3,141**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(1,083,816)**
Cash and Cash Equivalents at October 1		**3,221,224**
Cash and Cash Equivalents at September 30	**$**	**2,137,408**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(109,059)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation		677,563
Change in assets and liabilities		
Accounts receivable		64,609
Inventories		10,295
Prepaid items		(19,945)
Excess other postemployment benefits contributions		(50,203)
Accounts payable		360,102
Salaries payable		18,363
Accrued vacation payable		(22,351)
Net Cash Provided by (Used in) Operating Activities	**$**	**929,374**

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

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). The more significant accounting policies established in GAAP and used by the Nursing Home are discussed below.

The accounting policies of the Nursing Home conform to generally accepted accounting principles. In 2014, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principle. Implementation of this new accounting standard required a restatement of beginning net position for bond issuance costs, which were previously reported as an asset. GASB Statement 65 requires bond issuance costs to be expensed as incurred. On the Statement of Activities, the prior year's net position has been restated as follows:

Net Position, October 1, 2013, as previously reported	$	6,181,124
Restatement for bond issuance costs		(207,014)
Net Position, October 1, 2013, restated	$	5,974,110

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, 2013, through September 30, 2014, calls for a payment of a flat fee of $300,000.

1. Summary of Significant Accounting Policies

   A. Financial Reporting Entity (Continued)

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

   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. Resident trust accounts are not considered to be cash equivalents.

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

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, 2014, based on market prices.

3. Receivables

Accounts receivable are shown net of an allowance for bad debts of $53,646.

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. Restricted Assets

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

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.

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

6. Capital Assets and Depreciation (Continued)

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

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 $185,805 at September 30, 2014, 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 $329,873 at September 30, 2014, 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.

1. Summary of Significant Accounting Policies (Continued)

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.

Third-Party Reimbursement Agreements

The Nursing Home participates in the Medicaid program administered by the Minnesota Department of Human Services. The Nursing Home bills the Department of Human Services monthly based on the applicable rate and number of days for every eligible resident. The Department subsequently reimburses the Nursing Home. The Medicaid occupancy was 63 percent for the fiscal year ended September 30, 2014.

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 7 percent and 66 percent, respectively, of the Nursing Home's net patient revenues for the year ended September 30, 2014.

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, 2014, resulted in a decrease to net patient service revenue of $550,200.

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, 2014.

Daily Rates	Period Rates in Effect
$169.08 to $408.54	October 1, 2013, to September 30, 2014

1. Summary of Significant Accounting Policies (Continued)

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, 2014.

Year Ended September 30, 2014	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	$ 11,140,849	$ 10,571,259	$ (569,590)
Operating expenses	10,989,341	10,680,318	309,023
Operating Income (Loss)	$ 151,508	$ (109,059)	$ (260,567)
Nonoperating revenues (expenses)	(260,586)	(352,184)	(91,598)
Change in Net Position	$ (109,078)	$ (461,243)	$ (352,165)

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments (Continued)

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.

      2. Capital Assets

A summary of changes in capital assets for the year ended September 30, 2014, follows:

	Balance October 1, 2013	Increase	Decrease	Balance September 30, 2014
Capital assets not depreciated				
Land	$ 22,496	$ -	$ -	$ 22,496
Construction in progress	11,226	916,500	-	927,726
Total capital asset not depreciated	$ 33,722	$ 916,500	$ -	$ 950,222
Capital assets depreciated				
Land improvements	$ 206,779	$ 11,292	$ -	$ 218,071
Buildings and improvements	15,688,505	9,244	-	15,697,749
Machinery, furniture, and equipment	2,757,373	179,024	1,208	2,935,189
Total capital assets depreciated	$ 18,652,657	$ 199,560	$ 1,208	$ 18,851,009

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

	Balance October 1, 2013	Increase	Decrease	Balance September 30, 2014
Less: accumulated depreciation for				
Land improvements	$ 109,426	$ 11,295	$ -	$ 120,721
Buildings and improvements	5,563,343	482,735	-	6,046,078
Machinery, furniture, and equipment	1,715,921	183,533	(847)	1,898,607
Total accumulated depreciation	$ 7,388,690	$ 677,563	$ (847)	$ 8,065,406
Total capital assets depreciated, net	$ 11,263,967	$ (478,003)	$ 361	$ 10,785,603
Total Capital Assets, Net	$ 11,297,689	$ 438,497	$ 361	$ 11,735,825

B. Liabilities

1. Long-Term Debt

In June 2014, Itasca County issued $3,335,000 of General Obligation Nursing Home Revenue Refunding Bonds, Series 2014. These proceeds were used to refund $3,590,000 in outstanding maturities from the 2003 Gross Revenue Nursing Home Bonds. The refunding resulted in debt service savings of $1,290,446 and an economic gain of $281,347. The Series 2014 refunding bonds were a fixed rate issue with interest rates ranging from 2.00 percent to 3.60 percent and a final maturity date of February 1, 2032.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance September 30, 2014
Bonds					
2009A Taxable General Obligation Nursing Home Bonds (Build America Bonds)	2031	$160,000 - $375,000	2.35 - 5.75	$ 4,605,000	$ 4,280,000
2009B Taxable General Obligation Nursing Home Bonds (Recovery Zone Economic Development Bonds)	2035	$340,000 - $405,000	6.00	1,490,000	1,490,000
2014 General Obligation Nursing Home Revenue Refunding Bonds	2034	$120,000 - $235,000	2.00 - 3.60	3,335,000	3,335,000
Total Bonds				$ 9,430,000	$ 9,105,000

3. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Debt Service Requirements

Debt service requirements at September 30, 2014, were as follows:

Year Ending September 30	General Obligation Nursing Home Revenue Refunding Bonds Principal	General Obligation Nursing Home Revenue Refunding Bonds Interest	Taxable General Obligation Nursing Home Bonds Principal	Taxable General Obligation Nursing Home Bonds Interest
2015	$ 120,000	$ 97,473	$ 170,000	$ 304,770
2016	155,000	87,133	175,000	298,813
2017	160,000	83,983	180,000	291,930
2018	160,000	80,783	190,000	284,200
2019	165,000	77,533	200,000	275,615
2020 - 2024	885,000	332,715	1,145,000	1,223,636
2025 - 2029	1,010,000	200,888	1,490,000	876,340
2030 - 2034	680,000	37,040	1,815,000	394,600
2035	-	-	405,000	12,150
Total	$ 3,335,000	$ 997,548	$ 5,770,000	$ 3,962,054

3. Changes in Long-Term Liabilities

The following is a summary of the changes in long-term debt for the year ended September 30, 2014.

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
Long-Term Liabilities					
Bonds payable					
Gross Revenue Nursing Home Bonds	$ 3,690,000	$ -	$ 3,690,000	$ -	$ -
Taxable General Obligation Nursing Home Bonds	5,935,000	-	165,000	5,770,000	170,000
General Obligation Nursing Home Revenue Refunding Bonds	-	3,335,000	-	3,335,000	120,000
Total Bonds Payable	$ 9,625,000	$ 3,335,000	$ 3,855,000	$ 9,105,000	$ 290,000

3. Detailed Notes on All Funds

   B. Liabilities

      3. Changes in Long-Term Liabilities (Continued)

         It is anticipated that debt service on these bonds will be repaid from net revenues of the Nursing Home. If revenues are ever insufficient to meet the debt service requirements on the General Obligation Nursing Home Revenue Refunding 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.

   C. Contract Commitments

      The Nursing Home was in the process of completing energy upgrades at year-end. As of September 30, 2014, the Nursing Home had contract commitments related to the energy upgrades for $513,264.

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, 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 and benefits vest after five years of credited service.

      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. 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.

4. Pension Plans

A. Plan Description (Continued)

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 remaining year. 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 remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. 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 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 in 2014.

4. Pension Plans

   B. Funding Policy (Continued)

   In 2014, the Itasca Nursing Home is required to contribute the following percentages of annual covered payroll:

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, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

2014	2013	2012
$ 300,064	$ 302,436	$ 282,071

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

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.

5. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

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, 2014, 13 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.

The following table shows the components of the Nursing Home's annual OPEB cost for 2014, the amount actually contributed to the plan, and changes in the Nursing Home's net OPEB obligation:

ARC	$	43,478
Interest on net OPEB obligation		(10,730)
Adjustment to ARC		10,093
Annual OPEB cost	$	42,841
Contributions during the year		(93,044)
Decrease (Increase) in excess OPEB contributions	$	(50,203)
Excess Contributions - Beginning of Year, as reported		(214,606)
Excess Contributions - End of Year	$	(264,809)

5. Postemployment Benefits

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

The Nursing Home's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the excess OPEB contributions for 2014, 2013, and 2012 were as follows:

	Year Ended September 30, 2014	Year Ended September 30, 2013	Year Ended September 30, 2012
Percentage of annual OPEB cost contributed	217%	176%	193%
Annual OPEB cost	$ 42,841	$ 42,212	$ 41,509
Employer contributions	(93,044)	(74,150)	(80,017)
Excess Contributions	$ (50,203)	$ (31,938)	$ (38,508)
Excess Contributions - Beginning of Year	(214,606)	(182,668)	(125,665)
Adjustment to Beginning of Year	-	-	(18,495)
Excess Contributions - End of Year	$ (264,809)	$ (214,606)	$ (182,668)

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.

5. Postemployment Benefits

C. Funded Status and Funding Progress (Continued)

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 was 0.0 percent in the year ended September 30, 2012, 7.5 percent in the year ending September 30, 2013, graded to 5.0 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.

7. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the Nursing Home's fiscal year 2015. The Nursing Home has not yet determined the financial statement impact of adopting this new standard.

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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, 2014

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.

An actuarial study was performed for the year ended September 30, 2011, which is the most recent available.

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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, 2014
(Unaudited)

Occupancy		
Licensed beds available at year-end		119
Number of resident days available		43,435
Number of actual resident days		39,006
Number of Medicaid days		24,442
Facility occupancy rate		89.80%
Average daily census		106.9
Average case mix score		1.06
Operating Revenues	$	10,571,259
Operating Expenses		10,680,318
Income (Loss) From Operations	**$**	**(109,059)**
Income per resident day	$	271.02
Cost per resident day		273.81
Income (Loss) From Operations Per Resident Day	**$**	**(2.79)**

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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, 2014

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1997-001

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 size and structure of the Nursing Home limit the internal control that management can design and implement into the organization, without additional oversight by management over the day-to-day operations and procedures.

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:

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 the Grand Village business office personnel. Finally, the utilization of Wells Fargo information systems allow for detailed reporting of all financial transactions involving the Nursing Home account.

ITEM ARISING THIS YEAR

Finding 2014-001

Audit Adjustment

Criteria: 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control 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.

Condition: During our audit, we proposed audit adjustments, one of which was material. The audit adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

Context: The Itasca Nursing Home is an enterprise fund of Itasca County, and the financial information is included in Itasca County's financial statements. The Nursing Home's financial information is prepared by the Nursing Home staff and Ecumen, the Nursing Home's management company. The Nursing Home's inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: An adjustment of $406,206 was made to record capital energy projects costs incurred in September 2014.

Cause: The Nursing Home staff failed to record a year-end payable for construction work, as the September and October work on the project was paid together on one bill in November; the September share that should have been recorded as payable was missed.

Recommendation: We recommend the Nursing Home review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

Capital projects such as these are not a regular occurrence, as a result setting up a CIP account for fiscal year ending 9/30/14 for the Energy Project projected to be completed in December of 2014 was not done, which was an oversight by the Nursing Home Administrator and Facilities Director in the process of approving the project invoices for September 2014 and October 2014. Grand Village does have a sufficient process and awareness for the recording of month end and year end late payables to make sure expenses are coded to the correct month and year as is demonstrated by no further related issues arising during the audit. Grand Village management and accounting representatives are now aware of the error and will pay special attention to project invoices for accurate month end or year-end coding.

II. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 68

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for fiscal year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for nursing homes that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the Itasca Nursing Home's statement of net position. The Itasca Nursing Home's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past, pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the Itasca Nursing Home's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the Nursing Home to report the net pension liability and deferred outflows/inflows of resources.

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

Independent Auditor's Report

Nursing Home Board
Itasca Nursing Home
Grand Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements, and have issued our report thereon dated March 31, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an item that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2014-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 1997-001 to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Nursing Home's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories; however, deposits and investments was tested in conjunction with the audit of the financial statements of Itasca County.

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

Other Matters

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Nursing Home, and it is reported for that purpose.

Itasca Nursing Home's Response to Findings

The Itasca Nursing Home's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. The Nursing Home's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

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

March 31, 2015