

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 YEARS ENDED SEPTEMBER 30,
2007 AND 2006

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**

**For the Years Ended September 30,
2007 and 2006**



**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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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**ORGANIZATION
SEPTEMBER 30, 2007**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Mary Ives	December 31, 2007
Vice Chair	Rusty Eichorn	December 31, 2008
Secretary	Gerald Eisele	December 31, 2008
Member	Karen Burthwick	December 31, 2010
Member	Lori Dowling	December 31, 2010
Member	Mark Mandich	December 31, 2008
Member	Catherine McLynn	December 31, 2008
Administrator	Jacob Goering	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Nursing Home Board
Itasca Nursing Home

We have audited the accompanying financial statements of the Itasca Nursing Home as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1.A., the financial statements present only the 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, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the 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 financial statements of the Itasca Nursing Home. The statistical data has not been audited and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2008, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 14, 2008

FINANCIAL STATEMENTS

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006**

	2007	2006
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 1,040,344	\$ 753,286
Petty cash and change funds	1,560	1,356
Accounts receivable - net	1,155,213	1,386,799
Inventories	51,262	40,057
Prepaid items	43,036	51,520
Total current assets	\$ 2,291,415	\$ 2,233,018
Restricted assets		
Bond reserve account		
Cash, cash equivalents, and pooled investments	\$ 327,233	\$ 327,233
Resident trust funds	20,955	21,614
Total restricted assets	\$ 348,188	\$ 348,847
Noncurrent assets		
Deferred debt issuance costs	\$ 118,360	\$ 125,846
Capital assets - net	7,649,682	7,863,611
Total noncurrent assets	\$ 7,768,042	\$ 7,989,457
Total Assets	\$ 10,407,645	\$ 10,571,322

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**EXHIBIT A
(Continued)**

**COMPARATIVE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006**

	2007	2006
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 220,926	\$ 235,660
Salaries payable	90,062	83,067
Accrued vacation payable	196,363	205,570
Compensated absences payable - current	88,773	98,793
Due to other governments	19,647	26,254
Interest payable	48,705	50,417
General obligation bonds payable - current	175,000	170,000
Revenue bonds payable - current	80,000	75,000
Total current liabilities	\$ 919,476	\$ 944,761
Current liabilities payable from restricted assets		
Due to residents	\$ 20,955	\$ 21,614
Noncurrent liabilities		
Compensated absences payable - long-term	\$ 354,752	\$ 321,111
General obligation bonds payable - long-term (discount \$715 at 2007 and \$863 at 2006)	794,285	969,137
Revenue bonds payable - long-term	4,135,000	4,215,000
Total noncurrent liabilities	\$ 5,284,037	\$ 5,505,248
Total Liabilities	\$ 6,224,468	\$ 6,471,623
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 2,465,397	\$ 2,632,163
Unrestricted	1,717,780	1,467,536
Total Net Assets	\$ 4,183,177	\$ 4,099,699

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	2007	2006
Operating Revenues		
Patient services revenues	\$ 7,393,508	\$ 7,684,297
Miscellaneous	1,868,353	1,938,776
	\$ 9,261,861	\$ 9,623,073
Operating Expenses		
Nursing services	\$ 3,123,928	\$ 3,401,685
Other care-related	299,687	338,788
Ancillary and other services	787,057	836,019
Dietary	892,089	839,779
Laundry and linen	100,704	114,213
Housekeeping	212,748	213,033
Plant operations	961,586	974,265
Administration	883,227	805,328
Other property and related costs	54,868	60,357
Employee benefits	1,229,942	1,258,030
Amortization	7,486	8,320
Depreciation	384,032	388,189
	\$ 8,937,354	\$ 9,238,006
Operating Income	\$ 324,507	\$ 385,067
Nonoperating Revenues (Expenses)		
Nursing Home payment adjustment	\$ 18,192	\$ 18,192
Interest income	11,365	7,242
Contributions and donations	16,629	10,437
Operating grants	8,990	-
Interest expense	(296,205)	(305,686)
	\$ (241,029)	\$ (269,815)
Change in Net Assets	\$ 83,478	\$ 115,252
Net Assets - October 1	4,099,699	3,984,447
Net Assets - September 30	\$ 4,183,177	\$ 4,099,699

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
Increase (Decrease) in Cash and Cash Equivalents**

	2007	2006
Cash Flows from Operating Activities		
Cash received from customers	\$ 9,486,840	\$ 10,082,219
Cash paid to suppliers	(4,836,503)	(4,748,961)
Cash paid to employees	(3,705,379)	(4,074,680)
Net cash provided by (used in) operating activities	\$ 944,958	\$ 1,258,578
Cash Flows from Noncapital Financing Activities		
Cash received from contributions and donations	\$ 16,629	\$ 10,437
Cash received from operating grants	8,990	-
Nursing Home payment adjustment received	18,192	18,192
Net cash provided by (used in) noncapital financing activities	\$ 43,811	\$ 28,629
Cash Flows from Capital and Related Financing Activities		
Proceeds from disposal of capital assets	\$ 8,421	\$ -
Acquisition of capital assets	(178,524)	(86,375)
Principal and interest paid on general obligation revenue bonds	(219,755)	(217,140)
Principal and interest paid on revenue bonds	(322,612)	(325,050)
Bond administration fees	(402)	-
Net cash provided by (used in) capital and related financing activities	\$ (712,872)	\$ (628,565)
Cash Flows from Investing Activities		
Interest received	\$ 11,365	\$ 7,242
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 287,262	\$ 665,884
Cash and Cash Equivalents at October 1	1,081,875	415,991
Cash and Cash Equivalents at September 30	\$ 1,369,137	\$ 1,081,875

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**EXHIBIT C
(Continued)**

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
Increase (Decrease) in Cash and Cash Equivalents**

	2007	2006
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 324,507	\$ 385,067
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	\$ 384,032	\$ 388,189
Amortization	7,486	7,486
Change in assets and liabilities		
Accounts receivable	231,586	432,892
Inventories	(11,205)	(8,789)
Prepaid items	8,484	57,825
Accounts payable	(14,734)	(13,773)
Salaries payable	(6,607)	12,447
Accrued vacation payable	6,995	(1,370)
Compensated absences	(9,207)	(27,650)
Due to other governments	23,621	26,254
Total adjustments	\$ 620,451	\$ 873,511
Net Cash Provided by (Used in) Operating Activities	\$ 944,958	\$ 1,258,578

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

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, they have 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, 2006, through September 30, 2007, calls for a payment of from 3.0 to 3.5 percent of total Nursing Home operating revenues depending on the accounts receivable days in aging. The amount paid to Ecumen for the management contract for the fiscal year ended September 30, 2007, was \$300,301.

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

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation--Fund Accounting (Continued)

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.

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, 2007, based on market prices.

3. Receivables

Accounts receivable is shown net of an allowance for bad debts of \$9,213.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain assets are restricted for payment of principal and interest on bonds and for construction of capital improvements to the facility. 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 market value at the date of donation.

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

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

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

6. Capital Assets and Depreciation (Continued)

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

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	10 - 40
Machinery, furniture, and equipment	5 - 20

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated personal leave and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

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 400 hours. The balance of personal leave days is payable to the employee upon termination. The balance of personal leave time earned was \$196,363 at September 30, 2007, and \$205,570 at September 30, 2006, 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. Non-union employees and registered nurses are not compensated for their unused extended sick leave bank upon retirement. Full-time union employees may use their extended sick leave bank upon retirement to pay continued hospitalization insurance premiums. Unvested sick leave, valued at \$131,175 at September 30, 2007, and \$127,746 at

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

7. Compensated Absences (Continued)

September 30, 2006, 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.

Vested sick leave and unvested sick leave likely to become vested are recognized in the financial statements in the amounts of \$443,525 and \$419,904 for the years ended September 30, 2007 and 2006, respectively. This liability is based on assumptions related to the number of current retirees (vested) and the number of future retirees (likely to vest) and their estimated life expectancy.

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 for these facilities during the fiscal years ended September 30, 2007 and 2006, was 61 percent for both years.

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

Revenue from the Medicare and Medicaid programs accounted for 9 percent and 63 percent of the Nursing Home's net patient revenues for the year ended September 30, 2007, and 14 percent and 60 percent for the year ended September 30,

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Third-Party Reimbursement Agreements (Continued)

2006, respectively. Laws and regulations governing the Medicare and Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility the recorded estimates will change by a material amount in the near term. The September 30, 2007, net patient service revenue decreased by approximately \$316,086 due to an estimated contractual adjustment for Medicare, while the September 30, 2006, decrease to net patient service revenue was approximately \$352,488.

The rate system for Medicaid and private-pay residents has 36 rate levels. The following are the ranges of the effective daily rates charged to Medicaid and private-pay residents during the years ended September 30, 2007 and 2006.

<u>Daily Rates</u>	<u>Period Rates in Effect</u>
\$122.72 to \$219.39	October 1, 2005, to September 30, 2006
\$125.97 to \$226.66	October 1, 2006, to September 30, 2007

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 years ended September 30, 2007 and 2006.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budget Information (Continued)

Year Ended September 30, 2007	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 10,048,283	\$ 9,261,861	\$ (786,422)
Operating expenses	9,598,031	8,937,354	660,677
Operating Income (Loss)	\$ 450,252	\$ 324,507	\$ (125,745)
Nonoperating revenues (expenses)	(266,587)	(241,029)	25,558
Change in Net Assets	<u>\$ 183,665</u>	<u>\$ 83,478</u>	<u>\$ (100,187)</u>

Year Ended September 30, 2006	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	\$ 9,847,461	\$ 9,623,073	\$ (224,388)
Operating expenses	9,141,076	9,238,006	(96,930)
Operating Income (Loss)	\$ 706,385	\$ 385,067	\$ (321,318)
Nonoperating revenues (expenses)	(292,199)	(269,815)	22,384
Change in Net Assets	<u>\$ 414,186</u>	<u>\$ 115,252</u>	<u>\$ (298,934)</u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

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

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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 years ended September 30, 2007 and 2006, follows:

	Balance October 1, 2006	Increase	Decrease	Balance September 30, 2007
Capital assets not depreciated				
Land	\$ 22,496	\$ -	\$ -	\$ 22,496
Capital assets depreciated				
Land improvements	\$ 97,336	\$ 17,975	\$ -	\$ 115,311
Buildings and improvements	10,375,951	88,012	-	10,463,963
Machinery, furniture, and equipment	1,370,605	72,537	8,865	1,434,277
Total capital assets depreciated	\$ 11,843,892	\$ 178,524	\$ 8,865	\$ 12,013,551
Less: accumulated depreciation for				
Land improvements	\$ 37,732	\$ 7,121	\$ -	\$ 44,853
Buildings and improvements	3,222,658	263,645	-	3,486,303
Machinery, furniture, and equipment	742,387	113,266	444	855,209
Total accumulated depreciation	\$ 4,002,777	\$ 384,032	\$ 444	\$ 4,386,365
Total capital assets depreciated, net	\$ 7,841,115	\$ (205,508)	\$ 8,421	\$ 7,627,186
Capital Assets, Net	\$ 7,863,611	\$ (205,508)	\$ 8,421	\$ 7,649,682

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

	Balance October 1, 2005	Increase	Decrease	Balance September 30, 2006
Capital assets not depreciated				
Land	\$ 22,496	\$ -	\$ -	\$ 22,496
Capital assets depreciated				
Land improvements	\$ 92,586	\$ 4,750	\$ -	\$ 97,336
Buildings and improvements	10,343,653	32,298	-	10,375,951
Machinery, furniture, and equipment	1,321,278	49,327	-	1,370,605
Total capital assets depreciated	\$ 11,757,517	\$ 86,375	\$ -	\$ 11,843,892
Less: accumulated depreciation for				
Land improvements	\$ 31,301	\$ 6,431	\$ -	\$ 37,732
Buildings and improvements	2,956,425	266,233	-	3,222,658
Machinery, furniture, and equipment	626,862	115,525	-	742,387
Total accumulated depreciation	\$ 3,614,588	\$ 388,189	\$ -	\$ 4,002,777
Total capital assets depreciated, net	\$ 8,142,929	\$ (301,814)	\$ -	\$ 7,841,115
Capital Assets, Net	\$ 8,165,425	\$ (301,814)	\$ -	\$ 7,863,611

B. Liabilities

1. Other Postemployment Benefits

In addition to the pension benefits described in Note 4.A., the Nursing Home provides postemployment health care benefits, in accordance with state statutes, to all employees who retire from the Nursing Home and meet age and years-of-service requirements of various employment contracts. Currently, 15 retirees meet those eligibility requirements. The Nursing Home contributes various amounts toward retirees' medical insurance costs depending on contract amounts, retirees' age, and coverage. Expenses for postemployment health care benefits, recognized as medical insurance premiums, are incurred by the Nursing Home. During the fiscal year ended September 30, 2007, disbursements of \$88,773 were made for postemployment health care. For the fiscal year ended September 30, 2006, disbursements were \$98,793.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance September 30, 2007
Bonds					
1998 G.O. Crossover Refunding Bonds	2012	\$135,000 - \$210,000	4.10 - 4.85	\$ 1,880,000	\$ 970,000
2003 Gross Revenue Nursing Home Bonds	2033	\$70,000 - \$305,000	2.50 - 6.25	<u>4,435,000</u>	<u>4,215,000</u>
Total Bonds				<u>\$ 6,315,000</u>	\$ 5,185,000
Less: unamortized discount					<u>(715)</u>
Total Bonds, Net					<u>\$ 5,184,285</u>

3. Debt Service Requirements

Debt service requirements at September 30, 2007, were as follows:

Year Ending September 30	General Obligation Bonds Crossover Refunding Bonds		Gross Revenue Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 175,000	\$ 41,905	\$ 80,000	\$ 244,700
2009	185,000	33,532	80,000	241,400
2010	195,000	24,554	85,000	237,787
2011	205,000	15,054	90,000	233,782
2012	210,000	5,092	95,000	229,386
2013 - 2017	-	-	540,000	1,069,505
2018 - 2022	-	-	710,000	896,100
2023 - 2027	-	-	955,000	645,316
2028 - 2032	-	-	1,275,000	303,766
2033	-	-	<u>305,000</u>	<u>9,531</u>
Total	<u>\$ 970,000</u>	<u>\$ 120,137</u>	<u>\$ 4,215,000</u>	<u>\$ 4,111,273</u>

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Changes in Long-Term Liabilities

The following is a summary of the changes in long-term debt for the years ended September 30, 2007 and 2006. Compensated absences consists of estimated postemployment health care benefits referred to in Note 3.B.1. for both retirees and current employees expected to retire.

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Due Within One Year
Long-Term Liabilities					
Bonds payable					
G.O. Crossover					
Refunding Bonds	\$ 1,140,000	\$ -	\$ 170,000	\$ 970,000	\$ 175,000
Gross Revenue Nursing					
Home Bonds	4,290,000	-	75,000	4,215,000	80,000
Less: deferred amounts for issuance discounts	(863)	-	(148)	(715)	-
Total bonds payable	\$ 5,429,137	\$ -	\$ 244,852	\$ 5,184,285	\$ 255,000
Compensated absences	419,904	23,621	-	443,525	88,773
Long-Term Liabilities	<u>\$ 5,849,041</u>	<u>\$ 23,621</u>	<u>\$ 244,852</u>	<u>\$ 5,627,810</u>	<u>\$ 343,773</u>

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Due Within One Year
Long-Term Liabilities					
Bonds payable					
G.O. Crossover					
Refunding Bonds	\$ 1,300,000	\$ -	\$ 160,000	\$ 1,140,000	\$ 170,000
Gross Revenue Nursing					
Home Bonds	4,365,000	-	75,000	4,290,000	75,000
Less: deferred amounts for issuance discounts	(1,011)	-	(148)	(863)	-
Total bonds payable	\$ 5,663,989	\$ -	\$ 234,852	\$ 5,429,137	\$ 245,000
Compensated absences	447,554	-	27,650	419,904	98,793
Long-Term Liabilities	<u>\$ 6,111,543</u>	<u>\$ -</u>	<u>\$ 262,502</u>	<u>\$ 5,849,041</u>	<u>\$ 343,793</u>

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 Crossover Refunding 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.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

4. Changes in Long-Term Liabilities (Continued)

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 Itasca Nursing Home are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The Itasca Nursing Home makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. The Itasca Nursing Home is required to contribute the following percentages of annual covered payroll:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50

The Nursing Home's contributions for the years ending September 30, 2007, 2006, and 2005, were \$225,512, \$234,850, and \$208,336, respectively, equal to the contractually required contributions for each year as set by state statute.

**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

5. Risk Management

The Nursing Home is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; 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.

6. Contingent Liabilities

The Nursing Home has two pending claims against it. These claims are covered by insurance; however, there is a \$250,000 self-insurance retention for each claim. If found liable, the Nursing Home could potentially be responsible for up to \$250,000 per claim. It is not known whether the amount of the claims will exceed this amount as the claimants have not yet filed their demands.

STATISTICAL DATA

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

Table 1

**STATISTICAL DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2007
WITH COMPARATIVE DATA FOR THE YEAR ENDED SEPTEMBER 30, 2006
(UNAUDITED)**

	2007	2006
Occupancy		
Licensed beds available at year-end	153	153
Number of resident days available	55,845	55,845
Number of actual resident days	47,894	52,014
Number of Medicaid days	29,273	31,932
Facility occupancy rate	85.8%	93.1%
Average daily census	131.2	142.5
Average case mix score	1.05	1.07
Operating Revenues	\$ 9,261,861	\$ 9,623,073
Operating Expenses	8,937,354	9,238,006
	\$ 324,507	\$ 385,067
Income per resident day	\$ 193.38	\$ 185.01
Cost per resident day	186.61	177.62
	\$ 6.77	\$ 7.39

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**ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

**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

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

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

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

We recommend the 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:

The Management of Itasca Nursing Home is aware of the internal control weakness and has implemented procedures to minimize the risks involved with the lack of internal control. Management will monitor procedures to assure they continue to be effective.

ITEM ARISING THIS YEAR

07-1 Credit Card Documentation and Approval

The Nursing Home Administrator, an Ecumen employee, has a credit card to charge various expenses for the Nursing Home. The credit card bill is paid monthly by the Nursing Home. During our review of disbursements, we noted that for the months of October 2006 through May 2007, 21 of 105 credit card transactions had no receipts attached to support the transactions. For the months of June 2007 through September 2007, all supporting receipts were attached to the credit card bills.

The Nursing Home Administrator emails the monthly credit card bill to the Ecumen Regional Director for approval. The Regional Director emails his approval back to the Nursing Home Administrator. This process does not leave an audit trail of the approval of the credit card bill.

We recommend the Nursing Home Administrator attach receipts for all items charged to the credit card in order to properly document the bill. These receipts should be given to the Accounts Payable Clerk to match against the credit card bill each month. The Regional Director's approval of the credit card claim should be emailed directly to the Accounts Payable Clerk so that she can attach a copy to the claim to document that approval. We also recommend the credit card bills be reviewed and approved by the Nursing Home Board Chair.

Client's Response:

Every card purchase is posted online showing the vendor, date, and amount. This is always available online through Wells Fargo for the Administrator and Regional Director to view. Each month there is a five-day closing period. At this time the Administrator must classify and enter a description for each purchase. The report is then forwarded to the Regional Director for final review.

Following review by the Administrator and Regional Director, a resulting detailed item-by-item report is printed on paper and filed in the business office. Paper receipts should be attached. During the audit, recent month receipts were attached to the report in the A/P clerk's file. Older receipts were archived in a locked file cabinet in a storage room adjacent to the business office. In part, the error was made when a new clerk

transitioned into the position during the fiscal year. Copies of receipts not in the file were requested from vendors. The files from both archives have been merged to the same file for fiscal year 2007 including the requested receipts.

The Nursing Home Administrator shall attach receipts for all items charged to the credit card, in order to properly document the bill. These receipts will be given to the Accounts Payable Clerk to match against the credit card bill each month. The Regional Director's approval of the credit card claim will be emailed directly to the Accounts Payable Clerk so that she can attach a copy to the claim to document that approval. Administrator credit card bills will be reviewed and approved by the Nursing Home Board Chair at regularly scheduled monthly meetings.

PREVIOUSLY REPORTED ITEM RESOLVED

Disbursements (05-1)

During our prior audit, we noted that one voucher we tested was not properly approved.

Resolution

In our current audit, we tested 40 vouchers for supporting documentation and proper approvals. All of the vouchers we tested were properly approved.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-1 Meals and Social Events

During our current audit, we noted the Nursing Home held a staff appreciation dinner paid for with Nursing Home funds. We also noted six staff-on-staff meals paid for by the Nursing Home for working meetings, a farewell reception, a Christmas luncheon, and a staff appreciation lunch. These types of expenses were also noted in our prior audit.

The Minnesota Attorney General held in Op. Atty. Gen. 63a-2, May 6, 1965, that there exists no public purpose for a public unit to pay lunch expenses when its employees meet over a lunch hour. Stated another way, public employees who work together cannot go to lunch and charge their employer, even if they do business while eating. Also, it is the Attorney General's position that nonmonetary benefits, such as employee social events, must be specifically authorized by law or charter. There is no specific statutory authority for the Nursing Home to use public funds for employee social events, such as a staff appreciation dinner and a farewell reception.

The position of the Office of the State Auditor and the Attorney General's Office is that staff-on-staff meals do not meet the "public purpose" standard required by the state constitution.

We recommend the Nursing Home discontinue the practice of paying for meals where only staff attends. Staff appreciation dinners, holiday luncheons, and farewell receptions should not be paid for out of public funds. Employees should pool their own resources to fund such events.

Client's Response:

Staff vending machine revenues have been used to fund several staff appreciation functions over the years. These funds are generated by staff pop and snack purchases, in effect pooling staff resources to fund these events.

Grand Village operates as an enterprise fund. As such, all operating expenses are paid for using revenues earned in service delivery. Nursing home service rates are set by the legislature based on historical costs adjusted for regional differences, the acuity of the population served, and other variables. All nursing home operating costs are funded by resident service delivery revenues. Historical costs used to calculate nursing home rates include employee recruitment and retention activities and expenditures.

The nursing home will discontinue paying for meals where only staff attend. Staff appreciation events will continue to be funded out of staff vending machine revenues.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-3 Accounts Receivable - Credit Balances

Credit balances in accounts receivable were \$88,330 at September 30, 2006, and have only decreased slightly to \$83,622 at September 30, 2007. This suggests there may be posting errors in some accounts or that refunds may be due.

Although many credit balances from the prior year audit have been cleared, credit balances remain high.

We recommend that the Nursing Home accounts receivable staff continue to work on resolving the credit balances in accounts receivable. These credit balances should be reviewed to determine whether posting errors have occurred or a refund is due.

Client's Response:

There are numerous payor sources for charges on the accounts. It is the policy of Itasca Nursing Home not to refund monies until all charges are paid from the numerous payors, which at times create credit balances. Itasca Nursing Home's accounts receivable staff will continue to monitor and correct credit balances.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans; and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions Plans*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit rate subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the Board will need to address in order to comply with the statements are:

- determine if the employees are provided OPEB;
- if OPEB are being provided, the Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and

- in order to determine annual costs and liabilities that need to be recognized, the Board will have to decide whether to hire an actuary.

If applicable for the Itasca Nursing Home, d/b/a Grand Village, GASB Statements 43 and 45 would be implemented for the years ended September 30, 2007 and 2008, respectively.



REBECCA OTTO
STATE AUDITOR

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

Nursing Home Board
Itasca Nursing Home

We have audited the financial statements of the Itasca Nursing Home as of and for the year ended September 30, 2007, and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the Nursing Home's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Nursing Home's financial statements that is more than inconsequential will not be prevented or detected by the Nursing Home's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 97-1 and 07-1 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

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 06-1.

Also included in the Schedule of Findings and Recommendations is a management practices comment and an other item for consideration. We believe this recommendation and other information to be of benefit to the Itasca Nursing Home, and they are reported for that purpose.

The Itasca Nursing Home's written responses to the significant deficiency, material weakness, legal compliance, and management practices findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 14, 2008