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, 2015

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, 2015

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, 2015

Office	Name	Term Expires
Chair	Christopher Reed	December 31, 2016
Vice Chair	Davin Tinquist	December 31, 2018
Secretary	Jeffrey Walker	December 31, 2015
Member	Russell Eichorn	December 31, 2016
Member	Terry Snyder	December 31, 2016
Member	Mark Mandich	December 31, 2018
Member	Leo Trunt	December 31, 2018
Executive Director	Kyle Hedlund	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 Itasca Nursing Home as of and for the year ended September 30, 2015, 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 from 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 Itasca Nursing Home as of September 30, 2015, 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 2015 the Nursing Home adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (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*, which represents a change in accounting principles. 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 Itasca Nursing Home and are not intended to present fairly the financial position of Itasca County and the changes in its financial position and 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 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 22, 2016, on our consideration of 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 22, 2016

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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, 2015

Assets		
Current assets		
Cash and cash equivalents	$	2,967,314
Petty cash and change funds		1,560
Accounts receivable - net		1,592,422
Inventories		43,249
Prepaid items		169,365
Total current assets	**$**	**4,773,910**
Current assets - restricted		
Resident trust funds	**$**	**7,968**
Noncurrent assets		
Excess other postemployment benefits contributions	$	334,556
Nondepreciable capital assets		622,783
Depreciable capital assets - net of depreciation		11,691,102
Total noncurrent assets	**$**	**12,648,441**
Total Assets	**$**	**17,430,319**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**445,680**
Liabilities		
Current liabilities		
Accounts payable	$	471,538
Salaries payable		229,846
Accrued vacation payable		171,739
Unearned revenue		54,896
Interest payable		83,269
General obligation bonds payable - current		175,000
Revenue bonds payable - current		155,000
Total current liabilities	**$**	**1,341,288**
Current liabilities payable from restricted assets		
Due to residents	**$**	**7,968**
Noncurrent liabilities		
General obligation bonds payable - long-term	$	5,425,000
Revenue bonds payable - long-term		5,410,000
Net pension liability		3,803,969
Total noncurrent liabilities	**$**	**14,638,969**
Total Liabilities	**$**	**15,988,225**

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, 2015

Deferred Inflows of Resources		
Deferred pension inflows	**$**	**470,112**
Net Position		
Net investment in capital assets	$	1,148,885
Unrestricted		268,777
Total Net Position	**$**	**1,417,662**

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, 2015

Operating Revenues		
Patient service revenues	$	8,463,383
Miscellaneous		2,497,968
Total Operating Revenues	**$**	**10,961,351**
Operating Expenses		
Nursing services	$	4,182,738
Other care-related		313,668
Ancillary and other services		1,050,557
Dietary		899,728
Laundry and linen		91,941
Housekeeping		243,129
Plant operations		829,182
Administration		1,256,439
Other property and related costs		33,512
Employee benefits		1,487,207
Other postemployment benefits expense		43,340
Depreciation		694,745
Total Operating Expenses	**$**	**11,126,186**
Operating Income (Loss)	**$**	**(164,835)**
Nonoperating Revenues (Expenses)		
Interest income	$	2,091
Contributions and donations		16,575
Operating grants		173,299
Bond issuance costs		(70,599)
Interest expense		(311,900)
Total Nonoperating Revenues (Expenses)	**$**	**(190,534)**
Change in Net Position	**$**	**(355,369)**
Net Position - October 1, as restated (Note 1)		**1,773,031**
Net Position - September 30	**$**	**1,417,662**

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, 2015

Cash Flows from Operating Activities		
Cash received from customers	$	10,861,717
Cash paid to suppliers		(5,718,148)
Cash paid to employees		(4,922,081)
Net cash provided by (used in) operating activities	**$**	**221,488**
Cash Flows from Noncapital Financing Activities		
Cash received from contributions and donations	$	16,575
Cash received from operating grants		179,601
Net cash provided by (used in) noncapital financing activities	**$**	**196,176**
Cash Flows from Capital and Related Financing Activities		
Interest subsidy	$	35,000
Bond proceeds - net		2,340,199
Acquisition of capital assets		(1,272,805)
Principal paid on bonds		(290,000)
Interest paid on bonds		(402,243)
Net cash provided by (used in) capital and related financing activities	**$**	**410,151**
Cash Flows from Investing Activities		
Interest received	**$**	**2,091**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**829,906**
Cash and Cash Equivalents at October 1		**2,137,408**
Cash and Cash Equivalents at September 30	**$**	**2,967,314**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(164,835)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation		694,745
Change in assets and liabilities		
Accounts receivable		(99,634)
Inventories		4,153
Prepaid items		(21,584)
Excess other postemployment benefits contributions		(69,747)
Deferred pension outflows		(366,449)
Deferred pension inflows		470,112
Net pension liability		(15,098)
Accounts payable		(203,631)
Salaries payable		7,522
Accrued vacation payable		(14,066)
Net Cash Provided by (Used in) Operating Activities	**$**	**221,488**

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

1. Summary of Significant Accounting Policies

The financial reporting policies of 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. During the year ended September 30, 2015, the Nursing Home adopted new accounting guidance by implementing the provisions of GASB Statements 68 and 71. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement 27, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. These statements also require additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement 68, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statements 68 and 71 require the Nursing Home to report its proportionate share of the Public Employees Retirement Association (PERA) total employers' unfunded pension liability. As a result, beginning net position has been restated to record the Nursing Home's net pension liability and related deferred outflows of resources.

Net Position, October 1, 2014, as previously reported	$	5,512,867
Change in accounting principles		(3,739,836)
Net Position, October 1, 2014, restated	$	1,773,031

1. Summary of Significant Accounting Policies (Continued)

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, 2014, through September 30, 2015, calls for a payment of a flat fee of $300,000.

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

B. Basis of Presentation--Fund Accounting

The Nursing Home's operations are accounted for with a set of self-balancing accounts that comprise the assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

1. Summary of Significant Accounting Policies (Continued)

D. Assets

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.

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, 2015, based on market prices.

3. Receivables

Accounts receivable are shown net of an allowance for bad debts of $119,581.

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.

1. Summary of Significant Accounting Policies

D. Assets (Continued)

6. Capital Assets and Depreciation

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

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

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

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

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

E. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Currently, the Nursing Home has one item, deferred pension outflows, that qualifies for reporting in this category. The pension obligation amounts are deferred, and the length of the expense recognition period is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

1. Summary of Significant Accounting Policies

E. Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Nursing Home has only one type of item, deferred pension inflows, that qualifies for reporting in this category. The differences between projected and actual earnings on pension plan investments are recognized over a five-year period.

F. Liabilities

1. 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 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 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 $171,739 at September 30, 2015, 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 $370,251 at September 30, 2015, 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

F. Liabilities (Continued)

2. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of PERA and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

G. 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 62 percent for the fiscal year ended September 30, 2015.

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, 2015.

1. Summary of Significant Accounting Policies

G. Revenues (Continued)

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, 2015, resulted in a decrease to net patient service revenue of $829,428.

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, 2015.

Daily Rates	Period Rates in Effect
$185.13 to $451.95	October 1, 2014, to September 30, 2015

H. 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, 2015.

Year Ended September 30, 2015	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues	$ 10,823,417	$ 10,961,351	$ 137,934
Operating expenses	10,658,898	11,126,186	(467,288)
Operating Income (Loss)	$ 164,519	$ (164,835)	$ (329,354)
Nonoperating revenues (expenses)	(137,055)	(190,534)	(53,479)
Change in Net Position	$ 27,464	$ (355,369)	$ (382,833)

3. Detailed Notes

A. Assets

1. Deposits and Investments

The Itasca Nursing Home pools its cash and investments with Itasca County. Itasca County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. Minnesota statutes require that all Nursing Home deposits be covered by insurance, surety bond, or collateral. The County may invest in the types of investments authorized by Minn. Stat. §§ 118A.04 and 118A.05.

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

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

2. Capital Assets

A summary of changes in capital assets for the year ended September 30, 2015, follows:

	Balance October 1, 2014	Increase	Decrease	Balance September 30, 2015
Capital assets not depreciated				
Land	$ 22,496	$ -	$ -	$ 22,496
Construction in progress	927,726	1,160,547	1,487,986	600,287
Total capital asset not depreciated	$ 950,222	$ 1,160,547	$ 1,487,986	$ 622,783
Capital assets depreciated				
Land improvements	$ 218,071	$ 2,114	$ -	$ 220,185
Buildings and improvements	15,697,749	1,434,325	-	17,132,074
Machinery, furniture, and equipment	2,935,189	163,805	-	3,098,994
Total capital assets depreciated	$ 18,851,009	$ 1,600,244	$ -	$ 20,451,253

3. Detailed Notes

A. Assets

2. Capital Assets (Continued)

	Balance October 1, 2014	Increase	Decrease	Balance September 30, 2015
Less: accumulated depreciation for				
Land improvements	$ 120,721	$ 11,635	$ -	$ 132,356
Buildings and improvements	6,046,078	514,176	-	6,560,254
Machinery, furniture, and equipment	1,898,607	168,934	-	2,067,541
Total accumulated depreciation	$ 8,065,406	$ 694,745	$ -	$ 8,760,151
Total capital assets depreciated, net	$ 10,785,603	$ 905,499	$ -	$ 11,691,102
Total Capital Assets, Net	$ 11,735,825	$ 2,066,046	$ 1,487,986	$ 12,313,885

B. Liabilities

1. Long-Term Debt

In August 2015, Itasca County issued $2,350,000 of General Obligation Nursing Home Revenue Bonds, Series 2015A. These proceeds were used to finance various capital improvements. The Series 2015A bonds were a fixed rate issue with interest rates ranging from 1.15 percent to 3.60 percent and a final maturity date of February 1, 2036.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance September 30, 2015
Bonds					
2009A Taxable General Obligation Nursing Home Bonds (Build America Bonds)	2031	$160,000 - $375,000	2.35 - 5.75	$ 4,605,000	$ 4,110,000
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	3,215,000
2015A General Obligation Nursing Home Revenue Bonds	2036	$100,000 - $155,000	1.15 - 3.60	2,350,000	2,350,000
Total Bonds				$ 11,780,000	$ 11,165,000

3. Detailed Notes

B. Liabilities (Continued)

2. Debt Service Requirements

Debt service requirements at September 30, 2015, were as follows:

Year Ending September 30	General Obligation Nursing Home Revenue and Refunding Bonds		Taxable General Obligation Nursing Home Bonds	
	Principal	Interest	Principal	Interest
2016	$ 155,000	$ 152,410	$ 175,000	$ 298,813
2017	260,000	149,418	180,000	291,930
2018	260,000	145,068	190,000	284,200
2019	265,000	140,443	200,000	275,615
2020	270,000	135,493	205,000	266,348
2021 - 2025	1,420,000	583,440	1,205,000	1,164,673
2026 - 2030	1,630,000	361,055	1,580,000	790,124
2031 - 2035	1,150,000	106,930	1,865,000	285,581
2036	155,000	2,790	-	-
Total	$ 5,565,000	$ 1,777,047	$ 5,600,000	$ 3,657,284

3. Changes in Long-Term Liabilities

The following is a summary of the changes in long-term debt for the year ended September 30, 2015.

	Balance October 1, 2014	Additions	Reductions	Balance September 30, 2015	Due Within One Year
Long-Term Liabilities					
Bonds payable					
Taxable General Obligation Nursing Home Bonds	$ 5,770,000	$ -	$ 170,000	$ 5,600,000	$ 175,000
General Obligation Nursing Home Revenue Refunding Bonds	3,335,000	-	120,000	3,215,000	155,000
General Obligation Nursing Home Revenue Bonds	-	2,350,000	-	2,350,000	-
Total Bonds Payable	$ 9,105,000	$ 2,350,000	$ 290,000	$ 11,165,000	$ 330,000

3. Detailed Notes

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, General Obligation Nursing Home Revenue 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.

4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Itasca Nursing Home are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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 General Employees Retirement Fund 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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service 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, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

3. Contributions

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. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, the Nursing Home was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

The Nursing Home's contributions for the General Employees Retirement Fund for the year ended September 30, 2015, were $322,020. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At September 30, 2015, the Nursing Home reported a liability of $3,803,969 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Nursing Home's proportion of the net pension liability was based on the Nursing Home's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Nursing Home's proportion was 0.0734 percent. It was 0.0813 percent measured as of June 30, 2014. The Nursing Home recognized pension expense of $401,249 for its proportionate share of the General Employees Retirement Fund's pension expense.

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

The Nursing Home reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 191,785
Difference between projected and actual investment earnings	360,104	-
Changes in proportion	-	278,327
Contributions paid to PERA subsequent to the measurement date	85,576	-
Total	$ 445,680	$ 470,112

A total of $85,576 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2016	$ (66,678)
2017	(66,678)
2018	(66,678)
2019	90,026

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

In 2015, an updated experience study was done for PERA’s General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

The following presents the Nursing Home's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Nursing Home's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	$ 5,981,191	$ 3,803,969	$ 2,005,918

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

5. Postemployment Benefits

A. Plan Description and Funding Policy

The Nursing Home provides health insurance benefits for certain retired employees under a single-employer plan. Employees who were hired before July 1, 1994, are continuously employed until retirement, have at least 15 years of service with the Nursing Home, have participated in the health care insurance program for 15 years prior to retirement, and have met the eligibility requirements of PERA, are eligible to receive hospital/medical benefits to the same extent as active employees for the life of the retiree or surviving spouse. The Nursing Home will pay 100 percent of the retiree's premium and 50 percent of the spouse's premium for those employees who retired before July 1, 1994. For retirements after July 1, 1994, the retiree is responsible for 50 percent of the retiree's premium upon becoming eligible for Medicare and is solely responsible for the spouse's premium. Pre-Medicare retirees are responsible for 100 percent of the premium. The authority to provide this benefit is established in Minn. Stat. § 471.61, subd. 2a. A separate report is not issued for the plan.

Active employees who retire from the Nursing Home when eligible to receive a retirement benefit from PERA, who 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, 2015, 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.

5. Postemployment Benefits (Continued)

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 2015, the amount actually contributed to the plan, and changes in the Nursing Home's net OPEB obligation:

ARC	$	44,126
Interest on net OPEB obligation		(13,240)
Adjustment to ARC		12,454
Annual OPEB cost	$	43,340
Contributions during the year		(113,087)
Decrease (Increase) in excess OPEB contributions	$	(69,747)
Excess Contributions - Beginning of Year, as reported		(264,809)
Excess Contributions - End of Year	$	(334,556)

The Nursing Home's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the excess OPEB contributions for 2015, 2014, and 2013 were as follows:

	Year Ended September 30, 2015		Year Ended September 30, 2014		Year Ended September 30, 2013	
Percentage of annual OPEB cost contributed		261%		217%		176%
Annual OPEB cost	$	43,340	$	42,841	$	42,212
Employer contributions		(113,087)		(93,044)		(74,150)
Excess Contributions	$	(69,747)	$	(50,203)	$	(31,938)
Excess Contributions - Beginning of Year		(264,809)		(214,606)		(182,668)
Excess Contributions - End of Year	$	(334,556)	$	(264,809)	$	(214,606)

5. Postemployment Benefits (Continued)

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at September 30, 2014, the most recent actuarial valuation date, is $824,494. 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 $4,865,927. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 16.94 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, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the September 30, 2014, actuarial valuation, the entry age normal level percentage of pay actuarial cost method was used. The actuarial assumptions included a four 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, 2014, 8.5 percent in the year ending September 30, 2015, graded to 5.0 percent over six 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.

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, 2015

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%
September 30, 2014	-	824,494	824,494	0.00%	4,865,927	16.94%

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.

An actuarial study was performed for the year ended September 30, 2014, which is the most recent available.

ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT A-2

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
SEPTEMBER 30, 2015

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0734%	$ 3,803,969	$ 4,807,423	79.13%	78.75%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

EXHIBIT A-3

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
SEPTEMBER 30, 2015

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Employee Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 361,683	$ 322,020	$ (39,663)	$ 4,822,441	6.68%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The Itasca Nursing Home's year-end is September 30.

STATISTICAL DATA

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ITASCA NURSING HOME
GRAND RAPIDS, MINNESOTA

EXHIBIT B-1

STATISTICAL DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2015
(Unaudited)

Occupancy		
Licensed beds available at year-end		119
Number of resident days available		43,435
Number of actual resident days		37,320
Number of Medicaid days		23,292
Facility occupancy rate		85.92%
Average daily census		102.2
Average case mix score		1.08
Operating Revenues	$	10,961,351
Operating Expenses		11,126,186
Income (Loss) From Operations	**$**	**(164,835)**
Income per resident day	$	293.71
Cost per resident day		298.13
Income (Loss) From Operations Per Resident Day	**$**	**(4.42)**

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Management and Compliance Section

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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 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 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.

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustment (2014-001)

Itasca 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.

Resolution

There were no material adjustments detected during the current year audit.

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*

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 Itasca Nursing Home, as of and for the year ended September 30, 2015, 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 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nursing Home's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Nursing Home's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

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. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 1997-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, except that we did not test for compliance with the provisions for contracting and bidding because there were no contracts bid out during the year. 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 Itasca County 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.

Itasca Nursing Home's Response to Findings

Itasca Nursing Home's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. The Nursing Home's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 22, 2016