

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	8
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	9
STATEMENTS OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	12
INDEPENDENT AUDITORS' 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	22
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	24

INDEPENDENT AUDITORS' REPORT

Board of Directors
Fairview Care Center
Dodge Center, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Fairview Care Center, which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

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 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 auditors' 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 entity'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 entity'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 Fairview Care Center as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2016 on our consideration of Fairview Care Center'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fairview Care Center's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
May 2, 2016

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

Our discussion and analysis of Fairview Care Center's (the Care Center) financial performance provides an overview of the Care Center's financial activities for the fiscal years ended December 31, 2015 and 2014. Please read it in conjunction with Fairview Care Center's financial statements.

FINANCIAL HIGHLIGHTS

- The Care Center's net position increased by \$343,194 in fiscal 2014 to \$687,748 and increased by \$55,781 in 2015 to \$743,529.
- The Care Center experienced an operating gain of \$153,313 and \$57,450 for the years ended December 31, 2014 and 2015, respectively.
- Operating revenues increased by 2.27% from \$4,466,332 in fiscal 2014 to \$4,567,652 in 2015. Operating expenses increased by 4.57% over the same period, from \$4,313,019 to \$4,510,202.

USING THIS ANNUAL REPORT

The Care Center's financial statements consist of three statements – Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Care Center.

THE STATEMENTS OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

One of the most important questions asked about the Care Center's finances is, "Is the Care Center, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report information about the Care Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Care Center's net position and changes in them. You can think of the Care Center's net position – the difference between assets and liabilities – as one way to measure the Care Center's financial health, or financial position. Over time, increases or decreases in the Care Center's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Care Center's occupancy and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Care Center.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balances during the reporting period?"

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

THE CARE CENTER'S NET POSITION

The Care Center's net position is the difference between its assets and liabilities reported on the statements of net position.

Table 1: Assets, Liabilities, and Net Position

	2015	2014	2013
ASSETS			
Current Assets	\$ 619,869	\$ 621,365	\$ 407,236
Capital Assets, Net	568,996	608,004	641,889
Other Noncurrent Assets	102,190	113,986	107,428
Total Assets	<u>\$ 1,291,055</u>	<u>\$ 1,343,355</u>	<u>\$ 1,156,553</u>
LIABILITIES			
Current Liabilities	\$ 381,073	\$ 458,275	\$ 585,397
Other Liabilities	1,453	2,332	1,602
Long-Term Liabilities	165,000	195,000	225,000
Total Liabilities	547,526	655,607	811,999
COMMITMENTS AND CONTINGENCIES			
NET POSITION			
Net Investment in Capital	373,996	383,004	391,889
Restricted by Donors	9,924	13,519	5,990
Unrestricted	359,609	291,225	(53,325)
Total Net Position	743,529	687,748	344,554
Total Liabilities and Net Position	<u>\$ 1,291,055</u>	<u>\$ 1,343,355</u>	<u>\$ 1,156,553</u>

A significant component of the Care Center's assets is its Capital Assets. Other noncurrent assets consist primarily of funds designated for the repayment of long-term debt and funds restricted under resident trust agreements or by donors.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

OPERATING RESULTS AND CHANGES IN THE CARE CENTER'S NET POSITION

The Care Center's net position increased by \$55,781 in fiscal 2015 and increased by \$343,194 in 2014. A summarized table of the changes in net position is presented below.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
OPERATING REVENUES			
Net Resident Revenues	\$ 4,563,827	\$ 4,463,815	\$ 4,021,769
Other Operating Revenues	3,825	2,517	3,252
Total Operating Revenues	<u>4,567,652</u>	<u>4,466,332</u>	<u>4,025,021</u>
OPERATING EXPENSES			
Nursing, Other Care, and Ancillary	2,343,225	2,191,597	2,081,943
Dietary, Laundry, Housekeeping, and Plant Maintenance	767,479	812,475	730,552
Property Related	160,793	160,650	160,478
General, Administrative, Payroll Taxes, and Employee Benefits	1,194,255	1,103,006	1,101,515
Depreciation	38,750	38,930	38,848
Interest	5,700	6,361	6,861
Total Operating Expenses	<u>4,510,202</u>	<u>4,313,019</u>	<u>4,120,197</u>
Operating Income (Loss)	57,450	153,313	(95,176)
NONOPERATING REVENUES (LOSSES)			
Gain on Sale of Capital Assets	1,742	-	-
Contributions	(3,595)	1,500	(1,356)
Investment Income	184	257	457
Transfer In	-	175,000	-
Total Nonoperating Revenues (Losses)	<u>(1,669)</u>	<u>176,757</u>	<u>(899)</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	55,781	330,070	(96,075)
Capital Grants and Contributions	-	13,124	-
INCREASE (DECREASE) IN NET POSITION	55,781	343,194	(96,075)
NET POSITION - BEGINNING OF YEAR	<u>687,748</u>	<u>344,554</u>	<u>440,629</u>
NET POSITION - END OF YEAR	<u>\$ 743,529</u>	<u>\$ 687,748</u>	<u>\$ 344,554</u>

Revenues at Fairview Care Center are generally determined by two factors – occupancy and acuity of residents. Occupancy is simply a matter of how many of the Care Center's available beds are occupied. Acuity is measured by an assessment process that assigns residents to categories called Resource Utilization Groups (RUG). The higher the RUG, the higher the rate reimbursed. RUG assessments are assigned a weight factor ranging from 0.53 to 3.0, with an "average" being around 1.00. The actual overall average for any nursing home is called a "RUG Score." The Care Center's RUG score was 0.99 for fiscal 2015. The Care Center's occupancy for fiscal 2014 was 96.7% and for fiscal 2015 was 95.23%. The Care Center had 19,405 resident days in fiscal 2014 and 19,117 in fiscal 2015.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

OPERATING RESULTS AND CHANGES IN THE CARE CENTER'S NET ASSETS (CONTINUED)

As noted previously, the Care Center's operating expenses increased \$197,223 or 4.57% from fiscal 2014 to 2015. The increase in total expenses is due mainly to the increases in routine services and employee costs from 2014 to 2015. Operating expenses as a percent of revenues increased approximately 2.18%.

THE CARE CENTER'S CASH FLOWS

Changes in the Care Center's cash flows are generally consistent with changes in net position as discussed above.

CAPITAL ASSET ADMINISTRATION

As of December 31, 2015, the Care Center had \$568,996 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements.

LONG-TERM DEBT

The table below shows the Care Center's outstanding long-term debt.

Table 3: Long-Term Debt

	2015	2014	2013
2011 General Obligation Nursing Home Bonds	\$ 195,000	\$ 225,000	\$ 250,000
Total Long-Term Debt	\$ 195,000	\$ 225,000	\$ 250,000

ECONOMIC FACTORS

The Care Center considered many factors when setting the 2015 budget. Of primary importance in setting the 2015 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates
- Occupancy fluctuations and aging demographics
- Privacy/Security legislation (HIPAA)
- Increased costs of various insurance programs
- Workforce shortages, including nursing shortages
- Increased costs due to competitive wages
- Cost of supplies and ancillary services
- Increased cost of utilities due to rising energy prices

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

CONTACTING THE CARE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide residents, families, suppliers, taxpayers and the community with a general overview of the Care Center's finances and to show the Care Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Care Center's office at Fairview Care Center, 702 10th Avenue NW, Dodge Center, Minnesota, 55927.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 142,713	\$ 199,204
Accounts Receivable-Residents, Net of Allowance for Uncollectible Accounts (2015, \$3,801, 2014, \$19,105)	466,652	396,897
Third Party Payer Settlements	10,504	25,264
Total Current Assets	619,869	621,365
NONCURRENT CASH AND INVESTMENTS		
Board Designated for Debt Service	90,813	98,135
Restricted by Donors	9,924	13,519
Resident Trusts Funds	1,453	2,332
Total Non-Current Cash and Investments	102,190	113,986
CAPITAL ASSETS, NET		
	568,996	608,004
Total Assets	\$ 1,291,055	\$ 1,343,355
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 87,361	\$ 105,659
Accrued Salaries	37,077	137,451
Compensated Absences Payable	224,289	182,538
Interest Payable	2,346	2,627
Current Maturities of Long-Term Debt	30,000	30,000
Total Current Liabilities	381,073	458,275
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
	165,000	195,000
OTHER LIABILITIES		
Residents' Trust and Tenant Security Deposits	1,453	2,332
Total Liabilities	547,526	655,607
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital	373,996	383,004
Restricted by Donors	9,924	13,519
Unrestricted	359,609	291,225
Total Net Position	743,529	687,748
Total Liabilities and Net Position	\$ 1,291,055	\$ 1,343,355

See accompanying Notes to Financial Statements

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015		2014	
	Amount	Percent of Revenue	Amount	Percent of Revenue
NET RESIDENT REVENUE, Net of Provision for Bad Debts (2015, -\$172, 2014, \$23,588)	\$ 4,563,827	99.9 %	\$ 4,463,815	99.9 %
OTHER REVENUE	<u>3,825</u>	0.1	<u>2,517</u>	0.1
Total Operating Revenues	4,567,652	100.0	4,466,332	100.0
OPERATING EXPENSES				
Nursing	1,713,475	37.5	1,592,119	35.6
Other Care	135,804	3.0	141,961	3.2
Ancillary Services	493,946	10.8	457,517	10.2
Dietary	382,395	8.4	390,455	8.7
Laundry	84,065	1.8	89,257	2.0
Housekeeping	103,621	2.3	110,326	2.5
Plant Operations and Maintenance	197,398	4.3	222,437	5.0
Property Related	160,793	3.5	160,650	3.6
General and Administrative	386,042	8.5	340,903	7.6
Depreciation	38,750	0.8	38,930	0.9
Interest and Amortization	5,700	0.1	6,361	0.1
Payroll Taxes and Employee Benefits	<u>808,213</u>	17.7	<u>762,103</u>	17.2
Total Operating Expenses	<u>4,510,202</u>	98.7	<u>4,313,019</u>	96.6
Operating Income	57,450	1.3	153,313	3.4
NON-OPERATING REVENUES (LOSSES)				
Gain on Sale of Capital Assets	1,742		-	
Contributions	(3,595)		1,500	
Investment Income	184		257	
Transfer In	-		175,000	
Total Nonoperating Revenues (Losses)	<u>(1,669)</u>		<u>176,757</u>	
EXCESS OF REVENUE OVER EXPENSES	55,781		330,070	
Capital Grants and Contributions	<u>-</u>		<u>13,124</u>	
INCREASE IN NET POSITION	55,781		343,194	
NET POSITION - BEGINNING OF YEAR	<u>687,748</u>		<u>344,554</u>	
NET POSITION - END OF YEAR	<u>\$ 743,529</u>		<u>\$ 687,748</u>	

See accompanying Notes to Financial Statements

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Resident Services	\$ 4,494,072	\$ 4,382,445
Cash Paid to Suppliers and Employees	(4,542,673)	(4,224,642)
Miscellaneous Cash Received (Net)	18,585	(6,295)
Net Cash Provided (Used) by Operating Activities	(30,016)	151,508
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions	(3,595)	14,624
Advance from Dodge County	-	293,500
Return of Advance	-	(293,500)
Net Cash Provided (Used) by Non-Capital Financing Activities	(3,595)	14,624
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on Long-Term Debt	(30,000)	(25,000)
Interest Paid	(5,981)	(6,569)
Purchase of Property and Equipment	-	(5,045)
Proceeds from Sale of Property and Equipment	2,000	-
Net Cash Used by Capital and Related Financing Activities	(33,981)	(36,614)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	3,595	(7,529)
Interest Received	184	257
Net Cash Provided (Used) by Investing Activities	3,779	(7,272)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(63,813)	122,246
Cash and Cash Equivalents - Beginning of Year	297,339	175,093
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 233,526	\$ 297,339
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 142,713	\$ 199,204
Board Designated for Debt Service	90,813	98,135
Total Cash and Cash Equivalents	\$ 233,526	\$ 297,339

See accompanying Notes to Financial Statements

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 57,450	\$ 153,313
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	38,750	38,930
Cash Paid for Interest	5,981	6,569
(Increase) Decrease in Current Assets:		
Accounts Receivable - Residents, Net	(69,755)	(81,370)
Third Party Payer Settlements	14,760	(8,812)
Increase (Decrease) in Current Liabilities:		
Accounts Payable - Trade	(18,298)	26,835
Accrued Expenses	(58,904)	16,043
	<u>\$ (30,016)</u>	<u>\$ 151,508</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (30,016)</u>	<u>\$ 151,508</u>

See accompanying Notes to Financial Statements

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Fairview Care Center (the Care Center) is an enterprise fund of Dodge County, which operates a 55-bed licensed nursing facility in Dodge Center, Minnesota. The Care Center is governed by a Board of Directors appointed by the Dodge County Board. As an enterprise fund of the County, the Care Center records no provisions for income taxes.

Reporting Entity

For financial reporting purposes, the Care Center has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Care Center has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Care Center are such that exclusion would cause the Care Center's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Care Center. The Care Center has no component units, which meet the Governmental Accounting Standards Board criteria. The Care Center is considered a part of the reporting entity of Dodge County, Minnesota, and is included in the County's financial statements as an enterprise fund.

Uses of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Care Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

A summary of patient service revenues and contractual adjustments is as follows:

	2015	2014
Total Resident Service Revenues	\$ 5,397,709	\$ 5,292,154
Contractual Adjustments		
Medicare	792,760	593,918
Other	41,294	210,833
Provision for Bad Debts	(172)	23,588
Total Contractual Adjustments	833,882	828,339
Net Resident Revenue	\$ 4,563,827	\$ 4,463,815

Net Resident Revenue

Net resident revenue includes room charges and ancillary services to residents and is recorded at established billing rates net of contractual adjustments resulting from agreements with third-party payers.

Third-Party Reimbursement Agreements

Medicaid

The Care Center participates in the Medicaid program which is administered by the Minnesota Department of Human Services (DHS). Medicaid and private paying residents are classified into one of 48 Resource Utilization Groups (RUG) for purposes of establishing payment rates.

Effective January 1, 2016, nursing facilities will be paid under the Value Based Nursing Facility Reimbursement System (VBR) as approved during the 2015 Minnesota State Legislative Session. Under the VBR system, care related costs will be reimbursed at actual cost subject to certain limitations. Other operating costs will be reimbursed using a pricing model, which results in the rates for these costs being the same for all nursing facilities in the state. Certain other costs, such as qualifying employer health insurance costs, will be reimbursed at an external fixed payment rate and will be cost based with no limitations.

The change to the VBR system also includes a hold harmless provision which protects nursing facilities from being paid at rates lower than those in effect December 31, 2015. Nursing facilities will also be protected from significant decreases in rates in a single year related to care related costs.

By Minnesota Statue, a nursing facility may not charge private paying residents in multiple occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Third-Party Reimbursement Agreements (Continued)

Medicare

By Minnesota statutes, a nursing facility which participates in the Medicaid program must also participate in the Medicare program. This program is administered by the Centers for Medicare and Medicaid Services.

The Care Center is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare eligible. The PPS is a per diem price-based system.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

During the years ended December 31, 2015 and 2014, the occupancy percentages and the percentages of residents covered under the Medicaid and Medicare programs were as follows:

	2015	2014
Medicaid	46.9%	46.4%
Medicare	11.4%	12.0%
Total Occupancy	95.2%	91.1%

Cash and Cash Equivalents

Cash and cash equivalents include cash in interest bearing checking accounts and savings accounts.

Accounts Receivable – Residents, Net

The Care Center provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Residents are not required to provide collateral for services rendered. Payment for services is required within 10 days of receipt of invoice or claim submitted. Accounts past due are analyzed individually for collectability, and are written off based on management's judgment. At December 31, 2015 and 2014, the allowance for uncollectible accounts was approximately \$3,800 and \$19,100, respectively.

Noncurrent Cash and Investments

Noncurrent Cash and Investments include assets set aside by the Board of Directors for debt service, assets contributed with donor restriction for resident social activities and assets held by trust agreements with the residents.

Capital Assets

Capital Assets are recorded at cost. Depreciation is calculated by use of the straight-line method to amortize the cost of depreciable assets over their estimated useful lives. Maintenance, repairs and minor renewals are charged to expense as incurred. Replacements and major renewals are capitalized. Donated property and equipment is recorded at its fair market value at time of donation.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position of the Care Center is classified in three components. *Net Investment in Capital* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted by donors* must be used for resident social activities. *Unrestricted* net position is the remaining amount that does not meet the definition of *n or restricted*.

Operating Revenues and Expenses

The Care Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing housing and care services – the Care Center's principal activity. Nonexchange revenues, including interest and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide housing and care services, other than financing costs.

Real Estate Taxes

The real estate of the Care Center related to the providing of health care has been exempted from ad valorem property taxes by the State of Minnesota and its political subdivision.

Reclassifications

Certain items in the 2014 financial statements were reclassified for comparison purposes with the 2015 financial statements. The reclassifications did not result in a change in net position or change in net position as previously reported.

NOTE 2 DEPOSITS

Custodial Credit Risk – Custodial Credit Risk is the risk that in the event of bank failure, the Care Center's deposits may not be returned to it. In accordance with the applicable Minnesota Statutes, the Care Center, which is an enterprise fund of the County, maintains deposits at depository banks authorized by the County Commissioners and is a member of the Federal Reserve System.

Minnesota statutes require that all deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 DEPOSITS (CONTINUED)

Authorized collateral includes treasury bills, notes and bonds, issues of U.S. government agencies, general obligations rated "A" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank, and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

The Care Center's deposits in banks at December 31, 2015 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Deposits are presented in the statements of net position as follows:

	<u>2015</u>	<u>2014</u>
Cash and Cash Equivalents	\$ 142,713	\$ 199,204
Non-Current Cash and Investments		
Board Designated for Debt Service	90,813	98,135
Restricted by Donors	9,924	13,519
Resident Trusts Funds	<u>1,453</u>	<u>2,332</u>
	<u>\$ 244,903</u>	<u>\$ 313,190</u>

Interest earned on the above deposits and investments for the years ended December 31, 2015 and 2014 was \$184 and \$257, respectively.

NOTE 3 ACCOUNTS RECEIVABLE

Fairview Care Center is located in Dodge Center, Minnesota. This facility grants credit without collateral to its residents, most of whom are local individuals and are insured under third-party payers agreements. The mix of receivables from residents and third-party payers as of December 31, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	\$ 59,078	\$ 73,659
Medicaid	139,493	162,066
Residents and Other Third Party Payers	<u>271,882</u>	<u>180,277</u>
Total Accounts Receivable	470,453	416,002
Less Allowance for Doubtful Accounts		
Net Accounts Receivable	<u>(3,801)</u>	<u>(19,105)</u>
	<u>\$ 466,652</u>	<u>\$ 396,897</u>

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 4 CAPITAL ASSETS

Capital asset additions, retirements and balances for the years ended December 31, 2015 and 2014, were as follows:

	Balance January 1, 2015	Additions	Sales, Retirements, & Transfers	Balance December 31, 2015
Cost:				
Land	\$ 15,600	\$ -	\$ -	\$ 15,600
Land Improvements	68,588	-	-	68,588
Building and Improvements	1,545,323	-	-	1,545,323
Equipment	566,139	-	(13,257)	552,882
Total	<u>2,195,650</u>	<u>-</u>	<u>(13,257)</u>	<u>2,182,393</u>
Accumulated Depreciation:				
Land Improvements	68,588	-	-	68,588
Building and Improvements	996,402	28,530	-	1,024,932
Equipment	522,656	10,220	(12,999)	519,877
Total	<u>1,587,646</u>	<u>\$ 38,750</u>	<u>\$ (12,999)</u>	<u>1,613,397</u>
Capital Assets, Net	<u>\$ 608,004</u>			<u>\$ 568,996</u>
	Balance January 1, 2014	Additions	Sales, Retirements, & Transfers	Balance December 31, 2014
Cost:				
Land	\$ 15,600	\$ -	\$ -	\$ 15,600
Land Improvements	68,588	-	-	68,588
Building and Improvements	1,545,323	-	-	1,545,323
Equipment	565,611	5,045	(4,517)	566,139
Total	<u>2,195,122</u>	<u>5,045</u>	<u>(4,517)</u>	<u>2,195,650</u>
Accumulated Depreciation:				
Land Improvements	68,588	-	-	68,588
Building and Improvements	967,780	28,622	-	996,402
Equipment	516,865	10,308	(4,517)	522,656
Total	<u>1,553,233</u>	<u>\$ 38,930</u>	<u>\$ (4,517)</u>	<u>1,587,646</u>
Capital Assets, Net	<u>\$ 641,889</u>			<u>\$ 608,004</u>

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5 LONG-TERM DEBT

A schedule of changes in the Care Center's long-term debt for 2015 and 2014 is as follows:

	Balance January 1, 2015	Additions	(Payments)	Balance December 31, 2015	Amounts Due Within One Year
2011 G.O. Nursing Home Bonds	\$ 225,000	\$ -	\$ (30,000)	\$ 195,000	\$ 30,000
Total Long-Term Debt	<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ (30,000)</u>	<u>\$ 195,000</u>	<u>\$ 30,000</u>
	Balance January 1, 2014	Additions	(Payments)	Balance December 31, 2014	Amounts Due Within One Year
2011 G.O. Nursing Home Bonds	\$ 250,000	\$ -	\$ (25,000)	\$ 225,000	\$ 30,000
Total Long-Term Debt	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ 225,000</u>	<u>\$ 30,000</u>

General Obligation Nursing Home Bonds

During the year ended December 31, 2011, the Care Center issued general obligation nursing home bonds for capital projects in the amount of \$275,000 with interest ranging from 2% to 3.125%. The bonds are payable in semi-annual payments of interest on February 1 and August 1 through February 2021. The Care Center is required to make annual payments of principal on February 1 through February 2021.

Scheduled payments on the nursing home bonds are as follows:

Year Ending September 30:	Principal	Interest
2016	\$ 30,000	\$ 5,269
2017	30,000	4,481
2018	30,000	3,656
2019	30,000	2,794
2020	35,000	1,797
2021	40,000	625
Totals	<u>\$ 195,000</u>	<u>\$ 18,622</u>

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 6 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

All full-time and certain part-time employees of the Care Center are covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employee's Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not.

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. PERA issues a publicly available financial report that includes financial statements and required supplementary information for the PERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul MN 55103-2008 or by calling (651) 296-7460 or 1-800-652-9026.

The County has implemented Government Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB No. 68. The standards provides for the determination, disclosure and potential recognition of retirement benefits. The potential liability has been actuarially determined for the County and reflected in the County financial statements. The County has chosen not to assess costs related to the provision of any postemployment benefits to the Care Center.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The Care Center makes annual contributions to the pension plans equal to the amount required by State Statutes. PERA Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary.

The Care Center is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.25% for Coordinated Plan members. The Organization's contributions to PERF for the years ending December 31, 2015, 2014, and 2013 were \$159,740, \$145,817 and \$151,573, respectively. The Care Center's contributions were equal to the contractually required contributions for each year as set by state statute.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

The Care Center participates in a health insurance plan with the County which provides health insurance and other benefits to participating retirees. Retirees hired prior to January 1, 1986 with at least eight years of continuous service who retire on or after age 65 receive the cost of single coverage. Retirees hired on or after January 1, 1986 and before January 8, 1991 who retire on or after age 65 receive \$50.00 per month towards single coverage. Under the plan the County pays a portion of the monthly contribution for certain classes of retirees.

The County has implemented Government Accounting Standards Board (GASB) issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*. The standards provides for the determination, disclosure and potential recognition of other postemployment benefits, including retiree health insurance benefits described above. The potential liability has been actuarially determined for the County and reflected in the County financial statements. At this time, the County has chosen not to assess costs related to the provision of any postemployment benefits to the Care Center.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Health Care Industry

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretations, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Care Center may become subject to similar regulatory review, management believes that the outcome of such regulatory review will not have a material adverse effect on the Care Center's financial statements.

Risk Management

The Care Center is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risks of loss associated with workers' compensation are covered through Minnesota Counties Insurance Trust (MCIT) as the Care Center is a member through Dodge County. For all other risks, the Care Center has purchased commercial insurance policies. The Care Center retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements.

**DODGE COUNTY, MINNESOTA
FAIRVIEW CARE CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Risk Management (Continued)

There have been no significant reductions in insurance coverage from the previous year in any of the Care Center's policies. In addition, there have been no settlements in excess of the Care Center's insurance coverage in any of the prior three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earning on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.



INDEPENDENT AUDITORS' 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

Board of Directors
Fairview Care Center
Dodge Center, Minnesota

We have audited, in accordance with the 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 Fairview Care Center which comprise the statement of net position as of December 31, 2015 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 2, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairview Care Center'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
May 2, 2016



CliftonLarsonAllen

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CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Fairview Care Center
Dodge Center, 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 Fairview Care Center as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Fairview Care Center's basic financial statements, and have issued our report thereon dated May 2, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65 identifies seven categories of compliance to be tested in connection the audit of Fairview Care Center's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, nothing came to our attention that caused us to believe that Fairview Care Center 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 Fairview Care Center's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to 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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Austin, Minnesota
May 2, 2016