

**TRINIDAD STATE NURSING HOME**

**FINANCIAL STATEMENTS**  
**AND**  
**ADDITIONAL INFORMATION**  
**WITH**  
**INDEPENDENT AUDITORS' REPORTS**

**YEAR ENDED JUNE 30, 2008**

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*Dianne Ray*  
Deputy State Auditor

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*Luke Stolz*  
Legislative Auditors

*McPherson, Breyfogle, Daveline & Goodrich, PC*  
Contract Auditor

**TRINIDAD STATE NURSING HOME  
FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2008**

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**TRINIDAD STATE NURSING HOME  
FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2008**

**REPORT SUMMARY**

**AUTHORITY, PURPOSE AND SCOPE**

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG, P.C.) to conduct certain audits of the Trinidad State Nursing Home (the "Nursing Home") for its year ended June 30, 2008. MBDG, PC performed these audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. We conducted the related field work in August, 2008.

The purpose and scope of our audit was to:

- Express our opinion on the financial statements of the Nursing Home as of and for the year ended June 30, 2008. This included a review of internal control as required by generally accepted auditing standards in the United States of America and *Government Auditing Standards*.
- Report on the Nursing Home's internal control over financial reporting and compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

**SUMMARY OF MAJOR AUDIT FINDINGS AND RECOMMENDATIONS**

We expressed a qualified opinion on the Nursing Home's financial statements as of and for the year ended June 30, 2008. Our report included an explanatory paragraph stating that, in accordance with the terms of our engagement, we did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2007.

We issued a report on the Nursing Home's compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*. We did not note any material weakness in the internal control over financial reporting or any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements. We did not identify any findings or recommendations related to the Nursing Home's operations during our audit.

**TRINIDAD STATE NURSING HOME  
FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2008**

**REPORT SUMMARY (Cont'd.)**

**SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS**

The last audit report issued on the Trinidad State Nursing Home was for the year ended June 30, 2004 and included no recommendations.

**TRINIDAD STATE NURSING HOME  
FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2008**

**DESCRIPTION OF THE NURSING HOME**

The Trinidad State Nursing Home (the "Nursing Home") is an intermediate and skilled-care nursing facility established in 1957. It provides health services (including physician care, physical and speech therapy, dietician consultation, and 24-hour licensed nursing care) and related social care to patients who are severely limited in their ability to care for themselves due to severe illness and/or disability. The Nursing Home also has an adult day care unit which provides, in addition to the care mentioned above, a safe and secure environment for patients who need supervision.

**WORKLOAD AND STATISTICAL FACTORS**

Authorized capacity	119
Average daily census for the year ended June 30, 2008	97
Average occupancy percentage for the year ended June 30, 2008	81%
Patient days for the year ended June 30, 2008	35,351

**FINDINGS AND RECOMMENDATIONS**

We have audited the financial statements of the Trinidad State Nursing Home (the "Nursing Home") for the year ended June 30, 2008 and have issued our report thereon dated December 16, 2008. In planning and performing our audit of the financial statements, we considered the Nursing Home's internal control solely to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated December 16, 2008 on our consideration of the Nursing Home's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. We have not considered internal control since December 16, 2008.

Our procedures were designed primarily to enable us to form an opinion on the financial statements and on management's assertion regarding compliance and the effectiveness of internal control over financial reporting and, therefore, may not identify all weaknesses in policies or procedures that may exist.

During our engagement, we did not note any new matters involving internal control that are presented for the Nursing Home's consideration.

**TRINIDAD STATE NURSING HOME  
FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2008**

**FINDINGS AND RECOMMENDATIONS (Cont'd.)**

**DISPOSITION OF PRIOR AUDIT FINDINGS RECOMMENDATIONS**

No recommendations based on the June 30, 2004 audit were made.

**FINANCIAL AUDIT REPORT SECTION**



McPherson,  
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## INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of Trinidad State Nursing Home (the "Nursing Home"), an enterprise fund of the State of Colorado as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2007.

The financial statements present only the Trinidad State Nursing Home, an enterprise fund of the State of Colorado, and do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2008, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been necessary had we been able to satisfy ourselves about amounts comprising the statement of net assets at June 30, 2007, the financial statements referred to above present fairly, in all material respects, the financial position of Trinidad State Nursing Home as of June 30, 2008, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements have been prepared assuming that the Trinidad State Nursing Home will continue as a going concern. As discussed in Note 12 to the financial statements, the Nursing Home has had substantial losses over the prior periods. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2008, on our consideration of Trinidad State Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*McPherson, Bryfogle, Davidson & Goodrich, PC*

December 16, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents an analysis of the Trinidad State Nursing Home's financial performance and an overview of the Nursing Home's financial activities for the fiscal year ended June 30, 2008. This section was prepared by the Nursing Home's Business Office Manager. The financial statements are an integral part of this analysis and figures reported on the MCR01R and MCR02R outputs from the Colorado Financial Reporting System (COFRS) reflecting the Nursing Home's Fiscal Year 2008 performance are incorporated and referred to throughout this Management Discussion and Analysis. The analysis below includes comparative information from fiscal year 2007 and is based on the Condensed Statement of Net Assets and the Condensed Statement of Revenue, Expenses and Changes in Net Assets provided.

### **FINANCIAL HIGHLIGHTS**

After evaluation of the Nursing Home's financial statements the following highlights have been identified.

- The Nursing Home's Total Assets decreased by \$238,153 which is an 11% decrease from Fiscal Year 2007.
- The Nursing Home's Total Operating Revenue increased by \$140,901 which is a 2.3% increase from Fiscal Year 2007.
- The Nursing Home's Cash Operating Expenditures increased by \$223,994 which is a 3.3% increase from Fiscal Year 2007.
- The Nursing Home's Non-Cash Expenditures decreased by \$32,463 which is a 16.9% decrease from Fiscal Year 2007.
- The Nursing Home's Change in Net Assets decreased by \$44,695 in Fiscal Year 2008, from a change of (\$927,206) in Fiscal Year 2007 to (\$971,901) in Fiscal Year 2008.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Management's Discussion and Analysis consists of three parts: Financial Highlights and Overview, Financial Analysis of Financial Statements, and Supplementary Information, to include Budget Execution, Capital Expenditures and Fiscal Year 2009 Projections. The Financial Analysis includes notes that discuss in varying detail the information in the financial statements, summarized in Table A and Table B.

## **Fund Financial Statements**

### *Statement of Net Assets*

The Statement of Net Assets (see Table A) includes all of the Nursing Home's assets and liabilities and provides information pertaining to the nature of these assets and liabilities. The Statement also provides the basis for determining the overall financial health of the Nursing Home including liquidity and financial flexibility.

### *Statement of Revenues, Expenses and Changes in Net Assets*

The Statement of Revenues, Expenses, and Changes in Net Assets (see Table B) includes all of the revenues and expenses reported on the accrual basis of accounting. This Statement measures the efficiency of the Nursing Home's overall operation and can be used to help determine if the Nursing Home's rates and third party billings are adequate to recover expenses related to providing skilled nursing care to residents of the Nursing Home.

### *Statement of Cash Flows*

The Statement of Cash Flows presents information concerning the Nursing Home's cash receipts and cash disbursements during the year, along with net changes in cash from operating activities, non-capital financing, capital and related financing, and investing activities.

## **FINANCIAL ANALYSIS**

### **Summary of Operational Policies and Procedures**

The Trinidad State Nursing Home is a State of Colorado agency with the general mission of providing superior customer service that enhances the quality of life of each resident. The Nursing Home is within the Office of State and Veteran Nursing Homes, Department of Human Services, State of Colorado.

The Nursing Home operates as a self-supporting enterprise, meaning that the revenue received from residents, other third parties, and cash surplus must be adequate to cover the expenses of day-to-day operations of the Nursing Home. The State of Colorado does not provide funds to operate the Nursing Home with the exception of partial reimbursement of a certain consulting arrangement. Costs related to any support provided by the State are reimbursed by the Nursing Home. Financial Management Reports are reviewed monthly at the Executive Management level to ensure efficient and effective use of resources.

## Financial Analysis

### *Statement of Net Assets*

A condensed Statement of Net Assets is included as **Table A**, below. Increases or decreases in the Nursing Home's Assets are indicators of improving or deteriorating financial health. Consideration must be given to current assets, particularly Accounts Receivable and Cash, as compared to current liabilities when analyzing the Nursing Home's overall financial condition.

TABLE A  
Condensed Statement of Net Assets

	2008	2007	Dollar Change	Total Percent Change
Current Assets	456,789	543,312	(86,523)	-15.9%
Current Assets-Restricted	32,429	36,620	(4,191)	-11.4%
Non-Current Assets	1,354,946	1,502,385	(147,439)	-9.8%
<b>Total Assets (excluding restricted)</b>	<b>1,811,735</b>	<b>2,045,697</b>	<b>(233,962)</b>	<b>-11.4%</b>
<b>Total Restricted Assets</b>	<b>32,429</b>	<b>36,620</b>	<b>(4,191)</b>	<b>-11.4%</b>
<b>TOTAL ASSETS</b>	<b>1,844,164</b>	<b>2,082,317</b>	<b>(238,153)</b>	<b>-11.4%</b>
Current Liabilities	1,786,901	1,030,454	756,447	73.4%
Current Liabilities-Restricted	30,399	34,524	(4,125)	-11.9%
Non-Current Liabilities	821,326	840,160	(18,834)	-2.2%
<b>Total Liabilities(excluding restricted)</b>	<b>2,608,227</b>	<b>1,870,614</b>	<b>737,613</b>	<b>39.4%</b>
<b>Total Restricted Liabilities</b>	<b>30,399</b>	<b>34,524</b>	<b>(4,125)</b>	<b>-11.9%</b>
<b>TOTAL LIABILITIES</b>	<b>2,638,626</b>	<b>1,905,138</b>	<b>733,488</b>	<b>38.5%</b>
Net Assets Invested in Capital Assets, Net of Related Debt	732,412	843,772	(111,360)	-13.2%
Restricted for Resident Purposes	2,030	2,096	(66)	-3.1%
Unrestricted	(1,528,904)	(668,689)	(860,215)	-128.6%
<b>TOTAL NET ASSETS</b>	<b>(794,462)</b>	<b>177,179</b>	<b>(971,641)</b>	<b>-548.4%</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>1,844,164</b>	<b>2,082,317</b>	<b>(238,153)</b>	<b>-11.4%</b>

As shown in **Table A**, the Nursing Home's Total Assets decreased \$238,153 to \$1,844,164 in fiscal year 2008 from \$2,082,317 in fiscal year 2007. The net decrease in Total Assets is primarily due to the significant loss from operations in fiscal year 2008.

The increase in Total Liabilities for the same period is also shown in **Table A** and most of this was due to the increase in bank overdraft.

*Statement of Revenue, Expenses, and Changes in Net Assets*

The Statement of Revenues, Expenses, and Change in Net Assets provides the information as to the nature and the source of the changes seen in the Statement of Net Assets. **Table B** provides a summary of revenues and expenses of the Nursing Home for fiscal year 2008 as compared to the previous year.

TABLE B  
Condensed Statement of Revenue, Expenses, and Changes in Net Assets

	2008	2007	Dollar Change	Total Percent Change
Total Operating Revenue	6,299,924	6,159,023	140,901	2.3%
Non-Operating Revenue	-	3,732	(3,732)	-100.0%
Restricted Revenue	11,442	3,709	7,733	208.5%
<b>TOTAL REVENUE</b>	<b>6,311,366</b>	<b>6,166,464</b>	<b>144,902</b>	<b>2.3%</b>
Operating Expenses-Cash	7,085,250	6,861,256	223,994	3.3%
Operating Expenses-Non Cash(Depr. & Bad Debt)	160,050	192,513	(32,463)	-16.9%
Non Operating Expense-Cash(Bond/Note Costs)	26,460	28,584	(2,124)	-7.4%
Restricted Expenses	11,508	11,317	191	1.7%
<b>TOTAL EXPENSES</b>	<b>7,283,268</b>	<b>7,093,670</b>	<b>189,598</b>	<b>2.7%</b>
<b>CHANGE IN NET ASSETS</b>	<b>(971,902)</b>	<b>(927,206)</b>	<b>(44,696)</b>	<b>-4.8%</b>

A closer examination of the Condensed Statement of Revenues, Expenses and Changes in Net Assets in **Table B** reveals the following:

- The Nursing Home's operating revenues increased by \$140,901 mainly due to increased census.
- Nursing Home's revenues are directly related to the number of resident days of patient care. The Nursing Home has a 119 functional bed capacity, and census must be maintained at the 90% level or above to provide sufficient income to break even.

Operating expenses increase annually due to inflationary influences in the areas of medical supplies, pharmaceuticals and raw food, as well as State of Colorado directed salary and benefit increases for staff. Normally, there is minimal opportunity for the Nursing Home to reduce expenses to any significant degree due to the nature of its operation, that of providing health care and quality of life for its residents. Total cash expenses increased in fiscal year 2008 compared to fiscal year 2007.

**Table B** reflects that in Fiscal Year 2008 the Nursing Home experienced a \$971,902 Net Loss with a slight increase in revenues not sufficient to cover both cash and non-cash expenses due to lower census levels and increases in Division allocations and significant use of temporary agencies for nursing, dietary, and activity services.

## **BUDGETARY HIGHLIGHTS**

The Nursing Home's Fiscal Year 2008 financial operations resulted in revenues, including capital contribution and non-operating revenue, below the budgeted amounts of \$6,732,448 by \$421,082. This was a result of lower census than anticipated. Cash and non-cash expenses were \$246,701 above the \$7,025,058 budgeted amount.

## **CAPITAL ASSETS AND DEBT ACTIVITIES**

### *Capital Assets*

During fiscal year 2008 the Nursing Home made no investments in capital expenditures.

### *Debt Activities*

No acquisition of debt occurred during fiscal years 2007 and 2008. The Siemens Energy project capital lease commenced on June 20, 2005 and the payments for the long-term capital lease began April 1, 2006 (Fiscal Year 2006). The balance at June 30, 2008 was \$622,534.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Economic factors continue to impact the Nursing Home's operations by increasing the costs associated with providing quality health care. A budget has been prepared for fiscal year 2009 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged residents for skilled nursing care. The budget projected for fiscal year 2009 shows a slight profit of \$22,000 for the year.

## **CONTACTING TRINIDAD STATE NURSING HOME**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Trinidad State Nursing Home's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact the Controller of the Colorado Department of Human Services at 1575 Sherman Street, Denver, CO 80203 or phone 303-866-2732.

**TRINIDAD STATE NURSING HOME  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	1,500
Restricted cash, resident funds	32,429
Accounts receivable (net of allowance for uncollectibles of \$47,616)	3,533
Due from other governments	437,974
Prepaid expenses	13,782
<b>TOTAL CURRENT ASSETS</b>	<b>489,218</b>

**NONCURRENT ASSETS**

Capital assets -	
Land and improvements	161,816
Buildings	3,383,266
Furniture and equipment	222,562
Vehicles	5,249
Software	78,875
Accumulated depreciation	(2,496,822)
<b>TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)</b>	<b>1,354,946</b>

**TOTAL ASSETS** **\$ 1,844,164**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts and vouchers payable	\$ 116,174
Accrued salaries payable	511,095
Accrued interest payable	6,465
Operating cash overdraft	1,074,266
Current portion of liability for compensated absences	31,698
Current portion of capital lease	47,203
Deposits held in trust for residents	30,399
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,817,300</b>

**NONCURRENT LIABILITIES**

Liability for compensated absences	245,995
Noncurrent portion of capital lease	575,331
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>821,326</b>

**TOTAL LIABILITIES** **2,638,626**

**NET ASSETS**

Invested in capital assets, net of related debt	732,412
Restricted	2,030
Unrestricted	(1,528,904)
<b>TOTAL NET ASSETS</b>	<b>(794,462)</b>

**TOTAL LIABILITIES AND NET ASSETS** **\$ 1,844,164**

The accompanying notes are an integral part of this statement.

**TRINIDAD STATE NURSING HOME**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2008**

<b>OPERATING REVENUE</b>	
Patient charges for services	\$ 6,299,924
Miscellaneous revenue	<u>-</u>
<b>TOTAL OPERATING REVENUE</b>	<u>6,299,924</u>
 <b>OPERATING EXPENSES</b>	
Personal services and employee benefits	5,319,102
Advertising	5,856
Building, laundry and recreational supplies	42,242
Food and food service supplies	247,788
Insurance	175,867
Inter-departmental charges for services	260,201
Legal services	1,187
Medical and laboratory supplies	175,900
Office	25,219
Other operating expenses	13,263
Professional services	445,153
Repairs and maintenance	114,240
Small equipment	63,530
Telephones	14,304
Utilities	177,049
Vehicles and travel	4,349
Depreciation	147,439
Bad debt expense	<u>12,611</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>7,245,300</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(945,376)</u>
 <b>NONOPERATING REVENUE(EXPENSES)</b>	
Donations - resident funds	11,442
Interest expense	(26,460)
Recreation - resident funds	<u>(11,508)</u>
<b>TOTAL NONOPERATING REVENUE(EXPENSES)</b>	<u>(26,526)</u>
<b>CHANGE IN NET ASSETS</b>	(971,902)
<b>NET ASSETS, beginning of year</b>	<u>177,440</u>
<b>NET ASSETS, end of year</b>	<u>\$ (794,462)</u>

The accompanying notes are an integral part of this statement.

**TRINIDAD STATE NURSING HOME  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2008**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from patients and third-party payors	\$ 6,407,636
Cash payments to employees for services	(4,403,125)
Cash payments to suppliers for goods and services	<u>(1,931,985)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>72,526</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal payments on capital leases	(46,066)
Interest payments on capital leases	<u>(26,460)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(72,526)</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	
	-
 <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	 <u>1,500</u>
 <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	 <u><u>\$ 1,500</u></u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (945,376)
Adjustments to reconcile operating loss to net cash provided by operating activities -	
Depreciation	147,439
Bad debt expense	12,611
Changes in assets and liabilities -	
Accounts receivable	83,659
Prepaid expenses	(9,748)
Accounts payable and accrued expenses	757,035
Liability for compensated absences	<u>26,636</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	 <u><u>\$ 72,256</u></u>

The accompanying notes are an integral part of this statement.

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Trinidad State Nursing Home (the "Nursing Home") is part of the State of Colorado (the "State"), Department of Human Services.

The financial statements of the Nursing Home have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Nursing Home applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB statements prevail. The more significant of the Nursing Home's accounting policies are described below.

The Financial Reporting Entity

The State is the primary reporting entity for state financial reporting purposes. As an enterprise fund of the State, the Nursing Home's financial statements are generally presented in a manner consistent with those of the State. However, the financial statements of the Nursing Home are not intended to report financial information of the State in conformity with generally accepted accounting principles.

The accounting policies of the Nursing Home conform to accounting principles generally accepted in the United States of America, as applicable to governmental units.

Fund Accounting

The Nursing Home uses an enterprise fund to report its financial position, changes in financial position, and cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Enterprise funds are used to report activities for which a fee is charged to external users for goods and services.

Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

**TRINIDAD STATE NURSING HOME  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

Net Assets

Net assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This caption consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This caption consists of constraints placed on net asset use through external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – Consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Budget and Budgetary Accounting

Appropriations for the nursing homes owned by the State are not included in the annual Long Bill (appropriations bill) passed by the General Assembly. Therefore, no budgetary comparison statement is required to be presented.

The Nursing Home’s administrator submits a budget at least 60 days prior to the beginning of the fiscal year to the Department of Human Services for approval. The budget includes proposed expenditures and the means of financing them.

During the year, the budget may be modified; however, a supplemental budget request must be submitted for approval at the Department level if a change in requirements dictates that the originally approved budget is to be exceeded.

Accounts Receivable

The Nursing Home’s accounts receivable consists primarily of open accounts with residents for services and subsidized Medicaid reimbursements. Portions of accounts receivable relating to non-subsidized charges for services are subject to credit risk. Consequently, an allowance for doubtful accounts has been established based on management’s estimate.

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

Capital Assets

Any individual item of property and equipment with a cost of \$5,000 or more and whose estimated life exceeds two years is recorded at cost. Expenses for normal maintenance and repairs are recognized currently as incurred, while renewals and betterments are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the statement of net assets. Depreciation has been provided over the estimated useful lives by class using the straight-line method, as follows:

Land improvements	10-20 years
Buildings	20-40 years
Furniture and equipment	5-20 years

Compensated Absences

It is the Nursing Home's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees are allowed to accumulate vacation benefits up to predetermined maximums and are compensated for these accumulated vacation benefits either through paid time off or at termination or retirement. Employees are also allowed to accumulate sick pay benefits up to predetermined maximums; however, payment of these sick pay benefits is limited to 25% of the balance upon retirement only.

Vacation and related payroll benefits are accrued as an expense and fund liability when incurred up to the predetermined maximums. Sick pay and related payroll benefits are recognized as an expense and a fund liability and are measured using an estimate of current employees that will eventually retire.

Statement of Cash Flows

For purposes of the statement of cash flows, the Nursing Home considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, except that the Nursing Home has elected not to include restricted cash as part of cash equivalents.

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION**

The Nursing Home has a Patient Benefit Fund and a Resident Trust Fund that have been included with the enterprise fund for financial reporting purposes. The Patient Benefit fund is funded by donations from the public and is controlled by a committee consisting of resident representatives and other interested outside parties. The funds are used for various resident needs and activities. The Resident Trust fund consists of personal funds belonging to the individual residents. The assets, liabilities, fund balance, revenue, and expenditures of these funds are included in the Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets. Below are the amounts from these funds included in the financial statements:

**Statement of Net Assets**

	June 30, 2008	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 2,030	\$ 30,399
Total Assets	\$ 2,030	\$ 30,399
<u>Liabilities and Net Assets</u>		
Deposits held in trust for residents	\$ -	\$ 30,399
Net Assets		
Restricted for resident purposes	2,030	\$ -
Total Liabilities and Net Assets	\$ 2,030	\$ 30,399

**Statement of Revenue, Expenses, and Changes in Net Assets**

	Year Ended June 30, 2008
	Patient Benefit Fund
Nonoperating Revenue	
Donations	\$ 11,442
Total nonoperating revenue	11,442
Expenses	
Recreation	11,508
Change in Net Assets	(66)
Net Assets, beginning of year	2,096
Net Assets, end of year	\$ 2,030

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 3 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 1,500
Cash with State Treasurer	<u>-</u>
	<u>\$ 1,500</u>
 <u>Resident Funds</u>	
Cash on hand	\$ -
Demand deposits	32,429
	<u>\$ 32,429</u>

At June 30, 2008, the carrying amount of the Nursing Home's demand deposits was \$32,429 and the bank balance was \$32,429. All the bank balances were covered by federal depository insurance.

The Nursing Home's cash with the Colorado State Treasurer was overdrawn in the amount of \$1,074,266 at June 30, 2008, and is not subject to risk categorization. Additional information on the Treasurer's pool may be obtained from the State of Colorado's Comprehensive Annual Financial Report.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2008 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$47,616	<u>\$ 3,533</u>
Medicaid reimbursements	<u>\$ 437,974</u>

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 5 – CAPITAL ASSETS**

Following is a summary of capital assets:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Nondepreciable assets –				
Land	\$ 5,960	\$ -	\$ -	\$ 5,960
Total capital assets not being depreciated	<u>5,960</u>	<u>-</u>	<u>-</u>	<u>5,960</u>
Depreciable assets –				
Land improvements	155,856	-	-	155,856
Building	3,383,266	-	-	3,383,266
Furniture and equipment	234,054	-	33,798	200,256
Vehicles	5,249	-	-	5,249
Software	78,875	-	-	78,875
Leased furniture and equipment	<u>22,306</u>	<u>-</u>	<u>-</u>	<u>22,306</u>
Total capital assets being depreciated	<u>3,879,606</u>	<u>-</u>	<u>33,798</u>	<u>3,845,808</u>
Less: accumulated depreciation for –				
Land improvements	127,885	8,053	-	135,938
Building	1,960,308	122,223	-	2,082,531
Furniture and equipment	212,049	16,637	33,798	194,888
Vehicles	4,064	526	-	4,590
Software	<u>78,875</u>	<u>-</u>	<u>-</u>	<u>78,875</u>
Total accumulated depreciation	<u>2,383,181</u>	<u>147,439</u>	<u>33,798</u>	<u>2,496,822</u>
Net Capital Assets	<u>\$ 1,502,385</u>	<u>\$ (147,439)</u>	<u>\$ -</u>	<u>\$ 1,354,946</u>

**TRINIDAD STATE NURSING HOME  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 6 – CAPITAL LEASE**

The following is a summary of changes in the capital lease for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
\$704,710 capital lease; interest rate of 4.03%; due in quarterly installments of \$17,870 including interest through January 2019	\$ <u>667,270</u>	\$ <u>-</u>	\$ <u>44,736</u>	\$ <u>622,534</u>

The cost and accumulated depreciation applicable to the capital assets that are the subject of the capital lease is as follows:

Cost – Conservation Project	\$ 715,893
Accumulated depreciation to June 30, 2007	( <u>53,741</u> )
	<u>\$ 662,152</u>

The debt service requirements for the capital lease are as follows:

Year Ending June 30,

2009	\$ 47,203
2010	49,733
2011	51,472
2012	50,955
2013	53,697
2014-2019	<u>369,474</u>
	<u>\$ 622,534</u>

Amortization of equipment held under capital leases is included with depreciation expense.

**NOTE 7 - RISK MANAGEMENT**

The Nursing Home is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Nursing Home's risks related to general liability, motor vehicle liability, worker's compensation and medical claims are covered under the self-insurance fund managed by the Department of Personnel/General Support Services for the State of Colorado. Property claims are covered by commercial insurance and claims settled have not exceeded coverage limits for the last three years. A further description of the state's risks are contained in the state's Comprehensive Annual Financial Report.

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 8 – PENSION PLANS**

**A. PLAN DESCRIPTION**

Most of the Nursing Home's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Colorado Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado, 80217, by calling PERA at 1-800-729-PERA (7372), or by visiting <http://www.copera.org>.

Non-higher education employees hired by the state after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on the original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equal to 80 or more.

Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

Members automatically receive the higher of the defined retirement benefit or money purchase benefit retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on their original hire dates as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lessor of 3 percent or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lessor of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

**B. FUNDING POLICY**

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2007, to December 31, 2007, the state contributed 11.15 percent (13.85 percent for state troopers and 14.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2008 through June 30, 2008, the state contributed 12.05 percent (14.75 percent for state troopers and 15.56 percent for the Judicial Branch). During the Fiscal Year 2007-08, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

**TRINIDAD STATE NURSING HOME  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2007, the division of PERA in which the state participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100 percent.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The Nursing Home's contributions to the three programs described above for the fiscal years ended June 30, 2008, 2007 and 2006 were \$494,318, \$479,661 and \$432,343, respectively. These contributions met the required contribution requirement for each year.

**NOTE 9 – VOLUNTARY TAX-DEFERRED RETIREMENT PLAN**

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403(b) plan or 401(a) plans.

**NOTE 10 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

Health Care Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and \$115 per month for benefit recipient who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed in Note 8. Beginning July 1, 2004, the Nursing Home was required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Nursing Home contributed \$40,580, \$41,373, and \$38,862 as required by statute in Fiscal Years 2007-08, 2006-07, and 2005-06, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans; fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2007, there were 44,214 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2007, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.045 billion, a funded ratio of 19.9 percent, and 38-year amortization period.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential Insurance Company and Anthem Life Insurance Company (formerly known as Rocky Mountain Life Insurance Company). Members may join one or both plans, and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction or other means.

**NOTE 11 - CONTINGENCIES AND COMMITMENTS**

Taxpayer Bill of Rights – Colorado voters passed an amendment to the state constitution in November 1992 which contains several limitations, including revenue raising, spending and other specific requirements affecting state and local governments. The amendment, commonly known as the TABOR amendment, is complex and subject to judicial interpretation; however, the management of the Nursing Home believes it is in compliance with the requirements of the amendment.

**TRINIDAD STATE NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 12 – GOING CONCERN**

Over the last two years the Nursing Home has had significant losses, \$971,902 for the year ended June 30, 2008, and \$927,206 for the year ended June 30, 2007. The Nursing Home has also lost an additional \$222,278 in the first two months of the fiscal year 08-09. The Nursing Home requires a census of approximately 107 to breakeven and currently it is averaging a census of 97 patients. Management has agreed to an arrangement with the Colorado State Hospital to receive patients from them and is in the process of being licensed by Medicare in an effort to increase their census. The Nursing Home is scheduled to receive four patients in September from the Colorado State Hospital and that could go up to 17. It is not possible to estimate the number of patients they might obtain from being licensed for Medicare. With the additional losses in the current year combined with the losses of the two prior years, the issue of the Nursing Home continuing as a going concern is consequential.

**GOVERNMENT AUDITING STANDARDS**

**REPORT**



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**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE AND INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Members of the Legislative Audit Committee:

We have audited the financial statements of Trinidad State Nursing Home as of and for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. Our report was qualified for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about amounts comprising the statement of net assets at June 30, 2007. Except as described in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

In accordance with the terms of our engagement, we did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2007.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

This report is intended for the information and use of the Legislative Audit Committee and the Nursing Home's management and is not intended to be and should not be used by anyone other than these specified parties.

*McPherson, Smyth, Daniels & Woodruff, PC*

December 16, 2008



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## REQUIRED AUDITOR COMMUNICATION TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee:

We have audited the financial statements of Trinidad State Nursing Home (the "Nursing Home") as of and for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter March 28, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve management of its responsibilities.

As part of our audit, we considered the internal control of Trinidad State Nursing Home. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Trinidad State Nursing Home's compliance with certain provisions of laws, regulations, contracts, and such grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated in our meeting about planning matters on July 7, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by the Nursing Home are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during Fiscal Year 2008. We noted no transactions entered into by the Nursing Home during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the allowance for doubtful accounts. Management's estimate of the allowance for uncollectible accounts is based on management's review of the accounts and determination of the collectability of each individual account. We evaluate the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We proposed one passed audit adjustment to the financial statements, which was to increase accounts receivable by \$12,168 for amounts determined to be overpaid to an employee. The adjustment, if agreed to by management, would have decreased salaries expense.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested and received certain representations from management that are included in the management representation letter dated December 16, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Nursing Home's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Finding or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Nursing Home's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

This information is intended solely for the information and use of the Legislative Audit Committee, the Nursing Home's management, and others within the Department of Human Services and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record upon release by the Legislative Audit Committee.

*Mr. Pherson, Bruffogh, Durkin & Goodrich, PC*

December 16, 2008

The electronic version of this report is available on the Web site of the  
Office of the State Auditor  
**[www.state.co.us/auditor](http://www.state.co.us/auditor)**

A bound report may be obtained by calling the  
Office of the State Auditor  
**303-869-2800**

Please refer to the Report Control Number below when requesting this report.

**Report Control Number 1965**