

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME

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

YEAR ENDED JUNE 30, 2011

MBDG

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**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2011**

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**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2011**

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REPORT SUMMARY

AUTHORITY, PURPOSE AND SCOPE

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG, PC) to conduct certain audits of the Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home) for its year ended June 30, 2011. MBDG, PC performed these audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. We conducted the related field work in August 2011.

The purpose and scope of our audits was to:

- Express our opinion on the financial statements of the Nursing Home as of and for the year ended June 30, 2011. This included a review of internal control in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts and grants governing the expenditure of federal funds.
- Express an opinion on the Nursing Home's compliance with requirements applicable to each of its major programs along with reporting on internal control over compliance.
- 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, 2011. 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, 2010.

We issued a report on the Nursing Home's internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The audit report for the year ended June 30, 2007 did not identify any findings or recommendations.

DESCRIPTION OF THE NURSING HOME

The Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home), established under Section 26-12-201, C.R.S., is a skilled-care nursing facility. It provides health services (including physician care, physical, speech, and occupational therapy, dietician consultation, dental care, 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 serious illness and/or disability. The Nursing Home also has an Alzheimer's unit which provides, in addition to the care mentioned above, a safe and secure environment for patients with Alzheimer's or related disorders.

The Nursing Home, by statute, serves all veterans of service in the armed forces of the United States, their spouses, their widow(er)s, and their dependent and/or "gold star" parents. A gold star parent is a parent whose child died in combat or as a result of injuries received in combat. Preference for admission is given to Colorado veterans. The Nursing Home must maintain a 75 percent veteran's occupancy. The Nursing Home serves veterans without regard to sex, race, color, or national origin.

The Nursing Home is one of a very limited number of facilities which meet U.S. Department of Veterans Affairs (VA) requirements to provide care to veterans. In turn, the Nursing Home receives certain funding from VA on the basis of the number of veterans served. The Nursing Home is overseen by the Division of State and Veterans Nursing Homes within the Colorado Department of Human Services, Office of Behavioral Health and Housing.

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	105
Average daily census for the year ended June 30, 2011	84
Average occupancy percentage for the year ended June 30, 2011	80%
Average veterans occupancy percentage for the year ended June 30, 2011	88%
Patient days for the year ended June 30, 2011	30,329

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home) for the year ended June 30, 2011 and have issued our report thereon dated December 10, 2011. In planning and performing our audit of the financial statements, we considered the Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control over financial reporting. 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 10, 2011 on our consideration of the Nursing Home's internal control over financial reporting and on compliance and other matters and our tests of its compliance with requirements of laws, regulations, contracts, and grants applicable to its major federal program.

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 deficiencies in internal control 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.

* * * * *

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

There were no audit recommendations made by MBDG, P.C. included in the report to the Legislative Audit Committee for the year ended June 30, 2007.

FINANCIAL AUDIT REPORT SECTION



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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2011, 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, 2010.

The financial statements present only the Bruce McCandless Colorado State Veterans 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, 2011, 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, 2010, the financial statements referred to above present fairly, in all material respects, the financial position of the Bruce McCandless Colorado State Veterans Nursing Home as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2011, on our consideration of the Bruce McCandless Colorado State Veterans Nursing Home 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.

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.

Mr. Planson, Brytogh, Davlin & Goodrich, PC

December 10, 2011

**BRUCE MCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents an analysis of the Bruce McCandless Colorado State Veterans Nursing Home's financial performance and an overview of the Nursing Home's financial activities for the fiscal year ended June 30, 2011. The Nursing Home's Business Office Manager prepared this section. 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 2010-2011 performances are incorporated and referred to throughout this Management Discussion and Analysis. The analysis below includes comparative information from fiscal year 2009-2010 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 Net Assets increased by \$894,084 which is a 7.0% increase from fiscal year 2009-2010.
- The Nursing Home's Total Operating Revenue decreased by \$527,006, which is a 5.4% decrease from fiscal year 2009-2010.
- The Nursing Home's Operating Expenses - Cash decreased \$258,731, which is a 2.9% decrease from fiscal year 2009-2010.
- The Nursing Home's Operating Expenses - Non-Cash increased by \$212,772, which is a 55.0% increase from fiscal year 2009-2010.
- The Nursing Home's Change in Net Assets increased by \$58,733 which is a 7.0% increase from fiscal year 2009-2010.

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 2011 Projections. The Financial Analysis includes notes that discuss in varying detail the information in the financial statements, summarized in Table A and Table B.

**BRUCE MCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

Fund Financial Statements

Statement of Assets

The Statement of 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 Bruce McCandless Colorado State Veterans Nursing Home - Florence is a State of Colorado agency with the general mission of "To honor and respect those living and working in our home through companionship, empowerment, and individualized care while providing a comfortable and safe place to live". The Nursing Home is within the Division of State and Veterans Nursing Homes, Office of Long Term Care 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 and general funds monies for the domiciliary. 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.

**BRUCE MCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 Center's overall financial condition.

TABLE A
Condensed Statement of Net Assets

	2011 (Audited)	2010 (Unaudited)	Dollar Change	Total Percent Change
Current Assets	5,044,691	4,832,234	212,457	4.4%
Current Assets-Restricted	104,193	118,277	(14,084)	-11.9%
Non-Current Assets	6,278,104	5,664,979	613,125	10.8%
Total Assets (excluding restricted)	11,322,795	10,497,213	825,582	7.9%
Total Restricted Assets	104,193	118,277	(14,084)	-11.9%
TOTAL ASSETS	11,426,988	10,615,490	811,498	7.6%
Current Liabilities	964,716	950,550	14,166	1.5%
Non-Current Liabilities	945,551	1,042,303	(96,752)	-9.2%
TOTAL LIABILITIES	1,910,267	1,992,853	(82,586)	-4.1%
Net Assets Invested in Capital Assets	5,658,900	4,971,193	687,707	13.8%
Restricted for resident purposes	23,087	30,156	(7,069)	-23.4%
Unrestricted	3,834,734	3,621,288	213,446	5.9%
Total Net Assets	9,516,721	8,622,637	894,084	10.4%
TOTAL LIABILITIES AND NET ASSETS	11,426,988	10,615,490	811,498	7.6%

As shown in **Table A**, the Homes' Total Assets increased \$811,498 to \$11,426,988 in fiscal year 2010-2011 from \$10,615,490 in fiscal year 2009-2010. The net increase in Total Assets is primarily due to the increase in cash and capitalization of construction projects.

The decrease in Total Liabilities for the same period is also shown in **Table A**. The \$82,586 decrease is due to payments of capital lease payables associated with construction projects.

**BRUCE MCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 Statements of Assets. **Table B** provides a summary of revenues and expenses of the Nursing Homes for fiscal year 2010-2011 as compared to the previous year.

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

	2011 (Audited)	2010 (Unaudited)	Dollar Change	Total Percent Change
Total Operating Revenue	9,315,302	9,842,308	(527,006)	-5.4%
Non-Operating Revenue	32,201	373,662	(341,461)	-91.4%
Total Revenue	9,347,503	10,215,970	(868,467)	-8.5%
Operating Expenses - Cash	8,783,323	9,042,055	(258,732)	-2.9%
Operating Expenses - Non Cash (Depr. & Bad Debt)	599,631	386,859	212,772	55.0%
Non Operating Expenses - Cash (Cap Lease Interest)	27,845	30,623	(2,778)	-9.1%
Non Operating Expenses - Cash	24,035	11,663	12,372	106.1%
Total Expenses	9,434,834	9,471,200	(36,366)	-0.4%
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION	(87,331)	744,770	(832,101)	-111.7%
Capital Contribution	981,415	90,580	890,835	983.5%
CHANGE IN NET ASSETS	894,084	835,350	58,734	7.0%

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 decreased by \$527,006 mainly due to census issues related to staffing shortages.
- The Nursing Home's revenues are directly related to the number of resident days of patient care. The Nursing Home has a 105 licensed Nursing Home bed capacity and must be maintained at the 85% level or above to provide sufficient income to break even.
- Operating Expenses generally 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 decreased in fiscal year 2010-2011 compared to fiscal year 2009-2010.
- **Table B** reflects that the Home experienced an \$894,084 net gain in assets during FY 2010-2011.

**BRUCE MCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

BUDGETARY HIGHLIGHTS

The Nursing Home's Fiscal Year 2010-2011 financial operations resulted in revenues, including capital contribution and non-operating revenue, above the budgeted amounts. Cash and non-cash expenses were also above budgeted amounts.

CAPITAL ASSETS AND DEBT ACTIVITIES

Capital Assets

During fiscal year 2010-2011 the Nursing Home's investment in capital expenditures were related to the final payments for the VA construction remodel project, the Nurses' station remodel, the Sports Grill remodel project, some dining furniture, and the Gazebo improvements.

Debt Activities

The Siemens Energy project completed in FY 05-06 resulted in the acquiring of a 10 year capital lease. The rental payments for the long-term capital lease began in fiscal year 2006. The balance at June 30, 2011 was \$619,204.

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 and the completion of the renovation. A budget has been prepared for fiscal year 2012 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 2012 shows a projected profit for the year mainly due to increased rates and planned census building.

CONTACTING THE BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME - FLORENCE

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the finances at Bruce McCandless Colorado State Veterans Nursing Home - Florence and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Manager of the Colorado State Veterans Nursing Home - Florence at 903 Moore Drive, Florence, CO 81226 or phone 719-754-6331.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,980,642
Restricted cash, resident funds	104,193
Accounts receivable (net of allowance for uncollectibles of \$220,928)	61,248
Due from other governments (net of allowance for uncollectibles of \$19,084)	873,632
Inventory, at cost	<u>129,169</u>
TOTAL CURRENT ASSETS	<u>5,148,884</u>

NONCURRENT ASSETS

Capital assets -	
Land and improvements	271,927
Buildings	8,725,696
Furniture and equipment	436,158
Vehicles	82,058
Software	54,025
Art and historical treasures	11,122
Accumulated depreciation	<u>(3,302,882)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>6,278,104</u>
TOTAL NON CURRENT ASSETS	<u>6,278,104</u>

TOTAL ASSETS	<u>11,426,988</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	99,275
Accrued salaries payable	625,589
Accrued interest payable	1,084
Accrued other liabilities	1,524
Deposits held in trust for residents	81,106
Current portion of capital lease	77,765
Current portion of liability for compensated absences	<u>78,373</u>
TOTAL CURRENT LIABILITIES	<u>964,716</u>

NONCURRENT LIABILITIES

Capital lease	541,439
Liability for compensated absences	<u>404,112</u>
TOTAL NONCURRENT LIABILITIES	<u>945,551</u>

TOTAL LIABILITIES	<u>1,910,267</u>
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NET ASSETS

Invested in capital assets, net of related debt	5,658,900
Restricted for resident purposes	23,087
Unrestricted	<u>3,834,734</u>

TOTAL NET ASSETS	<u>\$ 9,516,721</u>
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The accompanying notes are an integral part of this statement.

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011**

OPERATING REVENUE	
Patient charges for services	\$ 6,537,959
VA per diem reimbursement	2,767,235
Miscellaneous revenue	<u>10,108</u>
TOTAL OPERATING REVENUE	<u>9,315,302</u>
OPERATING EXPENSES	
Personnel services and employee benefits	7,039,178
Advertising	89,907
Building, laundry and recreational supplies	49,246
Care and subsistence - client benefits	30,383
Equipment rental	120,912
Food and food service supplies	284,911
Legal services	752
Medical and laboratory supplies	648,465
Office	37,452
Other operating expenses	59,012
Professional services	23,061
Repairs and maintenance	137,436
Small equipment	56,628
Telephones	37,354
Utilities	157,558
Vehicles and travel	11,068
Depreciation	443,803
Bad debt expense	<u>155,828</u>
TOTAL OPERATING EXPENSES	<u>9,382,954</u>
OPERATING INCOME (LOSS)	<u>(67,652)</u>
NONOPERATING REVENUE (EXPENSES)	
Investment income	15,236
Interest expense	(27,845)
Donations - resident funds	16,893
Interest income - resident funds	72
Recreation - resident funds	<u>(24,035)</u>
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(19,679)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(87,331)
CAPITAL CONTRIBUTIONS	<u>981,415</u>
CHANGE IN NET ASSETS	894,084
NET ASSETS, beginning of year	<u>8,622,637</u>
NET ASSETS, end of year	<u>\$ 9,516,721</u>

The accompanying notes are an integral part of this statement.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from patients and third-party payors	\$ 6,437,494
Cash received from federal government	2,666,314
Cash payments to employees for services	(6,986,117)
Cash payments to suppliers for goods and services	<u>(1,780,487)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>337,204</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(75,513)
Capital lease payments	<u>(102,557)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(178,070)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	<u>15,236</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>15,236</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 174,370

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 3,806,272

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 3,980,642

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (67,652)
Adjustments to reconcile operating loss to net cash used by operating activities -	
Depreciation	443,803
Bad debt expense	155,828
Changes in assets and liabilities -	
Accounts receivable	(211,494)
Prepaid expenses	17,578
Accounts payable and accrued expenses	(53,920)
Liability for compensated absences	<u>53,061</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 337,204

NON-CASH ACTIVITIES

Contributed Capital \$ 981,415

The accompanying notes are an integral part of this statement.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home) is part of the State of Colorado (the “State”), Department of Human Services. The facility was constructed to provide long-term care for veterans of the United States Armed Forces and their qualifying dependents.

The financial statements of the Nursing Home have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government 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, 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 or 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.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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

With the exception of the State operating grant, 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses and other changes in net assets during the reporting period. Actual results could differ from these estimates.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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

Accounts Receivable

The Nursing Home's accounts receivable consist primarily of open accounts with residents for services, subsidized Medicaid and Medicare reimbursements, and VA per diem 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.

Inventories

Inventories consisting of food, medical, pharmacy, maintenance and office supplies are valued at the lower of cost (first-in, first-out basis) or market

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 capitalized and 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	10-40 years
Buildings	5-40 years
Furniture and equipment	5-25 years
Vehicles	5-12 years
Software	4-10 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.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

Long-Term Obligations and Bond Discount and Issue Costs

Long-term liabilities financed from the enterprise proprietary fund are accounted for in that fund. Discounts and issue costs if applicable are deferred and amortized over the term of the obligation using a method that approximates the interest method. Discounts are presented as a reduction of the face amount of the obligation, whereas issue costs are recorded as deferred charges.

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 proprietary 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, 2011	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 23,087	\$ 81,106
<u>Liabilities and Net Assets</u>		
Deposits held in trust for residents	\$ -	\$ 81,106
Interfund payable	-	-
Total Liabilities	-	81,106
Net Assets		
Restricted for resident purposes	23,087	\$ -
Total Liabilities and Net Assets	\$ 23,087	\$ 81,106

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 2 – FINANCIAL STATEMENT PRESENTATION (CONT'D)

Statement of Revenue, Expenses, and Changes in Net Assets

	<u>Year ended June 30, 2011 Patient Benefit Fund</u>
Nonoperating revenue	
Donations	\$ 16,893
Interest income	<u>72</u>
Total nonoperating revenue	<u>16,965</u>
 Nonoperating expenses	
Recreation	<u>24,035</u>
 Change in net assets	 (7,070)
 Net assets, beginning of year	 <u>30,157</u>
Net assets, end of year	<u>\$ 23,087</u>

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized as follows:

Proprietary Fund

Cash on hand	\$ 200
Demand deposits	5,093
Cash with State Treasurer	<u>3,975,349</u>
	<u>\$ 3,980,642</u>

Patient Benefit and Resident Funds

Cash on hand	\$ 1,860
Demand deposits	<u>102,333</u>
	<u>\$ 104,193</u>

At June 30, 2011, the carrying amount of the Nursing Home's deposits was \$107,426 and the bank balance was \$153,832. The entire balance of \$153,832 is covered by federal depository insurance in a qualified public depository institution.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 3 – CASH AND CASH EQUIVALENTS (cont'd)

The Nursing Home deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities authorized by CRS 24-75-601.1. The Nursing Home reports its share of the Treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2011. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized loss (\$19,074 for the year ended June 30, 2011) included in "Investment Income" reflects only the change in fair value during the current Fiscal Year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report

NOTE 4 – RECEIVABLES

Receivables at June 30, 2011 consist of the following:

Patient fees, net of allowance for uncollectible accounts of \$220,928	<u>\$ 61,248</u>
Medicaid reimbursements, net of allowance for uncollectible accounts of \$19,084	\$ 197,358
VA per diem reimbursements	<u>676,274</u>
Total due from other governments	<u>\$ 873,632</u>

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 5 – CAPITAL ASSETS

Following is a summary of capital assets:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Nondepreciable assets –				
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Art and historical treasures	11,122	-	-	11,122
Construction in progress	<u>1,398,383</u>	<u>59,003</u>	<u>1,457,386</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,469,505</u>	<u>59,003</u>	<u>1,457,386</u>	<u>71,122</u>
Depreciable assets –				
Land improvements	199,934	11,993	-	211,927
Buildings	6,294,396	2,431,300	-	8,725,696
Furniture and equipment	460,459	12,017	36,318	436,158
Vehicles	82,058	-	-	82,058
Software	<u>54,025</u>	<u>-</u>	<u>-</u>	<u>54,025</u>
Total capital assets being depreciated	<u>7,090,872</u>	<u>2,455,310</u>	<u>36,318</u>	<u>9,509,864</u>
Less: accumulated depreciation for –				
Land improvements	128,790	13,430	-	142,220
Buildings	2,285,407	410,589	-	2,695,996
Furniture and equipment	345,117	19,784	36,318	328,583
Vehicles	82,058	-	-	82,058
Software	<u>54,025</u>	<u>-</u>	<u>-</u>	<u>54,025</u>
Total accumulated depreciation	<u>2,895,397</u>	<u>443,803</u>	<u>36,318</u>	<u>3,302,882</u>
Net capital assets	<u>\$ 5,664,980</u>	<u>\$ 2,070,510</u>	<u>\$ 1,457,386</u>	<u>\$ 6,278,104</u>

NOTE 6 – CAPITAL LEASE

The following is a summary of changes in the capital lease for the year ended:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
\$693,786 capital lease: interest rate of 4.08%; due in quarterly installments of \$25,640 including interest through June 2018	\$ 693,786	\$ -	\$ 74,582	\$ 619,204
Total	<u>\$ 693,786</u>	<u>\$ -</u>	<u>\$ 74,582</u>	<u>\$ 619,204</u>

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

NOTE 6 – CAPITAL LEASE (cont'd)

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

Cost – HVAC equipment	\$ 3,107,559
Accumulated depreciation to June 30, 2011	<u>(641,519)</u>
	<u>\$ 2,466,040</u>

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

Year Ending June 30,

2012	\$ 102,558
2013	102,558
2014	102,558
2015	102,558
2016	102,558
2017-2018	<u>205,116</u>
	717,906
Less amount representing interest	<u>(98,702)</u>
	<u>\$ 619,204</u>

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 & Administration 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 is contained in the State's Comprehensive Annual Financial Report.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 8 – PENSION PLANS

A. PLAN DESCRIPTION

Virtually all 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 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 P.O. Box 5800, Denver, Colorado, 80217, by calling PERA at 1-800-729-PERA (7372), or by visiting www.copera.org.

New employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution retirement plan. If that election is not made, the employee becomes a member of PERA's defined benefit plan. Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA's defined benefit or defined contribution 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.

Based on changes in the 2010 legislative session slightly different plan requirements were in effect until December 31, 2010. The following requirements were effective at June 30, 2011.

Plan members (except State troopers) are eligible to receive a monthly retirement benefit when they meet age and service requirements 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 and 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, age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010 – 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. For employees hired before January 1, 2007, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010 if the member has less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 8 – PENSION PLANS (Cont'd.)

A. PLAN DESCRIPTION (Cont'd)

Members with five years of service credit at January 1, 2011, 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 and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 and age plus years of service equals 85 or more. For members hired before January 1, 2007, age plus years of service increases to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

Most members automatically receive the higher of the defined retirement benefit or money purchase benefit at 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, four periods are used and are ranked from lowest to highest with the maximum increase between years limited to 15 percent. For members hired on or after January 1, 2007, the maximum increase between ranked periods is 8 percent. Notwithstanding any other provisions, members first eligible for retirement after January 2, 2011 have a maximum increase between periods of 8 percent.

Retiree benefits are increased annually in July after one year of retirement based on their original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2 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.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are 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 payment. 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.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 8 – PENSION PLANS (Cont'd.)

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 is the 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. Effective July 1, 2010 Senate Bill 10-146 requires members in the State and Judicial Divisions to pay 2.5 percent additional member contributions through June 30, 2011. Employer contributions for members in these two divisions will be reduced by 2.5 percent. Senate Bill 11-076 continued these contribution rates through June 30, 2012.

From July 1, 2010, to December 31, 2010, the State contributed 11.35 percent (14.05 percent for State troopers and 14.86 percent for the Judicial Branch) of the employee's salary. From January 1, 2011, through June 30, 2011, the State contributed 12.25 percent (14.95 percent for State troopers and 14.86 percent for the Judicial Branch). During all of Fiscal Year 2010-11, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2010, the division of PERA in which the State participates has a funded ratio of 62.8 percent and a 47 year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 61.3 percent.

In the 2004 legislative session, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED required 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.

In the 2010 legislative session, the General Assembly extended both the AED and SAED. The AED will continue to increase at a rate of 0.4 percent of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. Both the AED and SAED will be reduced by one-half percentage point when funding levels reach 103 percent, and both will be increased by one-half percentage point when the funding level subsequently falls below 90 percent. Neither the AED, nor the SAED may exceed 5 percent.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 8 – PENSION PLANS (Cont'd.)

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 PERA defined benefit plan and/or the defined contribution plan for the fiscal years ending June 30, 2011, 2010, and 2009 were \$567,693, \$666,526, and \$638,438, respectively. These contributions met the contribution requirements for each year.

NOTE 9 – VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent (10 percent for state troopers) of their salary. For Fiscal Years 2009-10 and 2010-11 the legislature temporarily increased the required contribution rate to 10.5 percent (12.5 percent for State Troopers). At December 31, 2010, the plan had 3,479 participants.

Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution with a temporary increase to 10.5 percent for Fiscal Years 2010-11 and 2011-12) to a maximum of \$16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2010, for total contributions of \$22,000. Contributions and earnings are tax deferred. At December 31, 2010, the plan had 18,215 participants. PERA also offers a voluntary 401k plan entirely separate from the defined benefit pension plan, the deferred compensation plan, and the defined contribution plan. Certain agencies and institutions of the State offer 403(b) or 401(a) plans.

NOTE 10 – OTHER POSTRETIREMENT BENEFITS

Health Care Program

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>.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 10 – OTHER POSTRETIREMENT BENEFITS (cont'd)

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 amount, 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 recipients 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 above. Beginning July 1, 2004, State institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Nursing Home contributed \$581,315, \$581,357, and \$469,019 as required by statute in Fiscal Years 2010-11, 2009-10, and 2008-09, 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, 2010, there were 48,455 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2010, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.35 billion, a funded ratio of 17.5 percent, and a 42-year amortization period. The actuarial valuation was based on the entry age cost method, an 8 percent investment rate of return, a 4.5 percent projection of salary increases (assuming a .75 percent inflation rate), a 3.5 percent annual medical claims increase, no post-retirement benefit increases, and a level dollar amortization on an open basis over 30 years.

Life Insurance Program

During Fiscal year 2007, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,101 members participated. Active members may join the UnumProvident Plan and continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

NOTE 11 – CONTINGENCIES AND COMMITMENTS

Grant Programs – The Nursing Home participants in state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Nursing Home has not complied with the rules and regulations governing the grant, refunds of the money received may be required.

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 interpretations; however, the management of the Nursing Home believes it is in compliance with the requirements of the amendment.

GOVERNMENT AUDITING STANDARDS

AND

OMB CIRCULAR A-133 REPORTS

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

FINANCIAL STATEMENTS

A qualified opinion was rendered on the financial statements of the Bruce McCandless Colorado State Veterans Nursing Home as of and for the year ended June 30, 2011.

Internal control over financial reporting:

- Material weakness (es) identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

- Material weakness (es) identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

A qualified opinion on compliance for major programs was issued.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number
64.015

Name of Federal Program or Cluster
Veterans State Nursing Home Care

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee: _____ Yes X No

FINANCIAL STATEMENT FINDINGS

No findings related to the basic financial statements that are required to be reported in accordance with Government Auditing Standards were noted.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs for federal awards were noted.



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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Members of the Legislative Audit Committee:

We have audited the financial statements of the Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 10, 2011. 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, 2010.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bruce McCandless Colorado State Veterans Nursing Home financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

McPherson, Breyfogle, Daveline & Goodrich, PC

December 10, 2011

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS		
Direct assistance –		
Veterans State Nursing Home Care	64.015	\$ <u>2,767,235</u>
 TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS		 <u>\$ 2,767,235</u>

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Bruce McCandless Colorado State Veterans Nursing Home and is presented on the accrual basis of accounting wherein expenses are recognized when the liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.



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**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**

Members of the Legislative Audit Committee:

We have audited the financial statements of the Bruce McCandless Colorado State Veterans Nursing Home as of and for the year ended June 30, 2011, and have issued our report thereon dated December 10, 2011. 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, 2010. Except as described 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.

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, 2010.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bruce McCandless Colorado State Veterans 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 *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Bruce McCandless Colorado State Veterans Nursing Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Mr. Pearson, Ryeberg, Davidson & Goodrich, PC

December 10, 2011



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**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Members of the Legislative Audit Committee:

Compliance

We have audited the Bruce McCandless Colorado State Veterans Nursing Home's (the Nursing Home) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material on the Nursing Home's major federal program for the year ended June 30, 2011. Bruce McCandless Colorado State Veterans Nursing Home's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on the Nursing Home's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Nursing Home's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Nursing Home's compliance with those requirements.

In our opinion, the Nursing Home complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

Management of the Bruce McCandless Colorado State Veterans Nursing Home is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Nursing Home's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bruce McCandless Colorado State Veterans Nursing Home's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Wm Pherson, Ruyfogh, Davidson & Goodrich, PC

December 10, 2011



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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 the Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home) for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in a letter dated March 18, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the 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 the year ended June 30, 2011. We noted no transactions entered into by the Nursing Home during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the 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 Nursing Home's financial statements was:

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 account. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts 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. No such misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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 10, 2011.

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 Findings 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.

McPherson, Bryfogle, Downing & Associates, PC

December 10, 2011

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
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303-869-2800

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

Report Control Number 2097-11