

COLORADO STATE VETERANS NURSING HOME - FLORENCE

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

YEAR ENDED JUNE 30, 2003

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**COLORADO STATE VETERANS NURSING HOME - FLORENCE
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2003**

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**COLORADO STATE VETERANS NURSING HOME - FLORENCE
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2003**

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**COLORADO STATE VETERANS NURSING HOME - FLORENCE
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2003**

REPORT SUMMARY

AUTHORITY, PURPOSE AND SCOPE

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG) to conduct certain audits of the Colorado State Veterans Nursing Home - Florence (the Nursing Home) for its year ended June 30, 2003. MBDG, PC performed these audits in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. We conducted the related field work in August 2003.

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, 2003. This included a review of internal control as required by U.S. generally accepted auditing standards 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 basic financial statements as of and for the year ended June 30, 2003. 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, 2002.

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.

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2003**

REPORT SUMMARY (Cont'd.)

AUDITORS' RESPONSIBILITY UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

An audit performed in accordance with generally accepted auditing standards (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

SIGNIFICANT ACCOUNTING POLICIES

The Nursing Home adopted the provisions of Statement 34 of the Governmental Accounting Standards Board entitled *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of July 1, 2001.

There were no additional accounting policies adopted during the fiscal year.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following financial statement captions involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for doubtful accounts
- Inventories
- Useful lives of capital assets
- Compensated absence liability

AUDIT ADJUSTMENTS

We had no passed audit adjustments to the financial statements.

We had two posted audit adjustments. The adjustments were to reclassify patient revenue and accounts receivable to federal revenue and accounts receivable. The adjustments were for the patient fees paid from federal funds for residents transferring to the Nursing Home from Ft. Lyons, a closed facility. The adjustment increased federal revenue from \$1,729,088 to \$1,887,106 and federal accounts receivable from \$139,869 to \$150,287, with corresponding decreases to patient revenue and patient accounts receivable.

UNUSUAL TRANSACTIONS AND CONTINGENCIES

We noted no unusual transactions that have a material effect on the financial statements. We noted no material contingencies that were not disclosed in the financial statements.

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2003**

REPORT SUMMARY (Cont'd.)

OTHER MATTERS

- We noted no material errors or irregularities or possible material illegal acts.
- We had no disagreements with management on financial accounting and reporting matters and auditing procedures.
- We are not aware of any opinions obtained by management from other independent accountants.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The audit report for the year ended June 30, 1999 included one recommendation. The disposition of this audit recommendation as of August 21, 2003 was as follows:

Implemented	1
Not implemented	<u>0</u>
	<u><u>1</u></u>

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2003**

DESCRIPTION OF THE NURSING HOME

The Colorado State Veterans Nursing Home - Florence (the Nursing Home) is a skilled-care nursing facility. 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 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 mothers 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 veterans 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.

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	110
Average daily census for the year ended June 30, 2003	93
Average occupancy percentage	85%
Patient days	33,795

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Colorado State Veterans Nursing Home - Florence (the Nursing Home) for the year ended June 30, 2003 and have issued our report thereon dated August 21, 2003. 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 August 21, 2003 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 August 21, 2003.

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2003**

FINDINGS AND RECOMMENDATIONS (Cont'd.)

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. We have attempted, however, to use the knowledge gained during the course of our work to make oral comments and suggestions that will be useful to management.

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

Following are the audit recommendations made by MBDG, PC included in the report to the Legislative Audit Committee for the year ended June 30, 1999, and their disposition at August 21, 2003.

<u>Recommendation</u>	<u>Disposition</u>
1. The Nursing Home should adopt procedures to include physical inventory of fixed assets, reconcile detail fixed assets records to the general ledger and tag equipment.	Implemented.

FINANCIAL AUDIT REPORT SECTION



McPherson,
Breyfogle,
Daveline &
Goodrich, PC
Certified Public Accountants

740 Thatcher Building
Pueblo, CO 81003
Phone (719) 543-0516
Fax (719) 544-2849

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee

We have audited the accompanying basic financial statements of Colorado State Veterans Nursing Home - Florence ("the Nursing Home"), an enterprise fund of the State of Colorado as of and for the year ended June 30, 2003 as listed in the table of contents. These basic financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these basic 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 balance sheet at June 30, 2002.

The basic financial statements present only the Colorado State Veterans Nursing Home - Florence and are not intended to present fairly the financial position of the State of Colorado in conformity with generally accepted accounting principles.

In our opinion, except for the effects on the basic financial statements of such adjustments, if any, as might have been necessary had we been able to satisfy ourselves about amounts comprising the balance sheet at June 30, 2002, the basic financial statements referred to above present fairly, in all material respects, the financial position of Colorado State Veterans Nursing Home - Florence as of June 30, 2003, and the results of its operations 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 basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2003 on our consideration of Colorado State Veterans Nursing Home - Florence's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McPherson, Krzyzowski, Davetius & Goodrich PC

August 21, 2003

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents an analysis of the Colorado State Veterans Nursing Home - Florence's financial performance and an overview of the Nursing Home's financial activities for the fiscal year ended June 30, 2003. This section was prepared by the Nursing Home's management. The financial statements are an integral part of this analysis and figures reported on these statements are incorporated and referred to throughout this Management Discussion and Analysis. The analysis below includes comparative information from fiscal year 2002 and is based on the condensed statements of net assets and the condensed statements of revenues, expenses and changes in net assets provided on pages 11 and 12, respectively.

FINANCIAL HIGHLIGHTS

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

- The Nursing Home's assets increased by \$363,372, which is a 13.7 percent increase from fiscal year 2002.
- The Nursing Home's total gross revenue increased by \$242,641, which is a 4.4 percent increase from fiscal year 2002.
- The Nursing Home's cash operating expenses decreased by \$90,380, which is a 1.6 percent decrease from fiscal year 2002.
- The Nursing Home's non-cash expenses increased by \$49,006, which is a 48.5 percent increase from fiscal year 2002.
- The Nursing Home's net loss decreased by \$277,543 in fiscal year 2003, from a negative \$287,812 in fiscal year 2002 to a negative \$10,269 in fiscal year 2003.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis consists of the following parts: financial analysis of financial statements, budgetary highlights, capital assets and debt activities, and fiscal year 2004 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 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 Revenue, Expenses and Changes in Net Assets

The Statement of Revenue, Expenses and Changes in Net Assets includes all of the revenues and expenses (both cash and non-cash). This Statement measures the efficiency of the Nursing Home's overall operation and can be used to 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 payments during the year, along with net changes in cash from operations, capital and related financing, and investing activities.

Statement of Fiduciary Net Assets

The Statement of Fiduciary Net Assets includes the Nursing Home's assets and liabilities held in a trust or agency capacity for nursing home residents and provides information pertaining to the nature of these assets and liabilities.

Statement of Changes in Fiduciary Net Assets

The Statement of Changes in Fiduciary Net Assets includes the Nursing Home's additions and deductions to net assets held in a trust or agency capacity for nursing home residents.

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

**FINANCIAL ANALYSIS OF THE COLORADO STATE VETERANS NURSING HOME - FLORENCE,
COLORADO**

Summary of Operational Policies and Procedures

The Veterans Nursing Home in Florence 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 Division of State and Veteran Nursing Homes, Office of Adult and Veterans Services, 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. 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 insure efficient and effective use of resources.

Financial Analysis

Assets

A condensed Statement of Net Assets is included as **Table A** on the following page. Increases or decreases in the Nursing Home's Net 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.

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

TABLE A
Condensed Statements of Net Assets

	2003	2002	Dollar Change	Total Percent Change
Current Assets	\$1,409,067	\$1,673,569	(\$264,502)	-15.8%
Non Current Assets	\$1,610,826	\$982,952	\$627,874	63.9%
Total Assets	\$3,019,893	\$2,656,521	\$363,372	13.7%
Current Liabilities	\$490,141	\$108,194	\$381,947	353.0%
Non Current Liabilities	\$249,895	\$258,201	(\$8,306)	-3.2%
Total Liabilities	\$740,036	\$366,395	\$373,641	102.0%
Invested in Capital Assets	\$1,610,826	\$982,952	\$627,874	63.9%
Unrestricted	\$669,031	\$1,307,174	(\$638,143)	-48.8%
Total Net Assets	\$2,279,857	\$2,290,126	(\$10,269)	-0.4%
TOTAL LIABILITIES & NET ASSETS	\$3,019,893	\$2,656,521	\$363,372	13.7%

As shown in **Table A**, the Nursing Home's assets increased \$363,372 to \$3,019,893 in fiscal year 2003, an increase from \$2,656,521 in fiscal year 2002. The net increase in assets is primarily due to a \$644,563 investment in construction for remodel project offset by \$265,000 decrease in cash and accounts receivable.

The increase in total liabilities for the same period is also shown in **Table A** and is primarily due to the June 2003 payroll pay date change from June 30th to July 1st required under Senate Bill 03-197. This act permanently moved the June 30th payroll date to July 1st for all state employers. The amount of increased liabilities outstanding at June 30, 2003, related to this change is \$366,737.

The analysis of the Nursing Home's Statement of Net Assets displays the changes in the financial position of the Nursing Home. The Statement of Revenues and Expenses provides the information as to the nature and source of the changes reflected in the Statement of Net Assets. **Table B** provides a summary of revenues and expenses of the Nursing Home for fiscal year 2003 as compared to the previous year.

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

TABLE B
Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2003	2002	Dollar Change	Total Percent Change
Patient revenue	\$3,808,275	\$3,660,008	\$148,267	4.1%
VA per diem reimbursement	1,887,106	1,805,230	81,876	4.5%
All other	<u>4,644</u>	<u>1,549</u>	<u>3,095</u>	<u>199.8%</u>
Total operating revenue	5,700,025	5,466,787	233,238	4.3%
Interest	15,595	52,720	(37,125)	-70.4%
Capital contribution	<u>46,528</u>	<u>-</u>	<u>46,528</u>	<u>100.0%</u>
Total gross revenue	\$5,762,148	\$5,519,507	\$242,641	4.4%
Personal services and benefits	\$4,435,702	\$4,337,479	\$ 98,223	2.3%
Other cash expenses	1,180,189	1,368,792	(188,603)	-13.8%
Non-cash expenses -				
Depreciation	110,719	101,048	9,671	9.6%
Bad debt expense	<u>39,335</u>	<u>-</u>	<u>39,335</u>	<u>100.0%</u>
Total operating expenses	5,765,945	5,807,319	\$(41,374)	-0.7%
Loss on disposal of assets	<u>6,472</u>	<u>-</u>	<u>6,472</u>	<u>100.0%</u>
Total expenses	\$5,772,417	\$5,807,319	\$ (34,902)	-0.6%
Net Income (Loss)	(\$10,269)	(\$287,812)	\$277,543	96.4%

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

- The Nursing Home's gross revenues increased by \$242,641 due mainly to increased patient revenues and third party payments. An increased patient rate schedule was approved for fiscal year 2003 due to projected costs in fiscal year 2003 related to patient care and improved quality of life. Beginning in December 2001 (fiscal year 2002), the Nursing Home, in conjunction with all other state nursing homes, changed its billing policy with respect to Medicaid eligible veterans. This policy change involved considering the VA per diem reimbursement as an operating grant rather than as an offset to Medicaid. In addition, the VA per diem rate increased from \$53.17 for fiscal year 2002 to \$56.24 for fiscal year 2003 and the Medicaid rate increased from \$132.91 for fiscal year 2002 to \$132.99 for fiscal year 2003 with an adjustment to \$151.05 in May 2003.

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

- Nursing Home revenues are directly related to the number of resident days of patient care. The Nursing Home has a 110 functional bed capacity, and census must be maintained at the 90 percent level or above to provide sufficient income to break even. The Nursing Home operated at an average occupancy rate of 85 percent in fiscal year 2003. Therefore, occupancy rates were not sufficient to generate adequate revenues to break even.
- Operating expenses generally increase 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 operations which is providing health care and quality of life for its residents. However, total cash expenses decreased \$90,380 in fiscal year 2003 compared to fiscal year 2002 because of a lower census during fiscal year 2003 requiring less variable expenses, the practice of not filling vacant positions until needed (vacancy savings) and concerted efforts to reduce costs and spending in light of state-wide fiscal issues.
- **Table B** reflects that in fiscal year 2003 the Nursing Home experienced a \$10,269 net loss with the increase in revenues not sufficient to cover both cash and non-cash expenses. However, this performance is \$277,543 or 96.4 percent better than fiscal year 2002.

BUDGETARY HIGHLIGHTS

Nursing Home fiscal year 2003 financial operations resulted in revenues below the budgeted amounts by \$845,642. This was a result of persistent low census. Expenses were managed such that total cash and non-cash expenses were \$721,975 less than budgeted. Savings from below anticipated census were mainly in the areas of direct cost including salaries, drugs and medical expenses.

Budget 2003 Revenue	\$ 6,607,790
Actual 2003 Revenue	<u>\$ 5,762,148</u>
Unfavorable Budget Variance	<u>\$ 845,642</u>
Budget 2003 Cash and Non Cash Expense	\$ 6,494,392
Actual 2003 Cash and Non Cash Expense	<u>\$ 5,772,417</u>
Favorable Budget Variance	<u>\$ 721,975</u>

CAPITAL ASSETS AND DEBT ACTIVITIES

During fiscal year 2003, the Nursing Home invested \$100,501 in capitalized equipment costing \$5,000 or more per item. The following is a summary of the fiscal year 2003 capital expenditures:

- The Nursing Home purchased new desktop computers and related equipment costing \$54,168.
- The Nursing Home purchased a new passenger bus costing \$46,333 which was funded by a Medicaid resquip grant of \$8,888, along with a state of Colorado department of military grant totaling \$37,640.

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

In fiscal year 2004, the Nursing Home has projected the following capital expenditures, profits and funds available permitting:

- Continued investment in the Nursing Home's remodeling project which includes heating and air conditioning improvements, expansions of existing rooms along with the addition of new rooms, and life safety upgrades. During fiscal year 2003, \$644,563 was expended for design and planning and the total projected cost approximates \$6,000,000. It is presently estimated that these expenditures will be funded with a VA grant of \$4,000,000 and a state grant of \$2,000,000.
- \$50,000 budgeted for major moveable equipment as needed.

Debt Activities

As of the end of fiscal year 2003, the Nursing Home did not have any long-term indebtedness.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic factors continue to impact the Nursing Home operations by increasing the costs associated with providing quality health care. A budget has been prepared for fiscal year 2004 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged to residents for skilled nursing care.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 924,864
Accounts receivable (net of allowance for uncollectibles of \$136,572)	69,383
Due from other governments	318,015
Inventories, at cost	83,344
Prepaid expenses	<u>13,461</u>
TOTAL CURRENT ASSETS	<u>1,409,067</u>
NONCURRENT ASSETS	
Fixed assets -	
Land and improvements	137,944
Buildings	1,476,947
Furniture and equipment	625,850
Vehicles	82,058
Software	50,214
Construction in progress	644,563
Accumulated depreciation	<u>(1,406,750)</u>
TOTAL NON CURRENT ASSETS	<u>1,610,826</u>
TOTAL ASSETS	<u>\$ 3,019,893</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts and vouchers payable	\$ 104,429
Accrued salaries payable	366,736
Current portion of liability for compensated absences	<u>18,976</u>
TOTAL CURRENT LIABILITIES	<u>490,141</u>
NONCURRENT LIABILITIES	
Liability for compensated absences	<u>249,895</u>
TOTAL NONCURRENT LIABILITIES	<u>249,895</u>
TOTAL LIABILITIES	<u>740,036</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,610,826
Unrestricted	<u>669,031</u>
TOTAL NET ASSETS	<u>2,279,857</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,019,893</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2003

	<u>Enterprise Fund</u>
OPERATING REVENUE	
Patient charges for services	\$ 3,808,275
VA per diem reimbursement	1,887,106
Miscellaneous revenue	<u>4,644</u>
TOTAL OPERATING REVENUE	<u>5,700,025</u>
 OPERATING EXPENSES	
Personal services and employee benefits	4,435,702
Advertising	48,852
Building, laundry and recreational supplies	46,821
Food and food service supplies	181,860
Insurance	129,188
Inter-departmental charges for services	107,544
Medical and laboratory supplies	245,358
Office	39,040
Other operating expenses	19,724
Professional services	112,899
Repairs and maintenance	40,423
Small equipment	8,255
Telephones	26,738
Utilities	108,802
Vehicles and travel	64,685
Depreciation	110,719
Bad debt expense	<u>39,335</u>
TOTAL OPERATING EXPENSES	<u>5,765,945</u>
 OPERATING INCOME (LOSS)	 <u>(65,920)</u>
 NONOPERATING REVENUE AND EXPENSES	
Interest income	15,595
Loss on disposal of assets	<u>(6,472)</u>
TOTAL NONOPERATING REVENUE	<u>9,123</u>
 INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	 <u>(56,797)</u>
 CAPITAL CONTRIBUTION	 <u>46,528</u>
 CHANGE IN NET ASSETS	 (10,269)
 NET ASSETS, beginning of year	 <u>2,290,126</u>
 NET ASSETS, end of year	 <u><u>\$ 2,279,857</u></u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2003

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	\$ 3,728,523
Cash received from federal government	2,075,265
Cash payments to employees for services	(3,458,677)
Cash payments to supplies for goods and services	<u>(1,784,464)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>560,647</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Donations for capital assets	46,528
Acquisition of capital assets	<u>(745,065)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(698,537)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>15,595</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>15,595</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (122,295)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>1,047,159</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 924,864</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (65,920)
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation	110,718
Bad debt expense	39,335
Changes in assets and liabilities -	
Accounts receivable	103,763
Inventory	12,571
Prepaid expenses	(13,461)
Accounts payable and accrued expenses	371,215
Liability for compensated absences	<u>2,426</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 560,647</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2003

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 43,299	\$ 32,422
Inventories, at cost	<u>3,006</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 46,305</u>	<u>\$ 32,422</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 409	\$ -
Deposits held in trust for patients	<u>-</u>	<u>32,422</u>
TOTAL LIABILITIES	<u>409</u>	<u>32,422</u>
NET ASSETS		
Held in trust for other purposes	<u>45,896</u>	<u>-</u>
TOTAL NET ASSETS	<u>45,896</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 46,305</u>	<u>\$ 32,422</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2003

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ADDITIONS		
Donations	\$ 28,741	\$ -
Miscellaneous sales	7,973	-
Interest income	<u>139</u>	<u>-</u>
TOTAL ADDITIONS	36,853	-
DEDUCTIONS		
Recreation	<u>43,471</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>43,471</u>	<u>-</u>
CHANGE IN NET ASSETS	(6,618)	-
NET ASSETS, beginning of year	<u>52,514</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ 45,896</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado State Veterans Nursing Home - Florence (the Nursing Home) is part of the State of Colorado, 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 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 of Colorado is the primary reporting entity for state financial activities. As an enterprise fund of the State of Colorado, the Nursing Home's accounts and activities are generally presented in a manner consistent with the presentation of statewide financial activities, which are reported in accordance with generally accepted accounting principles for governmental organizations.

Fund Accounting

The Nursing Home uses individual funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The Nursing Home's funds are classified in two categories: proprietary and fiduciary. Each category, in turn, is divided into separate fund types, if applicable.

The Nursing Home uses an enterprise proprietary fund to account for the most significant portion of its activities. Proprietary funds are used to account for activities similar to those found in the private sector, when the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities are provided to outside parties. The enterprise fund is used to record the Nursing Home's activities related to the cost of patient care and collection of associated revenue.

Fiduciary funds are used to account for assets held on behalf of outside parties. When these assets are held under the terms of a formal trust agreement that allows both principal and income to be spent on behalf of the patients, a private purpose trust fund is used. The private purpose trust fund is used to provide entertainment activities for residents. Agency funds generally are used to account for assets that the Nursing Home holds on behalf of others as their agent. The agency fund accounts for each residents' personal funds that they bring with them to the Nursing Home.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary and fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. Net assets are segregated into invested in capital assets, net of related debt and unrestricted net assets. Proprietary fund-type operating statements present revenues when earned and expenses when a liability is incurred.

GASB 34

The Nursing Home has adopted the provisions of GASB statement No. 34 entitled *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows.

The statement requires the classification of net assets 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 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 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”.

The adoption of statement No. 34 had no effect on the basic financial statements except for the changes in classifications in accordance with the statement.

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.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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

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 consist primarily of open accounts with residents for services, subsidized Medicaid 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, maintenance and office supplies are valued at the lower of cost (first-in, first-out basis) or market.

Fixed 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 fixed assets used by the proprietary fund is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. 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 are 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.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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

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.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized as follows:

Proprietary Fund

Cash on hand	\$ 200
Cash with State Treasurer	924,664
	\$ 924,864

Fiduciary Funds

Cash on hand	\$ 1,486
Demand deposits	74,235
	\$ 75,721

At June 30, 2003, the carrying amount of the Nursing Home's deposits was \$74,235 and the bank balance was \$273,733. Of the bank balance, \$100,000 was covered by federal depository insurance and \$173,733 was collateralized in a single financial institution collateral pool maintained by the individual financial institution that held these deposits. Colorado law requires that depository institutions must apply for and be designated as an eligible public depository before the institution can accept public fund monies. The depository institution must pledge eligible collateral as security for all public deposits held by that institution that are not insured by depository insurance. The market value of the collateral that each institution pledges as security must equal at least 102% of the total uninsured deposits held by that institution. Generally, the eligible collateral in the collateral pools is held by the depository institution or its agent in the name of the depository institution.

The Nursing Home's deposits are categorized as either (1) insured or collateralized with securities held by the Nursing Home or by its agent in the Nursing Home's name; (2) collateralized with securities held by the pledging financial institution's trust department or agent in the Nursing Home's name; (3) uncollateralized which includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Nursing Home's name.

	Category			Bank Balance	Estimated Fair Value
	1	2	3		
Demand deposits	\$ 100,000	\$ -	\$ 173,733	\$ 273,733	\$ 273,733

The cash with state treasurer is not subject to risk categorization.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$136,572	\$ <u>69,383</u>
Medicaid reimbursements	\$ 167,728
VA per diem reimbursements	<u>150,287</u>
Total due from other governments	<u>\$ 318,015</u>

NOTE 4 – FIXED ASSETS

Following is a summary of fixed assets:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Land improvements	77,944	-	-	77,944
Building	1,476,947	-	-	1,476,947
Furniture and equipment	608,750	54,168	37,068	625,850
Vehicles	35,725	46,333	-	82,058
Software	50,214	-	-	50,214
Construction in progress	-	644,563	-	644,563
	<u>\$ 2,309,580</u>	<u>\$ 745,064</u>	<u>\$ 37,068</u>	<u>\$ 3,017,576</u>

Following is a summary of accumulated depreciation:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land improvements	\$ 57,219	\$ 1,315	\$ -	58,534
Building	850,429	42,762	-	893,191
Furniture and equipment	382,951	49,411	30,596	401,766
Vehicles	21,598	4,577	-	26,175
Software	14,430	12,654	-	27,084
	<u>\$ 1,326,627</u>	<u>\$ 110,719</u>	<u>\$ 30,596</u>	<u>\$ 1,406,750</u>
Net Capital Assets	<u>\$ 982,953</u>	<u>\$ 634,345</u>	<u>\$ 6,472</u>	<u>\$ 1,610,826</u>

COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5 - 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.

NOTE 6 – PENSION PLANS

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 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 requires 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 1300 Logan Street, Denver, Colorado, 80203.

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three period of 12 consecutive months of service credit.

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 spouse or their eligible children under the age of 18 (23 if a full time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Employees contribute 8 percent of their annual gross covered wages to an individual account in the plan. During the year ended June 30, 2003, the Nursing Home contributed 10.04 percent of the employee's gross covered wages which was allocated by PERA to three separate programs as follows:

- Before January 1, 2003, 1.64 percent was allocated to the Health Care Trust Fund. Beginning January 1, 2003, 1.10 percent was allocated to the Health Care Trust Fund.
- The amount needed to meet the match requirement established by the PERA board was allocated to the matchmaker program.
- The balance remaining after all allocations to the Health Care Trust Fund and the matchmaker program was allocated to the defined benefit plan.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6 – PENSION PLANS (Cont'd.)

The annual gross covered wages 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. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The Nursing Home's contributions to PERA for the years ended June 30, 2003, 2002 and 2001 were \$330,932, \$305,828 and \$300,397, respectively. These contributions were equal to the required contributions for each year.

VOLUNTARY TAX-DEFERRED RETIREMENT PLAN

Beginning on January 1, 2001, the matchmaker program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar year 2002, the matching amount was set at 100 percent of up to 3 percent of employee gross covered wages paid during the month. For calendar year 2003, the matching amount was set at 100 percent of up to 2 percent of employee gross covered wages paid during the month. The PERA board sets the level of the match annually based on the actuarial funding of the defined pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to over funding of the pension plan was available for the match. While the plan was not overfunded, the maximum one-year change in the match rate is statutorily limited to 1 percent and, therefore, the match changed from 3 percent to 2 percent. PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan and the state of Colorado also offers a Section 457 deferred compensation plan. Members who contribute to these plans also receive the state match.

NOTE 7 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefits. During the year ended June 30, 2003 the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under 65) and it was reduced by 5 percent for each year of service under 20. Medicare eligibility also affects the premium subsidy.

The Health Care Fund is maintained by an employer's contribution of 1.64 percent of covered salary earned by employees prior to January 1, 2003 and 1.10 percent of covered salary earned by employees subsequent to December 31, 2002. These employer contributions are part of the employer's PERA contributions as explained in the previous note.

COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 7 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Cont'd.)

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans and with health maintenance organizations providing services within Colorado. The Health Care Trust Fund began providing dental and vision plans to its participants in 2001. The participants pay the premiums for the coverage, and there is no subsidy provided for the dental and vision plans. As of December 31, 2002 there were 35,418 participants, including spouses and dependents, from all contributors to the plan.

PERA provides its members access to two group decreasing-term life insurance plans offered by Prudential and Anthem Life Insurance Company (formerly known as Rocky Mountain Life Insurance Company). Active 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 8 - CONTINGENCIES AND COMMITMENTS

Grant Programs – The Nursing Home participates 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 any money received may be required.

As part of a performance audit of the nursing homes throughout the state, it was discovered that the Division of State and Veterans Nursing Homes implemented a policy change regarding how VA per diem payments are treated with respect to the Medicaid program. This policy change was initiated in December 2001 and continues to date. The performance audit reported that this policy change may not be in compliance with federal requirements. The policy change represented additional revenue recognized and for the Colorado State Veterans Nursing Home - Florence totaled approximately \$1,029,384 for the period December 1, 2001 to June 30, 2003. The amount of additional revenue recognized since July 1, 2003 has not been determined. As such, some or all of this additional revenue may be subject to repayment depending upon the ultimate disposition of this policy change.

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 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.

GOVERNMENT AUDITING STANDARDS

AND

OMB CIRCULAR A-133 REPORTS

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2003**

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

FINANCIAL STATEMENTS

A qualified opinion was rendered on the basic financial statements of Colorado State Veterans Nursing Home - Florence as of and for the year ended June 30, 2003.

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

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

An unqualified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 501(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

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd.)
YEAR ENDED JUNE 30, 2003**

FINANCIAL STATEMENT FINDINGS

No financial statement findings were noted.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs for federal awards were noted.



McPherson,
Breyfogle,
Daveline &
Goodrich, PC
Certified Public Accountants

740 Thatcher Building
Pueblo, CO 81003
Phone (719) 543-0516
Fax (719) 544-2849

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Members of the Legislative Audit Committee

We have audited the basic financial statements of Colorado State Veterans Nursing Home - Florence ("the Nursing Home"), an enterprise fund of the State of Colorado as of and for the year ended June 30, 2003, and have issued our report thereon dated August 21, 2003. These basic financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these basic 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 balance sheet at June 30, 2002.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Colorado State Veterans Nursing Home - Florence taken as a whole. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McPherson, Breyfogle, Daveline & Goodrich PC

August 21, 2003

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR/PASS-THROUGH <u>GRANTOR/PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	Pass-Through Entity's <u>Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Direct assistance -			
Veterans State Nursing Home Care	64.015	-	\$ 1,729,088
Veterans Nursing Home Care	64.010	-	<u>158,018</u>
TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS			<u>\$ 1,887,106</u>

**COLORADO STATE VETERANS NURSING HOME - FLORENCE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Colorado State Veterans Nursing Home - Florence and is presented on the accrual basis of accounting wherein expenditures 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 basic financial statements.



McPherson,
Breyfogle,
Daveline &
Goodrich, PC
Certified Public Accountants

740 Thatcher Building

Pueblo, CO 81003

Phone (719) 543-0516

Fax (719) 544-2849

**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 Colorado State Veterans Nursing Home - Florence as of and for the year ended June 30, 2003, and have issued our report thereon dated August 21, 2003. 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 balance sheet at June 30, 2002. 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 balance sheet at June 30, 2002.

Compliance

As part of obtaining reasonable assurance about whether the Colorado State Veterans Nursing Home - Florence's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Colorado State Veterans Nursing Home - Florence's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

Lee P. Huron, Ray J. Fogli, Duane & Goodrich PC

August 21, 2003



McPherson,
Breyfogle,
Daveline &
Goodrich, PC
Certified Public Accountants

740 Thatcher Building

Pueblo, CO 81003

Phone (719) 543-0516

Fax (719) 544-2849

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Members of the Legislative Audit Committee

Compliance

We have audited the compliance of Colorado State Veterans Nursing Home - Florence with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. Colorado State Veterans Nursing Home - Florence'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 Colorado State Veterans Nursing Home - Florence's management. Our responsibility is to express an opinion on Colorado State Veterans Nursing Home - Florence'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, *Audits of States, Local Governments and Non-Profit Organizations*. 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 Colorado State Veterans Nursing Home - Florence'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 Colorado State Veterans Nursing Home - Florence's compliance with those requirements.

In our opinion, Colorado State Veterans Nursing Home - Florence complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Colorado State Veterans Nursing Home - Florence 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 Colorado State Veterans Nursing Home's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

McPherson, Brydgh, Davlin & Goodrich PC

August 21, 2003

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