

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS

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

YEAR ENDED JUNE 30, 2008

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**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2008**

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**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2008**

REPORT SUMMARY

AUTHORITY, PURPOSE AND SCOPE

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG, PC) to conduct certain audits of the Colorado State Veterans Nursing Home at Fitzsimons (the Nursing Home) for its year ended June 30, 2008. MBDG, PC performed these audits in accordance with auditing standards generally accepted in the United States of America; *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 2008.

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, 2008. 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, 2008. Our report included an explanatory paragraph stating that, in accordance with the terms of our engagement, we did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2007.

We issued a report on the Nursing Home's internal control over financial reporting and compliance and other matters 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 noted certain matters that we reported to the members of the Legislative Audit Committee and management of the Nursing Home that are included in the findings and recommendations section of this report and titled "Accounting for Restricted Cash, Deferred Issue Costs, and Accounts Receivable".

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SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The audit report for the year ended June 30, 2004 included three findings. The disposition of these audit recommendations as of August 22, 2008 was as follows:

Implemented	2
Partially implemented	1
Not Implemented	<u>0</u>
Total	<u>3</u>

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
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RECOMMENDATION LOCATOR

Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date	
1	5	Follow generally accepted accounting principles in recording anticipation bond interest payments and deferred issue costs and reconciling accounts receivable ledgers to the general ledger.	Colorado Department of Human Services	Agree	December 31, 2008

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
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DESCRIPTION OF THE NURSING HOME

The Colorado State Veterans Nursing Home at Fitzsimons (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	180
Average daily census for the year ended June 30, 2008	171
Average occupancy percentage for the year ended June 30, 2008	95%
Patient days for the year ended June 30, 2008	62,675

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2008**

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Colorado State Veterans Nursing Home at Fitzsimons (the Nursing Home) for the year ended June 30, 2008 and have issued our report thereon dated December 4, 2008. 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 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 4, 2008 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 each of its major federal programs.

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 note certain matters involving internal control that are presented for the Nursing Home's consideration. These comments and recommendations, which have been discussed with appropriate members of the Nursing Home's management, are intended to improve internal control and are detailed in the following section.

* * * * *

**ACCOUNTING FOR RESTRICTED CASH, DEFERRED ISSUE COSTS, AND ACCOUNTS
RECEIVABLE**

During our Fiscal Year 2008 audit, we identified several problems with the Nursing Home's accounting for restricted cash, deferred anticipation warrants issuance costs, and allowance for uncollectible accounts. Specifically, we found the following:

- The Nursing Home did not properly account for anticipation warrant interest payments that were paid from the restricted bank accounts. The restricted bank accounts are maintained with Wells Fargo Bank and these accounts are used to make the bond principal and interest payments. The interest earnings on the restricted accounts subsidize the interest payments. The Nursing Home records the interest earned on the restricted account as revenue when earned. However, the Nursing Home did not record on its books the interest expense, with an offsetting reduction in the restricted bank account, when the interest earnings were used to pay a portion of the interest payments. As of June 30, 2008, a total of \$48,669 was deducted from the restricted accounts to make the interest payments but the restricted bank account on the Nursing Home's books was not reduced by this amount and interest expense was not increased by this same amount. Interest expense recorded on the books includes only the cash payments that were made from the Nursing Home's operating account.

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
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- The Nursing Home did not properly calculate and amortize the deferred issuance costs related to the anticipation warrants. Based on the current annual amortization expense, the deferred issuance costs will not be expensed over the remaining nine and one-half years term of the anticipation warrants. Based on our calculation, the unamortized deferred anticipation warrants issuance costs should be reduced by \$14,466.

The two problems identified above are the result of dual accounting responsibility for the anticipation warrants and lack of reconciling the two systems. Some accounting is done by the Nursing Home and some is done by Central Accounting for the Colorado Department of Human Services. Procedures should be changed so all accounting for the anticipation warrants is done at one location or a reconciliation is done between the two systems.

- The Nursing Home maintains its patient accounts receivable on Achieve's Pathlinks software. Manual adjustments are required to balance the patient subsidiary ledgers to the general ledger balance in the COFRS accounting system. These manual adjustments, which total \$28,381, relate to previous Medicaid refunds not identified to an individual resident and old charges which were recorded on the subsidiary ledger but were not billed properly and are deemed to be uncollectible. The Nursing Home will be changing to Achieve's Matrix software in September 2008 and steps should be taken to resolve the manual adjustments prior to the conversion so the subsidiary ledger will reconcile to COFRS.

Recommendation No. 1:

The Department of Human Services should improve controls over accounting functions at the Colorado State Veterans Nursing Home at Fitzsimons by following generally accepted accounting principles to record anticipation warrant interest payments and deferred issuance costs and reconciling subsidiary ledgers to the general ledger.

Department of Human Services Response:

Agree. The Division of State and Veterans Nursing Homes business office manager will work with Nursing Home and Central Accounting to correct these accounting issues.

Implementation date: December 31, 2008

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2008**

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, 2004, and their disposition at August 22, 2008.

Recommendation 1:

The Department of Human Services should ensure that the State Veterans Nursing Home at Fitzsimons achieves self-sufficiency as soon as possible by:

- a. Continuing to perform a formal, documented monthly comparison of actual to projected performance and to assess the ability of the facility to reach break-even status.
- b. Identifying and investigating significant variances in revenues and expenses and taking timely action to improve performance.
- c. Updating its revenue and expense projections to include a five-year business plan designed to bring the Home's operations to a break-even point, without State subsidization, within the five-year period covered by the plan.

Implementation Status: Implemented and ongoing. The Department performs regular analysis of operating results but were negatively impacted during the past fiscal year by the charge totaling \$758,265 for funded depreciation. The Nursing Home's loss for Fiscal Year 2008 totaled \$281,569 and unrestricted net assets totaled (\$992,186) at June 30, 2008.

Recommendation 2:

The Department of Human Services should improve controls over the preparation of the Exhibit K at the State Veterans Nursing Home at Fitzsimons by:

- a. Ensuring staff preparing the exhibit are adequately trained.
- b. Instituting a secondary review process over the Exhibit K to ensure its accuracy prior to submission.
- c. Ensuring that information used to prepare the Exhibit K is accurate. Periodic reconciliations between federal accounts receivable information in the accounts receivable system and COFRS should be performed during the fiscal year and a supervisory review should be performed on the reconciliations.

Implementation Status: Implemented

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YEAR ENDED JUNE 30, 2008**

Recommendation 3:

The Department of Human Services should improve controls over accounting functions at the State Veterans Nursing Home at Fitzsimons by following generally accepted accounting principles to record capital assets and anticipation warrants and by ensuring that revenue is properly classified.

Implementation Status: Partially implemented. See current year Recommendation No. 1

FINANCIAL AUDIT REPORT SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

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

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

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

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

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been necessary had we been able to satisfy ourselves about amounts comprising the statement of net assets at June 30, 2007, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado State Veterans Nursing Home at Fitzsimons as of June 30, 2008, 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 4, 2008, on our consideration of the Colorado State Veterans Nursing Home at Fitzsimons's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

McPherson, Baybrough, Daniels & Goodrich, PC

December 4, 2008

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

- The Nursing Home's Total Assets decreased by \$107,244 which is a 0.4% decrease from Fiscal Year 2007.
- The Nursing Home's Total Operating Revenue increased by \$1,143,493 which is a 6.6% increase from Fiscal Year 2007.
- The Nursing Home's Cash Operating Expenditures increased by \$924,466 which is a 5.8% increase from Fiscal Year 2007.
- The Nursing Home's Non-Cash Expenditures decreased by \$338,658 which is a 28.6% decrease from Fiscal Year 2007.
- The Nursing Home's Change in Net Assets decreased by \$158,651 in Fiscal Year 2008, from a change of (\$122,918) in Fiscal Year 2007 to (\$281,569) in Fiscal Year 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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

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

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

Financial Analysis

Statement of Net Assets

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

TABLE A
Condensed Statement of Net Assets

	2008	2007	Dollar Change	Total Percent Change
Current Assets	2,641,315	1,907,306	734,009	38.5%
Current Assets-Restricted	73,776	62,792	10,984	17.5%
Non-Current Assets	22,203,724	23,055,961	(852,237)	-3.7%
Total Assets (excluding restricted)	24,845,039	24,963,267	(118,228)	-0.5%
Total Restricted Assets	73,776	62,792	10,984	17.5%
TOTAL ASSETS	24,918,815	25,026,059	(107,244)	-0.4%
Current Liabilities	3,418,348	3,081,638	336,710	10.9%
Current Liabilities-Restricted	46,960	33,401	13,559	40.6%
Non-Current Liabilities	4,595,526	4,771,469	(175,943)	-3.7%
Total Liabilities(excluding restricted)	8,013,874	7,853,107	160,767	2.0%
Total Restricted Liabilities	46,960	33,401	13,559	40.6%
TOTAL LIABILITIES	8,060,834	7,886,508	174,326	2.2%
Net Assets Invested in Capital Assets, Net of Related Debt	17,823,714	18,325,217	(501,503)	-2.7%
Restricted for Resident Purposes	26,453	27,809	(1,356)	-4.9%
Unrestricted	(992,186)	(1,213,475)	221,289	18.2%
TOTAL NET ASSETS	16,857,981	17,139,551	(281,570)	-1.6%
TOTAL LIABILITIES AND NET ASSETS	24,918,815	25,026,059	(107,244)	-0.4%

As shown in **Table A**, the Nursing Home's Total Assets decreased by \$107,244 to \$24,918,815 in Fiscal Year 2008 from \$25,026,059 in Fiscal Year 2007. The net decrease in Total Assets is primarily due to the change in the accumulated depreciation account for the depreciation of capital assets for Fiscal Year 2008.

The increase in Total Liabilities for the same period is also shown in **Table A** and most of this was a result of the following items: 1) \$147,247 decrease in accrued payroll payable and, 2) \$355,000 for payment of anticipation warrants; offset by an increase in compensated absences for annual and sick leave of \$164,468 and an increase in operating cash overdraft of \$600,332.

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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 reported in the Statements of Net Assets. **Table B** provides a summary of revenues and expenses of the Nursing Home for Fiscal Year 2008 as compared to the previous year.

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

	2008	2007	Dollar Change	Total Percent Change
Total Operating Revenue	18,340,233	17,196,740	1,143,493	6.6%
Non-Operating Revenue	16,595	26,296	(9,701)	-36.9%
Restricted Revenue	8,837	17,469	(8,632)	-49.4%
TOTAL REVENUE	18,365,665	17,240,505	1,125,160	6.5%
Operating Expenses-Cash	16,816,145	15,891,679	924,466	5.8%
Operating Expenses-Non Cash(Depr. & Bad Debt)	845,317	1,183,975	(338,658)	-28.6%
Non Operating Expense-Cash(Bond/Note Costs)	217,314	275,625	(58,311)	-21.2%
Non Operating Expense-Cash(Funded Depreciation)	758,265	-	758,265	
Restricted Expenses	10,193	12,144	(1,951)	-16.1%
TOTAL EXPENSES	18,647,234	17,363,423	1,283,811	7.4%
NET INCOME(LOSS) BEFORE CAPITAL CONTRIBUTI	(281,569)	(122,918)	(158,651)	-129.1%
Capital Contribution	-	-	-	0.0%
CHANGE IN NET ASSETS	(281,569)	(122,918)	(158,651)	-129.1%

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

- The Nursing Home's operating revenues increased by \$1,143,493 mainly due to increased census.
- Nursing Home's revenues are directly related to the number of resident days of patient care. The Nursing Home has a 180 functional bed capacity, and census must be maintained at the 90% level or above to provide sufficient income to break even.
- Operating Expenses increase annually due to inflationary influences in the areas of medical supplies, pharmaceuticals and raw food, as well as State of Colorado directed salary and benefit increases for staff. Normally, there is minimal opportunity for the Nursing Home to reduce expenses to any significant degree due to the nature of its operation, that of providing health care and quality of life for its residents. Total cash expenses increased in Fiscal Year 2008 compared to Fiscal Year 2007.

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

- **Table B** reflects that in Fiscal Year 2008 the Nursing Home experienced a \$281,569 Net Loss. The loss was the result of a new funded depreciation policy adopted by the Nursing Home Division which required the Nursing Home to transfer \$758,265 to the Division. Without this transfer, the Nursing Home would have experienced Net Income of \$476,696 with a significant increase in revenues that was sufficient to cover both cash and non-cash expenses with the increased census levels.

BUDGETARY HIGHLIGHTS

The Nursing Home's Fiscal Year 2008 financial operations resulted in revenues, including capital contribution and non-operating revenue, above the budgeted amounts of \$18,096,800 by \$260,028. This was a result of higher census than anticipated. Cash and non-cash expenses were \$1,544,637 above the \$17,092,404 budgeted amount. The funded depreciation transfer of \$758,265 was not included in the budgeted expenses.

CAPITAL ASSETS AND DEBT ACTIVITIES

Capital Assets

During Fiscal Year 2008 the Nursing Home purchased an IV Hood for \$13,590.

Debt Activities

No current acquisition of debt for Fiscal Year 2007 and 2008 was incurred.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic factors continue to impact the Nursing Home's operations by increasing the costs associated with providing quality health care. A budget has been prepared for Fiscal Year 2009 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged residents for skilled nursing care. Expectations are that, subject to a stable census level and cost containment, the Nursing Home will continue to cover expenses with sufficient revenue to improve its balance sheet position in Fiscal Year 2009.

CONTACTING COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS

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

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 487,971
Restricted cash, debt service reserve	618,328
Restricted cash, resident funds	73,776
Accounts receivable (net of allowance for uncollectibles of \$244,728)	657,606
Due from other governments	827,663
Prepaid expenses	<u>49,747</u>
TOTAL CURRENT ASSETS	<u>2,715,091</u>

NONCURRENT ASSETS

Deferred anticipation warrants issue costs	402,066
Capital assets -	
Land and improvements	7,971,567
Buildings	17,261,381
Furniture and equipment	975,522
Vehicles	99,016
Accumulated depreciation	<u>(4,505,828)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>21,801,658</u>
TOTAL NON CURRENT ASSETS	<u>22,203,724</u>

TOTAL ASSETS	<u>24,918,815</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	414,154
Accrued salaries payable	1,425,993
Accrued interest payable	16,182
Operating cash overdraft	1,156,657
Deposits held in trust for residents	46,960
Current portion of anticipation warrants payable	365,000
Current portion of liability for compensated absences	<u>40,362</u>
TOTAL CURRENT LIABILITIES	<u>3,465,308</u>

NONCURRENT LIABILITIES

Anticipation warrants payable (net of unamortized discount of \$44,990)	4,015,010
Liability for compensated absences	<u>580,516</u>
TOTAL NONCURRENT LIABILITIES	<u>4,595,526</u>

TOTAL LIABILITIES	<u>8,060,834</u>
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NET ASSETS

Invested in capital assets, net of related debt	17,823,714
Restricted for resident purposes	26,453
Unrestricted	<u>(992,186)</u>
TOTAL NET ASSETS	<u>\$ 16,857,981</u>

The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008**

OPERATING REVENUE	
Patient charges for services	\$ 14,745,505
VA per diem reimbursement	3,369,605
Miscellaneous revenue	<u>11,886</u>
TOTAL OPERATING REVENUE	<u>18,126,996</u>
 OPERATING EXPENSES	
Personal services and employee benefits	12,494,247
Advertising	36,569
Building, laundry and recreational supplies	99,129
Equipment rental	298,257
Food and food service supplies	452,935
Insurance	142,385
Division level charge	758,265
Inter-departmental charges for services	450,287
Legal services	13,726
Loss on disposal of assets	3,180
Medical and laboratory supplies	1,590,548
Office	60,274
Other operating expenses	80,274
Professional services	400,954
Repairs and maintenance	169,629
Small equipment	50,674
Telephones	94,047
Utilities	362,398
Vehicles and travel	19,811
Depreciation	826,440
Bad debt expense	<u>15,698</u>
TOTAL OPERATING EXPENSES	<u>18,419,727</u>
OPERATING INCOME (LOSS)	<u>(292,731)</u>
 NONOPERATING REVENUE (EXPENSES)	
State operating grant	213,237
Investment income	<u>16,595</u>
Interest expense	(217,314)
Donations - resident funds	8,608
Interest income - resident funds	229
Recreation - resident funds	<u>(10,193)</u>
TOTAL NONOPERATING REVENUE	<u>11,162</u>
CHANGE IN NET ASSETS	<u>(281,569)</u>
NET ASSETS, beginning of year	<u>17,139,550</u>
NET ASSETS, end of year	<u>\$ 16,857,981</u>

The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	\$ 14,574,787
Cash received from federal government	3,343,043
Cash payments to employees for services	(10,359,621)
Cash payments to suppliers for goods and services	<u>(7,339,376)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>218,833</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Short-term borrowings from state cash pool	600,332
State operating grant	<u>213,237</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>813,569</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(13,591)
Principal payment on anticipation warrants	(355,000)
Interest payment on anticipation warrants	<u>(193,435)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(562,026)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>16,595</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>16,595</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	486,971
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,000</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 487,971</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (292,731)
Adjustments to reconcile operating income to net cash used by operating activities -	
Depreciation	826,440
Bad debt expense	15,698
Loss on disposal of assets	3,180
Changes in assets and liabilities -	
Accounts receivable	(209,166)
Prepaid expenses	(35,710)
Accounts payable and accrued expenses	(253,345)
Liability for compensated absences	<u>164,467</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 218,833</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado State Veterans Nursing Home at Fitzsimons (the Nursing Home) is part of the State of Colorado (the “State”), Department of Human Services.

The financial statements of the Nursing Home have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to 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 when a liability is incurred, regardless of the timing of cash flows.

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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

Net Assets

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

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

Budget and Budgetary Accounting

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.

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.

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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

Capital Assets

Any individual item of property and equipment with a cost of \$5,000 or more and whose estimated life exceeds two years is 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	8-20 years
Buildings	15-40 years
Furniture and equipment	3-15 years
Vehicles	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.

Long-Term Obligations and Bond Discount and Issue Costs

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

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 2 – FINANCIAL STATEMENT PRESENTATION

The Nursing Home has a Patient Benefit fund and a Resident Trust fund that have been included with the enterprise 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:

<u>Statement of Net Assets</u>	June 30, 2008	
	<u>Patient Benefit Fund</u>	<u>Resident Trust Fund</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 26,816	\$ 46,960
<u>Liabilities and Net Assets</u>		
Deposits held in trust for residents	\$ -	\$ 46,960
Interfund payable	363	-
Total Liabilities	363	46,960
<u>Net Assets</u>		
Restricted for resident purposes	26,453	\$ -
Total Liabilities and Net Assets	\$ 26,816	\$ 46,960

The interfund payable was eliminated against accounts receivable in the consolidation with the enterprise proprietary fund for financial reporting purposes.

<u>Statement of Revenue, Expenses, and Changes in Net Assets</u>	Year ended June 30, 2008
	<u>Patient Benefit Fund</u>
<u>Nonoperating revenue</u>	
Donations	\$ 8,608
Interest income	229
Total nonoperating revenue	8,837
<u>Expenses</u>	
Recreation	10,193
Change in net assets	(1,356)
Net assets, beginning of year	27,809
Net assets, end of year	\$ 26,453

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 1,000
Demand deposits	<u>486,971</u>
	487,971
Operating cash overdraft	<u>(1,156,657)</u>
	<u>\$ (668,686)</u>
 <u>Patient Benefit and Resident Funds</u>	
Cash on hand	\$ 1,508
Demand deposits	<u>72,268</u>
	<u>\$ 73,776</u>

At June 30, 2008, the carrying amount of the Nursing Home's deposits was \$559,239 and the bank balance was \$558,970. Of the bank balance, \$100,000 was covered by federal depository insurance and \$458,970 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.

Custodial credit risk is the risk that, in the event of a bank failure, the Nursing Home's deposits may not be returned to it. The Nursing Home's policy for custodial credit risk parallels Colorado statutes as described above. At June 30, 2008, deposits with a bank balance of \$458,970 are not insured but are not exposed to custodial credit risk because they are collateralized with securities held by the pledging financial institution's agent in the Nursing Home's name.

The Nursing Home also had restricted cash required for the debt service reserve. As of June 30, 2008, the carrying amount was \$618,328 and the bank balance was \$569,659. These funds are maintained in a treasury money market fund and are collateralized with U.S. treasury securities whose fair value approximates the bank balance.

The Nursing Home's cash with the Colorado State Treasurer was overdrawn in the amount of \$1,156,657 at June 30, 2008, and is not subject to risk categorization. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 4 – RECEIVABLES

Receivables at June 30, 2008 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$244,728	<u>\$ 657,606</u>
Medicaid reimbursements	\$ 552,981
VA per diem reimbursements	<u>274,682</u>
Total due from other governments	<u>\$ 827,663</u>

NOTE 5 – CAPITAL ASSETS

Following is a summary of capital assets:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Nondepreciable assets –				
Land	\$ 3,312,000	\$ -	\$ -	\$ 3,312,000
Total capital assets not being depreciated	<u>3,312,000</u>	<u>-</u>	<u>-</u>	<u>3,312,000</u>
Depreciable assets –				
Land improvements	4,659,567	-	-	4,659,567
Buildings	17,261,381	-	-	17,261,381
Furniture and equipment	969,000	13,590	7,068	975,522
Vehicles	<u>99,016</u>	<u>-</u>	<u>-</u>	<u>99,016</u>
Total capital assets being depreciated	<u>22,988,964</u>	<u>13,590</u>	<u>7,068</u>	<u>22,995,486</u>
Less: accumulated depreciation for –				
Land improvements	1,045,784	238,174	-	1,283,958
Buildings	1,924,171	433,082	-	2,357,253
Furniture and equipment	668,778	145,255	3,889	810,144
Vehicles	<u>44,544</u>	<u>9,929</u>	<u>-</u>	<u>54,473</u>
Total accumulated depreciation	<u>3,683,277</u>	<u>826,440</u>	<u>3,889</u>	<u>4,505,828</u>
Net capital assets	<u>\$ 22,617,687</u>	<u>\$ (812,850)</u>	<u>\$ 3,179</u>	<u>\$ 21,801,658</u>

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 6 – LONG-TERM DEBT

The following is a summary of long-term debt:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due within</u> <u>One Year</u>
Revenue - Anticipation warrants, series 2002A	\$ 4,780,000	\$ -	\$ 355,000	\$ 4,425,000	\$ 365,000

The issue is described as follows:

\$6,045,000 series 2002A Colorado Department of Human Services, Division of State and Veterans Nursing Homes, Enterprise System Revenue Anticipation Warrants; interest rate ranges from 4.20% to 4.75%; due in annual installments ranging from \$547,525 to \$558,013 including interest through December 2017.

The warrants were issued with an original issue discount of \$69,811. As of June 30, 2008, the unamortized original issue discount was \$44,990, which is netted against the warrant payable on the Statement of Net Assets.

Presented below is a summary of the debt service requirements to maturity, including interest:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 365,000	\$ 186,888	\$ 551,888
2010	380,000	171,987	551,987
2011	395,000	156,488	551,488
2012	410,000	140,387	550,387
2013	430,000	123,050	553,050
2014-2018	<u>2,445,000</u>	<u>299,919</u>	<u>2,744,919</u>
	<u>\$ 4,425,000</u>	<u>\$ 1,078,719</u>	<u>\$ 5,503,719</u>

NOTE 7 – FUNDED DEPRECIATION

The Division of State and Veterans Nursing Homes implemented a funded depreciation policy during the year ended June 30, 2008. The policy is designed to set aside cash in a separate account controlled by the division to be used to fund future capital expenditures. The policy requires that nursing homes with positive cash flow fund the reserve by transferring an amount equal to the lesser of the home's depreciation expense or positive cash flow to the reserve fund at the division level. For the year ended June 30, 2008, the Nursing Home transferred \$758,265 to the reserve fund at the division level. This transfer is shown as a division level charge in the Statement of Revenue, Expenses and Changes in Net Assets.

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 8 – 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.

NOTE 9 – 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.

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

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

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

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

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 9 – PENSION PLANS (Cont'd.)

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

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 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

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

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

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

B. FUNDING POLICY

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA 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.

Employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2007, to December 31, 2007, the Nursing Home contributed 11.15 percent of the employee's salary. From January 1, 2008, through June 30, 2008, the Nursing Home contributed 12.05 percent. During all of the Fiscal Year 2007-2008, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 9 – PENSION PLANS (Cont'd.)

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

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

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

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

The Nursing Home's contributions to the PERA and/or the state defined contribution plan for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1,081,038, \$1,031,986 and \$852,746, respectively. These contributions met the contribution requirement for each year.

NOTE 10 – VOLUNTARY TAX-DEFERRED RETIREMENT PLAN

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State of Colorado offers a 457 deferred compensation plan and the Nursing Home employees have the option of participating.

NOTE 11 – 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>.

COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 11 – 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 was \$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 in Note 9-B. Beginning July 1, 2004, the Nursing Home was required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Nursing Home contributed \$95,057, \$90,744, and \$74,983 as required by statute in Fiscal Years 2007-08, 2006-07, and 2005-06, respectively. In each year the amount contributed was 100 percent of the required contribution.

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

NOTE 12 – 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.

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

GOVERNMENT AUDITING STANDARDS

AND

OMB CIRCULAR A-133 REPORTS

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

FINANCIAL STATEMENTS

A qualified opinion was rendered on the financial statements of the Colorado State Veterans Nursing Home at Fitzsimons as of and for the year ended June 30, 2008.

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

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

An unqualified 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 No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
64.015	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 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 Colorado State Veterans Nursing Home at Fitzsimons (the Nursing Home), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 4, 2008. These financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Colorado State Veterans Nursing Home at Fitzsimons' 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 4, 2008

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<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>3,369,605</u>
 TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS		 \$ <u>3,369,605</u>

**COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Colorado State Veterans Nursing Home at Fitzsimons 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.

**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 Colorado State Veterans Nursing Home at Fitzsimons as of and for the year ended June 30, 2008, and have issued our report thereon dated December 4, 2008. Our report was qualified for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about amounts comprising the statement of net assets at June 30, 2007. Except as described in the following paragraph, we conducted our audit in accordance with 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, 2007.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Colorado State Veterans Nursing Home at Fitzsimons' 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. Pherson, Brayfogel, Durkin & Goodrich, PC

December 4, 2008



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**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO 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 compliance of the Colorado State Veterans Nursing Home at Fitzsimons (the Nursing Home) 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, 2008. Colorado State Veterans Nursing Home at Fitzsimons' 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, *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 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 Colorado State Veterans Nursing Home at Fitzsimons 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, 2008.

Internal Control Over Compliance

The management of the Colorado State Veterans Nursing Home at Fitzsimons 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Colorado State Veterans Nursing Home at Fitzsimons's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over 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.

McPherson, Bryfogel, Daveland Goodrich, PC

December 4, 2008



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REQUIRED AUDITOR COMMUNICATION TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado State Veterans Nursing Home at Fitzsimons (the Nursing Home) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 4, 2008. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U. S. GENERALLY ACCEPTED AUDITING STANDARDS AND OMB CIRCULAR A-133

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

In planning and performing our audit, we considered the Nursing Home's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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.

As part of obtaining reasonable assurance about whether the Nursing Home's 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Nursing Home's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Nursing Home's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Nursing Home's compliance with those requirements.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

Accounting estimates are an integral part of 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 financial statements was allowance for uncollectible accounts. Management's estimate of the allowance for uncollectible accounts is based on management's review of the accounts and determination of the collectability of each 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.

We proposed four audit adjustments to the financial statements and management agreed with our proposed adjustments. Management ultimately determined the adjustments were not material to the financial statements taken as a whole, either individually or in the aggregate and the adjustments were not posted as of June 30, 2008. The first adjustment was to correct the recording of bond interest from interest earnings on the restricted bank accounts. The adjustment, if agreed to by management, would have decreased restricted cash by \$48,669 with a corresponding increase to interest expense.

The second adjustment was to correct the amortization of deferred bond issue costs. The adjustment, if agreed to by management, would have increased interest expense by \$14,466 with a corresponding decrease to deferred anticipation warrants issue costs.

The third adjustment was to adjust the allowance for uncollectible accounts for old claims that are deemed to be uncollectible. The adjustment, if agreed to by management, would have decreased net accounts receivable by \$28,381, with a corresponding increase in bad debt expense.

The fourth adjustment was to correct the posting of charges for workers compensation and risk management. The adjustment, if agreed to by management, would have decreased prepaid expenses by \$47,658 with a corresponding decrease to accounts payable.

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 4, 2008.

Management Consultations with Other Independent Accountants

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

Other Audit 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, Amyboyle, Duvelius & Goodrich, PC

December 4, 2008

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

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

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

Report Control Number 1964