

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME

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

YEAR ENDED JUNE 30, 2007

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**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2007**

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**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2007**

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**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2007**

REPORT SUMMARY

AUTHORITY, PURPOSE AND SCOPE

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG, PC) to conduct certain audits of the Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home) for its year ended June 30, 2007. 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 2007.

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, 2007. 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, 2007. 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, 2006.

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 did not identify any findings or recommendations related to the Nursing Home's operations during our audit.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The audit report for the year ended June 30, 2003 did not identify any findings or recommendations.

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2007**

DESCRIPTION OF THE NURSING HOME

The Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home), established under Section 26-12-201, C.R.S., is a skilled-care nursing facility. It provides health services (including physician care, physical 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 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 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. The Nursing Home is overseen by the Division of State and Veterans Nursing Homes within the Colorado Department of Human Services, Office of Behavioral Health and Housing.

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	105
Average daily census for the year ended June 30, 2007	90
Average occupancy percentage for the year ended June 30, 2007	86%
Patient days for the year ended June 30, 2007	32,878

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2007**

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home) for the year ended June 30, 2007 and have issued our report thereon dated January 3, 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 January 3, 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 not note any new matters involving internal control that are presented for the Nursing Home's consideration.

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DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

There were no audit recommendations made by MBDG, PC included in the report to the Legislative Audit Committee for the year ended June 30, 2003.

FINANCIAL AUDIT REPORT SECTION



McPherson,
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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2007, 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, 2006.

The financial statements present only the Bruce McCandless Colorado State Veterans Nursing Home, an enterprise fund of the State of Colorado, and do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2007, 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, 2006, the financial statements referred to above present fairly, in all material respects, the financial position of the Bruce McCandless Colorado State Veterans Nursing Home as of June 30, 2007, 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 January 3, 2008, on our consideration of the Bruce McCandless Colorado State Veterans Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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, Ryfobogel, Durbin & Goodrich, PC

January 3, 2008

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents an analysis of the Bruce McCandless Colorado State Veterans Nursing Home's financial performance and an overview of the Nursing Home's financial activities for the fiscal year ended June 30, 2007. This section was prepared by the Nursing Home's controller. 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 2007 performance are incorporated and referred to throughout this Management Discussion and Analysis. The analysis below includes comparative information from Fiscal Year 2006 and is based on the Condensed Statement of Net Assets and the Condensed Statement of Revenue, Expenses and Changes in Net Assets provided on pages 8 and 9, respectively.

FINANCIAL HIGHLIGHTS

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

- The Nursing Home's Total Assets increased by \$64,461 which is a .7% increase from Fiscal Year 2006.
- The Nursing Home's Total Operating Revenue increased by \$226,496 which is a 2.9% increase from Fiscal Year 2006.
- The Nursing Home's Cash Operating Expenditures increased by \$1,088,692 which is a 15.7% increase from Fiscal Year 2006.
- The Nursing Home's Non-Cash Expenditures decreased by \$74,342 which is 24.2% decrease from Fiscal Year 2006.
- The Nursing Home's Change in Net Assets decreased by \$1,593,834 in Fiscal Year 2007, from a change of \$1,969,521 in Fiscal Year 2006 to \$ 375,687 in Fiscal Year 2007.

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 2008 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 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.

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

Statement of Revenues, Expenses and Changes in Net Assets

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

Statement of Cash Flows

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

FINANCIAL ANALYSIS

Summary of Operational Policies and Procedures

The Bruce McCandless Colorado State Veterans Nursing Home 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 with the exception of partial reimbursement of a certain consulting arrangement. Costs related to any support provided by the State are reimbursed by the Nursing Home. Financial Management Reports are reviewed monthly at the Executive Management level to ensure efficient and effective use of resources.

Financial Analysis

Statement of Net Assets

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

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

**TABLE A
Condensed Statement of Net Assets**

	2007	2006	Dollar Change	Total Percent Change
Current Assets	\$ 4,231,754	\$ 4,871,992	\$ (640,238)	(13.1%)
Current Assets - Restricted	55,501	77,783	(22,282)	(28.6%)
Non-Current Assets	5,281,835	4,554,854	726,981	16.0%
Total Assets (excluding restricted)	\$ 9,513,589	\$ 9,426,846	\$ 86,743	0.9%
Total Restricted Assets	\$ 55,501	\$ 77,783	\$ (22,282)	(28.6%)
TOTAL ASSETS	\$ 9,569,090	\$ 9,504,629	\$ 64,461	0.7%
Current Liabilities	\$ 863,036	\$ 1,179,328	(\$ 316,292)	(26.8%)
Current Liabilities - Restricted	20,331	38,137	(17,806)	(46.7%)
Non-Current Liabilities	1,179,768	1,198,947	(19,179)	(1.6%)
Total Liabilities (excluding restricted)	\$ 2,042,804	\$ 2,378,275	(\$ 335,471)	(14.1%)
Total Restricted Liabilities	\$ 20,331	\$ 38,137	(\$ 17,806)	(46.7%)
TOTAL LIABILITIES	\$ 2,063,135	\$ 2,416,412	(\$ 353,277)	(14.6%)
Net Assets Invested in Capital Assets	\$ 5,281,835	\$ 4,554,854	\$ 726,981	(16.0%)
Restricted for resident purposes	34,893	39,387	(4,494)	(11.4%)
Unrestricted	2,189,227	2,493,976	(304,749)	(12.2%)
Total Net Assets	\$ 7,505,955	\$ 7,088,217	\$ 417,738	5.9%
TOTAL LIABILITIES AND NET ASSETS	\$ 9,569,090	\$ 9,504,629	\$ 64,461	0.7%

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

As shown in **Table A**, the Nursing Home's Total Assets increased \$64,461 to \$9,569,090 in Fiscal Year 2007 from \$9,504,629 in Fiscal Year 2006. The net increase in Total Assets is primarily due to investments in remodel projects offset by \$692,277 decrease in cash and net accounts receivable.

The decrease in Total Liabilities for the same period is also shown in **Table A** and most of this was a \$391,987 decrease in accounts payable.

Statement of Revenue, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Change in Net Assets provides the information as to the nature and the source of the changes seen in the Statements of Assets. **Table B** provides a summary of revenues and expenses of the Nursing Home for Fiscal Year 2007 as compared to the previous year.

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

	2007	2006	Dollar Change	Total Percent Change
Total Operating Revenue	\$ 7,978,457	\$ 7,751,961	\$ 226,496	2.9%
Non-Operating Revenue	97,801	38,073	59,728	156.9%
Restricted Revenue	19,594	22,562	(2,968)	(13.2%)
TOTAL REVENUE	\$ 8,095,852	\$ 7,812,596	\$ 283,256	3.6%
Operating Expenses – Cash	\$ 8,024,228	\$ 6,935,536	\$ 1,088,692	15.7%
Operating Expenses – Non-Cash	232,935	307,277	(74,342)	(24.2%)
Non Operating Expenses – Cash	43,273	0	43,273	100.0%
Restricted Expenses	24,087	27,218	(3,131)	(11.5%)
TOTAL EXPENSES	\$ 8,324,523	\$ 7,270,031	\$ 1,054,492	14.5%
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION	(\$ 228,671)	\$ 542,565	(\$ 771,236)	(142.1%)
Capital Contribution	604,358	1,426,956	(822,598)	(57.6%)
CHANGE IN NET ASSETS	\$ 375,687	\$ 1,969,521	(\$ 1,593,834)	(80.9%)

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

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 \$226,496 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 105 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 2007 compared to Fiscal Year 2006.
- **Table B** reflects that in Fiscal Year 2007 the Nursing Home experienced a \$228,671 Net Loss with increase in revenues not sufficient to cover both cash and non-cash expenses due to required low census levels needed during construction. However, after capital contribution of \$604,358 from a VA grant the facility shows a net income of \$375,687.

BUDGETARY HIGHLIGHTS

The Nursing Home's Fiscal Year 2007 financial operations resulted in revenues, including capital contribution and non-operating revenue, below the budgeted amounts of \$9,432,772 by \$734,465. This was a result of required low construction census. In addition, timing and length of construction took most of the Fiscal Year. Cash and non-cash expenses were \$114,302 above the \$8,185,908 budgeted amount.

CAPITAL ASSETS AND DEBT ACTIVITIES

Capital Assets

During Fiscal Year 2007 the Nursing Home invested \$110,902 on capitalized equipment costing \$5,000 or more per item. The following is a summary of capital expenditures during Fiscal Year 2007:

- The Nursing Home purchased a new play structure costing \$37,397 and capitalized a Gazebo costing \$10,572 to complete.
- The Nursing Home purchased new window blinds costing \$62,933.
- The Nursing Home placed into service \$3,107,559 in completed construction that included the Heating and Air conditioning system. \$2,246,347 was in construction in progress in Fiscal Year 2006 and \$861,212 was expended in Fiscal Year 2007.
- The Nursing Home recorded asset disposals of \$103,223 in furniture and equipment and \$39,003 in software.

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

In Fiscal Year 2008, the Nursing Home has projected the following capital expenditures, profits and funds permitting:

- Continued investment in remodel project that includes remodel of main kitchen and Secured Care Unit dining expansion and kitchen addition of which \$700,000 is expected during 2008.
- \$65,000 budgeted for major moveable equipment as needed.

Debt Activities

As of the end of Fiscal Year 2006, the Nursing Home acquired a long term capital lease in the amount of \$929,753 to finance construction projects. The balance at June 30, 2007 was \$899,716.

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 2008 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 cover expenses with sufficient revenue to improve its balance sheet position in Fiscal Year 2008.

CONTACTING BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME

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

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,538,008
Restricted cash, resident funds	55,501
Accounts receivable (net of allowance for uncollectibles of \$147,367)	67,014
Due from other governments (net of allowance for uncollectibles of \$685)	493,074
Inventory, at cost	124,632
Prepaid expenses	<u>9,026</u>
TOTAL CURRENT ASSETS	<u>4,287,255</u>

NONCURRENT ASSETS

Capital assets -	
Land and improvements	259,934
Buildings	6,278,147
Furniture and equipment	517,065
Vehicles	82,058
Software	54,025
Art and historical treasures	11,122
Accumulated depreciation	<u>(1,920,516)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>5,281,835</u>

TOTAL ASSETS	<u>9,569,090</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	148,206
Accrued salaries payable	628,553
Accrued interest payable	1,575
Deposits held in trust for residents	20,331
Current portion of capital lease payable	65,796
Current portion of liability for compensated absences	<u>18,906</u>
TOTAL CURRENT LIABILITIES	<u>883,367</u>

NONCURRENT LIABILITIES

Capital lease payable	833,920
Liability for compensated absences	<u>345,848</u>
TOTAL NONCURRENT LIABILITIES	<u>1,179,768</u>

TOTAL LIABILITIES	<u>2,063,135</u>
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NET ASSETS

Invested in capital assets, net of related debt	4,382,119
Restricted for resident purposes	34,893
Unrestricted	<u>3,088,943</u>
TOTAL NET ASSETS	<u>\$ 7,505,955</u>

The accompanying notes are an integral part of this statement.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007

OPERATING REVENUE	
Patient charges for services	\$ 6,017,952
VA per diem reimbursement	1,950,798
Miscellaneous revenue	<u>9,707</u>
TOTAL OPERATING REVENUE	<u>7,978,457</u>
OPERATING EXPENSES	
Personal services and employee benefits	5,920,802
Advertising	98,212
Building, laundry and recreational supplies	50,947
Equipment rental	64,946
Food and food service supplies	244,643
Insurance	357,522
Inter-departmental charges for services	113,084
Legal services	4,564
Loss on disposal of assets	226
Medical and laboratory supplies	501,667
Office	50,196
Other operating expenses	23,775
Professional services	181,891
Repairs and maintenance	114,999
Small equipment	31,638
Telephones	32,672
Utilities	170,631
Vehicles and travel	61,813
Depreciation	244,907
Bad debt expense	<u>(11,972)</u>
TOTAL OPERATING EXPENSES	<u>8,257,163</u>
OPERATING INCOME (LOSS)	<u>(278,706)</u>
NONOPERATING REVENUE (EXPENSES)	
State operating grant	70,708
Investment income	27,093
Interest expense	(43,273)
Donations - resident funds	19,476
Interest income - resident funds	118
Recreation - resident funds	<u>(24,087)</u>
TOTAL NONOPERATING REVENUE	<u>50,035</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(228,671)</u>
CAPITAL CONTRIBUTION	<u>604,358</u>
CHANGE IN NET ASSETS	375,687
NET ASSETS, beginning of year	<u>7,130,268</u>
NET ASSETS, end of year	<u>\$ 7,505,955</u>

The accompanying notes are an integral part of this statement.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	\$ 5,969,089
Cash received from federal government	2,197,748
Cash payments to employees for services	(4,855,494)
Cash payments to suppliers for goods and services	<u>(3,503,700)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(192,357)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State operating grant	<u>70,708</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>70,708</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(972,114)
Capital grant	604,358
Capital lease payments	<u>(73,310)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(441,066)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>27,093</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>27,093</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(535,622)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,073,630</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,538,008</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (278,706)
Adjustments to reconcile operating income to net cash used by operating activities -	
Depreciation	244,907
Bad debt expense	(11,972)
Loss on disposal of assets	226
Changes in assets and liabilities -	
Accounts receivable	188,380
Inventory	(20,732)
Prepaid expenses	(9,026)
Accounts payable and accrued expenses	(347,622)
Liability for compensated absences	<u>42,188</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (192,357)</u>

The accompanying notes are an integral part of this statement.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The 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.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

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

Net Assets

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

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

Budget and Budgetary Accounting

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

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

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

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.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

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

Inventories

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

Capital Assets

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

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

Land improvements	10-40 years
Buildings	5-40 years
Furniture and equipment	5-25 years
Vehicles	5-12 years
Software	4-10 years

Compensated Absences

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

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

Statement of Cash Flows

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

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION

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

Statement of Net Assets

	June 30, 2007	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 35,170	\$ 20,331
<u>Liabilities and Net Assets</u>		
Deposits held in trust for residents	\$ -	\$ 20,331
Interfund payable	277	-
Total Liabilities	277	20,331
 Net Assets		
Restricted for resident purposes	34,893	\$ -
Total Liabilities and Net Assets	\$ 35,170	\$ 20,331

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

Statement of Revenue, Expenses, and Changes in Net Assets

	Year ended June 30, 2007
	<u>Patient Benefit Fund</u>
Nonoperating revenue	
Donations	\$ 19,476
Interest income	118
Total nonoperating revenue	19,594
 Expenses	
Recreation	24,087
Change in net assets	(4,493)
Net assets, beginning of year	39,386
Net assets, end of year	\$ 34,893

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 200
Demand deposits	389,859
Cash with State Treasurer, net of unrealized loss of \$17,917	<u>3,147,949</u>
	<u>\$ 3,538,008</u>
 <u>Patient Benefit and Resident Funds</u>	
Cash on hand	\$ 758
Demand deposits	<u>54,743</u>
	<u>\$ 55,501</u>

At June 30, 2007, the carrying amount of the Nursing Home’s deposits was \$444,602 and the bank balance was \$446,138. Of the bank balance, \$100,000 was covered by federal depository insurance and \$346,138 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, 2007, deposits with a bank balance of \$346,138 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 deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities authorized by CRS 24-75-601.1. The Nursing Home reports its share of the treasurer’s unrealized gains/losses based on its participation in the State Treasurer’s pool. All of the treasurer’s investments are reported at fair value, which is determined based on quoted market prices at June 30, 2007. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized loss (\$17,917 for the year ended June 30, 2007) included in “Investment Income” reflects only the change in fair value during the current Fiscal Year. Additional information on the Treasurer’s pool may be obtained in the State of Colorado’s Comprehensive Annual Financial Report.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

NOTE 4 – RECEIVABLES

Receivables at June 30, 2007 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$147,367	<u>\$ 67,014</u>
Medicaid reimbursements net of allowance for doubtful accounts of \$685	\$ 317,903
VA per diem reimbursements	<u>175,171</u>
 Total due from other governments	 <u>\$ 493,074</u>

NOTE 5 – CAPITAL ASSETS

Following is a summary of capital assets:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Nondepreciable assets –				
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Art and historical treasures	11,122	-	-	11,122
Construction in progress	<u>2,246,347</u>	<u>-</u>	<u>2,246,347</u>	<u>-</u>
Total capital assets not being depreciated	<u>2,317,469</u>	<u>-</u>	<u>2,246,347</u>	<u>71,122</u>
Depreciable assets –				
Land improvements	151,965	47,969	-	199,934
Buildings	3,170,588	3,107,559	-	6,278,147
Furniture and equipment	557,355	62,933	103,223	517,065
Vehicles	82,058	-	-	82,058
Software	<u>93,028</u>	<u>-</u>	<u>39,003</u>	<u>54,025</u>
Total capital assets being depreciated	<u>4,054,994</u>	<u>3,218,461</u>	<u>142,226</u>	<u>7,131,229</u>
Less: accumulated depreciation for –				
Land improvements	77,649	11,180	-	88,829
Buildings	1,151,690	181,794	-	1,333,484
Furniture and equipment	448,822	28,563	102,996	374,389
Vehicles	62,939	11,477	-	74,416
Software	<u>76,509</u>	<u>11,893</u>	<u>39,004</u>	<u>49,398</u>
Total accumulated depreciation	<u>1,817,609</u>	<u>244,907</u>	<u>142,000</u>	<u>1,920,516</u>
Net capital assets	<u>\$ 4,554,854</u>	<u>\$ 2,973,554</u>	<u>\$ 2,246,573</u>	<u>\$ 5,281,835</u>

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE 6 – CAPITAL LEASE PAYABLE

The following is a summary of changes in capital lease payable for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
\$929,753 capital lease; interest rate of 4.08%; due in quarterly installments of \$25,640 including interest through June 2018	\$ <u>929,753</u>	\$ <u> -</u>	\$ <u>30,037</u>	\$ <u>899,716</u>

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

Cost – HVAC Equipment	\$ 3,107,559
Accumulated depreciation to June 30, 2007	(<u>19,582</u>)
	<u>\$ 3,087,977</u>

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

Year Ending June 30,

2008	\$ 102,558
2009	102,558
2010	102,558
2011	102,558
2012	102,558
2013-2018	<u>615,348</u>
	1,128,138
Less amount representing interest	<u>(228,422)</u>
	<u>\$ 899,716</u>

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

NOTE 7 – RISK MANAGEMENT

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

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

NOTE 8 – PENSION PLANS

A. PLAN DESCRIPTION

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

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:

- o 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.
- o 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.
- o Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

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

- o 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.
- o 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.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

NOTE 8 – PENSION PLANS (Cont'd.)

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 percent of the employer contributions for this population.)

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, 2006, to December 31, 2006, the Nursing Home contributed 10.65 percent of the employee's salary. From January 1, 2007, through June 30, 2007, the Nursing Home contributed 11.15 percent. During all of the Fiscal Year 2007, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, 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.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

NOTE 8 – PENSION PLANS (Cont'd.)

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 Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ended June 30, 2007, 2006 and 2005 were \$508,777, \$442,886 and \$398,864, respectively. These contributions met the contribution requirement for each year.

NOTE 9 – VOLUNTARY TAX-DEFERRED RETIREMENT PLAN

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan.

NOTE 10 – OTHER POSTRETIREMENT BENEFITS AND LIFE INSURANCE

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. 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 benefit. 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.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 8 B.

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 medical benefit plans, and another carrier for prescription benefits, and with several health maintenance organizations providing services within Colorado. As of December 31, 2006, there were 42,433 enrollees in the plan.

BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

NOTE 10 – OTHER POSTRETIREMENT BENEFITS AND LIFE INSURANCE (Cont'd.)

Life Insurance Program

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

NOTE 11 – CONTINGENCIES AND COMMITMENTS

Grant Programs – The Nursing Home 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

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

FINANCIAL STATEMENTS

A qualified opinion was rendered on the financial statements of the Bruce McCandless Colorado State Veterans Nursing Home as of and for the year ended June 30, 2007.

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>
64.005	Construction of State Home Facilities
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 Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2007, and have issued our report thereon dated January 3, 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, 2006.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bruce McCandless Colorado State Veterans Nursing Home's 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

January 3, 2008

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/PASS-THROUGH <u>GRANTOR/PROGRAM TITLE</u>	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS		
Direct assistance -		
Veterans State Nursing Home Care	64.015	\$ 1,899,644
Veterans Nursing Home Care	64.010	51,154
Construction of State Home Facilities	64.005	<u>604,358</u>
 TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS		 <u>\$ 2,555,156</u>

**BRUCE MCCANDLESS COLORADO STATE VETERANS NURSING HOME
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

NOTE 1 - BASIS OF PRESENTATION

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



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

Members of the Legislative Audit Committee:

We have audited the financial statements of the Bruce McCandless Colorado State Veterans Nursing Home as of and for the year ended June 30, 2007, and have issued our report thereon dated January 3, 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, 2006. 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, 2006.

Internal Control Over Financial Reporting

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

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

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

Mr. Pherson, Ruyfogh, Darwin & Goodrich, PC

January 3, 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 Bruce McCandless Colorado State Veterans Nursing Home (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 each of its major federal programs for the year ended June 30, 2007. Bruce McCandless Colorado State Veterans Nursing Home's major federal programs are 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 each of its major federal programs 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 Bruce McCandless Colorado State Veterans Nursing Home complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Bruce McCandless Colorado State Veterans Nursing Home is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Nursing Home's internal control over compliance with requirements that could have a direct and material effect on a major federal program 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 Bruce McCandless Colorado State Veterans Nursing Home'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.

We Pherson, Bryfogle, Davelos & Woodruff, PC

January 3, 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 Bruce McCandless Colorado State Veterans Nursing Home (the Nursing Home) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 3, 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

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free from material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

Pursuant to professional standards, the auditors' responsibility for other information in documents containing the Nursing Home's audited financial statements does not extend beyond the financial information identified in the audit report, and the auditor is not required to perform procedures to corroborate such other information. However, in accordance with such standards, we are required to read the information in such documents and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information which we believe is a material misstatement of fact. No such inconsistencies or misstatements came to our attention.

SIGNIFICANT ACCOUNTING POLICIES

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 2007.

We noted no transactions entered into by the Nursing Home during the Fiscal Year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

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. Management's use of estimates is disclosed in the notes to the financial statements. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable taken in relation to the financial statements as a whole.

AUDIT ADJUSTMENTS

For the purposes of this letter, professional standards define an audit adjustment as a proposed correction to the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Nursing Home's financial reporting process (that is, cause future financial statements to be materially misstated.)

We had two passed audit adjustments to the financial statements. The first adjustment was to increase the cost of an equipment purchase by the amount of grant proceeds paid directly to the vendor. The adjustment, if agreed to by management, would have increased net capital assets by \$4,050 (before depreciation expense) with a corresponding increase to grant revenue.

The second adjustment was to charge off the accounts receivable balances over 365 days past due. The adjustment, if agreed to by management, would have decreased total accounts receivable by \$135,337 with a corresponding decrease to the allowance for uncollectibles. The adjustment would have no effect on net accounts receivable.

We had one posted audit adjustment to the financial statements. The adjustment was to reverse a duplicate journal entry made to record a federal accounts receivable. The adjustment decreased net accounts receivable by \$132,664 with a corresponding decrease to deferred revenue.

The uncorrected misstatements pertaining to Fiscal Year 2007 was determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

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

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.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

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.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

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, Ruffolo, Davlin & Goodrich, PC

January 3, 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 1857