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Effective August 2, 2004

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TRINIDAD STATE NURSING HOME

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

YEAR ENDED JUNE 30, 2004

LIMITATIONS ON DISCLOSURE OF INFORMATION CONTAINED IN THIS DOCUMENT

The enclosed report is being distributed to you at this time for your information in accordance with Colorado Revised Statutes (CRS).

SECTION 2-3-103(2) states in part:

All reports shall be open to public inspection except for that portion of any report containing recommendations, comments and any narrative statements which is **released only upon the approval of a majority vote of the committee** (emphasis supplied).

SECTION 2-3-103.7(1) states in part:

Any state employee **or other individual acting in an oversight role as a member of a committee, board or commission** who willfully and knowingly discloses the contents of any report prepared by, or at the direction of, the State Auditor's Office prior to **the release of such report by a majority vote** of the committee as provided in Section 2-3-103(2) is guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars (emphasis supplied).

**TRINIDAD STATE NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2004**

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**TRINIDAD STATE NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2004**

REPORT SUMMARY

AUTHORITY, PURPOSE AND SCOPE

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG) to conduct certain audits of the Trinidad State Nursing Home (the "Nursing Home") for its year ended June 30, 2004. MBDG, PC performed these audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. We conducted the related field work in August 2004.

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, 2004. This included a review of internal control as required by generally accepted auditing standards in the United States of America and *Government Auditing Standards*.
- Express an opinion on the Nursing Home's compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

SUMMARY OF MAJOR AUDIT FINDINGS AND RECOMMENDATIONS

We expressed a qualified opinion on the Nursing Home's financial statements as of and for the year ended June 30, 2004. 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, 2003.

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

**TRINIDAD STATE NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2004**

REPORT SUMMARY (Cont'd.)

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The last audit report issued on the Trinidad State Nursing Home was for the year ended June 30, 2000 and included one recommendation. The disposition of this audit recommendation as of August 5, 2004 was as follows:

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

**TRINIDAD STATE NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2004**

DESCRIPTION OF THE NURSING HOME

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

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	152
Average daily census for the year ended June 30, 2004	110
Average occupancy percentage for the year ended June 30, 2004	72%
Patient days for the year ended June 30, 2004	40,184

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Trinidad State Nursing Home (the "Nursing Home") for the year ended June 30, 2004 and have issued our report thereon dated August 5, 2004. In planning and performing our audit of the financial statements, we considered the Nursing Home's internal control solely to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated August 5, 2004 on our consideration of the Nursing Home's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. We have not considered internal control since August 5, 2004.

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

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

**TRINIDAD STATE NURSING HOME
FINANCIAL AND COMPLIANCE AUDIT
YEAR ENDED JUNE 30, 2004**

FINDINGS AND RECOMMENDATIONS (Cont'd.)

DISPOSITION OF PRIOR AUDIT FINDINGS 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, 2000, and their disposition at August 5, 2004.

<u>Recommendation</u>	<u>Disposition</u>
1. The Nursing Home should follow procedures to write-off accounts receivable that are over one year old and efforts to collect have ceased.	Implemented.

FINANCIAL AUDIT REPORT SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of Trinidad State Nursing Home (the "Nursing Home"), an enterprise fund of the State of Colorado as of and for the year ended June 30, 2004, 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, 2003.

The financial statements present only the Trinidad State Nursing Home, an enterprise fund of the State of Colorado, and do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2004, 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, 2003, the financial statements referred to above present fairly, in all material respects, the financial position of Trinidad State Nursing Home as of June 30, 2004, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2004 on our consideration of Trinidad State Nursing Home internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

August 5, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents an analysis of the Trinidad State Nursing Home's (the "Nursing Home") financial performance and an overview of the Nursing Home's financial activities for the fiscal year ended June 30, 2004. This section was prepared by the Nursing Home's management. The financial statements are an integral part of this analysis and figures reported on MCR01R and MCR02R outputs from the Colorado Financial Reporting System (COFRS) reflecting the Fiscal Year 2004 performance are incorporated and referred to throughout this Management's Discussion and Analysis. The analysis below includes comparative information from Fiscal Year 2003 and is based on the condensed statements of net assets and the condensed statements of revenues, expenses and changes in net assets provided on pages 10 and 11, respectively.

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 \$471,762, which is a 17.1 percent decrease from Fiscal Year 2003.
- The Nursing Home's total operating revenue decreased by \$725,180, which is an 11.2 percent decrease from Fiscal Year 2003.
- The Nursing Home's cash operating expenses, excluding depreciation, decreased by \$360,106, which is a 5.6 percent decrease from Fiscal Year 2003.
- The Nursing Home's depreciation expense increased by \$6,185, which is a 3.9 percent increase from Fiscal Year 2003.
- The Nursing Home's operating loss increased by \$371,259 in fiscal year 2004, from a negative \$72,640 in Fiscal Year 2003 to a negative \$443,899 in Fiscal Year 2004.
- The Nursing Home's available cash decreased by \$124,823 in Fiscal Year 2004 compared to Fiscal Year 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis consists of the following parts: financial analysis of financial statements and supplementary information, to include budget execution, capital expenditures, and fiscal year 2004 projections. The financial analysis includes notes that discuss in varying detail the information in the financial statements, summarized in Table A, Table B, and Table C.

Fund Financial Statements

Statement of Net Assets

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

Statement of Revenue, Expenses and Changes in Net Assets

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

Statement of Cash Flows

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

FINANCIAL ANALYSIS OF THE TRINIDAD STATE NUSRING HOME TRINIDAD, COLORADO

Summary of Operational Policies and Procedures

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

The Nursing Home operates as an enterprise fund, and the revenues received from private pay and Medicaid residents are used to cover the expenses of day-to-day operations of the Nursing Home. The State of Colorado does not provide any general fund monies to support the Nursing Home. Financial management reports are reviewed monthly at the executive management level to insure efficient and effective use of resources.

Financial Analysis

Assets

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

TABLE A
Condensed Statements of Net Assets

	2004	2003	Dollar Change	Total Percent Change
Current Assets	\$1,269,736	\$1,622,991	(\$353,255)	-21.8%
Non Current Assets	\$1,015,751	\$1,134,258	(\$118,507)	-10.4%
TOTAL ASSETS	\$2,285,487	\$2,757,249	(\$471,762)	-17.1%
Current Liabilities	\$576,601	\$587,520	(\$10,919)	-1.9%
Non Current Liabilities	\$193,839	\$214,671	(\$20,832)	-9.7%
Total Liabilities	\$770,440	\$802,191	(\$31,751)	-4.0%
Net Assets:				
Invested in Capital Assets	\$1,015,751	\$1,134,258	(\$118,507)	-10.4%
Restricted	\$7,473	\$6,537	\$936	14.3%
Unrestricted	\$491,823	\$814,263	(\$322,440)	-39.6%
Total Net Assets	\$1,515,047	\$1,955,058	(\$440,011)	-22.5%
TOTAL LIABILITIES & NET ASSETS	\$2,285,487	\$2,757,249	(\$471,762)	-17.1%

As shown in **Table A**, the Nursing Home's total assets decreased \$471,762 to \$2,285,487 in Fiscal Year 2004, a decrease from \$2,757,249 in Fiscal Year 2003. The net decrease in assets is primarily due to a \$204,707 repayment to Medicaid and a \$263,393 decrease in revenue due to census decline. The Fiscal Year 2004 census was 40,184 patient days compared to 46,831 in Fiscal Year 2003, which represents a 14% decrease.

The decrease in total liabilities for the same period is also shown in **Table A** and is primarily due to a reduction in personal service payables at the year end.

The analysis of the Nursing Home's Statement of Net Assets displays the changes in the financial position of the Nursing Home. The Statement of Revenues and Expenses provides the information as to the nature and source of the changes reflected in the Statement of Net Assets. **Table B** provides a summary of revenues and expenses of the Nursing Home for Fiscal Year 2004 as compared to the previous year.

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

	2004	2003	Dollar Change	Total Percent Change
Total Operating Revenues	\$5,761,131	\$6,486,311	(\$725,180)	-11.2%
Operating Expenses:				
Total Excluding Depreciation	\$6,038,963	\$6,399,069	(\$ 360,106)	- 5.6%
Depreciation	<u>166,067</u>	<u>159,882</u>	<u>6,185</u>	<u>3.9%</u>
Total expenses	\$6,205,030	\$6,558,951	(\$353,921)	-5.4%
Operating Loss	(\$443,899)	(\$72,640)	(\$371,259)	-511.1%
Nonoperating Revenues(Expenses) Net	<u>\$3,888</u>	<u>\$10,465</u>	<u>(\$6,577)</u>	<u>-62.8%</u>
Change in Net Assets	<u>(\$440,011)</u>	<u>(\$62,175)</u>	<u>(\$377,836)</u>	<u>-607.7%</u>

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

- The Nursing Home's operating revenues decreased \$725,180 mainly due to decreased census, a payback to Medicaid of \$204,707 and a 10-month delay in the annual reimbursement of facility costs by Medicaid. The Trinidad State Nursing Home census is 85 percent Medicaid. The payback to Medicaid was because Medicaid started paying the new rate in September 2002 rather than May 2003. A new piece of legislation changed the reimbursement from September of each year to the following May. In error, CMS had ACS pay the new rate in September 2002 rather than starting in May 2003.
- Nursing Home revenues are directly related to the number of resident days of patient care. The Nursing Home has a 152 bed capacity.
- Operating expenses decreased due to cost-saving measures taken to offset the current year loss in revenues. Reductions in staffing, operating expenses and capital outlay/construction were made. 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.
- **Table B** reflects that in fiscal year 2004 the Nursing Home experienced a \$443,899 operating loss with revenues not sufficient to cover operating expenses.

TABLE C
Changes in Cash Balance

	2004	2003	Dollar Change	Total Percent Change
Available Cash	\$841,429	\$966,251	(\$124,822)	-12.9%
Outstanding Payables	\$497,724	\$519,767	\$22,044	4.2%
Medicaid FY03 Payables		\$204,707	\$204,707	
Changes in Available Cash	\$343,705	\$241,777	\$101,928	42.1%

A closer examination of the Change in Cash Balance in **Table C** reveals the following:

- Even with a net loss of \$440,011 the cash balance increased by \$101,928. A Medicaid overpayment of \$204,707 was received in Fiscal Year 2003 and should have been set up as a payable in that year. This overpayment occurred when Medicaid paid us our new rate starting in the month of September 2002 rather than May 2003 as the change in the new Medicaid guidelines required. Late notification by the Colorado Medicaid Program prevented a payable from being set up.

BUDGETARY HIGHLIGHTS

Nursing Home Fiscal Year 2004 financial operations resulted in revenues below the budgeted amounts by \$1,257,570. This was a result of persistent low census and a Medicaid payback of \$204,707. Expenditures were managed such that total cash and non-cash expenses were \$980,500 less than budgeted. Savings from below anticipated census were mainly in the areas of direct cost including salaries, drugs, and medical expenses. Capital outlay and construction were also reduced.

Budget 2004 Operating Revenue	\$ 7,021,556
Actual 2004 Operating Revenue	<u>\$ 5,761,131</u>
Unfavorable Budget Variance	<u>\$ 1,260,425</u>
Budget 2004 Cash and Non Cash Expense	\$ 7,185,433
Actual 2003 Cash and Non Cash Expense	<u>\$ 6,205,030</u>
Favorable Budget Variance	<u>\$ 980,403</u>

CAPITAL ASSETS AND DEBT ACTIVITIES

During Fiscal Year 2004, the Nursing Home purchased Achieve Medical and Accounting software in the amount of \$47,570.

In Fiscal Year 2005, the Nursing Home has projected the following capital expenditures, available funds permitting:

- \$100,000 Smoke Detector System for 1968 Building
- \$150,000 Fire Protection Sprinkler System for 1968 Building.

Debt Activities

As of the end of Fiscal Year 2004, the Nursing Home did not have any long-term indebtedness.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic factors continue to impact the Nursing Home operations by increasing the costs associated with providing quality health care. A budget has been prepared for Fiscal Year 2005 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged to residents for skilled nursing care.(see totals below)

Operating Revenue:	\$6,242,097
Operating Expenses:	<u>\$6,001,734</u>
Revenue vs. Cash Expenses:	<u>\$ 240,363</u>
Depreciation:	\$ 164,400
Profit:	<u>\$ 75,963</u>

TRINIDAD STATE NURSING HOME
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 841,429
Restricted cash, resident funds	53,768
Accounts receivable (net of allowance for uncollectibles of \$2,015)	84,595
Due from other governments	234,035
Inventories, at cost	55,909
TOTAL CURRENT ASSETS	1,269,736

NONCURRENT ASSETS

Capital assets -	
Land and improvements	156,352
Buildings	2,458,245
Furniture and equipment	346,183
Vehicles	5,249
Software	78,875
Accumulated depreciation	(2,029,153)
TOTAL NON CURRENT ASSETS(NET OF ACCUMULATED DEPRECIATION)	1,015,751

TOTAL ASSETS	\$ 2,285,487
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	\$ 128,565
Accrued salaries payable	369,159
Current portion of liability for compensated absences	28,065
Current portion of capital lease	4,517
Deposits held in trust for residents	46,295
TOTAL CURRENT LIABILITIES	576,601

NONCURRENT LIABILITIES

Liability for compensated absences	184,060
Noncurrent portion of capital lease	9,779
TOTAL NONCURRENT LIABILITIES	193,839

TOTAL LIABILITIES	770,440
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NET ASSETS

Invested in capital assets, net of related debt	1,015,751
Restricted	7,473
Unrestricted	491,823
TOTAL NET ASSETS	1,515,047

TOTAL LIABILITIES AND NET ASSETS	\$ 2,285,487
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The accompanying notes are an integral part of this statement.

TRINIDAD STATE NURSING HOME
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004

OPERATING REVENUE	
Patient charges for services	\$ 5,755,526
Miscellaneous revenue	<u>5,605</u>
TOTAL OPERATING REVENUE	<u>5,761,131</u>
 OPERATING EXPENSES	
Personal services and employee benefits	5,022,361
Advertising	1,268
Building, laundry and recreational supplies	105,553
Food and food service supplies	261,130
Insurance	11,805
Inter-departmental charges for services	104,566
Medical and laboratory supplies	80,876
Office	174,356
Other operating expenses	11,216
Professional services	32,978
Repairs and maintenance	39,800
Small equipment	11,658
Telephones	9,804
Utilities	152,715
Vehicles and travel	17,769
Depreciation	166,067
Bad debt expense	<u>1,108</u>
TOTAL OPERATING EXPENSES	<u>6,205,030</u>
OPERATING INCOME (LOSS)	<u>(443,899)</u>
 NONOPERATING REVENUE(EXPENSES)	
Donations - resident funds	7,084
Interest income	2,952
Recreation - resident funds	<u>(6,148)</u>
TOTAL NONOPERATING REVENUE	<u>3,888</u>
CHANGE IN NET ASSETS	(440,011)
NET ASSETS, beginning of year	<u>1,955,058</u>
NET ASSETS, end of year	<u>\$ 1,515,047</u>

The accompanying notes are an integral part of this statement.

TRINIDAD STATE NURSING HOME
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	\$ 1,775,337
Cash received from federal government	4,413,627
Cash payments to employees for services	(5,063,955)
Cash payments to suppliers for goods and services	<u>(1,200,492)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(75,483)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(52,291)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(52,291)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>2,952</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,952</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(124,822)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>966,251</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 841,429</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (443,899)
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation	166,067
Bad debt expense	1,108
Changes in assets and liabilities -	
Accounts receivable	223,126
Inventory	537
Accounts payable and accrued expenses	(22,044)
Liability for compensated absences	<u>(378)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (75,483)</u>

The accompanying notes are an integral part of this statement.

**TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Fund Accounting

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

Basis of Accounting

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

**TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

GASB 34

At the beginning of the Fiscal Year 2002, the Nursing Home adopted the provisions of GASB Statement No. 34 entitled *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows, where applicable.

The statement requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

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

Budget and Budgetary Accounting

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

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

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

Accounts Receivable

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

TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

Inventories

Inventories consisting of food, medical, 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 recorded at cost. Expenses for normal maintenance and repairs are recognized currently as incurred, while renewals and betterments are capitalized.

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

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

Compensated Absences

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

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

Statement of Cash Flows

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

**TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 – FINANCIAL STATEMENT PRESENTATION

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

Statement of Net Assets

	June 30, 2004	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 7,473	\$ 46,295
Total Assets	\$ 7,473	\$ 46,295
<u>Liabilities and Net Assets</u>		
Deposits held in trust for residents	\$ -	\$ 46,295
Net Assets		
Restricted for resident purposes	7,473	\$ -
Total Liabilities and Net Assets	\$ 7,473	\$ 46,295

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30, 2004	
Nonoperating Revenue		
Donations	\$ 7,084	\$ -
Total nonoperating revenue	7,084	-
Expenses		
Recreation	6,148	-
Change in Net Assets	936	-
Net Assets, beginning of year	6,537	-
Net Assets, end of year	\$ 7,473	\$ -

**TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 1,000
Cash with State Treasurer	<u>839,929</u>
	<u>\$ 840,929</u>
 <u>Resident Funds</u>	
Cash on hand	\$ 500
Demand deposits	<u>53,768</u>
	<u>\$ 54,268</u>

At June 30, 2004, the carrying amount of the Nursing Home's demand deposits was \$53,768 and the bank balance was \$54,060. All the bank balance was covered by federal depository insurance. In addition, the cash with state treasurer is not subject to risk categorization. Detailed information on the state treasurer's cash and investments is available from that office.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$2,015	<u>\$ 84,595</u>
Medicaid reimbursements	<u>\$ 234,035</u>

**TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 5 – CAPITAL ASSETS

Following is a summary of capital assets:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Nondepreciable assets –				
Land	\$ 5,960	\$ -	\$ -	\$ 5,960
Total capital assets not being depreciated	<u>5,960</u>	<u>-</u>	<u>-</u>	<u>5,960</u>
Depreciable assets –				
Land improvements	260,717	-	110,325	150,392
Building	2,530,907	-	72,662	2,458,245
Furniture and equipment	376,231	-	52,354	323,877
Vehicles	5,249	-	-	5,249
Software	31,304	47,571	-	78,875
Leased furniture and equipment	<u>22,316</u>	<u>-</u>	<u>10</u>	<u>22,306</u>
Total capital assets being depreciated	<u>3,226,724</u>	<u>47,571</u>	<u>235,351</u>	<u>3,038,944</u>
Less: accumulated depreciation for –				
Land improvements	199,431	13,282	110,324	102,389
Building	1,640,463	89,881	72,662	1,657,682
Furniture and equipment	239,187	38,578	52,354	225,411
Vehicles	1,963	526	-	2,489
Software	<u>17,382</u>	<u>23,800</u>	<u>-</u>	<u>41,182</u>
Total accumulated depreciation	<u>2,098,426</u>	<u>166,067</u>	<u>235,340</u>	<u>2,029,153</u>
Net Capital Assets	<u>\$ 1,134,258</u>	<u>\$ (118,496)</u>	<u>\$ 11</u>	<u>\$ 1,015,751</u>

NOTE 6 - RISK MANAGEMENT

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

**TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 – 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 Colorado Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan requires legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203, by calling PERA at 303-832-9550 or 1-800-729-PERA(7372), or by visiting www.copera.org.

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

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

B. FUNDING POLICY

Employees contribute 8.0 percent of their gross covered wages to an individual account in the plan. During the fiscal year ending June 30, 2004, the state contributed 10.15 percent of the employee's gross covered wages. Effective January 1, 2003, 1.1 percent of the total contribution was allocated to the Health Care Trust Fund. Through May 31, 2004, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Note 8 below). The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The Nursing Home's contributions to the three programs described above for the fiscal years ended June 30, 2004, 2003 and 2002 were \$401,815, \$425,187 and \$450,320, respectively. These contributions met the required contribution requirement for each year.

**TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 8 – VOLUNTARY TAX-DEFERRED RETIREMENT PLAN

Beginning January 1, 2001, the Matchmaker program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match amount was 100 percent of up to 3 percent of employee's gross covered wages paid during the month. For calendar year 2003, the match amount was 100 percent of up to 2 percent of employee's gross covered wages paid during the month. For calendar year 2004 through May 31, 2004, the match was 100 percent of up to 1 percent of employee's gross covered wages paid during the month. The PERA board sets the level of the match with two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan available for the match. While the plan was not overfunded, the maximum one-year change in the match rate is statutorily limited to 1 percent and, therefore, the match changed from 2 percent to 1 percent on January 1, 2004. Legislation passed in the 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are one hundred ten percent of actuarially accrued plan liabilities

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan and the state of Colorado also offers a Section 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b plan. Members who contribute to these plans also receive the state match.

NOTE 9 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Healthcare Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefits. During the fiscal year ending June 30, 2004, the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

The Health Care Fund is maintained by an employer's contribution as discussed above in Note 7.

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 and prescription benefit plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2003, there were 37,067 enrollees in the plan.

Life Insurance Program

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

TRINIDAD STATE NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 10 - CONTINGENCIES AND COMMITMENTS

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

GOVERNMENT AUDITING STANDARDS
REPORT

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

Members of the Legislative Audit Committee:

We have audited the financial statements of Trinidad State Nursing Home as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. 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, 2003. Except as described in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

In accordance with the terms of our engagement, we did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Trinidad State 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

August 5, 2004

**REQUIRED AUDITOR COMMUNICATION TO THE
LEGISLATIVE AUDIT COMMITTEE**

Members of the Legislative Audit Committee:

We have audited the financial statements of Trinidad State Nursing Home (the "Nursing Home") as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN
THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS***

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free from material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. 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.

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

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

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 2004.

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 financial statement preparation 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 in relation to the financial statements taken 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 audit 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.)

There were no audit adjustments or waived audit adjustments identified with the June 30, 2004 audit.

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.

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.

August 5, 2004

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 1640