

**AUDIT REPORT
OF THE
NEBRASKA HEALTH AND HUMAN
SERVICES SYSTEM - PROGRAM 342
NURSING FACILITY CONVERSIONS
JULY 1, 2002 THROUGH DECEMBER 31, 2002
AND
JULY 1, 2001 THROUGH JUNE 30, 2002**

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

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PROGRAM 342 - NURSING FACILITY CONVERSIONS

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

BACKGROUND

The Nursing Facility Conversions Program (Program) of the Nebraska Health and Human Services System (HHSS) tracks funds granted to qualifying nursing homes and hospitals for the conversion of facility space from nursing care to alternative long-term care services including assisted living, respite care, and adult and disabled child day care. Grants may be used for capital or one-time expenditures and are designed to promote development of a comprehensive system of long-term care throughout the State. Grantees must retire at least one nursing facility bed for every assisted living unit created and must agree to reserve 40% of converted assisted living units for Medicaid clients.

The Program's objectives are to reduce the surplus of nursing home beds in the State, provide start-up funds to support development of appropriate alternatives to nursing homes, and enable rural communities to support care for their elderly and disabled citizens.

Conversion grants are awarded based on the following criteria:

1. The conversion will offer efficient and economical care to individuals requiring long-term care services in the area.
2. Alternative care services are unlikely to be available in the area for Medicaid-eligible individuals.
3. The resulting reduction in the availability of nursing care is not expected to cause undue hardship on those individuals requiring such care.
4. The conversion will result in a lower Medicaid payment rate.

A nursing facility may receive a maximum of \$1.1 million for assisted living and respite care conversions and \$100,000 per facility for conversion to daycare programs. HHSS estimated that approximately 983 assisted living units and 27 daycare programs would be created through this Program. From April 1, 1998 through December 31, 2002, the Program received \$54,611,766 from funds generated by the Nebraska Nursing facilities Intergovernmental Transfer.

2001 Neb. Laws LB 692, Section 17 terminated the Program effective January 1, 2003 and required that any unobligated fund balance be transferred to the Nebraska Health Care Cash Fund.

MISSION STATEMENT

“We help people live better lives through effective health and human services.”

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

COMMENT AND RECOMMENDATION

During our audit of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions, we noted a certain matter involving the internal control over financial reporting and other operational matters which is presented here. The comment and recommendation is intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

Facility Did Not Fulfill Match Requirements

Title 402 NAC 1-005 states, "Non-governmental grantees shall provide 20% of the total cost of any conversion." Good internal control requires procedures to ensure match requirements have been met before final payment.

We tested three non-governmental facilities with final payments during fiscal year 2002 to determine if match requirements had been met. We noted one of the three facilities tested did not have documentation to support the match had been met; the retainage was not withheld and final payment was made on July 30, 2001. The total grant paid was \$676,000 and the facility should have been required to match a total of \$126,164. HHSS did not have documentation to support \$101,292 of the matching requirement. A similar finding was noted in our Nursing Facilities Intergovernmental Transfers Report for July 1, 1999 through December 31, 2000.

We recommend HHSS request documentation from the facility to ensure the match was met, or request reimbursement of \$101,292. We further recommend HHSS implement procedures to ensure match requirements are met before retainage and final payments are disbursed.

HHSS' Response: The Department agrees with this finding if the entity identified is determined to be a non-Government Entity. Currently the Department is researching whether or not the provider qualifies as a Government Entity because the land and the building being used is owned by a city. When this ruling is made, the Department will determine if any match amounts are due.

It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to Program to provide them an opportunity to review the report and to respond to the comment and recommendation included in this report. The formal response received has been incorporated into this report. The response has been objectively evaluated and recognized, as appropriate, in the report. A response that indicates corrective action has been taken was not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM PROGRAM 342 - NURSING FACILITY CONVERSIONS

INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statements of the governmental activities and each major fund of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions (Program), as of December 31, 2002 and for the period July 1, 2002 through December 31, 2002, and as of and for the year ended June 30, 2002, which collectively comprise the Program's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 our audit provides a reasonable basis for our opinions.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statements of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions, are

intended to present the cash balances and changes in cash balances of only that portion of the governmental activities and each major fund of the State that is attributable to the transactions of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions. They do not purport to, and do not, present fairly the cash balances of the governmental activities and each major fund of the State of Nebraska as of December 31, 2002 and June 30, 2002, and its changes in cash balances for the period July 1, 2002 through December 31, 2002 and the fiscal year ended June 30, 2002 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities and each major fund of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions, as of December 31, 2002 and June 30, 2002, and the respective changes in cash balances thereof for the period July 1, 2002 through December 31, 2002 and the fiscal year ended June 30, 2002 in conformity with the basis of accounting described in Note 1.

As described in Note 4, legislation terminated the Program effective January 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2003, on our consideration of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's basic financial statements. The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Pat Reding, CPA

March 18, 2003

Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
STATEMENT OF NET ASSETS
ARISING FROM CASH TRANSACTIONS
December 31, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 11,015,215
Net Assets	
Unrestricted	\$ 11,015,215

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
STATEMENT OF NET ASSETS
ARISING FROM CASH TRANSACTIONS
June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 18,214,835
Net Assets	
Unrestricted	\$ 18,214,835

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
STATEMENT OF ACTIVITIES - CASH BASIS
For the Period July 1, 2002 through December 31, 2002

	Governmental Activities TOTAL (Memorandum Only)
Disbursements:	
Health and Social Services Function:	
Government Aid	\$ 7,523,893
Program Receipts:	-
Net Program Receipts (Disbursements)	(7,523,893)
General Receipts:	
Unrestricted Investment Interest	324,723
Change in Net Assets	(7,199,170)
Net Assets July 1, 2002	18,214,385
Net Assets December 31, 2002	\$ 11,015,215

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)
Disbursements:	
Health and Social Services Function:	
Government Aid	\$ 18,809,533
Program Receipts:	-
Net Program Receipts (Disbursements)	<u>(18,809,533)</u>
General Receipts:	
Unrestricted Investment Interest	<u>1,498,946</u>
Change in Net Assets	(17,310,587)
Net Assets July 1, 2001	<u>35,524,972</u>
Net Assets June 30, 2002	<u><u>\$ 18,214,385</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
STATEMENT OF ASSETS AND FUND BALANCE
ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
December 31, 2002

	Major Fund
Assets	Nursing Facility Conversion Fund 2262
Cash in State Treasury	\$ 11,015,215
Total Assets	\$ 11,015,215
Fund Balance	
Unreserved	\$ 11,015,215
Total Fund Balance	\$ 11,015,215

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
STATEMENT OF ASSETS AND FUND BALANCE
ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS

June 30, 2002

	Major Fund
Assets	Nursing Facility Conversion Fund 2262
Cash in State Treasury	\$ 18,214,835
Total Assets	\$ 18,214,835
Fund Balance	
Unreserved	\$ 18,214,835
Total Fund Balance	\$ 18,214,835

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
**STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE**
GOVERNMENTAL FUNDS
For the Period July 1, 2002 through December 31, 2002

	Major Fund
	Nursing Facility Conversion Fund 2262
RECEIPTS:	
Miscellaneous:	
Investment Interest	\$ 324,723
DISBURSEMENTS BY FUNCTION:	
Health and Social Services	7,523,893
Excess (Deficiency) of Receipts Over (Under) Disbursements	(7,199,170)
FUND BALANCE, JULY 1, 2001	18,214,385
FUND BALANCE, JUNE 30, 2002	\$ 11,015,215

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
**STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE**
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Major Fund
	Nursing Facility Conversion Fund 2262
RECEIPTS:	
Miscellaneous:	
Investment Interest	\$ 1,498,946
DISBURSEMENTS BY FUNCTION:	
Health and Social Services	18,809,533
Excess (Deficiency) of Receipts Over (Under) Disbursements	(17,310,587)
FUND BALANCE, JULY 1, 2001	35,524,972
FUND BALANCE, JUNE 30, 2002	\$ 18,214,385

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

NOTES TO FINANCIAL STATEMENTS

For the Period July 1, 2002 through December 31, 2002
and
For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions (Program) is a program within the Nebraska Department of Health and Human Services (HHSS). HHSS consists of three State agencies established under and governed by the laws of the State of Nebraska. As such, the Program is exempt from State and Federal income taxes. The financial statements include all funds of the Program.

The Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions is part of the primary government for the State of Nebraska's reporting entity.

B. Basis of Presentation

Program-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Program, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Program. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Program reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts reduce the net cost of the function to be financed by general receipts. Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions receipts include only general receipts. General receipts include investment interest.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements. The fund financial statements provide information about the Program's funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Program uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Program reports the following major governmental fund:

Nursing Facility Conversion Cash Fund. This fund provides grants for the purpose of creating new or converting existing nursing home beds to assisted living facilities. Administrative costs are paid through HHSS-Administration Program and are not included in the Program 342 financial statements.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Program are maintained and the Program-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Program. This differs from governmental generally accepted accounting principles (GAAP), which requires the Program-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Program were designated for investment during fiscal year 2002.

Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

2. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments

Risk Management. The Program is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Program, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers' compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions' financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments (Concluded)

Litigation. The potential amount of liability involved in litigation pending against the Program, if any, could not be determined at this time. However, it is the Program's opinion that final settlement of those matters should not have an adverse effect on the Program's ability to administer current programs. Any judgment against the Program would have to be processed through the State Claims Board and be approved by the Legislature.

4. Ending Fund Balance

2001 Neb. Laws LB 692, Section 17 states, "The Nursing Facility Conversion Cash Fund is created. The Fund shall be used for grants or loan guarantees by the Department of Health and Human Services Finance and Support to nursing facilities for capital or one-time expenditures to convert all or a portion of such facilities to licensed assisted-living facilities or other alternatives to nursing facility care after deducting expenses incurred in the administration of such grants . . . This section terminates on January 1, 2003. The State Treasurer shall transfer any unobligated balance in the fund upon termination of this section to the Nebraska Health Care Cash Fund. . . ."

On January 2, 2003, \$8,150,000 was transferred to the State Treasurer.

5. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Program implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Program's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Program were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Program.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
SUPPLEMENTARY INFORMATION
MAJOR SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

Nursing Facility Conversion Fund				
	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
PROGRAM:				
342-Nursing Facility Conversions	\$ 42,768,123	\$ 42,768,123	\$ 18,809,533	\$ 23,958,590
TOTAL DISBURSEMENTS	\$ 42,768,123	\$ 42,768,123	\$ 18,809,533	\$ 23,958,590

See Notes to Supplementary Information

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

NOTES TO SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Program's legally adopted annual budget amount. The Program's budgetary comparison schedule includes the Nursing Facility Conversion Cash Fund.

GAAP also requires the budgetary comparison schedule to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Program and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and presents the appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. As a result, the budgetary comparison schedule only reports total disbursements *by program*.

Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS

NOTES TO SUPPLEMENTARY INFORMATION

(Concluded)

All State budgetary disbursements for the Nursing Facility Conversion Cash Fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total appropriations must also be approved by the Legislature as a deficit appropriations bill.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342-NURSING FACILITY CONVERSIONS
NURSING FACILITY CONVERSION GRANTS BY FACILITY - ROUNDS 1, 2, AND 3
UNAUDITED

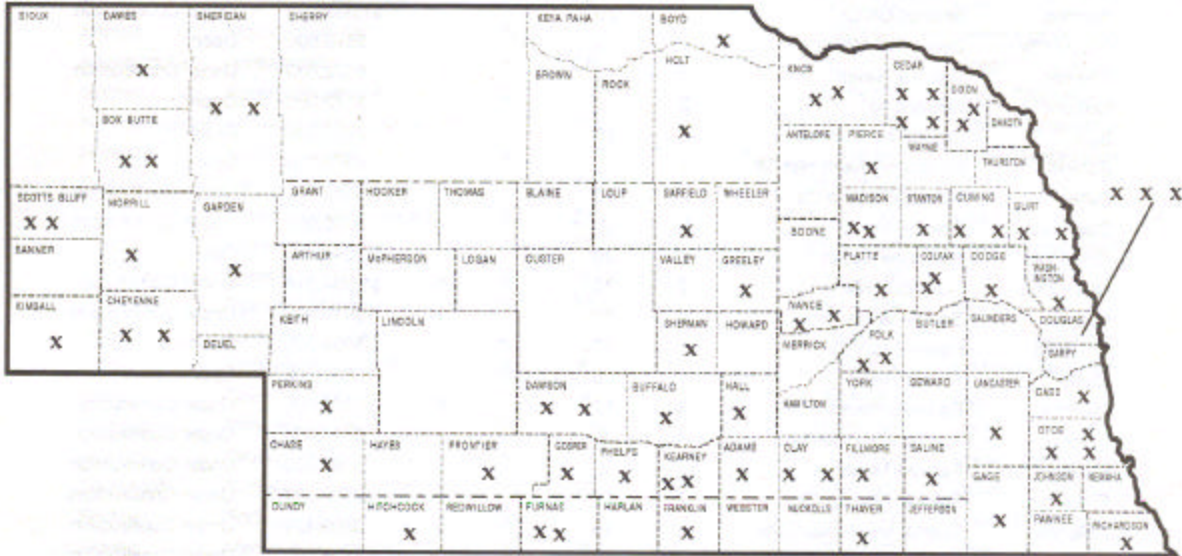
Location	Facility	Owner	Grant Allowance
<u>FOR PROFIT:</u>			
Butte	Butte Healthcare Center	Tealwood Care Centers	\$ 520,000
Clarkson	Colonial Manor of Clarkson	Beverly HealthCare	256,000
Columbus	Columbus Manor	Beverly HealthCare	1,073,674
Cozad	Southview Manor Care Center	Beverly HealthCare	1,140,000
Franklin	Franklin Nursing Center	Beverly HealthCare	984,000
Fullerton	Central NE Rehab./Care Center	Beverly HealthCare	809,429
Grand Island	Lakeview Health & Rehab.	Beverly HealthCare	932,000
Hartington	Hartington Nursing Center	Beverly HealthCare	1,036,000
Lexington	Plum Creek Care Center	Lantis Enterprises, Inc.	1,100,000
Loup City	Rose Lane Home	Loup City Health Care, Inc.	412,000
Nebr. City	The Ambassador	The Ambassador Inc	936,000
Nebr. City	Nebraska City Manor	Beverly HealthCare	1,200,000 *
Norfolk	Norfolk Health Care & Rehab Services	Beverly HealthCare	724,000
Plattsmouth	Plattsmouth Manor	Beverly HealthCare	100,000
Ponca	Elms Health Care Center	Elms Health Care Center, Inc.	468,000
Randolph	Colonial Manor	Careage Mngmnt Inc	439,215
Schuyler	Schuyler Nursing Center	Beverly Healthcare	880,000
Scottsbluff	Scottsbluff Nursing Center	Beverly HealthCare	915,514
Sidney	Sidney Nursing Center	Beverly HealthCare	850,815
Tecumseh	Belle Terrace	Belle Holdings Inc.	516,000
Tekamah	Tekamah Nursing Center	Beverly HealthCare	100,000
Valley	Valhaven Nursing Center	Beverly HealthCare	100,000
Wausa	Wausa Health Care Center	Beverly HealthCare	100,000
			\$ 15,592,647
<u>NOT FOR PROFIT:</u>			
Alliance	Alliance Good Samaritan Village		\$ 468,000
Arapahoe	C.A. Mues Mem. Good Samaritan Ctr		468,000
Beatrice	Beatrice Good Samaritan Center		1,092,000
Blair	Crowell Memorial Home		936,000
Burwell	Community Memorial Health Cntr		676,000
Curtis	Sunset Haven		832,000
Gibbon	Gibbon Good Samaritan Center		312,000
Gordon	Gordon Countryside Care		312,000
Hastings	Villa Grace		1,100,000
Lincoln	Tabitha Nursing & Rehab. Center		100,000
Minden	Bethany Home		984,000
Newman Grove	Mid-Nebraska Lutheran Home		936,000
Omaha	Florence Home		1,040,000
Osceola	Osceola Good Samaritan Center		312,000
Scribner	Scribner Good Samaritan Center		260,000
Sidney	Memorial Health Center		312,000
Stromsburg	Midwest Covenant Home		1,092,000
Sutton	Sutton Community Home		832,000
Syracuse	Syracuse Good Samaritan Center		1,192,000
			\$ 13,256,000

Location	Facility	Grant Allowance
<u>GOVERNMENT:</u>		
Bayard	Chimney Rock Villa	\$ 416,000
Beaver City	Beaver City Manor	676,000
Beemer	Colonial Haven	672,000
Bertrand	Bertrand Nursing Home	572,000
Coleridge	Park View Haven	1,040,000
Crawford	Ponderosa Villa	884,000
Deshler	Parkview Haven Nursing Home	701,000
Elwood	Elwood Care Center	416,000
Fairmont	Fairview Manor	568,000
Genoa	Genoa Community Hospital/LTC	728,000
Grant	Golden Ours Convalescent Home	728,000
Greeley	Greeley Care Home	728,000
Harvard	Harvard Rest Haven	932,000
Hemingford	Hemingford Community Care Ctr	416,000
Humboldt	Colonial Acres Nursing Home	728,000
Imperial	Imperial Manor Nursing Home	867,400
Kimball	Kimball County Manor	936,000
Laurel	Hillcrest Care Center	520,000
Lewellen	Garden County - Lewellen	1,100,000
Minden	Kearney County Health Svc. LTC	932,000
Mitchell	Mitchell Care Center	624,000
Oakland	Oakland Heights	1,092,000
Omaha	Douglas County Hospital	1,092,000
Plainview	Plainview Manor	780,000
Rushville	Parkview Lodge	1,100,000
Stanton	Stanton Nursing Home	1,040,000
Stuart	Parkside Manor	520,000
Trenton	El Dorado Manor	416,000
Verdigre	Alpine Village Retirement Center	312,000
Wakefield	Wakefield Care Center	832,000
Wilber	Wilber Care Center	1,100,000
Wisner	Wisner Manor	728,000
		\$ 24,196,400
Total Awarded Rounds 1, 2, and 3		\$ 53,045,047

* Received additional grant funds for adult day care (\$100,000 maximum)
** Nongovernmental facilities have a 20% match requirement

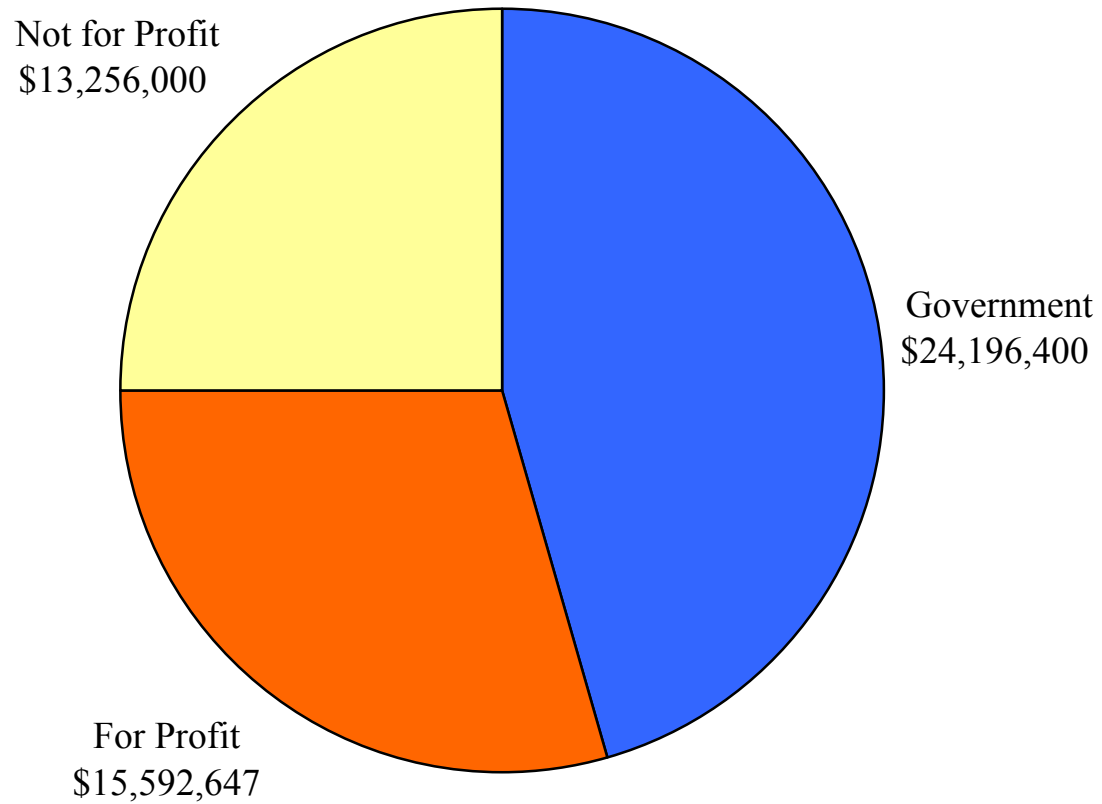
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 PROGRAM 342 - NURSING FACILITY CONVERSIONS

LOCATION OF FACILITIES THAT HAVE RECEIVED GRANTS
(Marked with an "x")
 UNAUDITED



- 32.....facilities are government-owned
- 18.....facilities are non-profit
- 23.....facilities are proprietary
- 1.....facility is owned by a hospital district
- 74 Total

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
TOTAL AWARDED BY FACILITY TYPE
1999 Through 2002
UNAUDITED



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
NURSING FACILITY CONVERSION CASH FUND 2262

April 1, 1998 through December 31, 2002

SCHEDULE OF ACTIVITY

UNAUDITED

Received from the Nursing Facility Intergovernmental Transfers	\$ 54,611,766
Interest Earned	7,956,377
Miscellaneous Receipts	<u>12,375</u>
Available Funds	<u>62,580,518</u>
Disbursements:	
Architectural Reviews and Feasibility Studies	929,480
Grant Awards	50,635,821
Administration	<u>119,175</u>
	<u>51,684,476</u>
Fund Balance December 31, 2002	10,896,042
Transfer to State Treasurer January 1, 2003	<u>(8,150,000)</u>
Remaining Obligated Fund Balance January 2, 2003	<u><u>\$ 2,746,042</u></u>

NOTE: Includes fund balance and administration expenses related to Program 341

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 342 - NURSING FACILITY CONVERSIONS
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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We have audited the financial statements of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions as of December 31, 2002, and for the period July 1, 2002 through December 31, 2002, and as of and for the year ended June 30, 2002, and have issued our report thereon dated March 18, 2003. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions. 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.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We

noted a certain immaterial instance of noncompliance that we have reported to management of the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions in the Comments Section of this report as Facility Did Not Fulfill Match Requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions' 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 over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. However, we noted a matter involving the internal control over financial reporting that we have reported to management of Nebraska Health and Human Services System - Program 342 - Nursing Facility Conversions in the Comments Section of this report as Facility Did Not Fulfill Match Requirements.

This report is intended solely for the information and use of the Program, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Pat Reding, CPA

Assistant Deputy Auditor

March 18, 2003