



COLORADO STATE VETERANS NURSING HOME – RIFLE

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

LEGISLATIVE AUDIT COMMITTEE
2003 MEMBERS

Senator Jack Taylor
Chairman

Senator Ron Tupa
Vice-Chairman

Senator Norma Anderson
Representative Fran Coleman
Senator Stephanie Takis
Representative Pamela Rhodes
Representative Val Vigil
Representative Tambor Williams

OFFICE OF THE STATE AUDITOR STAFF

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

Kerri Hunter
Legislative Auditor

Chadwick, Steinkirchner, Davis & Co., P.C.
Contract Auditor

COLORADO STATE VETERANS NURSING HOME – RIFLE

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

C O N T E N T S

	<u>Page</u>
REPORT SUMMARY	1
RECOMMENDATION LOCATOR	4
DESCRIPTION OF THE COLORADO STATE VETERANS NURSING HOME – RIFLE	5
FINDINGS AND RECOMMENDATIONS	6
DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS	8
FINANCIAL AUDIT REPORT SECTION	
Independent Auditors' Report	9
Management's Discussion and Analysis	11
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
Notes to Financial Statements	23

CONTENTS

GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133 REPORTS

Schedule of Findings and Questioned Costs	31
Independent Auditors' Report on Schedule of Expenditures of Federal Awards	34
Schedule of Expenditures of Federal Awards	35
Notes to Schedule of Expenditures of Federal Awards	36
Independent Auditors' Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements in Accordance with <i>Government Auditing Standards</i>	37
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	39

COLORADO STATE VETERANS NURSING HOME – RIFLE

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

REPORT SUMMARY

AUTHORITY, PURPOSE AND SCOPE

The Office of the State Auditor, State of Colorado, engaged Chadwick, Steinkirchner, Davis & Co. P.C. (CSD) to conduct certain audits of the Colorado State Veterans Nursing Home – Rifle (the Home) for its year ended June 30, 2002. CSD performed these audits in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. We conducted the related field work in August, 2002.

The purpose and scope of our audits was to :

- Express our opinion on the financial statements of the Home as of and for the year ended June 30, 2002. This included a review of internal control as required by U.S. generally accepted auditing standards and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts and grants governing the expenditure of federal funds.
- Express an opinion on the 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 Home's basic financial statements as of and for the year ended June 30, 2002. 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, 2001.

We issued a report on the Home's compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*. We noted two reportable conditions in the internal control over financial reporting that are described in the following paragraphs. We did not note any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements.

COLORADO STATE VETERANS NURSING HOME – RIFLE

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

REPORT SUMMARY (Cont'd.)

AUDIT ADJUSTMENTS

We had no passed audit adjustments to the financial statements.

We had no posted audit adjustments.

ACCOUNTING POLICIES

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

UNUSUAL TRANSACTIONS AND CONTINGENCIES

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

OTHER MATTERS

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

INTERNAL CONTROLS OVER PROPERTY AND EQUIPMENT NEED IMPROVEMENT

We performed audit procedures with respect to the Home's accounting records. As a result of our audit procedures, we noted that:

- The Home does not always deposit cash receipts on a timely basis. Deposits are made once or twice a week rather than daily or as cash is received.

The Home should establish a maximum amount of cash receipts that can be accumulated without requiring deposit or require daily deposits. The Home agreed with our recommendation.

- The Home does not fully reconcile receiving documents for pharmacy supplies with invoices entered into the accounts payable system.

The Home should reconcile pharmacy supply receiving documents with the accounts payable system to ensure that amounts paid have been properly authorized by receiving personnel. The Home agreed with our recommendation.

COLORADO STATE VETERANS NURSING HOME – RIFLE

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

REPORT SUMMARY (Cont'd.)

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The five State-owned nursing and veterans homes are audited annually as part of the State of Colorado's annual financial audit. In addition, the homes are audited individually and issue separate audited financial statements on a rotating basis. The last audit report on the Rifle Home was issued for the year ended June 30, 1998, and included twelve findings. The disposition of these audit recommendations as of August 7, 2002 was as follows:

Implemented	11
Partially Implemented	1

COLORADO STATE VETERANS NURSING HOME – RIFLE

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	5	Adopt cash receipt policy requiring timely deposits.	Colorado State Veterans Nursing Home At Rifle	Agree	October 2002
2	6	Adopt procedures to reconcile pharmacy supply receiving documents with the accounts payable system.	Colorado State Veterans Nursing Home At Rifle	Agree	October 2002

COLORADO STATE VETERANS NURSING HOME – RIFLE
FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

DESCRIPTION OF THE HOME

The Colorado State Veterans Nursing Home (the Home) is located in Rifle, Colorado. The Home is a 100 bed skilled nursing facility with 16 beds allocated to care for residents suffering from dementia similar to what is commonly referred to as Alzheimer's Disease.

The Home, by statute, serves all veterans of service in the armed forces of the United States, their spouses, their widow(er)s, and their dependent and/or "gold star" parents. Gold star parents are parents whose child died in combat or as a result of injuries received in combat. Preference for admission is given to Colorado Veterans. The Home must maintain a 75% veterans occupancy in the Home. The Home serves veterans without regard to sex, race, color, or national origin.

Construction of the Home was authorized by HB1037 in the 1979 Legislative Session amending Section 26-12-401 of the Colorado Revised Statutes. A maximum of 120 beds was authorized. Construction was contingent on federal funding under Public Law 88-450. Operation of the Home must be such as to qualify for per diem payments from the U.S. Department of Veteran Affairs under the provisions of Title 38, US Code 64.

The 1982 Session of the Colorado Legislature within HB1284 authorized payment of \$1,200,000 from the Oil Shale Trust Fund to be utilized for construction of the Home. Formal approval dated January 10, 1986 was received from the U.S. Department of Veteran Affairs authorizing a grant of \$2,321,428 or 65% of the total cost of construction of the Home. Land was donated by the City of Rifle and Grand River Hospital District.

Ground-breaking took place November 27, 1984 and the Home accepted its first veteran resident on March 26, 1987.

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	100
Average daily census for the year ended June 30, 2002	89.9
Occupancy percentage	89.9%
Patient days	32,810

COLORADO STATE VETERANS NURSING HOME – RIFLE

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Colorado State Veterans Nursing Home – Rifle (the Home) for the year ended June 30, 2002 and have issued our report thereon dated August 7, 2002. In planning and performing our audit of the financial statements, we considered the 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 7, 2002 on our consideration of the 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 7, 2002.

Our procedures were designed primarily to enable us to form an opinion on the financial statements and on management's assertion regarding compliance and the effectiveness of internal control over financial reporting and, therefore, may not identify all weaknesses in policies or procedures that may exist. We have attempted, however, to use the knowledge gained during the course of our work to make comments and suggestions that will be useful.

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

INTERNAL CONTROLS OVER CASH RECEIPTS DEPOSITS NEED IMPROVEMENT

The Home received approximately \$5.7 million in cash receipts in Fiscal Year 2002. Cash receipts are susceptible to loss due to theft or misappropriation. Appropriate internal controls need to be adopted and in operation so as to minimize the risk of material loss. In this regard, we noted the following:

- The Home does not always deposit cash receipts on a timely basis. Deposits are made once or twice a week rather than daily or as cash is received.

Recommendation No. 1

The Home should enhance the internal controls over cash receipts deposits by:

- Implementing a policy that requires more frequent deposits of cash receipts or establishes a maximum amount of receipts that can be accumulated prior to deposit.
- Periodically review deposit activity to ascertain compliance with the Home's policy.

The Home's Response:

The management of the Home agrees and will implement necessary policies and procedures.

COLORADO STATE VETERANS NURSING HOME – RIFLE

FINANCIAL AND COMPLIANCE AUDIT

June 30, 2002

INTERNAL CONTROLS OVER PHARMACY SUPPLIES PURCHASED

Purchases of medical and laboratory supplies represent \$225,439 of the Home's total non-personnel operating expenses of \$1,411,510. Appropriate internal controls should be adopted and in operation to ensure that payments to medical and laboratory supply vendors have been properly reviewed for authorization. We noted the following:

- The Home pays from vendor invoices that have not been reconciled to receiving reports prepared by receiving personnel.

Without this review, there is a risk that the Home will pay for supplies not received or that were not authorized for purchase.

Recommendation No. 2

The Home should improve internal controls over medical and laboratory supplies purchased by reconciling receiving reports with vendor invoices prior to payment.

The Home's Response:

The management of the Home agrees and will implement necessary policies and procedures.

COLORADO STATE VETERANS NURSING HOME – RIFLE

RECOMMENDATION LOCATOR

June 30, 2002

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

Following are the audit recommendations made by prior auditors included in the report to the Legislative Audit Committee for the year ended June 30, 1998, and their disposition at August 7, 2002.

<u>Recommendation</u>	<u>Disposition</u>
1. Obtain new or modify old software/hardware to support the change to the year 2000.	Implemented
2. Reconcile cash receipts posted to subsidiary ledger accounts to cash receipts posted to the aging report.	Implemented
3. Stamp all invoices "Paid Voucher # _____ and math check.	Implemented
4. Develop procedures for the receipt of medical supplies.	Partially Implemented. See Current Year Recommendation No. 2.
5. Maintain documentation for room rate changes.	Implemented
6. Develop internal audit procedure to ensure KRONOS is correctly computing unusual payroll amounts.	Implemented
7. Purchase software accounts receivable system or reconcile detail ledger balances to the aging report.	Implemented
8. Reconcile COFRS-fixed asset detail schedule to the general ledger fixed asset balances.	Implemented
9. Develop and maintain conflict-of-interest statements for members of the admissions committee.	Implemented
10. Develop a database system to record all resident information.	Implemented
11. Develop a workshop to explain to the residents how their income is applied to nursing home costs and how their remaining personal allowance is determined.	Implemented
12. Develop a workshop for residents to review current Nursing Home profit and loss and trend analysis.	Implemented

FINANCIAL AUDIT REPORT SECTION

**INDEPENDENT AUDITORS' REPORT**

August 7, 2002

Members of the Legislative Audit Committee

We have audited the accompanying basic financial statements of Colorado State Veterans Nursing Home – Rifle (“the Home”), an enterprise fund of the State of Colorado as of and for the year ended June 30, 2002. These basic financial statements are the responsibility of the Home’s management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the balance sheet at June 30, 2001.

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

In our opinion, except for the effects on the basic financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about amounts comprising the balance sheet at June 30, 2001, the basic financial statements referred to above present fairly, in all material respects, the financial position of Colorado State Veterans Nursing Home – Rifle as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund and fiduciary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Department adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of July 1, 2001. This results in a change in the format and content of the financial statements.

The Management’s Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Members of the Legislative Audit Committee
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2002 on our consideration of Colorado State Veterans Nursing Home – Rifle’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Chadwick, Steinkirchner, Davis & Co., P.C.

COLORADO STATE VETERANS NURSING HOME – RIFLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents an analysis of the Colorado State Veterans Nursing Home's financial performance and an overview of the Home's financial activities for the fiscal year ended June 30, 2002. This section was prepared by the Home's management. The financial statements which begin on page 18 are an integral part of this analysis and figures reported on the Colorado Financial Reporting System (COFRS) reflecting the Home's FY2002 performance are incorporated and referred to throughout this Management Discussion and Analysis.

Financial Highlights

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

- The Home's Net Assets increased by \$63,573, which is a 3.1% increase from FY2001.
- The Home's Total Operating Revenue increased by \$760,718, which is a 15.2% increase from FY2001.
- The Home's Cash Operating Expenditures increased by \$264,917, which is a 5.1% increase from FY2001.
- The Home's Non-Cash Expenditures increased by \$25,365, which is an 11.7% increase from FY2001.
- The Home's Net Income increased by \$470,434 in FY2002, from a negative \$406,861 in FY2001 to a positive \$63,573.

COLORADO STATE VETERANS NURSING HOME – RIFLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

Overview of The Financial Statements

Fund Financial Statements

Statement of Net Assets

The Statement of Assets (see page 18) includes the 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 Home including liquidity and financial flexibility.

Statement of Revenues, Expenses, and Changes Fund Net Assets

The Statement of Revenues, Expenses, and Changes in Fund Net Assets (see page 19) includes all of the revenues and expenses (both cash and non-cash). This Statement measures the efficiency of the Home's overall operation and can be used to determine if the Home's rates and third party billings are adequate to recover expenses related to providing skilled nursing care to residents of the Home.

Statement of Cash Flows

The Statement of Cash Flows (see page 20) presents information concerning the Home's cash receipts and cash payments during the year. This Statement reports the cash receipts, cash payments and net cash from operations, investments and financing activities.

Statement of Fiduciary Net Assets

The Statement of Fiduciary Net Assets (see page 21) includes the Home's assets and liabilities held in a trust or agency capacity and provides information pertaining to the nature of these assets and liabilities.

Statement of Changes in Fiduciary Net Assets

The Statement of Changes in Fiduciary Net Assets (see page 22) includes the Home's additions and deductions to net assets held in a trust or agency capacity.

COLORADO STATE VETERANS NURSING HOME – RIFLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

Financial Analysis of The Colorado State Veterans Nursing Home in Rifle, Colorado

Summary of Operational Policies and Procedures

The Colorado State Veterans Nursing Home in Rifle is a State of Colorado agency with the general mission of providing Skilled Nursing Care to veterans and their eligible dependents. The Home is within the Division of State and Veterans Nursing Homes, Office of Adult and Veterans Services, Department of Human Services, State of Colorado.

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

Financial Analysis

Assets

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

COLORADO STATE VETERANS NURSING HOME – RIFLE

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2002

TABLE A
Condensed Statements of Net Assets

	2002	2001	Variance	Total Percent Change
Non Capital Assets	\$400,029	\$359,935	\$40,094	11.1%
Capital Assets	\$2,137,224	\$2,252,282	-\$115,058	-5.1%
TOTAL ASSETS	\$2,537,253	\$2,612,217	-\$74,964	-2.9%
Current Liabilities	\$237,021	\$398,971	-\$129,844	-32.5%
Long-term Liabilities	\$193,244	\$169,832	-\$8,694	-5.1%
Total Liabilities	\$430,265	\$568,803	-\$138,538	-24.4%
Invested in Capital Assets	\$2,137,224	\$2,252,282	-\$115,058	-5.1%
Unrestricted	-\$30,236	-\$208,868	\$178,632	85.5%
Total Net Assets	\$2,106,988	\$2,043,414	\$63,574	3.1%

As shown in **Table A**, the Home’s Assets decreased \$74,964 to \$2,537,253 in FY2002, a decrease from \$2,612,217 in FY2001. The decrease in Assets is the net effect of an increase in receivables offset by a decrease in net fixed assets attributable to depreciation expense.

The decrease in total liabilities of \$138,538 for the same period is also shown in **Table A** and is primarily due to an increase in payables at year-end, establishment of a current liability for projected compensated absences (employee annual and sick leave), and recording of deferred revenue, offset by a decrease in liability to pooled cash of \$179,078. This liability to pooled cash reflects the Home’s negative cash position with respect to its portion of the pooled account maintained with the State Treasurer.

The analysis of the Home’s Statement of Net Assets displays the changes in the financial position of the Home. The Statement of Revenues, Expenses, and Changes in Fund Net Assets provides the information as to the nature and the source of the changes seen in the Statements of Net Assets. **Table B** provides a summary of revenues and expenses of the Home for FY2002 as compared to the previous year.

COLORADO STATE VETERANS NURSING HOME – RIFLE

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2002

TABLE B

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets

	2002	2001	Dollar Change	Total Percent Change
Total Earned Revenues	\$5,764,455	\$5,003,737	\$760,718	15.2 %
Total Operating Expenses (excluding depreciation, bad debts, change in compensated absences, and loss on assets disposal)	\$5,458,167	\$5,193,249	\$264,918	5.1 %
Depreciation, bad debts, change in compensated absences, and loss on assets disposal	\$242,715	\$217,349	\$25,366	11.7 %
Net Income (Loss)	\$63,573	-\$406,861	\$470,434	115.6 %

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

- The Home's revenues increased by \$760,718, mainly due to increased third party payments and an increased rate schedule which was approved due to FY2001 loss and projected costs in FY2002 related to patient care and improved quality of life.
- Home revenues are directly related to the number of resident days of patient care. The Home has a 100 bed capacity, and census must be maintained at the 90% level or above to provide sufficient income to break even. The average census for the fiscal years ended June 30, 2002 and 2001 were 89.9 and 95.4, respectively.
- Operating expenses increase annually due to inflationary influences in the areas of medical supplies, pharmaceuticals and raw food, as well as State of Colorado directed salary and benefit increases for staff. There is minimal opportunity for the 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 FY2002 the Home experienced a positive Net Income position of \$63,575 with revenues covering both cash and non-cash expenses. Financial management procedures in effect throughout FY2002 resulted in not only ending the year showing positive Net Income, but this result also impacted positively on the Statement of Net Assets as reflected in **Table A**.

COLORADO STATE VETERANS NURSING HOME – RIFLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

Budgetary Highlights

The Home's FY2002 financial operations resulted in revenues exceeding the budgeted amounts by \$162,457. Expenditures were managed such that total cash and non-cash expenses were \$41,296 less than budgeted.

Capital Assets and Debt Activities

During FY2002 the Home invested \$76,563 on building improvements and medical equipment. The following is a summary of capital expenditures during FY2002:

- Construction of a concrete pad and installation of a large external freezer resulted in expenditures of \$13,891. The freezer will allow the Home to take advantage of savings through discounts available by purchasing in bulk.
- The Home implemented an improved automated care planning and reporting system costing \$29,384.
- Medical equipment was purchased for \$8,713 permitting improved patient care.
- Quarry tile that could be treated with a non-slip coating was installed for safety reasons. Cost was \$24,575.

In FY2003, the Home has projected the following capital expenditures:

- \$60,000 for a new busette to utilize in transporting residents to and from activities.
- \$100,000 in architectural and engineering costs associated with final development plans relating to building improvements/modifications that will be funded in part through a Department of Veteran Affairs grant.
- \$47,000 for new computers and Local Area Network (LAN) equipment.
- \$8,000 for the renovation of an exterior patio.

Debt Activities

As of the end of FY 2002, the Home did not have any long term indebtedness.

COLORADO STATE VETERANS NURSING HOME – RIFLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

Economic Factors and Next Year's Budget and Rates

Economic factors continue to impact the Home's operations by increasing the costs associated with providing quality health care. A budget has been prepared for FY2003 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged residents for skilled nursing care. Expectations are that, subject to a stable census level of 90% or above, the Home will cover expenses with sufficient revenue to improve its net asset position as it did in FY2002.

COLORADO STATE VETERANS NURSING HOME – RIFLE

STATEMENT OF NET ASSETS

June 30, 2002

		Enterprise Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$	111
Accounts receivable (net of allowance for uncollectibles of \$46,001)		205,193
Due from other Governments		111,256
Inventories, at cost		83,469
	Total Current Assets	400,029
Noncurrent Assets:		
Fixed assets –		
Land and improvements		131,626
Buildings		3,519,963
Furniture and equipment		652,623
Vehicles		7,736
Software		35,014
Accumulated depreciation		(2,209,738)
	Total Noncurrent Assets	2,137,224
	TOTAL ASSETS	\$2,537,253
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Liability to pooled cash	\$	57,200
Accounts and vouchers payable		123,921
Deferred revenue		55,900
	Total Current Liabilities	237,021
Noncurrent Liabilities:		
Liability for compensated absences		193,244
	Total Noncurrent Liabilities	193,244
	TOTAL LIABILITIES	430,265
Net Assets:		
Invested in capital assets, net of related debt		2,137,224
Unrestricted		(30,236)
	TOTAL NET ASSETS	\$2,106,988

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME – RIFLE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

June 30, 2002

	<u>2002</u>
OPERATING REVENUE	
Patient charges for services	\$4,281,301
VA per diem reimbursement	1,478,426
Miscellaneous revenue	<u>4,728</u>
TOTAL OPERATING REVENUE	\$5,764,455
OPERATING EXPENSES	
Personnel services and employee benefits	4,284,918
Food and food service supplies	236,012
Medical and laboratory supplies	225,439
Professional Services	103,632
Insurance	70,249
Repairs and Maintenance	89,746
Building, laundry and recreational supplies	61,747
Vehicles and travel	43,358
Inter-departmental charges for services	111,724
Utilities	114,720
Depreciation	187,169
Office	33,523
Bad debt expense	27,680
Other operating expenses	<u>106,511</u>
TOTAL OPERATING EXPENSES	<u>5,696,428</u>
OPERATING INCOME (LOSS)	68,027
NONOPERATING REVENUE	
Loss on retirement of assets	<u>(4,454)</u>
CHANGE IN NET ASSETS	63,573
NET ASSETS, beginning of year	<u>2,043,415</u>
NET ASSETS, end of year	<u>\$2,106,988</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME – RIFLE

STATEMENT OF CASH FLOWS

June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	\$4,231,262
Cash received from federal government	1,480,514
Cash received from miscellaneous revenues	59,128
Cash payments to employees for services	(4,261,506)
Cash payments to supplies for goods and services	<u>(1,432,824)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	76,574
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(76,563)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(76,563)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>11</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>100</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 111</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 68,027
Adjustments to reconcile operating income (loss) to net cash used by operating activities	
Depreciation	187,169
Bad debt expense	27,680
Changes in assets and liabilities	
Accounts receivable	(75,632)
Inventory	7,869
Liability to pooled cash	(179,078)
Accounts payable	(37,273)
Liabilities for compensated absences	23,412
Deferred revenue	<u>54,400</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 76,574</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME – RIFLE

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2002

		<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS			
Cash and cash equivalents		\$ 22,005	\$ 45,562
Inventories, at cost		<u>279</u>	<u>—</u>
	TOTAL ASSETS	<u>\$ 22,284</u>	<u>\$ 45,562</u>
LIABILITIES AND NET ASSETS			
Deposits held in trust for patients		<u>\$ —</u>	<u>\$ 45,562</u>
	TOTAL LIABILITIES	<u>—</u>	<u>45,562</u>
Net Assets:			
Held in trust for other purposes	NET ASSETS	<u>\$ 22,284</u>	<u>\$ —</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME – RIFLE

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

June 30, 2002

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ADDITIONS		
Donations	\$ 45,446	\$ —
TOTAL ADDITIONS	45,446	—
DEDUCTIONS		
Recreation	45,083	—
TOTAL DEDUCTIONS	45,083	—
CHANGE IN NET ASSETS	363	—
NET ASSETS, beginning of year	21,921	—
NET ASSETS, end of year	<u>\$ 22,284</u>	<u>\$ —</u>

The accompanying notes are an integral part of this statement.

COLORADO STATE VETERANS NURSING HOME – RIFLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado State Veterans Nursing Home - Rifle (the Home) is part of the State of Colorado, Department of Human Services.

The financial statements of the 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 proprietary fund 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 prevails. The more significant of the Home's accounting policies are described below.

Reporting Entity

The Home was established by enactment of Colorado Revised Statute (C.R.S.) 26-12-401 which authorized the establishment and construction of State veterans nursing homes. The 100-bed facility was constructed to provide long-term care for veterans of the United States Armed forces and their qualifying dependents.

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

Fund Accounting

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

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

The Home uses an enterprise fund to account for the most significant portion of its activities. Enterprise funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities are provided to outside parties.

COLORADO STATE VETERANS NURSING HOME – RIFLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fiduciary funds are used to account for assets held on behalf of outside parties. When these assets are held under the terms of a formal trust agreement, that allows both principal and income to be spent on behalf of the patients, a private purpose trust fund is used. Agency funds generally are used to account for assets that the Home holds on behalf of others as their agent.

Basis of Accounting

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

GASB 34

The Home has adopted the provisions of Statement No. 34 of the Governmental Accounting Standards Board *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* as of July 1, 2001. 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.

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

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

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

COLORADO STATE VETERANS NURSING HOME – RIFLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budget

Appropriations for the nursing homes owned by the State are not included in the annual Long Bill (appropriations bill) passed by the General Assembly.

The 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 expenses and the means of financing them.

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

Allowance for Doubtful Accounts

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

Inventories

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

Fixed Assets

Fixed assets associated with the proprietary (enterprise) fund are carried in that fund and all fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided on the straight line method using estimated useful lives of four to thirty years.

COLORADO STATE VETERANS NURSING HOME – RIFLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

All permanent employees of Colorado State Veterans Nursing Home may accrue annual and sick leave based on length of service subject to certain limitations on the amount that will be paid on termination. In the proprietary fund, an estimated amount for compensated absences is charged to expense and a corresponding liability. The estimated liability includes salary-related payments. The estimated cost of compensated absences for which employees are vested is as follows:

	June 30 2002	June 30 2001	Increase (Decrease)
Annual Leave	\$ 173,152	\$ 152,616	\$ 20,536
Sick Leave	20,092	17,216	2,876
Total Compensated Leave	\$ 193,244	\$ 169,832	\$ 23,412

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized as follows:

Proprietary Fund

Cash on hand	\$ 111
--------------	--------

Fiduciary Funds

Demand deposits	67,567
-----------------	--------

Total, all funds	\$ 67,678
------------------	-----------

At June 30, 2002, the carrying amount of the Home's deposits was \$67,567 and the bank balance was \$69,221. The total bank balance was covered by federal depository insurance. Colorado law requires that depository institutions must apply for and be designated as an eligible public depository before the institution can accept public fund monies. The depository institution must pledge eligible collateral as security for all public deposits held by that institution that are not insured by depository insurance. The market value of the collateral that each institution pledges as security must equal at least 102% of the total uninsured deposits held by that institution. Generally, the eligible collateral in the collateral pools is held by the depository institution or its agent in the name of the institution.

The Home's deposits are all categorized insured or collateralized with securities held by the Home or its agent in the Home's name at June 30, 2002.

Liability to Pooled Cash presented on the Statement of Net Assets represents the Home's cash overdraft of \$57,200 with the State Treasurer that is not subject to risk categorization.

COLORADO STATE VETERANS NURSING HOME – RIFLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE C – FIXED ASSETS

Fixed Assets

Following is a summary of fixed assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and Improvements	\$ 131,626	\$ –	\$ –	\$ 131,626
Building	3,495,388	24,575	–	3,519,963
Furniture and Equipment	677,121	22,605	47,103	652,623
Vehicles	7,736	–	–	7,736
Software	13,691	29,385	8,062	35,014
	<u>\$ 4,325,562</u>	<u>\$ 76,565</u>	<u>\$ 55,165</u>	<u>\$ 4,346,962</u>

Following is a summary of accumulated depreciation:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land Improvements	\$ 50,114	\$ 4,488	\$ –	\$ 54,602
Building	1,592,415	124,988	–	1,717,403
Furniture and Equipment	409,823	52,685	42,651	419,857
Vehicles	7,238	125	–	7,363
Software	13,691	4,883	8,061	10,513
	<u>\$ 2,073,281</u>	<u>\$ 187,169</u>	<u>\$ 50,712</u>	<u>\$ 2,209,738</u>
Net Capital Assets	<u>\$ 2,252,281</u>	<u>\$ (110,604)</u>	<u>\$ 4,453</u>	<u>\$ 2,137,224</u>

NOTE D – PENSION PLAN

Plan Description

Virtually all of the Home's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan 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.

COLORADO STATE VETERANS NURSING HOME – RIFLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE D – PENSION PLAN – CONTINUED

Plan Description (continued)

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 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.

Funding Policy

Most employees contribute 8% of their annual gross covered wages to an individual account in the plan. During the fiscal year ended June 30, 2002, the Home contributed 10.7% of the employee's gross covered wages. 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 Home's contributions to PERA for the fiscal year ended June 30, 2002, were \$298,911. These contributions were equal to the required contributions for the year.

COLORADO STATE VETERANS NURSING HOME – RIFLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE E – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care 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 benefit. During the fiscal year ended June 30, 2002 the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under age 65) and it was reduced by 5 percent for each year of service under 20. Medicare eligibility also affects the premium subsidy.

The Health Care Fund is maintained by an employer's contribution of 0.8 percent of covered salary. During 2002 the Home paid \$19,398 into this fund.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for the self-insured plans, and with health maintenance organizations providing services within Colorado. At December 31, 2001 there were approximately 34,235 participants, including spouses and dependents from all contributors to the plan.

Life Insurance Program

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

NOTE F – RISK MANAGEMENT

The Home and its employees are insured for general liability, motor vehicle liability, worker's compensation and medical claims 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.

COLORADO STATE VETERANS NURSING HOME – RIFLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE G – COMMITMENTS AND CONTINGENCIES

Grant Programs

The Home participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Home has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2002, may be impaired. In the opinion of the Home there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Taxpayer Bill of Rights

Colorado voters passed an amendment to the state constitution in November, 1992 which contains several limitations, including revenue raising, spending abilities and other specific requirements affecting state and local governments. The amendment is complex and subject to judicial interpretation; however, the management of the Home believes it is in compliance with the requirements of the amendment. Management believes that the Home is exempt from the provisions of the amendment because it qualifies as an "enterprise" under certain provisions of the amendment.

GOVERNMENT AUDITING STANDARDS

AND

OMB CIRCULAR A-133 REPORTS

Colorado State Veterans Nursing Home – Rifle

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2002

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

FINANCIAL STATEMENTS

A qualified opinion was rendered on the basic financial statements of Colorado State Veterans Nursing Home – Rifle as of and for the year ended June 30, 2002.

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
 - Reportable condition(s) identified that are not considered to be material weaknesses? Yes No
- Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes No

An unqualified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number
64.015

Name of Federal Program or Cluster
Veterans State Nursing Home Care

Colorado State Veterans Nursing Home – Rifle

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

June 30, 2002

FINANCIAL STATEMENT FINDINGS

Finding 2002-1:

Criteria or specific requirement. Cash receipts should be deposited timely.

Condition. Colorado State Veterans Nursing Home – Rifle does not deposit cash receipts daily.

Questioned costs: There are no questioned costs related to this finding.

Context: Cash receipts are significant to the operations of the Home.

Effect: There is an increased risk of theft or misappropriation due to accumulating cash receipts at the Home prior to deposit.

Cause: A policy regarding maximum accumulations of cash receipts prior to deposit or requiring daily deposits has not been established by the Home.

Recommendation: The Home should implement a policy requiring more frequent deposits or establish a maximum amount of receipts that can be accumulated prior to deposit.

Management's response: Management agrees with the conditions and recommendations.

Finding 2002-2:

Criteria or specific requirement. Vendor invoices should be reconciled to receiving documents.

Condition. Colorado State Veterans Nursing Home – Rifle does not reconcile receiving documents for pharmacy supplies prepared by receiving personnel to amounts recorded in accounts payable from vendor invoices.

Questioned costs: There are no questioned costs related to this finding.

Context: Purchases of pharmacy supplies are significant to the operations of the Home.

Effect: There is an increased risk of error or vendor over-billing due to the Home not reconciling receiving reports to vendor invoices.

Cause: Existing receiving reports are not reconciled to vendor invoices.

Recommendation: The Home should reconcile receiving reports with vendor invoices prior to payment.

Management's response: Management agrees with the conditions and recommendations.

Colorado State Veterans Nursing Home – Rifle

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

June 30, 2002

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs for federal awards were noted.



INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

August 7, 2002

Members of the Legislative Audit Committee

We have audited the basic financial statements of Colorado State Veterans Nursing Home – Rifle (“the Home”), an enterprise fund of the State of Colorado as of and for the year ended June 30, 2002, and have issued our report thereon dated August 7, 2002. These basic financial statements are the responsibility of the Home’s management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the balance sheet at June 30, 2001.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Colorado State Veterans Nursing Home – Rifle taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Chadwick, Steinkirchner, Davis & Co., P.C.

Colorado State Veterans Nursing Home – Rifle

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2002

FEDERAL GRANTOR/PASS-THROUGH <u>GRANTOR/PROGRAM TITLE</u>	Federal CFDA <u>Number</u>	Pass-Through Entity's Identifying <u>Number</u>	Federal <u>Expenditures</u>
U.S. DEPARTMENT OF VETERANS' AFFAIRS			
Direct assistance -			
Veterans Nursing Home Care	64.010	-	\$ 68,473
Veterans State Nursing Home Care	64.015	-	<u>1,409,953</u>
TOTAL U.S. DEPARTMENT OF VETERANS' AFFAIRS			<u>\$ 1,478,426</u>

Colorado State Veterans Nursing Home – Rifle

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2002

NOTE 1 - BASIS OF PRESENTATION

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



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

August 7, 2002

Members of the Legislative Audit Committee

We have audited the financial statements of Colorado State Veterans Nursing Home – Rifle as of and for the year ended June 30, 2002, and have issued our report thereon dated August 7, 2002. 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, 2001. Except as described in the following paragraph, we conducted our audit in accordance with U.S. 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, 2001.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Colorado State Veterans Nursing Home – Rifle's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Colorado State Veterans Nursing Home – Rifle's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-1 and 2002-2.



Members of the Legislative Audit Committee
Page Two

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described as items 2002-1 and 2002-2 are material weaknesses.

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

Chadwick, Steinkirchner, Davis & Co., P.C.



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

August 7, 2002

Members of the Legislative Audit Committee

Compliance

We have audited the compliance of Colorado State Veterans Nursing Home – Rifle with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Colorado State Veterans Nursing Home – Rifle's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Colorado State Veterans Nursing Home – Rifle's management. Our responsibility is to express an opinion on Colorado State Veterans Nursing Home – Rifle's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Colorado State Veterans Nursing Home – Rifle's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Colorado State Veterans Nursing Home – Rifle's compliance with those requirements.

In our opinion, Colorado State Veterans Nursing Home – Rifle complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Members of the Legislative Audit Committee
Page Two

Internal Control Over Compliance

The management of Colorado State Veterans Nursing Home – Rifle is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Colorado State Home’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Chadwick, Steinkirchner, Davis & Co., P.C.

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 1492