

**COLORADO STATE VETERANS NURSING**

**HOME AT RIFLE**

**FINANCIAL AND COMPLIANCE AUDIT**

**FISCAL YEAR ENDED**

**JUNE 30, 2010**

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**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**FINANCIAL AND COMPLIANCE AUDIT**  
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**Year Ended June 30, 2010**

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**COLORADO STATE VETERANS NURSING HOME AT RIFLE  
FINANCIAL AND COMPLIANCE AUDIT  
REPORT SUMMARY  
FISCAL YEAR ENDED JUNE 30, 2010**

**Authority, Purpose and Scope**

The audit of the Colorado State Veterans Nursing Home at Rifle (the Home) was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all State agencies. The 2010 audit was conducted under contract with Wall, Smith, Bateman and Associates, Inc. The audit was conducted in accordance with audit standards generally accepted in the United States of America, and *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*. Audit work was performed during July through September 2010.

The purpose and scope of the audit was to:

- Express an opinion on the financial statements of the Home as of and for the year ended June 30, 2010. This includes a review of internal control as required by auditing standards generally accepted in the United States of American and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditures of federal funds.
- Express an opinion on the Home's compliance with requirements applicable to all of its major programs along with reporting on internal control over compliance.
- Evaluate progress in implementing prior audit findings and recommendations.

**Audit Results and Summary of Major Audit Findings**

Wall, Smith, Bateman and Associates, Inc. expressed a qualified opinion on the Home's financial statements as of and for the year ended June 30, 2010. Our report included explanatory paragraphs 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, 2009, and that the inadequate aged accounts receivable subledger prevented us from forming an opinion on accounts receivable and other liabilities.

The accompanying financial statements have been prepared assuming that the Colorado State Veterans Nursing Home will continue as a going concern. As discussed in Note 12 to the financial statements, the Home has had substantial losses over the prior periods. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We issued a report on the Home's internal control over financial reporting and compliance with other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. We noted two material weaknesses and one other matter for consideration. We did not note any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements.

## **Required Auditor Communications to the Legislative Audit Committee**

The auditor is required to communicate to the Legislative Audit Committee certain matters related to the conduct of the audit and to ensure that the Legislative Audit Committee receives additional information regarding the scope and results of the audit that may assist the Legislative Audit Committee in overseeing the financial reporting and disclosure process for which management is responsible. These matters have been communicated to the Legislative Audit Committee in this report and include among other items that no significant difficulties were encountered in dealing with management in performing our audit.

## **SUMMARY OF FINDINGS AND RECOMMENDATIONS**

The following is a summary of three findings contained in the report. The audit recommendations for these findings and associated management responses are summarized in the recommendation locator, which follows the summary.

- We noted the Home does not have an employee with the knowledge to adequately prepare financial statements for the Home in accordance with accounting principles generally accepted in the United States of America.
- We also noted that the aged accounts receivable listing included accounts with credit balances totaling \$370,487. The Veterans Home accounting records netted the credits with the accounts receivable and an adjusting journal entry was proposed to reclassify these credits as a liability.
- We also noted that the Home has had substantial losses over the prior periods. The Home will not be able to continue operations if the current loss trend continues.

### **Recommendation and Management Response**

A summary of the recommendations for the above comments is included in the Recommendation Locator included at the end of this summary. The Recommendation Locator also shows the Home's management response to the audit recommendations. A detailed description of the audit comment and recommendation is contained in the findings and recommendations section of the report.

### **Summary of Progress in Implementing Prior Audit Findings**

The last stand-alone audit of the Home was in 2006. The audit report for the year ended June 30, 2006 did not include any findings.

**RECOMMENDATION LOCATOR**

Finding	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	5	The Veterans Home should use the resources available between the Department of Human Services' Division of Accounting and the Office of the State Controller's Field Accounting Services Team member to put a system in place to prepare the annual financial statements in accordance with GAAP.	Colorado State Veterans Home at Rifle	Agree	June 30, 2011
2	6	The Veterans Home should create and implement policies and procedures to improve the controls over the recording of liabilities and posting of credits to accounts receivable and investigate and correct the unidentified credit balances totaling \$190,748.	Colorado State Veterans Home at Rifle	Agree	June 30, 2011
3	8	The Veterans Home management and the Department of Human Services should continue to work on the plan to reverse the operating trends and repay the loan to the State Treasurer. In addition, management should continue to monitor the progress of the plan on a regular basis and make adjustments as necessary.	Colorado State Veterans Home at Rifle	Agree	Ongoing

## DESCRIPTION OF THE NURSING HOME

The Colorado State Veterans Nursing Home at Rifle (the Home) established under Section 26-12-201, C.R.S., is a skilled-care nursing facility. It provides health services (including physician care, physical, speech, and occupational therapy, dietician consultation, dental care, and 24-hour licensed nursing care) and related social care to patients who are severely limited in their ability to care for themselves due to serious illness and/or disability. The Nursing Home also has an Alzheimer's unit which provides, in addition to the care mentioned above, a safe and secure environment for patients with Alzheimer's or related disorders.

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

The Home is one of a very limited number of facilities which meet U.S. Department of Veterans Affairs (VA) requirements to provide care to veterans. In turn, the Home receives certain funding from VA on the basis of the number of veterans served. The Nursing Home is overseen by the Division of State and Veterans Nursing Homes within the Colorado Department of Human Services, Office of Veterans and Disability Services.

### WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	89
Average daily census for the year ended June 30, 2010	71
Occupancy percentage for the year ended June 30, 2010	80
Patient days for the year ended June 30, 2010	25,842

## **FINDINGS AND RECOMMENDATIONS**

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**AUDITORS' FINDINGS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2010**

**Finding No. 1: Preparation of Financial Statements**

The accounting department at the Colorado State Veterans Nursing Home at Rifle (Veterans Home) consists of three employees: an Accountant I, an Accounting Tech, and an Administrative Assistant. The accounting department has the responsibility to record the Veterans Home's financial transactions. The Veterans Home is included in the annual financial audit of the State of Colorado; however, in addition the Veterans Home is required to have a stand alone independent financial audit every four years, which requires that the Veterans Home prepare its financial statements for the audit in accordance with accounting principles generally accepted in the United States of America (GAAP).

**What was the purpose of the audit work?**

The purpose of the audit work was to provide an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Veterans Home for the fiscal year ending June 30, 2010.

**What audit work was performed and how were results measured?**

We observed the key controls at the Veterans Home, interviewed Veterans Home personnel, and evaluated the results. We also evaluated the accounting department's ability to prepare the Veterans Home's financial statements in accordance with GAAP.

**What problem did the audit work identify?**

The Veterans Home lacks the ability to prepare financial statements in accordance with GAAP. The accounting staff at the Veterans Home and the liaison at the Colorado Department of Human Services have the knowledge and ability to appropriately record the Veterans Home's financial transactions during the year. In addition, management has the knowledge to understand and take responsibility for the financial statements. However, the Veterans Home does not have an employee with the knowledge to adequately prepare financial statements for the Veterans Home in accordance with GAAP.

**Why does this problem matter?**

In order to have an adequate system of internal control and ensure that financial statements are materially fairly stated, accounting personnel should have the ability to prepare annual financial statements in accordance with GAAP.

**Why did the problem occur?**

The Veterans Home management has determined that the financial transactions are not complex enough to warrant hiring a high level accountant with the qualifications necessary to prepare financial statements in accordance with GAAP. The Veterans Home has not utilized other accounting resources in the State, such as the Department of Human Services' Division of Accounting and the Office of the State Controller's Field Accounting Services Team member, to address the Veterans Home's lack of sufficient expertise to comply with GAAP.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE  
AUDITORS' FINDINGS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2010**

(Classification of Finding: Material Weakness)

**Recommendation No. 1:**

The Veterans Home should use available resources to put systems in place and prepare the annual financial statements in accordance with GAAP, such as resources within the Department of Human Services' Division of Accounting and the Office of the State Controller's Field Accounting Services Team.

**Colorado State Veterans Nursing Home at Rifle's Response:**

Agree. Implementation date: June 30, 2011.

The Colorado State Veterans Nursing Home at Rifle commits to better utilizing Department of Human Services resources to prepare annual financial statements.

**Finding No. 2: Accounts Receivable Aging**

The Colorado State Veterans Nursing Home at Rifle (Veterans Home) is a 89-bed facility that provides long-term care for veterans of the United States Armed Forces and their qualifying dependents. The Veterans Home receives federal funding from the U.S. Department of Veterans Affairs to subsidize the cost of care for qualifying veterans. The Veterans Home bills its residents for services monthly. Management tracks the accounts receivable on a monthly basis by reviewing an aged accounts receivable listing, which shows how long accounts have been outstanding. The accounting department prepares explanations for receivables that have been outstanding for an extended period of time. The Veterans Home took over their billing in June 2010. Prior to this, billing and collections were handled by The Colorado State Veterans Nursing Home at Fitzsimons. Since the Veterans Home took on this responsibility, they follow up with outstanding receivables once they become 10 days overdue.

**What was the purpose of the audit work?**

The purpose of the audit work was to determine the existence and completeness of accounts receivable at fiscal year end as well as to assess the reasonableness of the valuation and the adequacy of the allowance for doubtful accounts.

**What audit work was performed and how were results measured?**

The audit work included verifying subsequent receipts of accounts receivable recorded at June 30, 2010 as well as a review of the aged accounts receivable ledger to determine the reasonableness of the total accounts receivable balance and the related allowance for doubtful accounts.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**AUDITORS' FINDINGS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2010**

**What problem did the audit work identify?**

The aged accounts receivable listing at June 30, 2010, included accounts with credit balances totaling \$370,487. Management was able to identify the source of \$179,739 of this credit balance, which was a retroactive Medicaid rate decrease that resulted in the Veterans Home owing Medicaid for excess payments previously received from Medicaid. Rather than recording a decrease in Medicaid revenue and a payable to Medicaid, the Veterans Home had charged revenue and credited accounts receivable and all the related individual patient accounts. This resulted in both the accounts receivable and accounts payable being understated by \$179,739. Management could not explain the remaining \$190,748 of credit balances. The Veterans Home's practice is to net credits against accounts receivable rather than recording an accounts payable, which resulted in both the accounts receivable and accounts payable balances being materially misstated. An adjusting journal entry was proposed to remove the credits from accounts receivable and reclassify them as a liability.

**Why does this problem matter?**

Misposting of credits and payments resulted in a material misstatement in the financial statements that went undetected by management. Accurate information should be readily available in the aging reports in order for management to easily identify problem accounts for collection efforts. Additionally, posting of patient payment errors may occur and go undetected.

**Why did the problem occur?**

Prior to June 2010 the billing for the Veterans Home was handled by the Colorado State Veterans Nursing Home at Fitzsimons. The Veterans Home took over the billing and management of accounts receivable in June. The problem with the aging occurred prior to the Veterans Home taking over; however, the Veterans Home did not have procedures in place to identify the problem during the fiscal year end closing process.

(Classification of Finding: Material Weakness.)

**Recommendation No. 2:**

The Veterans Home should create and implement policies and procedures to improve the controls over the recording of accounts receivable and accounts payable to ensure transactions are handled appropriately and balances are complete and accurate. In addition, the Veterans Home should investigate and resolve the unidentified credit balances totaling \$190,748.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE  
AUDITORS' FINDINGS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2010**

**Colorado State Veterans Nursing Home at Rifle's Response:**

Agree. Implementation date: June 30, 2011.

As of January 29, 2010, a policy was developed to perform a monthly reconciliation between Achieve/Matrix billing system and COFRS State's accounting system for the revenue and accounts receivable accounts. The balances for the A/R accounts containing #13XX and revenue accounts containing #46XX are compared between the two systems. Rifle has also expanded this to include the accounts payable and payroll accrual accounts, and A/R refund account. The A/R aging is also reconciled to COFRS.

Now that the patient account billing functions have moved back to the State Veterans Nursing Home at Rifle, staff is able to research and correct billing anomalies in a timely manner. All balances will be researched and rectified by the end of the calendar year.

**Finding No. 3 – Going Concern**

The Colorado State Veterans Nursing Home at Rifle (Veterans Home) is an 89 bed facility that provides long-term care for veterans of the United States Armed Forces and their qualifying dependents. The Veterans Home receives federal funding from the U.S. Department of Veterans Affairs.

**What was the purpose of the audit work?**

The purpose of the audit work was to evaluate the Veterans Home audited financial statements for the Veterans Home's sustainability as a going concern. The going concern concept assumes that an enterprise will operate in perpetuity. An entity is considered a going concern if it is capable of earning a reasonable net income and there is no intention or threat to significantly curtail its line of business in the foreseeable future.

**What audit work was performed and how were results measured?**

The audit work included substantive and analytical audit procedures on financial statement accounts.

**What problem did the audit work identify?**

The operating expenses of the Veterans Home have increased significantly over the last four years and have out paced the operating revenue. The last audited financial statement dated June 30, 2006 reported total operating revenue of \$6,834,533 and total operating expenses of \$6,725,554 with a net operating income of \$108,979. The June 30, 2010 financial statement reported operating revenues of \$7,655,834 and total operating expenses of \$8,587,051 with a net operating loss of \$931,217. The Veterans Home reported an unaudited net loss for the fiscal years ended June 30, 2010 and 2009 of \$931,217 and \$1,397,437, respectively. As of June 30, 2010, the unrestricted net assets were a negative \$1,476,686, and the amount due to the State Treasurer because of a negative cash balance was \$1,053,652.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**AUDITORS' FINDINGS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2010**

**Why does this problem matter?**

The Veterans Home will not be able to continue operations if the current loss trend continues. Also, the State Treasurer may not be able to collect the loan amount of \$1,053,652 which is presently reported as a loan receivable on the State of Colorado's financial statements.

**Why did the problem occur?**

The revenue over the four year period has increased by 15 percent, while the expenses have increased by 31 percent. Over the last four years, \$1,707,810 of the \$2,059,568 total increase in expense is attributable to personnel services and employee benefits.

The following represents the average occupancy rates for the preceding four fiscal years.

<b>Fiscal Year</b>	<b>Average Daily Census</b>
2010	70.83 residents
2009	67.70 residents
2008	80.82 residents
2007	78.41 residents
<b>Source:</b> Colorado State Veterans Nursing Home-Rifle Fiscal Year-End Statistical Report	

Management has developed a plan in an effort to reverse the operating trends and repay the loan to the State Treasurer. The plan includes:

- Expanding marketing efforts to attract new residents from areas outside of Rifle in an effort to increase their census.
- Improving relationships with referral sources, including both local hospitals and the Veterans Regional Medical Center in Grand Junction.
- Expanding the Home's Secure Memory Unit which will provide six additional beds that will typically remain full and should provide a more stable census base overall.

(Classification of Finding: Other Matter.)

**Recommendation No. 3:**

Veterans Home management and the Department of Human Services should continue to work on the plan to reverse the operating trends and repay the loan to the State Treasurer. In addition, management should continue to monitor the progress of the plan on a regular basis and make adjustments as necessary.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE  
AUDITORS' FINDINGS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2010**

**Colorado State Veterans Nursing Home at Rifle's and Department of Human Service's Response:**

Agree. Implementation date: Ongoing.

The Department of Human Services has shown progress towards reversing the negative income trend at the State Veterans Nursing Home at Rifle and will continue this focus. Diligent cost controls and census growth are a priority. Fiscal year to date through October 31, 2010, Rifle has a net operating income of \$165,254. The average daily census through October is 76.76, an improvement over the last two fiscal years. As of this writing, November 16, 2010, the average for November is 79 residents.

**Prior Year Findings:**

Colorado State Veterans Nursing Home at Rifle had no findings or recommendations in the last stand alone audit for the year ended June 30, 2006.

**FINANCIAL STATEMENT AUDIT REPORT SECTION**

**INDEPENDENT AUDITORS' REPORT**

Members of the Legislative Audit Committee:

We have audited the Statement of Net Assets of the Colorado State Veterans Nursing Home at Rifle (the Home), an enterprise fund of the State of Colorado, as of June 30, 2010, and were engaged to audit the related Statement of Revenues, Expenses and Changes in Net Assets, and Cash Flows for the year then ended. These financial statements are the responsibility of the Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as indicated in the following paragraphs, 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 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 did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the Statement of Net Assets of the Home as of June 30, 2009. The Statement of Net Assets includes amounts which enter materially into the determination of results of operations and cash flows for the year ended June 30, 2010.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2010.

Because of the inadequacy of the aged accounts receivable subledger as discussed in Note 13, we were unable to form an opinion regarding the amount at which \$729,866 of accounts receivable and \$190,748 of other liabilities are recorded in the accompanying Statement of Net Assets at June 30, 2010.

The basic financial statements present only the Home and are not intended to present fairly the financial position of the State of Colorado as of June 30, 2010, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been necessary had we been able to satisfy ourselves about amounts comprising the Statement of Net Assets at June 30, 2009, and accounts receivable and other liabilities at June 30, 2010, the Statement of Net Assets referred to above present fairly, in all material respects, the financial position of the Colorado State Veterans Nursing Home at Rifle as of June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Home will continue as a going concern. As discussed in Note 12 to the financial statements, the Home has had substantial losses over the prior periods. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require that the management's discussion, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2010, on our consideration of the Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Wall, Smith, Bateman and Associates, Inc.*

Wall, Smith, Bateman & Associates, Inc.

Alamosa, Colorado

November 9, 2010

**COLORADO STATE VETERANS NURSING HOME – RIFLE**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (unaudited)**  
Year Ended June 30, 2010

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**MANAGEMENT’S DISCUSSION AND ANALYSIS**

This section presents an analysis of the financial performance of the Colorado State Veterans Nursing Home – Rifle (the Home) and an overview of the Home’s financial activities for the fiscal year ended June 30, 2010 (FY10). This section was prepared by the Home’s management. The financial statements which begin on page 17 are an integral part of this analysis and figures reported on the Colorado Financial Reporting System (COFRS) reflecting the Home’s FY10 performance are incorporated into 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 Assets increased by \$437,420, which is a 24.4% increase from fiscal year ended 2009 (FY09).
- The Home’s Total Operating Revenue increased by \$348,465, which is a 4.8% increase from FY09.
- The Home’s Operating Expenditures decreased by \$204,268 which is a 2.3% decrease from FY09.
- The Home’s Net Loss decreased by \$552,733 in FY10, from a loss of \$1,483,950 in FY09 to a loss of \$931,217 in FY10.
- The Home’s Net Assets decreased by \$931,217 in FY10, which is a 131.0% decrease from June 30, 2009.
- The Home’s current ratio was 48% at June 30, 2010.

**Overview of the Financial Statements**

**Fund Financial Statements**

***Statement of Net Assets***

The Statement of Net Assets (see page 17) 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 in Net Assets***

The Statement of Revenue, Expenses and Changes in Net Assets (see page 18) includes all 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 billing are adequate to cover expenses related to providing skilled nursing care to residents of the Home.

### ***Statement of Cash Flows***

The Statement of Cash Flows (see page 19) presents information concerning the Home's cash receipts, cash payments and net cash from operations, investing and financing activities during the year.

## **Financial Analysis of Colorado State Veterans Nursing Home – Rifle**

### **Summary of Operational Policies and Procedures**

The Colorado State Veterans Nursing Home – 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 Veterans and Disability 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 intend to provide funds to operate the Home. Costs related to any support provided by the State are to be 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**

A condensed Statement of Net Assets is included as Table A. 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.

**TABLE A**  
**Condenses Statements of Net Assets**

	<u>2010</u>	<u>2009</u> <u>(unaudited)</u>	<u>Variance</u>	<u>Percent</u> <u>Change</u>
Current Assets	\$ 1,038,895	\$ 429,194	\$ 609,701	142.06%
Non-current Assets	1,188,526	1,360,807	(172,281)	-12.66%
<i>Total Assets</i>	<u>2,227,421</u>	<u>1,790,001</u>	<u>437,420</u>	<u>24.44%</u>
Current Liabilities	2,150,519	844,457	1,306,062	154.66%
Non-current Liabilities	297,502	234,927	62,575	26.64%
<i>Total Liabilities</i>	<u>2,448,021</u>	<u>1,079,384</u>	<u>1,368,637</u>	<u>126.80%</u>
1) Invested in Capital Assets	1,188,526	1,360,807	(172,281)	-12.66%
2) Restricted	67,560	77,722	(10,162)	-13.07%
3) Unrestricted	(1,476,686)	(727,912)	(748,774)	102.87%
<i>Total Net Assets</i>	<u>\$ (220,600)</u>	<u>\$ 710,617</u>	<u>\$ (931,217)</u>	<u>-131.04%</u>

As shown in Table A, the Home's Assets increased \$437,420 to \$2,227,421 in FY10, from \$1,790,001 in FY09.

The increase in total liabilities of \$1,368,637 for the same period is also shown in Table A and is primarily due to an increase in the amount owed to 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 Revenue, Expenses and Changes in Net Assets provides the information as to the nature and the source of the changes seen in the Statement of Net Assets. Table B provides a summary of revenues and expenses of the Home for FY10 as compared to the previous year.

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

	<u>2010</u>	<u>2009 (Unaudited)</u>	<u>Variance</u>	<u>Percent Change</u>
Total earned revenues	\$ 7,655,834	\$ 7,307,369	\$ 348,465	4.77%
Total operating expenses	8,587,051	8,791,319	(204,268)	-2.32%
Change in Net Assets	(931,217)	(1,483,950)	552,733	-37.25%
Beginning Net Assets	710,617	2,194,567		
Ending net assets	<u>\$ (220,600)</u>	<u>\$ 710,617</u>		

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

- The Home's revenues increased by \$348,465, mainly due to an increased census in the latter part of FY10.
- Operating expenses decreased by \$204,268, mainly due to concerted efforts by management to reduce costs.
- Table B reflects that in FY10 the Home experienced a net loss position with expenses exceeding revenues.

**Economic Outlook**

- The Home expanded marketing efforts in 2010 to include: Delta/Montrose, Grand Junction, Meeker/Craig, Gunnison/Crested Butte, and has seen good results from those expanded efforts.
- Management is working to improve the relationships with local referral sources. Further, the Home is planning on expanding the Secure Memory Unit of the Home which is anticipated to provide a more stable census base overall as Secure Unit residents are predominantly long-term residents.

- Another positive factor affecting the future of the Colorado State Veterans Home at Rifle is involvement in the Eden Alternative. An Eden Home is a home for the elderly where they live as human beings rather than in an institutionalized existence. Eden principles teach the staff, families and visitors that decision making is central to the elderly who live in the home or those closest to the elderly resident, giving the utmost autonomy to the resident. The Eden home addresses loneliness, boredom, and helplessness that can plague the institutional nursing home resident. It does so through the introduction of plants, animals and children into the daily lives of the elderly, as well as, the joy brought by the associated companionships and relationships. The Home is moving toward becoming a certified Eden home, and has three certified Eden Associate trainers in the facility. The Home's management anticipates that the Eden certification will increase marketing potential and revenues.
- The Department of Human Services has shown progress towards reversing the negative income trend at the State Veterans Nursing Home at Rifle during FY 2011 and will continue this focus. Diligent cost controls and census growth are a priority for the Home.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**STATEMENT OF NET ASSETS**  
**June 30, 2010**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$	44,028
Restricted cash, resident funds		103,246
Accounts receivable (Net of allowance for doubtful accounts of \$58,508)		729,866
Accounts receivable - VA per diem reimbursement		158,696
Prepaid expenses		2,932
Other assets		127

<b>Total Current Assets</b>		<u>1,038,895</u>
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**Capital Assets**

Land		54,200
Land improvements		77,426
Buildings		3,875,515
Furniture and equipment		311,572
Vehicles		60,733
Software		78,683
Less accumulated depreciation		<u>(3,269,603)</u>

<b>Total Capital Assets, Net</b>		<u>1,188,526</u>
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<b>TOTAL ASSETS</b>		<u>2,227,421</u>
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**LIABILITIES**

**Current Liabilities**

Accounts and vouchers payable		92,249
Accrued salaries payable		571,293
Due to state treasurer		1,053,652
Due to medicaid		179,739
Due to others		190,748
Deposits held in trust for residents		35,813
Compensated absences - current portion		<u>27,025</u>

<b>Total Current Liabilities</b>		<u>2,150,519</u>
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**Long-term Liabilities**

Compensated absences		<u>297,502</u>
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<b>Total Long-term Liabilities</b>		<u>297,502</u>
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<b>TOTAL LIABILITIES</b>		<u>2,448,021</u>
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**NET ASSETS**

Invested in capital assets, net of related debt		1,188,526
Restricted for resident purposes		67,560
Unrestricted		<u>(1,476,686)</u>

<b>TOTAL NET ASSETS</b>	\$	<u>(220,600)</u>
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The accompanying notes are an integral part of this statement

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**STATEMENT OF REVENUE, EXPENSES, AND**  
**CHANGES IN NET ASSETS**  
**Year Ended June 30, 2010**

<b>OPERATING REVENUES</b>	
Patient charges for services	\$ 5,864,900
VA per diem reimbursements	1,756,981
State revenue	27,867
Miscellaneous	6,086
	<hr/>
<b>Total operating revenues</b>	<b>7,655,834</b>
	<hr/>
<b>OPERATING EXPENSES</b>	
Personnel services and employee benefits	6,672,842
Other operating expenses	1,595,631
Inter-departmental charges for services	180,764
Utilities	131,728
Vehicles and travel	6,086
	<hr/>
<b>Total operating expenses</b>	<b>8,587,051</b>
	<hr/>
Operating Income (Loss)	(931,217)
<b>Net Assets, Beginning of Year</b>	<b>710,617</b>
	<hr/>
<b>Net Assets, End of Year</b>	<b>\$ (220,600)</b>
	<hr/> <hr/>

The accompanying notes are an integral part of this statement

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2010**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from patients and third-party payors	\$ 5,562,929
Cash received from federal government	1,756,981
Cash received from state government	27,867
Cash payments to suppliers for goods and services	(626,519)
Cash payments to employees for services	(6,672,842)
	<hr/>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>48,416</b>
	<hr/>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>48,416</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>98,858</b>
	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 147,274</b>
	<hr/> <hr/>
<b>Operating Income</b>	<b>\$ (931,217)</b>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	172,281
(Increase) decrease in:	
Accounts receivable	(307,943)
Prepaid expenses	(114)
Increase (decrease) in:	
Due to state treasurer	899,650
Accounts payable	215,759
	<hr/>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 48,416</b>
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The accompanying notes are an integral part of this statement

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

The Colorado State Veterans Nursing Home at Rifle (the Home) is part of the State of Colorado Department of Human Services. The Home was established by enactment of Colorado Revised Statute (C.R.S.) 26-12-201 which authorized the establishment and construction of State veteran's nursing homes. The 89-bed facility was constructed to provide long-term care for veterans of the United States Armed Forces and their qualifying dependents.

***Reporting Entity***

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. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance to aid financial management by segregating transactions related to certain government functions or activities.

The Home uses a proprietary (enterprise) fund to account for 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.

***Basis of Accounting***

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 components of the Financial Accounting Standards Board (FASB) Accounting Standards Codification originally issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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; restricted; and unrestricted net assets. Proprietary fund-type operating statements present revenues when earned and expenses when a liability is incurred.

The Home has adopted the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB) pronouncements *Basic Financial Statements – and Managements Discussion and Analysis*

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

– *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 revenue, expenses, and changes in 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. The Home does not have any debt related to capital 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 – This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Home’s policy to use restricted resources first, then unrestricted resources as they are needed.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

For the purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the state treasurer, and all highly liquid investments with an original maturity of three months or less.

Income from cash and cash equivalents consists of interest and dividend income and the net change for the year in the fair value of pooled cash with the state treasurer, which is carried at fair value.

***Accounts Receivable***

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. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Home’s grants and contracts.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

***Capital Assets***

Capital assets are stated at cost at the date of acquisition or fair market value at the date of donation. The Home capitalizes only those assets with an initial cost or fair market value greater than or equal to \$5,000.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Estimated Lives</b>
Buildings	30 Years
Land improvements	4-30 Years
Furniture and fixtures	4-10 Years
Software	4-10 Years
Vehicles	4-10 Years

***Compensated Absences***

Employee's compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Assets and as a component of compensation and benefit expense in the Statement of Revenue, Expenses, and Changes in Net Assets.

***Due to State Treasurer***

The State Treasurer maintains an operating account on behalf of all of the State Veterans Homes in Colorado. During fiscal year 2010, this account had a negative balance and required a loan from the State Treasurer in the amount of \$1,500,000. This loan was obtained to assist with cash flow shortages for the daily operations of the State-run veteran homes, including personnel costs, medical supplies and drugs, and food necessary to provide care to residents in the homes. At June 30, 2010, the Home had been allocated \$1,053,652 of this loan.

***Classification of Revenue***

The Home has classified its revenues as either operation or non-operation revenues according to the following criteria:

Operating Revenue – Operating revenue generally results from providing services for residents and Veteran's Administration per diem reimbursement for residents.

Non-operating Revenue – Non-operating revenue is the revenue that does not meet the definition of operating revenue.

***Budget and Budgetary Accounting***

With the exception of the annual State operating grant, appropriations for the nursing homes owned by the State are not included in the annual Long Bill (appropriations bill) passed by the General Assembly.

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 expenditures and the means of financing them.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

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

**NOTE 2 FINANCIAL STATEMENT PRESENTATION**

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

**Statement of Net Assets**

	<b><u>Patient Benefit Fund</u></b>	<b><u>Resident Trust Fund</u></b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 67,433	\$ 35,813
Other Assets	127	-
Total Assets	<b><u>\$ 67,560</u></b>	<b><u>\$ 35,813</u></b>
<b><u>Liabilities and Net Assets</u></b>		
Deposits Held in Trust for Residents	\$ -	\$ 35,813
Net Assets		
Restricted for Resident Purposes	<u>67,560</u>	<u>-</u>
Total Liabilities and Net Assets	<b><u>\$ 67,560</u></b>	<b><u>\$ 35,813</u></b>

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

<u>Statement of Revenue, Expenses, and Changes in Net Assets</u>	<u>Patient Benefit Fund</u>
Non-operating Revenue	
Donations	\$ 80,500
Expenses	
Recreation	<u>35,766</u>
Change in Net Assets	44,734
Net assets, beginning of year	<u>22,826</u>
Net assets, end of year	<u><u>\$ 67,560</u></u>

**NOTE 3 CASH AND CASH EQUIVALENTS**

At year-end, cash on hand and in banks consisted of the following:

<u>Proprietary Fund</u>	
Cash on hand	\$ 1,000
Demand Deposits	43,028
	<u>\$ 44,028</u>
<u>Resident Funds</u>	
Cash on hand	\$ 547
Demand Deposits	102,699
	<u>\$ 103,246</u>
Cash Reported on Statement of Net Assets	<u><u>\$ 147,274</u></u>

Colorado State Statutes govern the Home's deposits of cash. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance (FDIC) on deposits held.

The Home deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2010, the Home owed the State Treasurer \$1,053,652.

Custodial credit risk is the risk that in the event of a bank failure, the Home's deposits may not be returned to it. At June 30, 2009, the Home was not exposed to custodial credit risk.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 4 CAPITAL ASSETS**

At June 30, 2010, capital assets consisted of the following:

	<u>Balance</u> <u>06/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/10</u>
Capital assets not being depreciated				
Land	\$ 54,200	\$ -	\$ -	\$ 54,200
Total capital assets not being depreciated	<u>54,200</u>	<u>-</u>	<u>-</u>	<u>54,200</u>
Capital assets being depreciated				
Land improvements	77,426	-	-	77,426
Buildings	3,875,515	-	-	3,875,515
Furniture and fixtures	402,359	-	(90,787)	311,572
Vehicles	60,733	-	-	60,733
Software	78,683	-	-	78,683
Total capital assets being depreciated	<u>4,494,716</u>	<u>-</u>	<u>(90,787)</u>	<u>4,403,929</u>
Less accumulated depreciation for:				
Land improvements	(70,590)	(1,244)	-	(71,834)
Buildings	(2,663,042)	(151,087)	-	(2,814,129)
Furniture and fixtures	(315,061)	(19,950)	90,787	(244,224)
Vehicles	(60,733)	-	-	(60,733)
Software	(78,683)	-	-	(78,683)
Total accumulated depreciation	<u>(3,188,109)</u>	<u>(172,281)</u>	<u>90,787</u>	<u>(3,269,603)</u>
Total capital assets being depreciated, net	<u>1,306,607</u>	<u>(172,281)</u>	<u>-</u>	<u>1,134,326</u>
Capital assets, net	<u>\$ 1,360,807</u>	<u>\$ (172,281)</u>	<u>\$ -</u>	<u>\$ 1,188,526</u>

Depreciation expense for the year ended June 30, 2010, was \$172,281.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 5 COMPENSATED ABSENCE LIABILITY FOR ANNUAL AND SICK LEAVE**

Permanent employees may accrue annual and sick leave, based on length of service, and subject to certain limitations regarding the amount to be paid upon termination.

***Changes in Long-Term Liabilities***

Long-term liability activity for the fiscal year ended June 30, 2010, was as follows:

	June 30, 2009	Increase	Decrease	June 30, 2010	Due Within One Year
Annual Leave	\$ 282,134	\$ 8,340	\$ -	\$ 290,474	\$ 27,025
Sick Leave	21,600	12,453	-	34,053	-
<b>Total Compensated Absence Liability</b>	<b>\$ 303,734</b>	<b>\$ 20,793</b>	<b>\$ -</b>	<b>\$ 324,527</b>	<b>\$ 27,025</b>

**NOTE 6 PENSION PLAN OBLIGATIONS**

**A. PERA Plan Description**

Most 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 require an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

New employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution plan. If that election is not made, the employee is automatically enrolled in the plan to which he or she last contributed or, if there was no prior participation, to the defined benefit plan. PERA members electing the PERA defined contribution plan are allowed an irrevocable election between the second and fifth year of membership to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to rules in effect for those hired on or after January 1, 2007, as discussed below. The employer contribution to the defined contribution plan is the same amount as the contribution to the PERA defined benefit plan.

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

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

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

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

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

Most members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods.

For retirements after January 1, 2009, the HAS is calculated based on original hire date as follows:

- Hired before January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to a 15 percent increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 15 percent increase.
- Hired on or after January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to an 8 percent increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 8 percent increase.

Prior to January 2010, retiree benefits were increased annually based on their original hire date as follows:

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

In the 2010 legislative session, the general assembly set the current increase as the lesser of 2 percent or the average of the monthly CPI amounts for calendar year 2009. The 2009 CPI was negative resulting in a calendar year 2010 increase of 0 percent. The 2010 legislation moved the payment date of all increases to July. New rules governing the annual increase amount will be in effect beginning January 1, 2011.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

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

**B. Funding Policy**

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

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2009, to December 31, 2009, the state contributed 12.95 percent of the employee's salary. From January 1, 2010, through June 30, 2010, the state contributed 13.85 percent. During all of Fiscal Year 2009-10, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2009, the division of PERA in which the state participates was underfunded with an amortization period of 43 years.

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

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

In the 2010 legislative session, the general assembly extended both the AED and SAED. The AED will continue to increase at a rate of .4 percent of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. If the funding ratio reaches 103%, both the AED and the SAED will be reduced by one-half percentage point. Neither the AED nor the SAED may exceed 5 percent.

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

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

The Home's contributions to PERA and/or the State Defined Contribution for the fiscal years ending June 30, 2010, 2009, and 2008 were \$681,320, \$656,361, and \$546,791, respectively. These contributions met the contribution requirement for each year.

**NOTE 7 VOLUNTARY TAX-DEFERRED RETIREMENT PLANS**

**Defined Contribution Plan**

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. On July 1, 2009, administration of the state's defined contribution plan was transferred to PERA and participants of the state's plan became participants of the PERA defined contribution plan. Existing state plan members at the time of the transfer became participants in the PERA defined contribution plan and retained their vesting schedule for employer contributions, while employer contributions for new members will vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent of their salary. At December 31, 2009, the plan had 3,039 participants.

**Deferred Compensation Plan**

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the state's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the state's administrative functions were transferred to PERA, and all costs of administration and funding are borne by the plan participants. In calendar year 2009, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$16,500. Participants who are age 50 and older may contribute an additional \$5,500 for total contributions of \$22,000 in 2009. At December 31, 2009, the plan had 18,007 participants.

PERA also offers a voluntary 401k plan entirely separate from the defined benefit pension plan. Certain agencies and institutions of the state offer 403(b) or 401(a) plans.

**NOTE 8 POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

**Health Care Plan**

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

who are under 65 years of age and who are not entitled to Medicare and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above. Beginning July 1, 2004, the state agencies are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Home contributed \$104,025, \$112,728, and \$117,497 as required by statute in Fiscal Years 2009-10, 2008-09, and 2007-08, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. In addition, two of PERA's insurance carriers offered high deductible health care plans in 2009. As of December 31, 2009, there were 46,985 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2009, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.50 billion, a funded ratio of 14.8 percent, and a 53-year amortization period.

**NOTE 9 RISK MANAGEMENT**

The State currently self-insures its agencies, including the Home, officials, and employees for the risk of losses to which they are exposed (general liability, motor vehicle liability, worker's compensation, and medical claims). Additional information regarding the State's risk management programs is included in the State's comprehensive annual financial report. There have been no significant reductions in insurance coverage from coverage in the prior year and the amount of settlements has not exceeded insurance coverage for any of the past three fiscal years.

**NOTE 10 TABOR (TAXPAYERS 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.

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

**Grant Programs** – The Home participates in the Department of Veterans Affairs per diem reimbursement program, which is governed by various rules and regulations of the grantor agency. 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 collectability of any related receivable at June 30, 2010 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.

**COLORADO STATE VETERANS NURSING HOME AT RIFLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 12 GOING CONCERN**

Over the last two years, the Home has had significant losses, \$931,217 for the year ended June 30, 2010, and \$1,397,437 for the year ended June 30, 2009. At June 30, 2010, the Home's unrestricted net assets were negative \$1,476,686. The Home requires a census of approximately 78 to break even and currently is averaging a census of 71. Management has expanded marketing efforts to attract new residents from areas outside of Rifle in an effort to increase their census. Management is also working to improve relationships with referral sources, including both local hospitals and the Veterans Regional Medical Center in Grand Junction.

Plans are being finalized to expand the Home's Secure Memory Unit. The Secure Memory Unit has consistently remained full, with a waiting list for admissions. The expansion will provide six additional beds, and provide a more stable census base overall, as Secure Unit residents are predominantly long-term residents. The Home is also working towards becoming a certified Eden Alternative Home to enhance the quality of life for current residents and attract new residents.

Based on the losses of the last two years, the issue of the Home continuing as a going concern is consequential.

**NOTE 13 ACCOUNTS RECEIVABLE CREDITS**

The Home's aged accounts receivable listing includes unidentified credits totaling \$190,748. These credits have been reclassified as another liability. Management is uncertain as to the proper application of these credits and is unable to determine the proper balance of the accounts receivable and other liabilities.

**GOVERNMENT AUDITING STANDARDS**

**AND**

**OMB CIRCULAR A-133 REPORTS**

COLORADO STATE VETERANS NURSING HOME - RIFLE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2010

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are **not** considered to be material weakness(es)?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are **not** considered to be material weakness(es)?  yes  none reported

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
64.015	Veterans State Nursing Home Care

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee?  yes  no

**Section II – Financial Statement Findings**

The findings and recommendations are included on pages 5 – 10 of this report.

**Section III – Federal Award Findings and Questioned Costs**

None.

**Summary Schedule of Prior Audit Findings**

None.

**INDEPENDENT AUDITORS' REPORT  
ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Colorado State Veterans Nursing Home at Rifle (the Home), an enterprise fund of the State of Colorado, as of June 30, 2010, and were engaged to audit the related Statement of Revenues, Expenses and Changes in Net Assets, and Cash Flows for the year then ended. These financial statements are the responsibility of the Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, 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 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 did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the Statement of Net Assets of the Home as of June 30, 2009. The Statement of Net Assets includes amounts which enter materially into the determination of results of operations and cash flows for the year ended June 30, 2010.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2010.

Because of the inadequacy of the aged accounts receivable subledger as discussed in Note 13, we were unable to form an opinion regarding the amount at which \$729,866 of accounts receivable and \$190,748 of other liabilities are recorded in the accompanying Statement of Net Assets at June 30, 2010.

The basic financial statements present only the Home and are not intended to present fairly the financial position of the State of Colorado as of June 30, 2010, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the 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 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 financial statements taken as a whole.

The accompanying financial statements have been prepared assuming that the Home will continue as a going concern. As discussed in Note 12 to the financial statements, the Home has had substantial losses over the prior periods. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty

*Wall, Smith, Bateman and Associates, Inc.*

Wall, Smith, Bateman & Associates, Inc.

Alamosa, Colorado

November 9, 2010

**COLORADO STATE VETERANS NURSING HOME - RIFLE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>PASS-THROUGH ENTITY IDENTIFYING NUMBER</b>	<b>FEDERAL EXPENDITURES</b>
<b>U.S. DEPARTMENT OF VETERANS AFFAIRS</b>			
Veterans State Nursing Home Care	64.015		\$ 1,756,981
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 1,756,981</b>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A 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 modified accrual basis of accounting. 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 Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Members of the Legislative Audit Committee:

We have audited the Statement of Net Assets of the 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, 2010, have issued our report thereon dated November 9, 2010. 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.

**Internal Control Over Financial Reporting**

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

Our conclusion of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal controls over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Auditors' Findings and Recommendations section of this report as Recommendations Numbers 1 and 2 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Home's responses to the findings identified in our audit are described in the accompanying Auditors' Findings and Recommendations section of this report. We did not audit the Home's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Legislative Audit Committee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wall, Smith, Bateman and Associates, Inc.*

Wall, Smith, Bateman and Associates, Inc.  
Alamosa, Colorado

November 9, 2010

**INDEPENDENT AUDITORS'  
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Legislative Audit Committee:

**Compliance**

We have audited Colorado State Veterans Nursing Home - Rifle (the Home) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Home's major federal programs for the year ended June 30, 2010. The Home's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Home's management. Our responsibility is to express an opinion on the Home's compliance based on our audit.

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

In our opinion, Colorado State Veterans Nursing Home - Rifle complied, in all material respects, with the compliance requirements referred to above that have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

**Internal Control Over Compliance**

Management of the Home is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Home's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Home's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned

functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, Legislative Audit Committee, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wall, Smith, Bateman and Associates, Inc.*

Wall, Smith, Bateman and Associates, Inc.  
Alamosa, Colorado

November 9, 2010

November 9, 2010

To the Members of the Legislative Audit Committee:

We have audited the Statement of Net Assets of the Colorado State Veterans Nursing Home – Rifle (the Home), an enterprise fund of the State of Colorado, for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our contract with you dated June 30, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Home are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Home's financial statements was:

Management's estimate of the allowance for doubtful accounts is based on the aged accounts receivable subledger. As noted in the findings, this subledger includes many unapplied credits.

Management's estimate is based on their knowledge of the collection status of outstanding accounts.

*Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We presented management with adjusting journal entries reclassifying \$370,487 of credits in the accounts receivable account to current liabilities. We presented management with one passed adjustment that has a total net effect to the Statement of Net Assets in the amount of \$29,392. Management has determined that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 9, 2010.

### *Management Consultations with Other Independent Accountant*

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

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Legislative Audit Committee, the Home's management and others within the Department of Human Services and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record upon release by the Legislative Audit Committee.

*Wall, Smith, Bateman and Associates, Inc.*

Wall, Smith, Bateman & Associates, Inc.  
Alamosa, CO 81101

November 9, 2010

The electronic version of this report is available on the Web site of the Office  
of the State Auditor  
[www.state.co.us/auditor](http://www.state.co.us/auditor)

A bound report may be obtained by calling the  
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303-869-2800

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

Report Control Number 2097-10