

**COLORADO STATE VETERANS CENTER AT HOMELAKE**

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

**YEAR ENDED JUNE 30, 2005**

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FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2005**

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FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2005**

**REPORT SUMMARY**

**AUTHORITY, PURPOSE AND SCOPE**

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG) to conduct certain audits of the Colorado State Veterans Center at Homelake (the Veterans Center) for its year ended June 30, 2005. MBDG, PC performed these audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. We conducted the related field work in August 2005.

The purpose and scope of our audits was to:

- Express our opinion on the financial statements of the Veterans Center as of and for the year ended June 30, 2005. This included a review of internal control in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts and grants governing the expenditure of federal funds.
- Express an opinion on the Veterans Center's compliance with requirements applicable to each of its major programs along with reporting on internal control over compliance.
- Evaluate progress in implementing prior audit findings and recommendations.

**SUMMARY OF MAJOR AUDIT FINDINGS AND RECOMMENDATIONS**

We expressed a qualified opinion on the Veterans Center's financial statements as of and for the year ended June 30, 2005. Our report included an explanatory paragraph stating that, in accordance with the terms of our engagement, we did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2004.

We issued a report on the Veterans Center's internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. We did not note any material weakness in the internal control over financial reporting or any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements. We noted certain matters that we reported to the members of the Legislative Audit Committee and management of the Colorado State Veterans Center at Homelake that are included in the findings and recommendations section of this report and titled "Timely Filing of Medicaid Claims" and "Allowance for Doubtful Accounts".

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First, we found that the Veterans Center had Medicaid claims totaling \$36,876 that were not filed within the prescribed time periods. The Veterans Center also has Medicaid claims totaling \$86,369 that may or may not still be within the prescribed time periods for filing claims. We recommend that immediate steps be taken to resolve the old Medicaid claims. If claims cannot be collected, the balance should be written off. We also recommend that the accounts receivable aging report be reviewed by management at least monthly. The report should include comments regarding the current status and latest billing date for all accounts over 151 days past due.

The second recommendation relates to the Veterans Center's estimate of allowance for doubtful accounts. As of June 30, 2005, the outstanding patient accounts receivable balances totaled \$464,017. An allowance for doubtful accounts was not calculated or recorded, even though the accounts receivable aging report included \$202,949 of receivables outstanding over 180 days (44% of total outstanding) and \$92,176 of receivables outstanding over 90 days (20% of total outstanding). As noted above, we recommend that management review the accounts receivable aging report monthly and establish an appropriate allowance for doubtful accounts based on a detailed analysis of the outstanding balances.

**SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS**

The audit report for the year ended June 30, 2001 included one finding. The disposition of this audit recommendation as of August 18, 2005 was as follows:

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

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**RECOMMENDATION LOCATOR**

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	4	Resolve old Medicaid claims and review accounts receivable aging report monthly.	Colorado Department of Human Services	Agree	September 30, 2005
2	5	Review accounts receivable aging report monthly and establish an appropriate allowance for doubtful accounts.	Colorado Department of Human Services	Agree	September 30, 2005

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
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**DESCRIPTION OF THE VETERANS CENTER**

The Colorado State Veterans Center at Homelake (the Veterans Center), established under Section 26-12-201, C.R.S., is a skilled-care nursing facility. It provides health services (including physician care, physical and speech therapy, dietician consultation, and 24-hour licensed nursing care) and related social care to patients who are severely limited in their ability to care for themselves due to serious illness and/or disability. In addition, the Veterans Center maintains a domiciliary section designed to service persons who are able to meet most of their own personal needs, but require some assistance with housekeeping, medications, recreation, social, and other various needs. The Veterans Center also maintains and operates a cemetery located on the Veterans Center's grounds.

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

The Veterans Center 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 Veterans Center receives certain funding from VA on the basis of the number of veterans served. The Veterans Center is overseen by the Division of State and Veterans Nursing Homes within the Colorado Department of Human Services, Office of Behavioral Health and Housing.

**WORKLOAD AND STATISTICAL FACTORS**

	<u>Nursing Home</u>	<u>Domiciliary</u>
Authorized capacity	60	46
Average daily census for the year ended June 30, 2005	38.6	43.6
Average occupancy percentage for the year ended June 30, 2005	64%	95%
Patient days for the year ended June 30, 2005	14,076	15,928



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**FINDINGS AND RECOMMENDATIONS**

We have audited the financial statements of the Colorado State Veterans Center at Homelake (the Veterans Center) for the year ended June 30, 2005 and have issued our report thereon dated August 18, 2005. In planning and performing our audit of the financial statements, we considered the Veterans Center's internal control solely to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated August 18, 2005 on our consideration of the Veterans Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. We have not considered internal control since August 18, 2005.

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

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

\* \* \* \* \*

**TIMELY FILING OF MEDICAID CLAIMS**

The Veterans Center and the Colorado Department of Human Services have changed software products several times in the past two years. These changes and the lack of follow-up by the Veterans Center's staff have resulted in Medicaid claims that were not filed within the prescribed time periods. The window for timely filing of claims is 180 days from the first day of the month following the date service was provided. If a claim is rejected and rebilled, the 180 day window restarts when the claim is billed.

During Fiscal Year 2005, the Veterans Center earned \$838,105 in Medicaid revenue. The Veterans Center failed to file claims for reimbursement for ten residents that were eligible for Medicaid benefits for nursing home care. The uncollectible claims totaled \$36,874 and were for services provided from February 2004 through November 2004. In addition, the Veterans Center has pending claims totaling \$86,369 for services provided from December 2003 through December 2004 which may or may not be within the prescribed time periods and collectible.

**Recommendation No. 1:**

The Department of Human Services should take immediate steps to address and resolve the old Medicaid claims at the Colorado State Veterans Center at Homelake. If claims can not be collected, the balance should be written off. The accounts receivable aging report should be reviewed by the Veterans

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Center's management at least monthly. The report should include comments regarding the current status and the latest billing date for all accounts over 90 days past due.

**Department of Human Services Response:**

Agree. We will implement necessary procedures by September 30, 2005.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Management did not calculate or report an allowance for doubtful accounts on the financial statements for the Veterans Center as of June 30, 2005. The accounts receivable aging report as of June 30, 2005 showed outstanding balances totaling \$464,017 and included \$202,949 of receivables that were over 180 days past due (44% of total outstanding) and \$92,176 of receivables that were over 90 days and less than 180 days past due (20% of total outstanding). The accounts receivable balances represent amounts due from Medicaid and from patients for Nursing Home or Domiciliary services. A detailed analysis of the outstanding balances was reviewed with the Veterans Center's management. As a result, we proposed an adjusting entry to establish an allowance for doubtful accounts totaling \$62,400 for the Fiscal Year 2005, which was agreed to by management. We proposed a second adjusting entry totaling \$11,530 that was not agreed to by management as it was management's belief that the amounts in question will be collected.

**Recommendation No. 2:**

The Department of Human Services should ensure that the Veterans Center's management reviews the accounts receivable aging report monthly and establishes an appropriate allowance for doubtful accounts based on a detailed analysis of the outstanding balances.

**Department of Human Services Response:**

Agree. We will implement necessary procedures by September 30, 2005.

**DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS**

Following are the audit recommendations made by MBDG, PC included in the report to the Legislative Audit Committee for the year ended June 30, 2001, and their disposition at August 18, 2005.

<b><u>Recommendation</u></b>	<b><u>Disposition</u></b>
1. The Veterans Center should enhance the internal controls over property and equipment to include a complete physical inventory and reconciliation of the inventory to the general ledger at least annually.	Implemented.

**FINANCIAL AUDIT REPORT SECTION**



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## INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Colorado State Veterans Center at Homelake (the Veterans Center), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Veterans Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2004.

The financial statements present only the Colorado State Veterans Center at Homelake, an enterprise fund of the State of Colorado, and do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2005, 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, 2004, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado State Veterans Center at Homelake as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2005, on our consideration of the Colorado State Veterans Center at Homelake'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.

McPherson, Rybogle, Davelos & Goodrich, PC

August 18, 2005

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents management's analysis of the Colorado State Veterans Center at Homelake's (the Veterans Center) financial performance and an overview of the financial activities for the fiscal year ended June 30, 2005. The Veterans Center is an enterprise fund of the State of Colorado. The Veterans Center's Controller/Business Manager prepared this section.

The accompanying financial statements are an integral part of this analysis and figures reported on the Colorado Financial Reporting System (COFRS) reflecting the Veterans Center's Fiscal Year 2005 performance are incorporated and referred to throughout this Management Discussion and Analysis.

**FINANCIAL HIGHLIGHTS**

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

- The Veterans Center's Total Assets increased by \$202,158, which is a 4.9 percent increase from Fiscal Year 2004.
- The Veterans Center's Total Liabilities decreased by \$22,476, which is a 3.3 percent decrease from Fiscal Year 2004.
- The Veterans Center's Total Operating Revenues (excluding State Capital Contributions and Federal Grant/Contributions) increased by \$175,412, which is a 4.9 percent increase from Fiscal Year 2004.
- The Veterans Center's Operating Expenses (excluding depreciation and bad debt) increased by \$64,603, which is a 1.8 percent increase from Fiscal Year 2004.
- The Veterans Center's Change in Net Assets (excluding restricted) was \$244,789 in Fiscal Year 2005, compared to \$278,419 in Fiscal Year 2004, which is a 12.1 percent decrease from Fiscal Year 2004.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Management's Discussion and Analysis section of this report consists of three parts: Financial Highlights and Overview, Financial Analysis of Financial Statements, and Supplementary Information, including Budget Execution, Capital Expenditures and Fiscal Year 2005 Projections. The Financial Analysis includes notes that discuss in varying detail the information in the financial statements, summarized in Table A and Table B.

**Fund Financial Statements**

*Statement of Net Assets*

The Statement of Net Assets (See Table A on page 11) includes all of the Veterans Center's assets and liabilities and provides information pertaining to the nature of these assets and liabilities. This statement also provides the basis for determining the overall financial health of the Veterans Center, including its liquidity and financial flexibility.

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

*Statement of Revenue, Expenses and Changes in Net Assets*

The Statement of Revenue, Expenses and Changes in Net Assets (See Table B on page 12) includes all of the revenues and expenses of the Veterans Center reported on the accrual basis of accounting. This Statement measures the efficiency of the Veterans Center's overall operations and can be used to help determine if the Veterans Center's rates and third party billings are adequate to recover expenses related to providing skilled nursing care and domiciliary care to the residents of the Veterans Center.

*Statement of Cash Flows*

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

**FINANCIAL ANALYSIS**

**Summary of Operational Policies and Procedures**

The Colorado State Veterans Center at Homelake is a State of Colorado agency with the general mission of providing superior customer service that enhances the quality of life of each resident. The Veterans Center is within the Division of State and Veteran Nursing Homes, Office of Behavioral and Health Services, Department of Human Services, State of Colorado. The Colorado State Veterans Center at Homelake operates two distinct programs, a 60 bed skilled nursing home and 46 unit domiciliary (similar to an assisted living facility) as well as maintaining and operating a cemetery.

The Veterans Center's Nursing Home operates as a self-supporting enterprise, meaning that the revenue received from residents, other third parties, and retained surplus must be adequate to cover the expenses of day-to-day operations of the Nursing Home. The State of Colorado does not provide funds to operate the Nursing Home. Costs related to any support provided by the State are reimbursed by the Nursing Home. The Veterans Center's domiciliary receives a small amount of General Fund monies to operate each fiscal year. Patient revenue, miscellaneous revenue, and General Fund subsidies need to cover day-to-day operations and the domiciliary's expenses are monitored and fixed by the Joint Budget Committee as well as the number of FTE (full time employees) that are appropriated. Income Statement Reports are reviewed monthly to insure efficient and effective use of resources.

**Financial Analysis**

*Statement of Net Assets*

A condensed Statement of Net Assets is included as **Table A** below. Increases or decreases in the Veterans Center'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 Veterans Center's overall financial condition.

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**TABLE A  
Condensed Statement of Net Assets**

	2005	2004	Dollar Change	Total Percent Change
Current Assets	\$ 1,100,179	\$ 877,878	\$ 222,301	25.3%
Current Assets - Restricted	133,751	121,378	12,373	10.2%
Non-Current Assets	3,121,396	3,153,912	(32,516)	(1.0%)
<b>Total Assets (excluding restricted)</b>	<b>\$ 4,221,575</b>	<b>\$ 4,031,790</b>	<b>\$ 189,785</b>	<b>4.7%</b>
<b>Total Restricted Assets</b>	<b>\$ 133,751</b>	<b>\$ 121,378</b>	<b>\$ 12,373</b>	<b>10.2%</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,355,326</b>	<b>\$ 4,153,168</b>	<b>\$ 202,158</b>	<b>4.9%</b>
Current Liabilities	\$ 334,918	\$ 404,242	(\$ 69,324)	(17.1%)
Current Liabilities - Restricted	123,236	90,708	32,528	35.9%
Non-Current Liabilities	190,987	176,667	14,320	8.1%
<b>Total Liabilities (excluding restricted)</b>	<b>\$ 525,905</b>	<b>\$ 580,909</b>	<b>(\$ 55,004)</b>	<b>(9.5%)</b>
<b>Total Restricted Liabilities</b>	<b>\$ 123,236</b>	<b>\$ 90,708</b>	<b>\$ 32,528</b>	<b>35.9%</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 649,141</b>	<b>\$ 671,617</b>	<b>(\$ 22,476)</b>	<b>(3.3%)</b>
Net Assets Invested in Capital Assets	\$ 3,121,396	\$ 3,153,912	(\$ 32,516)	(1.0%)
Restricted for resident purposes	10,515	30,670	(20,155)	(65.7%)
Unrestricted	574,274	296,969	277,305	93.4%
<b>Total Net Assets</b>	<b>\$ 3,706,185</b>	<b>\$ 3,481,551</b>	<b>\$ 224,634</b>	<b>6.5%</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,355,326</b>	<b>\$ 4,153,168</b>	<b>\$ 202,158</b>	<b>4.9%</b>



**COLORADO STATE VETERANS CENTER AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

As shown in **Table A**, the Veterans Center's Assets increased \$202,158 to \$4,355,326 in Fiscal Year 2005, an increase over Fiscal Year 2004. The net increase in Assets is primarily due to increases in patient and Medicaid Receivables and Building Improvements with the addition of the domiciliary's sprinkler system. We have struggled in Fiscal Year 2005 with collecting receivables in a timely manner. More time is required in the accounts receivable, billing, and collecting arena, and the administration office has had vacancies we were unable to fill over this past fiscal year due to census/financial issues.

A decrease in total Liabilities for the same period is also shown in **Table A** and is primarily due to decrease in accounts payable.

***Statement of Revenue, Expenses and Changes in Net Assets***

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 Veterans Center for Fiscal Year 2005 as compared to the previous year.

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

	2005	2004	Dollar Change	Total Percent Change
Total Operating Revenue	\$ 3,742,044	\$ 3,566,321	\$ 175,723	4.9%
Non-Operating Revenue	191,448	326,062	(134,614)	(41.2%)
Restricted Revenue	47,608	60,824	(13,216)	(21.7%)
<b>TOTAL REVENUE</b>	<b>\$ 3,981,100</b>	<b>\$ 3,953,207</b>	<b>\$ 27,893</b>	<b>0.7%</b>
Operating Expenses – Cash	\$ 3,669,233	\$ 3,604,630	\$ 64,603	1.8%
Operating Expenses – Non-Cash	245,830	191,572	54,258	28.3%
Restricted Expenses	67,763	55,197	12,566	22.8%
<b>TOTAL EXPENSES</b>	<b>\$ 3,982,826</b>	<b>\$ 3,851,399</b>	<b>\$ 131,427</b>	<b>3.4%</b>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION</b>	<b>(\$ 1,726)</b>	<b>\$ 101,808</b>	<b>(\$ 103,534)</b>	<b>(101.7%)</b>
Capital Contribution	226,360	182,238	44,122	24.2%
<b>CHANGE IN NET ASSETS</b>	<b>\$ 224,634</b>	<b>\$ 284,046</b>	<b>(\$ 59,412)</b>	<b>(20.9%)</b>

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

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

- The Veterans Center's revenues increased by \$27,893 mainly due to an increase in patient revenue and Federal VA per diem as a result of increased rates for both Medicaid and VA to cover projected costs in Fiscal Year 2005 related to patient care and improved quality of life.
- In addition, revenues are directly related to the number of resident days of patient care. The Nursing Home has a 60 bed capacity and the Domiciliary has a 46 bed capacity. The Nursing Home in Fiscal Year 2005 ran at 64.3 percent capacity and the Domiciliary ran at 94.8 percent capacity, as compared to 66.0 percent and 93.3 percent, respectively in Fiscal Year 2004. Our capacity in the Nursing Home needs to be at 80 percent or above to break even and provide the superior health care, quality of life, replace equipment and maintain facilities.
- Operating expenses increase annually due to inflationary influences in the areas of medical supplies, pharmaceuticals and raw food, as well as State of Colorado directed salary and benefit increases for staff. There is minimal opportunity for the Veterans Center to reduce expenses to any significant degree due to the nature of its operation, that of providing health care and quality of life for its residents.
- Utilities expense has dramatically increased due to the City of Monte Vista charging the facility based on meters for water and sewer at two times the listed rates. This issue is with the Attorney General's Office, which is negotiating to lower the rate. We are considering plans to hook up all our landscaping watering to the wells located on the property to lower monthly water bills.

## **BUDGETARY HIGHLIGHTS**

The Veterans Center's Fiscal Year 2005 financial operations resulted in revenues, including capital contribution and nonoperating revenue, below the budgeted amount of \$4,603,564 by \$443,712. This was a result of persistent low census. Expenses were managed such that total cash and non-cash expenses were \$209,094 less than the \$4,124,157 budgeted amount. Savings from below anticipated census were mainly in the areas of direct costs including salaries, drugs and medical expenses.

## **CAPITAL ASSETS AND DEBT ACTIVITIES**

### *Capital Assets*

During Fiscal Year 2005 the Veterans Center finished and capitalized building improvements of the domiciliary. The capital expenditures included a sprinkler system for the 25 cottage buildings at a cost of \$138,813 and final expenses of \$9,886 related to the fire alarm and smoke detection system largely paid for and capitalized in Fiscal Year 2004. The Veterans Center received capital contributions totaling \$226,360 to fund these capital expenditures, as well as costs associated with a generator which was paid for and capitalized in Fiscal Year 2004.

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

In Fiscal Year 2006, we are projecting to spend the following on capital assets/additions if funding permits and capital construction monies and grant matches are obtained:

- \$50,000 for major moveable equipment as needed
- Sprinkler/Irrigation system for campus
- Domiciliary Renovations
- Restoration of Historical Buildings.

***Debt Activities***

The Colorado State Veterans Center at Homelake did not have debt activities in Fiscal Year 2005.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Economic factors continue to impact the Veterans Center's operations by increasing the costs associated with providing quality health care. A budget has been prepared for Fiscal Year 2006 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged residents for skilled nursing care and domiciliary care. Expectations are that, subject to increasing census level and cost containment, the Veterans Center will cover expenses with sufficient revenue to improve its balance sheet position in Fiscal Year 2006.

**CONTACTING COLORADO STATE VETERANS CENTER AT HOMELAKE FINANCIAL MANAGEMENT**

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

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 518,823
Restricted cash, resident funds	133,751
Accounts receivable (net of allowance for uncollectibles of \$25,526)	85,692
Due from other governments (net of allowance for uncollectibles of \$36,874)	495,214
Prepaid expenses	<u>450</u>
TOTAL CURRENT ASSETS	<u>1,233,930</u>

NONCURRENT ASSETS

Capital assets -	
Land	19,161
Buildings	5,076,919
Furniture and equipment	351,323
Vehicles	40,425
Software	47,571
Construction in progress	54,224
Accumulated depreciation	<u>(2,468,227)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>3,121,396</u>

TOTAL ASSETS	<u>\$ 4,355,326</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	\$ 89,168
Accrued salaries payable	224,324
Deferred revenue	2,087
Damage deposits	300
Deposits held in trust for residents	123,236
Current portion of liability for compensated absences	<u>19,039</u>
TOTAL CURRENT LIABILITIES	<u>458,154</u>

NONCURRENT LIABILITIES

Liability for compensated absences	<u>190,987</u>
TOTAL NONCURRENT LIABILITIES	<u>190,987</u>

TOTAL LIABILITIES	<u>649,141</u>
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NET ASSETS

Invested in capital assets, net of related debt	3,121,396
Restricted for resident purposes	10,515
Unrestricted	<u>574,274</u>

TOTAL NET ASSETS	<u>3,706,185</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,355,326</u>
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The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2005**

OPERATING REVENUE	
Patient charges for services	\$ 2,460,727
VA per diem reimbursement	1,264,000
Donations	1,468
Miscellaneous revenue	<u>15,849</u>
TOTAL OPERATING REVENUE	<u>3,742,044</u>
OPERATING EXPENSES	
Personal services and employee benefits	2,609,070
Advertising	21,125
Building, laundry and recreational supplies	32,956
Legal services	7,752
Food and food service supplies	152,731
Insurance	58,779
Inter-departmental charges for services	40,986
Medical and laboratory supplies	296,053
Office	15,197
Other operating expenses	7,084
Professional services	73,120
Repairs and maintenance	67,781
Small equipment	5,090
Telephones	12,170
Utilities	234,664
Vehicles and travel	34,675
Depreciation	181,215
Bad debt expense	<u>64,615</u>
TOTAL OPERATING EXPENSES	<u>3,915,063</u>
OPERATING INCOME (LOSS)	<u>(173,019)</u>
NONOPERATING REVENUE (EXPENSES)	
State operating grant	184,210
Investment income	7,238
Donations - resident funds	47,483
Interest income - resident funds	125
Recreation - resident funds	<u>(67,763)</u>
TOTAL NONOPERATING REVENUE	<u>171,293</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(1,726)</u>
CAPITAL CONTRIBUTION	<u>226,360</u>
CHANGE IN NET ASSETS	224,634
NET ASSETS, beginning of year	<u>3,481,551</u>
NET ASSETS, end of year	<u>\$ 3,706,185</u>

The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	\$ 2,202,786
Cash received from federal government	1,210,660
Cash payments to employees for services	(2,196,201)
Cash payments to suppliers for goods and services	<u>(1,491,990)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(274,745)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State operating grant	<u>184,210</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>184,210</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(148,699)
Capital grant	<u>226,360</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>77,661</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>7,238</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>7,238</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,636)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>524,459</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 518,823</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (173,019)
Adjustments to reconcile operating income to net cash used by operating activities -	
Depreciation	181,215
Bad debt expense	64,615
Changes in assets and liabilities -	
Accounts receivable	(328,517)
Inventory	36,416
Prepaid expenses	(450)
Accounts payable and accrued expenses	(63,407)
Deferred revenue	(381)
Damage deposits	300
Liability for compensated absences	<u>8,483</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (274,745)</u>

The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Colorado State Veterans Center at Homelake (the Veterans Center) is part of the State of Colorado (the "State"), Department of Human Services.

The financial statements of the Veterans Center 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 Veterans Center applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB statements prevail. The more significant of the Veterans Center's accounting policies are described below.

The Financial Reporting Entity

The State is the primary reporting entity for state financial reporting purposes. As an enterprise fund of the State, the Veterans Center's financial statements are generally presented in a manner consistent with those of the State. However, the financial statements of the Veterans Center are not intended to report financial information of the State in conformity with generally accepted accounting principles.

The accounting policies of the Veterans Center conform to accounting principles generally accepted in the United States of America, applicable to governmental units.

Fund Accounting

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

Basis of Accounting

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

**COLORADO STATE VETERANS CENTER AT HOMELAKE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2005**

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

GASB 34

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

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

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

Budget and Budgetary Accounting

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. Therefore, no budgetary comparison statement is required to be presented.

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

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



**COLORADO STATE VETERANS CENTER AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

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

Accounts Receivable

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

Capital Assets

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

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

Buildings	15-40 years
Furniture and equipment	3-15 years
Vehicles	10 years
Software	3 years

Compensated Absences

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

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

Statement of Cash Flows

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

**COLORADO STATE VETERANS CENTER AT HOMELAKE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION**

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

**Statement of Net Assets**

	June 30, 2005	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 10,515	\$ 123,236
<u>Liabilities and Net Assets</u>		
Deposits held in trust for residents	\$ -	\$ 123,236
Net Assets		
Restricted for resident purposes	10,515	\$ -
Total Liabilities and Net Assets	\$ 10,515	\$ 123,236

**Statement of Revenue, Expenses, and Changes in Net Assets**

	Year ended June 30, 2005
	Patient Benefit Fund
<u>Nonoperating revenue</u>	
Donations	\$ 47,483
Interest income	125
Total nonoperating revenue	47,608
<u>Expenses</u>	
Recreation	67,763
Change in net assets	(20,155)
Net assets, beginning of year	30,670
Net assets, end of year	\$ 10,515

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**NOTE 3 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 1,500
Demand deposits	2,706
Cash with State Treasurer, net of unrealized loss of \$1,303	<u>514,617</u>
	<u>\$ 518,823</u>
 <u>Resident Funds</u>	
Cash on hand	\$ 150
Demand deposits	83,601
Certificates of deposit	<u>50,000</u>
	<u>\$ 133,751</u>

At June 30, 2005, the carrying amount of the Veterans Center's demand deposits and certificates of deposit was \$136,307 and the bank balance was \$137,070. All of the bank balance was covered by federal depository insurance.

The Veterans Center deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The Veterans Center reports its share of the treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2005. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized loss (\$1,303 for the year ended June 30, 2005) included in "Investment Income" reflects only the change in fair value during the current Fiscal Year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2005 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$25,526	<u>\$ 85,692</u>
Medicaid reimbursements net of allowance for doubtful accounts of \$36,874	\$ 315,926
VA per diem reimbursements	<u>179,288</u>
Total due from other governments	<u>\$ 495,214</u>

**COLORADO STATE VETERANS CENTER AT HOMELAKE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2005**

**NOTE 5 – CAPITAL ASSETS**

Following is a summary of capital assets:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
Nondepreciable assets –				
Land	\$ 19,161	\$ -	\$ -	\$ 19,161
Construction in progress	<u>54,224</u>	<u>-</u>	<u>-</u>	<u>54,224</u>
Total capital assets not being depreciated	<u>73,385</u>	<u>-</u>	<u>-</u>	<u>73,385</u>
Depreciable assets –				
Buildings	4,928,220	148,699	-	5,076,919
Furniture and equipment	351,323	-	-	351,323
Vehicles	40,425	-	-	40,425
Software	<u>47,571</u>	<u>-</u>	<u>-</u>	<u>47,571</u>
Total capital assets being depreciated	<u>5,367,539</u>	<u>148,699</u>	<u>-</u>	<u>5,516,238</u>
Less: accumulated depreciation for –				
Buildings	1,959,982	138,579	-	2,098,561
Furniture and equipment	276,745	24,084	-	300,829
Vehicles	34,385	2,695	-	37,080
Software	<u>15,900</u>	<u>15,857</u>	<u>-</u>	<u>31,757</u>
Total accumulated depreciation	<u>2,287,012</u>	<u>181,215</u>	<u>-</u>	<u>2,468,227</u>
Net capital assets	<u>\$ 3,153,912</u>	<u>\$ (32,516)</u>	<u>\$ -</u>	<u>\$ 3,121,396</u>

**NOTE 6 - RISK MANAGEMENT**

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

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**NOTE 7 – PENSION PLANS**

**A. PLAN DESCRIPTION**

Virtually all of the Veterans Center'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 legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203, by calling PERA at 303-832-9550 or 1-800-729-PERA (7372), or by visiting [www.copera.org](http://www.copera.org).

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

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

**B. FUNDING POLICY**

Employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42) to an individual account in the plan. During the fiscal year ended June 30, 2005, the Veterans Center contributed 10.15 percent of the employee's salary. Effective July 1, 2004, 1.02 percent of the total contribution was allocated to the Health Care Trust Fund.

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

The Veterans Center's contributions to the three programs described above for the fiscal years ended June 30, 2005, 2004 and 2003 were \$211,177, \$217,308 and \$231,113, respectively. These contributions met the contribution requirement for each year.

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**NOTE 8 – VOLUNTARY TAX-DEFERRED RETIREMENT PLAN**

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan. Members who contribute to these plans also receive the state match, when available.

In January 2001, the MatchMaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110 percent of actuarially accrued plan liabilities. This condition was not met during the fiscal year ended June 30, 2005.

**NOTE 9 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

Health Care Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Trust Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the fiscal year ended June 30, 2005, the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

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

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefits plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2004, there were 39,668 enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential Insurance Company and Anthem Life (formerly known as Rocky Mountain Life Insurance Company). Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition into the new plan may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

**COLORADO STATE VETERANS CENTER AT HOMELAKE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2005**

**NOTE 10 - CONTINGENCIES AND COMMITMENTS**

Grant Programs – The Veterans Center participates in state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Veterans Center has not complied with the rules and regulations governing the grant, refunds of any money received may be required.

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

**GOVERNMENT AUDITING STANDARDS**

**AND**

**OMB CIRCULAR A-133 REPORTS**



**COLORADO STATE VETERANS CENTER AT HOMELAKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005**

**SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

FINANCIAL STATEMENTS

A qualified opinion was rendered on the financial statements of Colorado State Veterans Center at Homelake as of and for the year ended June 30, 2005.

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None Reported

An unqualified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes      X   No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
64.015	Veterans State Nursing Home Care
64.014	Veterans State Domiciliary Care

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

Auditee qualified as low-risk auditee: \_\_\_\_\_ Yes      X   No

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd.)  
YEAR ENDED JUNE 30, 2005**

**FINANCIAL STATEMENT FINDINGS**

No financial statement findings were noted.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No findings or questioned costs for federal awards were noted.

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado State Veterans Center at Homelake (the Veterans Center), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 18, 2005. These financial statements are the responsibility of the Veterans Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2004.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Colorado State Veterans Center at Homelake's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*McPherson, Breyfogle, Daveline & Goodrich, PC*

August 18, 2005

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/PASS-THROUGH <u>GRANTOR/PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	Pass-Through Entity's <u>Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Direct assistance -			
Veterans State Nursing Home Care	64.015	-	\$ 699,708
Veterans State Domiciliary Care	64.014	-	353,010
Veterans Nursing Home Care	64.010	-	211,282
Construction of State Home Facilities	64.005	-	<u>77,661</u>
TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS			<u>\$ 1,341,661</u>

**COLORADO STATE VETERANS CENTER AT HOMELAKE  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005**

**NOTE 1 - BASIS OF PRESENTATION**

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

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado State Veterans Center at Homelake as of and for the year ended June 30, 2005, and have issued our report thereon dated August 18, 2005. Our report was qualified for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about amounts comprising the statement of net assets at June 30, 2004. Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In accordance with the terms of our engagement, we did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Colorado State Veterans Center at Homelake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Colorado State Veterans Center at Homelake'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 that are required to be reported under *Government Auditing Standards*.

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

*McCabe Pherson, Bryn Boggs, David Woodruff, PC*

August 18, 2005



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

Members of the Legislative Audit Committee:

Compliance

We have audited the compliance of the Colorado State Veterans Center at Homelake with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. Colorado State Veterans Center at Homelake'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 Colorado State Veterans Center at Homelake's management. Our responsibility is to express an opinion on the Colorado State Veterans Center at Homelake'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 Colorado State Veterans Center at Homelake'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 Colorado State Veterans Center at Homelake's compliance with those requirements.

In our opinion, the Colorado State Veterans Center at Homelake complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.



## Internal Control Over Compliance

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

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

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

*McPherson, Ruyfogle, Davelos & Goodrich, PC*

August 18, 2005

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado State Veterans Center at Homelake (the Veterans Center) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 18, 2005. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

**SIGNIFICANT ACCOUNTING POLICIES**

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by the Veterans Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during Fiscal Year 2005.

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

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of financial statement preparation by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's use of estimates is disclosed in the notes to the financial statements. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable taken in relation to the financial statements as a whole.

## **AUDIT ADJUSTMENTS**

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

We had one passed audit adjustment to the financial statements. The adjustment was to establish an allowance for doubtful accounts that management believes will be collected. The adjustment, if agreed to by management, would have decreased net accounts receivable by \$11,530 with a corresponding increase to bad debt expense.

We had one posted audit adjustment to the financial statements. The adjustment was to establish an allowance for doubtful accounts that management believes may not be collected. The adjustment decreased net accounts receivable by \$62,400 with a corresponding increase to bad debt expense.

The uncorrected misstatements pertaining to Fiscal Year 2005 was determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

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

## **DISAGREEMENTS WITH MANAGEMENT**

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

## **CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

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

## **ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS**

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

## **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

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

*McPherson, Fryboog, Davelius & Goodrich, PC*

August 18, 2005

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  
Office of the State Auditor  
**303.869.2800**

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

**Report Control Number 1745**