

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE**

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

**YEAR ENDED JUNE 30, 2009**

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## **LEGISLATIVE AUDIT COMMITTEE**

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*Chair*

*Senator David Schultheis*  
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*Sally Symanski*  
State Auditor

*Dianne Ray*  
Deputy State Auditor

*Luke Stolz*  
Legislative Auditor

*McPherson, Breyfogle, Daveline & Goodrich, PC*  
Contract Auditor

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**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2009**

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**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
FINANCIAL AND COMPLIANCE AUDIT  
YEAR ENDED JUNE 30, 2009**

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## REPORT SUMMARY

### **AUTHORITY, PURPOSE AND SCOPE**

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG, PC) to conduct certain audits of the Colorado State Veterans Nursing Home at Homelake (the Nursing Home) for its year ended June 30, 2009. 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 2009.

The purpose and scope of our audits was to:

- Express our opinion on the financial statements of the Nursing Home as of and for the year ended June 30, 2009. 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 Nursing Home'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 Nursing Home's financial statements as of and for the year ended June 30, 2009. 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, 2008.

We issued a report on the Nursing Home'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 note a material instance of noncompliance with legal or regulatory requirements based on our audit of the financial statements that is reported to the members of the Legislative Audit Committee and management of the Nursing Home in the findings and recommendations section of this report and titled "Cash Management" and also reported in the schedule of findings and questioned costs.

## SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The last stand-alone audit of the Nursing Home was conducted for the Fiscal Year 2005. The audit report for the year ended June 30, 2005 included two findings. The disposition of these audit recommendations as of August 17, 2009 was as follows:

Implemented	2
Partially implemented	0
Not Implemented	<u>0</u>
Total	<u>2</u>

## RECOMMENDATION LOCATOR

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Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1 5	Work with the Department of Human Services to ensure compliance with all construction grant requirements.	Colorado State Veterans' Nursing Home at Homelake	Agree	March 31, 2010

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## DESCRIPTION OF THE NURSING HOME

The Colorado State Veterans Nursing Home at Homelake (the Nursing 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 Nursing Home, by statute, serves all veterans of service in the armed forces of the United States, their spouses, their widow(er)s, and their dependent and/or "gold star" parents. 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 percent veteran's occupancy. The Nursing Home serves veterans without regard to sex, race, color, or national origin.

The Nursing 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 Nursing 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 Behavioral Health and Housing.

### **WORKLOAD AND STATISTICAL FACTORS**

Authorized capacity	108
Average daily census for the year ended June 30, 2009	82
Average occupancy percentage for the year ended June 30, 2009	76%
Average veterans occupancy percentage for the year ended June 30, 2009	78%
Patient days for the year ended June 30, 2009	29,896



## FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Colorado State Veterans Nursing Home at Homelake (the Nursing Home) for the year ended June 30, 2009 and have issued our report thereon dated December 18, 2009. In planning and performing our audit of the financial statements, we considered the Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the Nursing Home's internal control over financial reporting. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated December 18, 2009 on our consideration of the Nursing Home's internal control over financial reporting and on compliance and other matters and our tests of its compliance with requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

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 deficiencies in internal control that may exist.

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

\* \* \* \* \*

### **CASH MANAGEMENT - APPLYING DRAW DOWN OF FEDERAL GRANT MONEY**

During the Fiscal Year 2009 audit, we identified the following with regards to the Nursing Home's application of federal grant funds to current expenditures. Specifically, we found:

- In September 2006, the Nursing Home entered into a capital lease agreement with SunTrust for utility upgrades. The work included lighting, toilet repairs and installation of a new sprinkler system and the capital lease agreement totaled \$800,871. In June 2008, the Nursing Home applied for a VA construction grant to repair the domiciliary (the Doms). In the grant application the Nursing Home included the costs of the work performed under the lease mentioned above along with the master plan of the Doms renovation that had already been incurred. The grant provides that 65% of the costs are reimbursable with the remaining 35% absorbed by the grantee. In October 2008, the Nursing Home filed for and received a federal grant reimbursement of \$526,956 (65% of \$810,702).

- Quarterly payments on the lease began on May 1, 2007.

Beginning lease balance	\$ 800,871
Total payments (principal) through June 30, 2009	<u>74,979</u>
Remaining balance of lease at June 30, 2009	<u>\$ 725,892</u>

Total principal payments through June 30, 2009	\$ 74,979
Total interest payments through June 30, 2009	<u>95,839</u>
Total payments through June 30, 2009(principal & interest)	<u>\$ 170,818</u>

Grant drawdown received October 2008 \$ 526,956

The remaining amount of the Federal Grant drawdown (\$526,956) was not applied to the remaining balance of the lease (\$725,892).

- Consideration should be given to the appropriate use of grant drawdowns. According to the cash management requirement for grant awards, a grantee can only drawdown funds for reimbursement of costs and can't hold funds in excess of 30 days of when expenditures were incurred.

**Recommendation No. 1:**

The Colorado State Veterans' Nursing Home at Homelake should work with the Department of Human Services to ensure its compliance with all construction grant requirements.

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

Agree. The Colorado State Veteran's Nursing Home at Homelake will work with the Department of Human Services to ensure compliance with all construction grant requirements.

*Implementation Date:* March 31, 2010

## **DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS**

The following are the audit recommendations made by MBDG, PC included in the report to the Legislative Audit Committee for the year ended June 30, 2005, and their disposition at August 17, 2009.

### Recommendation 1:

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

Implementation Status: Implemented

### Recommendation 2:

The Department of Human Services should ensure that the Nursing Home'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.

Implementation Status: 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 Nursing Home at Homelake (the Nursing Home), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2008.

The financial statements present only the Colorado State Veterans Nursing Home 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, 2009, 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, 2008, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado State Veterans Nursing Home at Homelake as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of the Colorado State Veterans Nursing Home 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.

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.

Mr. Plurson, Bruyfogel, Davilma & Goodrich, PC

December 18, 2009

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents an analysis of Colorado State Veterans Nursing Home at Homelake's financial performance and an overview of the Nursing Home's financial activities for the fiscal year ended June 30, 2009. The Nursing Home's Business Office Manager prepared this section. The financial statements are an integral part of this analysis and figures reported on the MCR01R and MCR02R outputs from the Colorado Financial Reporting System (COFRS) reflecting the Nursing Home's fiscal year 2008-2009 performances are incorporated and referred to throughout this Management Discussion and Analysis. The analysis below includes comparative information from fiscal year 2007-2008 and is based on the Condensed Statement of Net Assets and the Condensed Statement of Revenue, Expenses and Changes in Net Assets provided.

**FINANCIAL HIGHLIGHTS**

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

- The Nursing Home's Total Assets increased by \$1,205,623, which is a 21% increase from fiscal year 2007-2008.
- The Nursing Home's Total Operating Revenue increased by \$385,538, which is an 8% increase from fiscal year 2007-2008.
- The Nursing Home's Operating Expenses - Cash increased by \$564,269, which is a 12% increase from fiscal year 2007-2008.
- The Nursing Home's Operating Expenses - Non-Cash increased by \$41,937, which is a 19% increase from fiscal year 2007-2008.
- The Nursing Home's Total Net Assets increased by \$1,001,097, which is a 25% increase from fiscal year 2007-2008.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Management's Discussion and Analysis consists of three parts: Financial Highlights and Overview, Financial Analysis of Financial Statements, and Supplementary Information, to include Budget Execution, Capital Expenditures and Fiscal Year 2009 Projections. The Financial Analysis includes notes that discuss in varying detail the information in the financial statements, summarized in Table A and Table B.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**Fund Financial Statements**

*Statement of Assets*

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

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

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

*Statement of Cash Flows*

The Statement of Cash Flows presents information concerning the Nursing Home's cash receipts and cash 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 Nursing Home 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 Nursing Home is within the Division of State and Veterans Nursing Homes, Department of Human Services, State of Colorado.

The Nursing Home operates as a self-supporting enterprise, meaning that the revenue received from residents, other third parties, and cash 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 with the exception of partial reimbursement of a certain consulting arrangement and general funds monies for the domiciliary. Costs related to any support provided by the State are reimbursed by the Nursing Home. Financial Management Reports are reviewed monthly at the Executive Management level to ensure efficient and effective use of resources.



**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**Financial Analysis**

*Statement of Net Assets*

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

TABLE A  
Condensed Statement of Net Assets

	2009	2008	Dollar Change	Total Percent Change
Current Assets	2,096,636	1,446,049	650,587	45%
Current Assets-Restricted	148,238	210,626	(62,388)	-30%
Non-Current Assets	4,578,880	3,961,456	617,424	16%
<b>Total Assets (excluding restricted)</b>	<b>6,675,516</b>	<b>5,407,505</b>	<b>1,268,011</b>	<b>23%</b>
<b>Total Restricted Assets</b>	<b>148,238</b>	<b>210,626</b>	<b>(62,388)</b>	<b>-30%</b>
<b>TOTAL ASSETS</b>	<b>6,823,754</b>	<b>5,618,131</b>	<b>1,205,623</b>	<b>21%</b>
Current Liabilities	719,377	668,634	50,743	8%
Non-Current Liabilities	1,105,802	952,019	153,783	16%
<b>TOTAL LIABILITIES</b>	<b>1,825,179</b>	<b>1,620,653</b>	<b>204,526</b>	<b>13%</b>
Net Assets Invested in Capital Assets	3,622,659	2,629,668	992,991	38%
Restricted for resident purposes	26,933	50,287	(23,354)	-46%
Unrestricted	1,348,983	1,317,523	31,460	2%
<b>Total Net Assets</b>	<b>4,998,575</b>	<b>3,997,478</b>	<b>1,001,097</b>	<b>25%</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>6,823,754</b>	<b>5,618,131</b>	<b>1,205,623</b>	<b>21%</b>

As shown in **Table A**, the Nursing Home's Total Assets increased \$1,205,623 to \$6,823,754 in fiscal year 2008-2009 from \$5,618,131 in fiscal year 2007-2008. The net increase in Total Assets is primarily due to the increase in cash and capital asset increase due to construction in progress.

The increase in Total Liabilities for the same period is also shown in **Table A**. The \$204,526 increase is due to increase in payables as well as associated payables with construction funds and compensated absences.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

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

The Statement of Revenues, Expenses, and Change in Net Assets provides the information as to the nature and the source of the changes seen in the Statements of Assets. **Table B** provides a summary of revenues and expenses of the Nursing Home for fiscal year 2008-2009 as compared to the previous year.

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

	2009	2008	Dollar Change	Total Percent Change
Total Operating Revenue	5,310,073	4,924,535	385,538	8%
Non-Operating Revenue	161,379	201,352	(39,973)	-20%
<b>Total Revenue</b>	<b>5,471,452</b>	<b>5,125,887</b>	<b>345,565</b>	<b>7%</b>
Operating Expenses – Cash	5,331,881	4,767,612	564,269	12%
Operating Expenses - Non Cash (Depr. & Bad Debt)	262,564	220,627	41,937	19%
Non Operating Expenses - Cash (Cap Lease Interest)	22,803	34,921	(12,118)	-35%
Non Operating Expenses – Cash	86,321	69,302	17,019	25%
<b>Total Expenses</b>	<b>5,703,569</b>	<b>5,092,462</b>	<b>611,107</b>	<b>12%</b>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION</b>	<b>(232,117)</b>	<b>33,425</b>	<b>(265,542)</b>	<b>-794%</b>
Capital Contribution	1,233,214	284,179	949,035	334%
<b>CHANGE IN NET ASSETS</b>	<b>1,001,097</b>	<b>317,604</b>	<b>683,493</b>	<b>215%</b>

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

- The Nursing Home's operating revenues increased by \$385,538 mainly due to increase in daily charges for rooms along with increase in reimbursement rates from the VA and Medicare and Medicaid.
- Nursing Home's revenues are directly related to the number of resident days of patient care. The Nursing Home has a 60 functional Nursing Home bed capacity and a 48 unit domiciliary. State Fiscal Year 2009 census must be maintained at the 85% level or above to provide sufficient income to break even.

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. Normally, there is minimal opportunity for the Nursing Home to reduce expenses to any significant degree due to the nature of its operation, that of providing health care and quality of life for its residents. Total cash expenses increased in fiscal year 2008-2009 compared to fiscal year 2007-2008.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

- **Table B** reflects that in fiscal year 2008-2009 the Nursing Home experienced a \$1,001,097 net gain with an increase in revenues greater than the increase in expenses mainly due to capital construction grant for domiciliary renovations.

**BUDGETARY HIGHLIGHTS**

The Nursing Home's Fiscal Year 2008-2009 financial operations resulted in revenues, including capital contribution and non-operating revenue, above the budgeted amounts. Cash and non-cash expenses were also above budgeted amount. However, the Nursing Home still showed a slight profit for the year.

**CAPITAL ASSETS AND DEBT ACTIVITIES**

*Capital Assets*

During fiscal year 2008-2009 the Nursing Home's only investment in capital expenditures were related to the domiciliary renovation in the amount of \$347,052.

*Debt Activities*

The Siemens Energy project was completed in FY 08. The rental payments for the long-term capital lease began in fiscal year 2008. The balance at June 30, 2009 was \$ 725,892. We entered into an additional Sieman's energy contract with the domiciliary renovation at the end of FY09. Payments begin in fiscal year 2010. Our balance for this contract is \$ 230,329.

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

Economic factors continue to impact the Nursing Home's operations by increasing the costs associated with providing quality health care and the completion of our domiciliary renovation. A budget has been prepared for fiscal year 2010 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged residents for skilled nursing care. The budget projected for fiscal year 2010 shows a slight loss for the year mainly due to the domiciliary renovation.

**CONTACTING COLORADO STATE VETERANS NURSING HOME - HOMELAKE**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the finances at Colorado State Veterans Nursing Home at Homelake and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Manager of the Colorado State Veteran's Nursing Home at Homelake at P.O. Box 97, Homelake, CO 81135 or physical address of 3749 Sherman Ave., Monte Vista, CO 81144 or phone 719-852-5118.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,445,741
Restricted cash, resident funds	148,238
Accounts receivable (net of allowance for uncollectibles of \$11,996)	43,602
Due from other governments	590,581
Prepaid expenses	<u>16,712</u>
TOTAL CURRENT ASSETS	<u>2,244,874</u>

NONCURRENT ASSETS

Capital assets -	
Land	19,161
Buildings	6,122,479
Furniture and equipment	316,581
Vehicles	86,207
Software	47,570
Construction in progress	1,060,190
Accumulated depreciation	<u>(3,073,308)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>4,578,880</u>
TOTAL NON CURRENT ASSETS	<u>4,578,880</u>

TOTAL ASSETS

6,823,754

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	135,984
Accrued salaries payable	358,365
Accrued interest payable	3,241
Damage deposits	300
Deposits held in trust for residents	121,305
Current portion of capital lease	59,294
Current portion of liability for compensated absences	<u>40,888</u>
TOTAL CURRENT LIABILITIES	<u>719,377</u>

NONCURRENT LIABILITIES

Capital lease	896,927
Liability for compensated absences	<u>208,875</u>
TOTAL NONCURRENT LIABILITIES	<u>1,105,802</u>

TOTAL LIABILITIES

1,825,179

NET ASSETS

Invested in capital assets, net of related debt	3,622,659
Restricted for resident purposes	26,933
Unrestricted	<u>1,348,983</u>

TOTAL NET ASSETS

\$ 4,998,575

The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2009**

OPERATING REVENUE	
Patient charges for services	\$ 3,831,025
VA per diem reimbursement	1,464,260
Miscellaneous revenue	<u>14,788</u>
TOTAL OPERATING REVENUE	<u>5,310,073</u>
OPERATING EXPENSES	
Personnel services and employee benefits	3,680,167
Advertising	17,587
Building, laundry and recreational supplies	59,360
Food and food service supplies	226,294
Insurance	75,409
Inter-departmental charges for services	82,372
Legal services	2,655
Medical and laboratory supplies	220,043
Office	20,061
Other operating expenses	78,692
Professional services	430,356
Repairs and maintenance	120,369
Small equipment	73,439
Telephones	13,593
Utilities	224,736
Vehicles and travel	6,748
Depreciation	223,137
Bad debt expense	<u>39,427</u>
TOTAL OPERATING EXPENSES	<u>5,594,445</u>
OPERATING INCOME (LOSS)	<u>(284,372)</u>
NONOPERATING REVENUE (EXPENSES)	
Loss on disposal of capital assets	(4,783)
State operating grant	103,194
Interest expense	(22,803)
Donations - resident funds	57,982
Interest income - resident funds	203
Recreation - resident funds	<u>(81,538)</u>
TOTAL NONOPERATING REVENUE	<u>52,255</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(232,117)
CAPITAL CONTRIBUTIONS	<u>1,233,214</u>
CHANGE IN NET ASSETS	1,001,097
NET ASSETS, beginning of year	<u>3,997,478</u>
NET ASSETS, end of year	<u>\$ 4,998,575</u>

The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2009**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from patients and third-party payors	\$ 3,884,134
Cash received from federal government	1,076,366
Cash payments to employees for services	(2,921,232)
Cash payments to suppliers for goods and services	<u>(2,394,465)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>(355,197)</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State operating grant	<u>103,194</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>103,194</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	(845,346)
Principal payment on capital leases	(41,454)
Interest payment on capital leases	(22,805)
Federal capital grant	1,215,642
State capital grant	17,572
Proceeds from capital lease	<u>230,329</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>553,938</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 301,935
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,143,806</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,445,741</u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (284,372)
Adjustments to reconcile operating income to net cash used by operating activities -	
Depreciation	223,137
Bad debt expense	39,427
Changes in assets and liabilities -	
Accounts receivable	(386,912)
Prepaid expenses	(14,543)
Accounts payable and accrued expenses	63,073
Liability for compensated absences	<u>4,993</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (355,197)</u>

The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

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

The Colorado State Veterans Nursing Home at Homelake (the Nursing Home) is part of the State of Colorado (the “State”), Department of Human Services.

The financial statements of the Nursing Home have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Nursing Home applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB statements prevail. The more significant of the Nursing Home’s accounting policies are described below.

The Financial Reporting Entity

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

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

Fund Accounting

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

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

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

Net Assets

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

Accounts Receivable

The Nursing Home’s accounts receivable consist primarily of open accounts with residents for services, subsidized Medicaid and Medicare 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.



**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

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

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	15-50 years
Furniture and equipment	3-15 years
Vehicles	10 years
Software	3 years

Compensated Absences

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

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

Statement of Cash Flows

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

Long-Term Obligations and Bond Discount and Issue Costs

Long-term liabilities financed from the enterprise proprietary fund are accounted for in that fund. Discounts and issue costs if applicable are deferred and amortized over the term of the obligation using a method that approximates the interest method. Discounts are presented as a reduction of the face amount of the obligation, whereas issue costs are recorded as deferred charges.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION**

The Nursing Home has a Patient Benefit fund and a Resident Trust fund that have been included with the enterprise 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:

<u>Statement of Net Assets</u>	June 30, 2009	
	<u>Patient Benefit Fund</u>	<u>Resident Trust Fund</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 26,933	\$ 121,305
<u>Liabilities and Net Assets</u>		
Deposits held in trust for residents	\$ -	\$ 121,305
Interfund payable	-	-
Total Liabilities	-	121,305
<u>Net Assets</u>		
Restricted for resident purposes	26,933	\$ -
Total Liabilities and Net Assets	\$ 26,933	\$ 121,305

<u>Statement of Revenue, Expenses, and Changes in Net Assets</u>	Year ended June 30, 2009
	<u>Patient Benefit Fund</u>
<u>Nonoperating revenue</u>	
Donations	\$ 57,982
Interest income	203
Total nonoperating revenue	58,185
<u>Nonoperating expenses</u>	
Recreation	81,538
Change in net assets	(23,353)
Net assets, beginning of year	50,286
Net assets, end of year	\$ 26,933

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**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	3,477
Cash with State Treasurer	<u>1,440,764</u>
	<u>\$ 1,445,741</u>

<u>Patient Benefit and Resident Funds</u>	
Cash on hand	\$ 50
Demand deposits	<u>148,188</u>
	<u>\$ 148,238</u>

At June 30, 2009, the carrying amount of the Nursing Home’s demand deposits was \$151,665 and the bank balance was \$154,246. Of the bank balance, the entire balance was covered by federal depository insurance in an eligible public depository.

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2009 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$11,966	<u>\$ 43,602</u>
Medicaid reimbursements	\$ 30,414
VA per diem reimbursements	235,796
VA construction reimbursements	<u>324,371</u>
Total due from other governments	<u>\$ 590,581</u>

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 5 – CAPITAL ASSETS**

Following is a summary of capital assets:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Nondepreciable assets –				
Land	\$ 19,161	\$ -	\$ -	\$ 19,161
Construction in progress	<u>978,911</u>	<u>81,279</u>	<u>-</u>	<u>1,060,190</u>
Total capital assets not being depreciated	<u>998,072</u>	<u>81,279</u>	<u>-</u>	<u>1,079,351</u>
Depreciable assets –				
Buildings	5,892,150	230,329	-	6,122,479
Furniture and equipment	286,655	35,444	5,518	316,581
Vehicles	86,207	-	-	86,207
Software	<u>47,570</u>	<u>-</u>	<u>-</u>	<u>47,570</u>
Total capital assets being depreciated	<u>6,312,582</u>	<u>265,773</u>	<u>5,518</u>	<u>6,572,837</u>
Less: accumulated depreciation for –				
Buildings	2,556,646	196,204	-	2,752,850
Furniture and equipment	177,667	15,487	735	192,419
Vehicles	69,023	11,446	-	80,469
Software	<u>47,570</u>	<u>-</u>	<u>-</u>	<u>47,570</u>
Total accumulated depreciation	<u>2,850,906</u>	<u>223,137</u>	<u>735</u>	<u>3,073,308</u>
Capital assets being depreciated, net	<u>3,461,676</u>	<u>42,636</u>	<u>4,783</u>	<u>3,499,529</u>
Total capital assets	<u>\$ 4,459,748</u>	<u>\$ 123,915</u>	<u>\$ 4,783</u>	<u>\$ 4,578,880</u>

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 6 – CAPITAL LEASE**

The following is a summary of changes in the capital lease for the year ended:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
\$800,871 capital lease: interest rate of 4.078%; due in quarterly installments of \$18,510 including principal and interest through 2022	\$ 767,347	\$ -	\$ 41,455	\$ 725,892
\$230,329 capital lease: interest rate of 4.078%; due in quarterly installments of \$7,244 including principal and interest through 2019	\$ -	\$ 230,329	\$ -	\$ 230,329
Total	<u>\$ 767,347</u>	<u>\$ 230,329</u>	<u>\$ 41,455</u>	<u>\$ 956,221</u>

The cost and accumulated depreciation applicable to the capital assets that are the subject of the capital leases are as follows:

Conservation project	\$ 800,871
Solar panels	230,329
Accumulated depreciation to June 30, 2009	<u>( 106,782)</u>
	<u>\$ 924,418</u>

The debt service requirements for the capital leases are as follows:

Year Ending June 30,

2010	\$ 59,294
2011	61,961
2012	65,426
2013	69,046
2014	72,828
2015-2019	413,536
2020-2022	<u>214,130</u>
	<u>\$ 956,221</u>

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**NOTE 7 – RISK MANAGEMENT**

The Nursing Home is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Nursing Home's risks related to general liability, motor vehicle liability, worker's compensation and medical claims are covered under the self-insurance fund managed by the Department of Personnel & Administration 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.

**NOTE 8 – PENSION PLANS**

**A. PLAN DESCRIPTION**

Virtually all of the Nursing Home's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the 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 P.O. Box 5800, Denver, Colorado, 80217, by calling PERA at 1-800-729-PERA (7372), or by visiting <http://www.copera.org>.

Non-higher education employees hired by the state after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Beginning July 1, 2009, the administration of the state's defined contribution retirement plan will be transferred to PERA. New non-higher education employees will have the choice of participating in either PERA defined benefit or the PERA defined contribution plan. Existing plan members will become participants in the PERA defined contribution plan and retain their current vesting schedule on employer contributions.

Defined benefit plan members (except state troopers) 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.
- 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.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 8 – PENSION PLANS (Cont'd.)**

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.

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 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are 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.
- 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.)

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 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 member's estate, may be entitled to a 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 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.

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, 2008, to December 31, 2008, the Nursing Home contributed 12.05 percent of the employee's salary. From January 1, 2009, through June 30, 2009, the Nursing Home contributed 12.95 percent. During all of Fiscal Year 2008-2009, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 8 – PENSION PLANS (Cont'd.)**

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2008, the division of PERA in which the Nursing Home participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address the 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 the Nursing Home, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to Nursing Home employees' salaries, and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100 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.

The Nursing Home's contributions to the PERA and/or the state defined contribution plan for the fiscal years ended June 30, 2009, 2008 and 2007 were \$346,586, \$305,238, and \$262,478, respectively. These contributions met the contribution requirement for each year.

**NOTE 9 – VOLUNTARY TAX-DEFERRED RETIREMENT PLAN**

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan and, beginning on July 1, 2009, will administer the 457 deferred compensation plan previously administered by the state.

**NOTE 10 – OTHER POSTRETIREMENT 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>.



**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 10 – OTHER POSTRETIREMENT BENEFITS (cont'd)**

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 was \$230 per month for benefit recipients 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 in Note 9. Beginning July 1, 2004, the Nursing Home was required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Nursing Home contributed \$28,241, \$26,479, and \$24,717 as required by statute in Fiscal Years 2008-09, 2007-08, and 2006-07, 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. As of December 31, 2008, there were 45,888 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2008, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.11 billion, a funded ratio of 18.7 percent, and a 39-year amortization period.

**NOTE 11 – CONTINGENCIES AND COMMITMENTS**

Grant Programs – The Nursing Home participates in state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Nursing Home 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 Nursing Home believes it is in compliance with the requirements of the amendment.

**GOVERNMENT AUDITING STANDARDS**

**AND**

**OMB CIRCULAR A-133 REPORTS**

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

**SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

FINANCIAL STATEMENTS

A qualified opinion was rendered on the financial statements of the Colorado State Veterans Nursing Home at Homelake as of and for the year ended June 30, 2009.

Internal control over financial reporting:

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

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

FEDERAL AWARDS

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

A qualified opinion on compliance for major programs was issued.

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
64.005	Grants to States for Construction of State Home Facilities
64.015	Veterans State Nursing Home Care

Dollar threshold used to distinguish between type A and type B programs:   \$500,000  

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

**FINANCIAL STATEMENT FINDINGS**

No findings related to the basic financial statements that are required to be reported in accordance with Government Auditing Standards were noted.

## FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### Finding 2009-1 Cash Management

#### Criteria:

The Colorado Department of Human Services and management are responsible for adhering to federal grant requirements including cash management. Cash management guidelines provide that federal grants can be drawn for the payment of current expenditures but the grantee cannot hold funds drawn for more than 30 days.

#### Condition/Context/Effect/Cause:

Since 2003, the Colorado State Veterans Nursing Home at Homelake (the Home) has received two U.S. Department of Veterans Affairs (VA) State Home construction grants (CFDA No. 64.005) totaling approximately \$5.2 million to assist with upgrades to the Home. During its Fiscal Year 2009 Statewide Single Audit, the Office of the State Auditor (OSA) identified potential problems with the Department of Human Services' and Homes' administration of the grant. Specifically, the OSA determined that the Department did not draw down funds for the grant in accordance with federal cash management regulations. The OSA's finding and recommendation to the Department of Human Services can be found in the Fiscal Year 2009 Statewide Single Audit Report within the Department of Human Services Single Audit Section. Our related finding and recommendation to Homelake is included below.

Federal regulations concerning the VA State Home construction grants specify that the grant funds are available for drawdown for a period not to exceed the length of the construction project, that the federal reimbursement shall not exceed 65 percent of the project costs, and that the grantee is responsible for the remaining 35 percent, as well as any unforeseen costs necessary to complete the project. The Code of Federal Regulation applicable to these grants also states that cash grant payments should be timed to coincide with the actual, immediate cash requirements for carrying out the project.

As discussed above, as part of its Fiscal Year 2009 Statewide Single Audit, during its review of the Department of Human Services' Energy Performance Contract (EPC) leases, the OSA identified issues with the Department's use of VA grant monies and their application to EPC lease costs at the Homelake project. As of June 30, 2009, the Department had entered into eight EPC leases totaling \$15.3 million, not including interest. Two of these leases, totaling approximately \$1 million, were used to finance portions of the large-scale remodeling and building projects at Homelake for which the Department had also received VA grants. Our concern is that the Department has drawn down federal funds on the basis of *costs incurred* for these projects. However, federal regulations for reimbursement-type grants require that cash should be drawn to coincide with the *actual cash requirements* for completing the project. Because the Department is spreading a portion of the actual cash outlays over a period of time that extends beyond the construction period, the Department and Homelake may not be in compliance with federal cash management regulations.

HB 01-1381, effective June 2001 amended Article 30, Title 24 of the Colorado Revised Statutes and made EPC leases allowable under state law. According to statute, if the Department can demonstrate that the annual energy savings realized from the EPC lease exceeds the annual contract payments, it may engage a contractor to perform energy upgrades at its facilities and defer the associated costs in a capital lease. Examples of energy upgrades include the installation of solar panels or the replacement of inefficient heating and cooling systems which will result in an energy savings to the Department over the long term.

The process by which EPC leases are entered into is as follows:

- The Department hires a contractor to conduct an energy audit to determine whether energy-related upgrades would result in energy savings; if so, the contractor performs the upgrades.
- A lender provides the funds to finance the upgrades and the contractor draws on the funds, which are held in escrow, throughout the project.
- The Department, once the project is complete, enters into an EPC lease (a capital lease) which includes the project cost plus interest. Over the term of the lease, the Department makes the principal and interest payments to the lender.

In 2006 the Department began an extensive remodeling project at the Homelake nursing home. This project is estimated to cost \$7.9 million and to be completed in August 2010. The Department received a grant award from the VA of approximately \$5.2 million, or 65 percent of the total project cost. The remodeling project included installing solar panels and a campus-wide irrigation system, the total costs of which were financed with two EPC leases totaling over \$1.03 million. At Homelake, the total amount of the energy upgrades projected to cost over \$1.03 million was deferred into two EPC leases. The costs to the Department are in effect deferred because, by financing the full amount of the energy upgrade costs into EPC leases, the Department's responsibility is to make payments only as the periodic lease payments come due over the 15 year term of the lease. Moreover, the Department has deferred payment for both the 65 percent federal share and the 35 percent state share.

When the Department applied for the Homelake VA grant, the Department stated to the VA that portions of the Homelake project would include EPC leases, as allowed by state law. Department officials reported that they received no communication from the VA that specifically addressed the use of federal grant funds for a project involving an EPC lease. However, the Department officials said they did not specifically ask for such guidance.

As portions of construction upgrades are completed, the Department submits grant draw-down applications to the VA. Quarterly reimbursement payments are made to the grantee based on the 65 percent federal share of the costs incurred. In October 2008, the Homelake irrigation system upgrade was complete, and the Department applied for reimbursement from the Homelake VA grant and received the federal 65 percent (\$526,956) of the total irrigation project costs of \$810,702. The total project costs of the irrigation upgrades at Homelake were part of an EPC contract and had been built into the principal of an EPC lease. Yet, as of this same date, the Department had spent only about \$100,000 on periodic EPC lease payments.

By entering into an EPC lease the Department has deferred repaying the project costs; that is, the Department is not responsible for making any payments until the project has been completed and the May 2007 EPC lease term had begun. Federal regulations do not specify how federal grant funds should be applied when construction costs have been financed through a long-term lease.

Federal reimbursement was received for the full amount of the Homelake irrigation project costs. In order to be in compliance with federal guidance concerning matching grant payments to immediate cash needs, the Department could have used the funds to pay down the principal of the loan. According to Department officials, the federal funds received as reimbursement for the cost of the irrigation project were not applied to the principal of the EPC lease; rather, they were used to pay for other Homelake renovations.

EPC lease terms exceed the grant draw-down period. Therefore, unless the Department uses the federal reimbursement received for energy upgrades to pay down the principal of the EPC leases, the Department will not be matching periodic lease payments to the grant draw-downs. Over the long term, once the EPC lease has been paid in full, the Department will have satisfied the federal requirements related to cost sharing and project completion. In the short term, however, based on the federal guidance available, it appears that the Department is not in compliance with federal requirements concerning matching grant funds received to actual cash needs.

Noncompliance with federal grant requirements can subject the Department and Homelake to federal sanctions as well as the loss of future grants. EPC leases offer advantages to the Department and to Homelake, but it is questionable whether it is appropriate or allowable under federal regulations for the Department or Homelake to use the EPC leases in conjunction with federal grants intended to reimburse actual construction expenditures as they occur. As Department officials report that they have applied for VA grants to fund future State and Veteran Nursing Home projects, portions of which will be financed with EPC leases, the Department should ensure grant monies will be used as the VA intends. Without specific guidance from the VA, the Department cannot be sure that it is using the grant funds appropriately. Therefore, the OSA has recommended that the Department seek guidance from the U.S. Department of Veterans Affairs on the appropriate use of grant funds for construction costs that have been deferred through an EPC lease. We recommend that Homelake, in turn, work with the Department based on the guidance received from the U.S. Department of Veterans Affairs, to ensure that it is in compliance with all construction grant requirements.

Recommendation:

The Colorado State Veterans' Nursing Home at Homelake should work with the Department of Human Services to ensure that it is in compliance with all construction grant requirements.

Auditee response:

Agree. The Colorado State Veterans' Nursing Home at Homelake will work with the Department of Human Services to ensure compliance with all construction grant requirements.

Implementation Date: March 31, 2010



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## 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 Nursing Home at Homelake (the Nursing Home), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. These financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets at June 30, 2008.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Colorado State Veterans Nursing Home at Homelake's financial statements. 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

December 18, 2009

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2009**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS		
Direct assistance –		
Veterans State Nursing Home Care	64.015	\$ 1,435,530
Construction of State Home Facilities	64.005	719,035
Veterans State Domiciliary Care	64.014	265,831
Veterans Nursing Home Care	64.010	<u>148,056</u>
TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS		<u>\$ 2,568,452</u>



**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2009**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Colorado State Veterans Nursing Home 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.



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**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 Nursing Home at Homelake as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. 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, 2008. 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, 2008.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Colorado State Veterans Nursing Home 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 or other matters 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 Nursing Home's management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Mr. Pearson, Rayfogel, Davelina & Goodrich, PC*

December 18, 2009



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**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO 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 the compliance of the Colorado State Veterans Nursing Home at Homelake (the Nursing Home) 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, 2009. Colorado State Veterans Nursing Home 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 its major federal programs is the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on the Nursing 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 Nursing 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 Nursing Home's compliance with those requirements.

As described in item 2009-01 in the accompanying schedule of findings and questioned costs, the Nursing Home did not comply with the requirements regarding cash management that are applicable to the grants to states for construction of state home facilities (64.005). Compliance with such requirements is necessary, in our opinion, for the Nursing Home to comply with the requirements of that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Nursing Home complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

## Internal Control Over Compliance

The management of the Colorado State Veterans Nursing Home 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 Nursing Home's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Colorado State Veterans Nursing Home at Homelake's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be 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.

The Colorado State Veterans Nursing Home at Homelake's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Nursing Home's response and, accordingly, we express no opinion on it.

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

*Mr. Pearson, Bryzlogh, Daniels & Goodrich, PC*

December 18, 2009



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## 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 Nursing Home at Homelake (the Nursing Home) for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and 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 a letter dated May 26, 2009. 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 Nursing Home are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Nursing Home 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 financial statements was the allowance for uncollectible accounts. Management's estimate of the allowance for uncollectible accounts is based on management's review of the accounts and determination of the collectability of each account. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

### *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. No such misstatements were noted.

### *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 auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested and received certain representations from management that are included in the management representation letter dated December 18, 2009.

### *Management Consultations with Other Independent Accountants*

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

### *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 Nursing Home's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

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

*McPherson, Smyth, Davolin & Goodrich, PC*

December 18, 2009

The electronic version of this report is available on the website 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 2030**

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