

DALBY, WENDLAND & CO., P.C.



**COLORADO STATE VETERANS NURSING HOME -
RIFLE
FINANCIAL AND COMPLIANCE AUDIT**

**FISCAL YEAR ENDED
JUNE 30, 2006**

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All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements, which is **released only upon the approval of a majority vote of the committee** (emphasis supplied).

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DALBY, WENDLAND & CO., P.C.

DWC
D&C

Certified Public Accountants & Consultants

Members of the Legislative Audit Committee:

This report contains the results of our financial and compliance audit of Colorado State Veterans Nursing Home - Rifle. The audit was conducted under contract with the Office of the State Auditor pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions, and agencies of state government. The audit included examination of the basic financial statements. This report includes the financial statements as well as the independent auditors' report issued as part of the audit.

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.

September 29, 2006

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**COLORADO STATE VETERANS NURSING HOME - RIFLE
REPORT SUMMARY - FINANCIAL AND COMPLIANCE AUDIT
Year Ended June 30, 2006**

PURPOSE AND SCOPE OF AUDIT

The Office of the State Auditor, State of Colorado, engaged Dalby, Wendland & Co., P.C. to conduct an audit of Colorado State Veterans Nursing Home - Rifle (the Home) for its fiscal year ended June 30, 2006. Dalby, Wendland & Co., P.C. performed the audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. We conducted the related field work during August and September 2006.

The purpose and scope of the audit was to:

- Express an opinion on the financial statements of the Home as of and for the year ended June 30, 2006. This includes a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditures of federal and state funds.
- Report on the Home's compliance and internal control over financial reporting based on our audit of the statements net assets performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

Audit Opinions and Reports

We expressed a qualified opinion on the Home's financial statements as of and for the year ended June 30, 2006. 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, 2005.

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

The Home's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado are included in the June 30, 2006, Statewide Single Audit Report.

We also issued certain required communications related to the conduct of an audit including our responsibility under auditing standards generally accepted in the United States of America, significant accounting policies, audit adjustments, and accounting estimates. No delays or disagreements reported.

SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

Current Audit Recommendations

There were no recommendations for the year ended June 30, 2006.

Summary of Progress in Implementing Prior Audit Recommendations

The last audit of the Home was for June 30, 2002 and included two recommendations. The disposition of those two recommendations as of September 29, 2006 are as follows:

Implemented 2

DESCRIPTION OF COLORADO STATE VETERANS NURSING HOME - RIFLE

The Colorado State Veterans Nursing Home - Rifle (the Home) is located in Rifle, Colorado. The Home is a 100 bed skilled nursing facility with 16 beds allocated to care for residents suffering from Alzheimer's Disease or other illnesses resulting in dementia.

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

Construction of the Home was authorized by HB 1037 in the 1979 Legislative Session amending Section 26-12-401 of the Colorado Revised Statutes. A maximum of 120 beds was authorized. Construction was contingent on federal funding under Public Law 88-450. Operation of the Home must be such as to qualify for per diem payments from the U.S. Department of Veteran Affairs under the provisions of Title 38, US Code 64.

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

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

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	<u>100</u>
Average daily census for the year ended June 30, 2006	<u>79.7</u>
Occupancy percentage for the year ended June 30, 2006	<u>79.7%</u>
Patient days for the year ended June 30, 2006	<u>29,091</u>

**FINDINGS AND RECOMMENDATIONS
REPORT SECTION**

COLORADO STATE VETERANS NURSING HOME - RIFLE

FINDINGS AND RECOMMENDATIONS

There are no audit findings or recommendations for the year ended June 30, 2006.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

<u>Recommendation</u>	<u>Disposition</u>
1. The Home should establish a maximum amount of cash receipts that can be accumulated without requiring deposit or require daily deposits.	Implemented
2. The Home should reconcile pharmacy supply receiving documents with the accounts payable system to ensure that amounts paid have been properly authorized by receiving personnel.	Implemented

FINANCIAL STATEMENT SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the Statement of Net Assets of Colorado State Veterans Nursing Home - Rifle, an enterprise fund of the State of Colorado, as of June 30, 2006, and were engaged to audit the related Statement of Revenues, Expenses and Changes in Net Assets, and Cash Flows for the year then ended. These financial statements are the responsibility of the management of Colorado State Veterans Nursing Home - Rifle. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as indicated 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 did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the Statement of Net Assets of Colorado State Veterans Nursing Home – Rifle as of June 30, 2005. The Statement of Net Assets includes amounts which enter materially into the determination of results of operations and cash flows for the year ended June 30, 2006.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2006.

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

In our opinion, except for the effects on the basic financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about amounts comprising the balance sheet at June 30, 2005, the Statement of Net Assets referred to above presents fairly, in all material respects, the financial position of Colorado State Veterans Nursing Home – Rifle as of June 30, 2006, 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 September 29, 2006 on our consideration of Colorado State Veterans Nursing Home - Rifle's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 7 through 10 is not a required part of the basic 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.

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.

September 29, 2006

COLORADO STATE VETERANS NURSING HOME - RIFLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended June 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents an analysis of the Colorado State Veterans Nursing Home – Rifle's (the Home's) financial performance and an overview of the Home's financial activities for the fiscal year ended June 30, 2006. This section was prepared by the Home's management. The financial statements which begin on page 11 are an integral part of this analysis and figures reported on the Colorado Financial Reporting System (COFRS) reflecting the Home's FY 2006 performance are incorporated into and referred to throughout this Management Discussion and Analysis.

Financial Highlights

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

- The Home's Assets increased by \$109,046, which is a 3.6% increase from FY 2005.
- The Home's Total Operating Revenue increased by \$473,815, which is a 7.5% increase from FY 2005.
- The Home's Cash Operating Expenditures increased by \$85,573, which is a 1.3% increase from FY 2005.
- The Home's Non-Cash Expenditures decreased by \$10,068, which is a 4.7% decrease from FY 2005.
- The Home's Net Income increased by \$398,310 in FY 2006, from a negative \$(294,955) in FY 2005 to a positive \$103,355 in FY 2006.

Overview of The Financial Statements

Fund Financial Statements

Statement of Net Assets

The Statement of Assets (see page 11) includes the Home's assets and liabilities and provides information pertaining to the nature of these assets and liabilities. The Statement also provides the basis for determining the overall financial health of the Home including liquidity and financial flexibility.

Statement of Revenue, Expenses and Changes in Net Assets

The Statement of Revenue, Expenses and Changes in Net Assets (see page 12) includes all revenues and expenses (both cash and non-cash). This Statement measures the efficiency of the Home's overall operation and can be used to determine if the Home's rates and third party billings are adequate to recover expenses related to providing skilled nursing care to residents of the Home.

Statement of Cash Flows

The Statement of Cash Flows (see page 13) presents information concerning the Home's cash receipts and cash payments during the year. This Statement reports the cash receipts, cash payments and net cash from operations, investing and financing activities.

Financial Analysis of Colorado State Veterans Nursing Home - Rifle

Summary of Operational Policies and Procedures

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

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

Financial Analysis

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

TABLE A
Condensed Statements of Net Assets

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>Percent Change</u>
Current Assets	\$1,684,721	\$1,380,042	\$ 304,679	22.1%
Non-current Assets	1,496,679	1,692,312	(195,633)	-11.6%
<i>Total Assets</i>	<u>\$3,181,400</u>	<u>\$3,072,354</u>	<u>\$ 109,046</u>	3.6%
Current Liabilities	\$ 593,622	\$ 601,919	\$ (8,297)	-1.4%
Non-current Liabilities	164,991	194,489	(29,498)	-15.2%
<i>Total Liabilities</i>	<u>\$ 758,613</u>	<u>\$ 796,408</u>	<u>\$ (37,795)</u>	-4.8%
1) Invested in Capital Assets	\$1,496,679	\$1,692,312	\$ (195,633)	-11.6%
2) Restricted	35,631	43,486	(7,855)	-18.1%
3) Unrestricted	890,477	540,148	350,329	64.9%
<i>Total Net Assets</i>	<u>\$2,422,787</u>	<u>\$2,275,946</u>	<u>\$ 146,841</u>	6.5%

As shown in Table A, the Home's Assets increased \$109,046 to \$3,181,400 in FY 2006, from \$3,072,354 in FY 2005.

The decrease in total liabilities of \$(37,795) for the same period is also shown in Table A and is primarily due to a decrease in liability for compensated absences.

The analysis of the Home's Statement of Net Assets displays the changes in the financial position of the Home. The Statement of Revenue, Expenses and Changes in Net Assets provides the information as to the nature and the source of the changes seen in the Statement of Net Assets. Table B provides a summary of revenues and expenses of the Home for FY 2006 as compared to the previous year.

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

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>Percent Change</u>
Total Earned Revenues	\$6,834,533	\$6,360,718	\$ 473,815	7.5%
Total Operating Expenses (excluding depreciation, bad debts, change in compensated absences, and loss on assets disposal)	6,526,111	6,440,538	85,573	1.3%
Depreciation, bad debts, change in compensated absences, and loss on assets disposal	<u>205,067</u>	<u>215,135</u>	<u>(10,068)</u>	4.7%
Net Income (Loss)	<u>\$ 103,355</u>	<u>\$ (294,955)</u>	<u>\$ 398,310</u>	135%

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

- The Home's revenues increased by \$473,815, mainly due to increased third party payments and an increased rate schedule which was approved due to FY 2005 loss and projected costs in FY 2006 related to patient care and improved quality of life.
- 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 a minimal opportunity for the Home to reduce expenses to any significant degree due to the nature of its operation, that of providing health care and quality of life for its residents.
- Table B reflects that in FY 2006 the Home experienced a positive net income position of \$103,355 with revenues covering both cash and non-cash expenses. Financial management procedures in effect throughout FY 2006 resulted in not only ending the year showing positive net income, but this result also impacted positively on the Statement of Net Assets as reflected in Table A.

Budgetary Highlights

The State and Veterans Nursing Home – Rifle fiscal year-end 2006 financial operations resulted in revenues, including non-operating revenue, slightly above the budgeted amount of \$6,824,376 by \$24,404. Expenses were managed such that total cash and non-cash expenses were \$57,373 less than the \$6,782,208 budgeted amount. Savings were mainly in the areas of personal services due to staff vacancies. Overall, net income exceeded the budget of \$42,168 by \$81,777.

Capital Assets and Debt Activities

Capital Assets

During FY 2006 the Home invested \$11,100 on building improvements and medical equipment. The following is a summary of capital expenditures during FY 2006:

- The Home purchased 3 storage units.

For FY 2007, the Home has projected the following capital expenditures:

- \$230,000 for new flooring throughout the facility.
- \$28,000 for two new bathing systems for resident care and safety.
- \$14,000 for new med carts.

Debt Activities

As of the end of FY 2006, the Home did not have any long term indebtedness.

Economic Factors and Next Year's Budget and Rates

Economic factors continue to impact the Home's operations by increasing the costs associated with providing quality health care. A budget has been prepared for FY 2007 that includes projects related to expenses and corresponding increases in revenues through the increase in rates charged to residents for skilled nursing care. Expectations are that, subject to a stable census level of 83% or above, the Home will cover expenses with sufficient revenue to improve its net asset position as it did in FY 2006.

COLORADO STATE VETERANS NURSING HOME - RIFLE

STATEMENT OF NET ASSETS

As of June 30, 2006

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,221,051
Restricted cash, resident funds	65,390
Accounts receivable-patients (net of allowance for uncollectibles of \$35,144)	29,515
Accounts receivable-VA per diem reimbursement	117,670
Accounts receivable-other agencies	250,968
Other assets	127
	<u>Total Current Assets</u>
	<u>1,684,721</u>

Non-current Assets

Capital Assets	
Land improvements	131,626
Buildings	3,531,592
Furniture and equipment	407,128
Vehicles	60,733
Software	84,312
Accumulated depreciation	(2,718,712)
	<u>Total Capital Assets, net of accumulated depreciation</u>
	<u>1,496,679</u>
	Total Assets
	\$ 3,181,400

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts and vouchers payable	\$ 129,520
Accrued salaries payable	367,289
Deposits held in trust for residents	29,759
Current portion of liability for compensated absences	67,054
	<u>Total Current Liabilities</u>
	<u>593,622</u>

Non-current Liabilities

Liability for compensated absences	164,991
	<u>Total Non-current Liabilities</u>
	<u>164,991</u>
	Total Liabilities
	<u>758,613</u>

Net Assets

Invested in capital assets, net	1,496,679
Restricted for resident purposes	35,631
Unrestricted	890,477
	<u>Total Net Assets</u>
	<u>2,422,787</u>
	\$ 3,181,400

See accompanying notes.

COLORADO STATE VETERANS NURSING HOME - RIFLE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

Operating Revenue		
Patient charges for services	\$ 5,431,714	
VA per diem reimbursement	1,398,987	
Miscellaneous revenue	3,832	
		<u>6,834,533</u>
	<i>Total Operating Revenue</i>	<u>6,834,533</u>
Operating Expenses		
Personnel services and employee benefits	5,163,103	
Medical and laboratory supplies	307,080	
Food and food service supplies	292,839	
Depreciation	194,915	
Utilities	144,370	
Office	141,040	
Repairs and maintenance	125,241	
Inter-departmental charges for services	78,555	
Building, laundry and recreational supplies	74,244	
Vehicles and travel	32,552	
Other operating expenses	171,615	
		<u>6,725,554</u>
	<i>Total Operating Expenses</i>	<u>6,725,554</u>
	<i>Operating Income</i>	<u>108,979</u>
Non-operating Revenue (Expense)		
Investment Income	2,229	
Donations - resident funds	23,765	
Recreation - resident funds	(31,618)	
		<u>(5,624)</u>
	<i>Total Non-operating Revenue (Expense)</i>	<u>(5,624)</u>
	<i>Change in Net Assets</i>	103,355
Net Assets - Beginning of Year		<u>2,319,432</u>
Net Assets - End of Year		<u>\$ 2,422,787</u>

See accompanying notes.

COLORADO STATE VETERANS NURSING HOME - RIFLE

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

Cash Flows from Operating Activities	
Cash received from patients and third-party payors	\$ 5,448,441
Cash received from federal government	1,398,987
Cash received from miscellaneous revenues	3,628
Cash payments to employees for services	(5,232,050)
Cash payments to suppliers for goods and services	(1,365,101)
	<u>253,905</u>
	<i>Net Cash Provided by Operating Activities</i>
Cash Flows from Investing Activities	
Interest income received	2,229
	<u>2,229</u>
	<i>Net Cash Provided by Investing Activities</i>
	<u>256,134</u>
	<i>Net Increase in Cash and Cash Equivalents</i>
Cash and cash equivalents - beginning of year	964,917
Cash and cash equivalents - end of year	<u>\$ 1,221,051</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 108,979
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	194,915
Decrease in assets	16,846
Decrease in liabilities	(66,835)
	<u>253,905</u>
	<i>Net Cash Provided by Operating Activities</i>
	<u>\$ 253,905</u>

See accompanying notes.

COLORADO STATE VETERANS NURSING HOME - RIFLE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Reporting Entity

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

Fund Accounting

The Home uses individual funds to report its financial position and results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The Home uses a proprietary (enterprise) fund to account for its activities. Enterprise funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.

Basis of Accounting

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

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

The Home has adopted the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB) pronouncements *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* as of July 1, 2001. This statement established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets; a statement of revenue, expenses and changes in net assets; and a statement of cash flows.

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

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

Use of Estimates

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

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the state treasurer, and all highly liquid investments with an original maturity of three months or less. The Home has elected not to include restricted cash as part of cash equivalents.

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

Accounts Receivable

The Home’s accounts receivable consist primarily of open accounts with residents for services and subsidized Medicaid and Veterans Administration reimbursements. Portions of accounts receivable relating to non-subsidized charges for services are subject to credit risk.

Consequently, an allowance for doubtful accounts has been established based on management's estimate. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Home's grant and contracts.

Capital Assets

Capital assets are stated at cost at date of acquisition or fair market value at date of donation. The Home capitalizes only those assets with an initial cost or fair market value greater than or equal to \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of four to thirty years.

Compensated Absences

Employees' compensated absences are accrued at year-end for financial statements purposes. The liability and expense incurred are recorded at year-end as accrued compensated absence in the statement of net assets and as a component of compensation and benefit expense in the statement of revenue, expenses and changes in net assets. (See Note 5.)

Classification of Revenue

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

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

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

Budget and Budgetary Accounting

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

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

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.

Financial Statement Presentation and Changes in Accounting Principles

GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, (Statement No. 40) an amendment to Statement No. 3 in June 2003. Statement No. 40 establishes and modifies disclosure requirements related to investment risks, credit risk, interest rate risk and foreign currency risk and is effective for fiscal years beginning after June 15, 2004.

GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, (Statement No. 42) in November 2003. Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and is effective for fiscal years beginning after December 15, 2004.

GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1)* (Statement No. 44) in May 2005. Statement No. 44 is effective for periods beginning after June 15, 2005 and amends the information required to be presented in the statistical section of a comprehensive annual financial report.

GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment of GASB Statement No. 34)* (Statement No. 46), in December 2004. Statement No. 46 is effective for periods beginning after June 15, 2005 and clarifies the definition of “legally enforceable enabling legislation restrictions” and specifies the accounting and financial reporting requirements related to such legislation.

GASB issued Statement No. 47, *Accounting for Termination Benefits* (Statement No. 47) in June 2005. Statement No. 47 establishes accounting standards for termination benefits and is effective in the two parts. For termination benefits provided through an existing defined benefit post employment benefit plan, the provisions are implemented with Statement 45. For all other termination benefits it is effective for periods beginning after June 15, 2005.

The adoption of these statements had no significant effect on the accompanying financial statements.

New Accounting Pronouncements

GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB) (Statement No. 43) in April 2004. Statement No. 43 establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The implementation of Statement No. 43 is effective in three phases based on a government’s total annual revenues in the first fiscal year ending after June 15, 1999. The effective date for the State of Colorado will be for financial statements for periods beginning after December 15, 2005.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions* (OPEB) (Statement No. 45) issued in July 2004 is effective in the three phases required for Statement No. 43 and establishes standards for the measurement, recognition and display of OPEB expenses and related liabilities and note disclosures.

Management does not believe the adoption of the new Statements will have a significant effect on the Home’s financial statements.

NOTE 2 - FINANCIAL STATEMENT PRESENTATION

The Home has a Patient Benefit Fund and a Resident Trust Fund that have been included with the enterprise proprietary fund for financial reporting purposes. The Patient Benefit Fund which is funded by donations from the public, is controlled by a committee consisting of resident representatives and other interested outside parties and used for various resident needs and

activities. The Resident Trust Fund consists of personal funds belonging to the individual residents. The assets, liabilities, fund balance, revenue, and expenditures of these funds are included in the Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets. Below are the amounts from these funds included in the accompanying financial statements:

Statement of Net Assets

	<u>Patient Benefit Fund</u>	<u>Resident Trust Fund</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 35,631	\$ 29,759
<u>Liabilities and Net Assets</u>		
Deposits held in trust for residents	\$ -	\$ 29,759
Net Assets		
Restricted for resident purposes	35,631	-
Total Liabilities and Net Assets	<u>\$ 35,631</u>	<u>\$ 29,759</u>

Statement of Revenue, Expenses and Changes in Net Assets

	<u>Patient Benefit Fund</u>
Non-operating revenue	
Donations	\$ 23,765
Expenses	
Recreation	(31,618)
Change in net assets	(7,853)
Net assets, beginning of year	43,484
Net assets, end of year	<u>\$ 35,631</u>

NOTE 3 - CASH AND CASH EQUIVALENTS

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

<u>Proprietary Fund</u>	
Cash on hand	\$ 875
Cash with State Treasurer	1,220,176
	<u>\$ 1,221,051</u>
<u>Resident Funds</u>	
Cash on hand	\$ 672
Demand deposits	64,718
	<u>\$ 65,390</u>

Detailed information on the State Treasurer’s pooled cash and investments is available from that office.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Home does not have a deposit policy for custodial credit risk. The carrying amount of the Home's cash on deposit was \$64,718 and the bank balance was \$70,706. All of the bank balance was covered by federal note depository insurance.

NOTE 4 - CAPITAL ASSETS

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Non-depreciable Capital Assets				
Land	\$ 54,200	\$ -	\$ -	\$ 54,200
<i>Total Non-depreciable Capital Assets</i>	<u>\$ 54,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,200</u>
Depreciable Capital Assets				
Land Improvements	\$ 77,426	\$ -	\$ -	\$ 77,426
Buildings	3,531,592	-	-	3,531,592
Furniture and equipment	683,589	-	(276,461)	407,128
Vehicles	68,469	-	(7,736)	60,733
Software	84,312	-	-	84,312
<i>Total Depreciable Capital Assets</i>	<u>4,445,388</u>	<u>-</u>	<u>(284,197)</u>	<u>4,161,191</u>
Less: accumulated depreciation				
Land Improvements	63,752	1,918	-	65,670
Buildings	2,101,220	127,390	-	2,228,610
Furniture and equipment	530,779	33,991	(276,461)	288,309
Vehicles	45,715	15,183	(7,736)	53,162
Software	66,528	16,433	-	82,961
<i>Total Accumulated Depreciation</i>	<u>2,807,994</u>	<u>194,915</u>	<u>(284,197)</u>	<u>2,718,712</u>
<i>Net Depreciable Capital Assets</i>	<u>\$1,637,394</u>	<u>\$ (194,915)</u>	<u>\$ -</u>	<u>\$ 1,442,479</u>

NOTE 5 - COMPENSATED ABSENCE LIABILITY FOR ANNUAL AND SICK LEAVE

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

	June 30, 2006	June 30, 2005	Increase (Decrease)
Annual Leave	\$ 205,597	\$ 196,382	\$ 9,215
Sick Leave	26,448	25,675	773
<i>Total Compensated Absence Liability</i>	<u>\$ 232,045</u>	<u>\$ 222,057</u>	<u>\$ 9,988</u>

NOTE 6 - EMPLOYEE PENSION PLANS

A. Public Employees Retirement Association

1. Plan Description

Virtually all of the Home's employees participate in a defined benefit pension plan (the 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 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, as well as the other divisions' plans, is included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver CO 80203, by calling PERA at 303-832-9550 or 1-800-729-PERA (7372), or by visiting www.copera.org.

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

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. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service, and if they were hired before July 1, 2005, 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. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 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) may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse, financially dependent parents will receive a survivor's benefit.

2. Funding Policy

Salary subject to PERA contribution is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan as 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.

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, 2005, to December 31, 2005, the Home contributed 10.15 percent of the employee's salary. From January 1, 2006, through June 30, 2006, the Home contributed these same percentage amounts plus an additional .5 percent for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2006, 1.02 percent of the employee's total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA 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 a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

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

The Home's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal year ending June 30, 2006 was \$410,801. These contributions were equal to the required contributions for the year.

NOTE 7 - VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer 403(b) or 401(a) plans.

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

Health Care Program

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. 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 2006, the subsidy was \$115 for those with 20 years of service credit (\$230 for members under age 65 and not eligible for Medicare), and reduced by 5 percent for each year of service fewer than 20. The Health Care Trust Fund is maintained by an employer contribution as discussed above in Note 6. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with health maintenance organizations providing services in Colorado. As of December 31, 2005, there were 41,080 enrollees in the plan.

Life Insurance Program

During fiscal year 2006, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,180 members participated. Active members may join the UnumProvident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 13,375 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

NOTE 9 - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

The Home and its employees are insured for general liability, motor vehicle liability, worker's compensation and medical claims under the self-insurance fund managed by the Department of Personnel/General Support Services for the State of Colorado. Property claims are covered by commercial insurance and claims settled have not exceeded coverage limits for the least three years. A further description of the State's risks are contained in the State's comprehensive annual financial report.

NOTE 10 - COMMITMENTS AND CONTINGENCIES**Grant Programs**

The Home participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Home has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2006, may be impaired. In the opinion of the Home there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Taxpayer Bill of Rights

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

**GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133 REPORTS**

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 Statement of Net Assets of Colorado State Veterans Nursing Home - Rifle, an enterprise fund of the state of Colorado, as of June 30, 2006, and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Colorado State Veterans Nursing Home - Rifle's internal control over financial reporting. This was done 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. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Legislative Audit Committee and management of Colorado State Veterans Nursing Home - Rifle and is not intended to be and should not be used by anyone other than those specified parties.

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.

September 29, 2006

Members of the Legislative Audit Committee:

We have audited the Statement of Net Assets of Colorado State Veterans Nursing Home - Rifle, an enterprise fund of the State of Colorado, as of June 30, 2006, and have issued our report thereon dated September 29, 2006. As required by professional auditing standards, we are providing you with information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

Our responsibility under professional standards is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of 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 Colorado State Veterans Nursing Home - Rifle. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Colorado State Veterans Nursing Home - Rifle'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

Colorado State Veterans Nursing Home - Rifle's significant accounting policies are described in the notes to the financial statements. There were four new accounting policies adopted in fiscal year 2006. The adoptions had no significant effect on the financial statements. The application of existing policies was not changed during 2006.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements and are based on management's judgments. 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 significant accounting estimates affecting the financial statements are the allowance for uncollectible receivables, accrued compensated absences, and the depreciation of capital assets. We evaluated the factors and assumptions used to develop these estimates and determined they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Colorado State Veterans Nursing Home - Rifle's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no adjustments.

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

Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the Legislative Audit Committee and management of Colorado State Veterans Nursing Home - Rifle and is not intended to be and should not be used by anyone other than these specified parties.

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.

September 29, 2006



DALBY, WENDLAND & CO., P.C.

Certified Public Accountants & Consultants

Members of the Legislative Audit Committee:

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

Compliance

We have audited the compliance of Colorado State Veterans Nursing Home - Rifle with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable its major federal program for the year ended June 30, 2006. Colorado State Veterans Nursing Home - Rifle's major federal program is 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 program is the responsibility of Colorado State Veterans Nursing Home - Rifle's management. Our responsibility is to express an opinion on Colorado State Veterans Nursing Home - Rifle compliance based on our audit.

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

In our opinion, Colorado State Veterans Nursing Home - Rifle complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Colorado State Veterans Nursing Home - Rifle is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Colorado State Veterans Nursing Home - Rifle'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 the 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, Colorado State Veterans Nursing Home - Rifle's management, and federal awarding agencies 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 and its distribution is not limited.

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.

September 29, 2006



DALBY, WENDLAND & CO., P.C.

Certified Public Accountants & Consultants

Members of the Legislative Audit Committee:

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic Statement of Net Assets of Colorado State Veterans Nursing Home - Rifle (the Home) an enterprise fund of the State of Colorado, as of June 30, 2006, and have issued our report thereon dated September 29, 2006. These financial statements are the responsibility of the Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as indicated in the following 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 provide a reasonable basis for our opinion.

In accordance with the terms of our engagement, we did not apply audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the Statement of Net Assets of Colorado State Veterans Nursing Home – Rifle as of June 30, 2005. The Statement of Net Assets includes amounts which enter materially into the determination of results of operations and cash flows for the year ended June 30, 2006.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2006.

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

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.

September 29, 2006

COLORADO STATE VETERANS NURING HOME - RIFLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

FEDERAL GRANTOR/PASS-THROUGH <u>GRANTOR/PROGRAM TITLE</u>	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
U.S. DEPARTMENT OF VETERANS' AFFAIRS		
Direct assistance-		
Veterans Nursing Home Care	64.010	\$ 37,605
Veterans State Nursing Home Care	64.015	<u>1,361,382</u>
TOTAL U.S. DEPARTMENT OF VETERANS' AFFAIRS		<u>\$ 1,398,987</u>

See accompanying note.

COLORADO STATE VETERANS NURSING HOME - RIFLE

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE 1 - BASIS OF PRESENTATION

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

COLORADO STATE VETERANS NURSING HOME - RIFLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2006

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

FINANCIAL STATEMENTS

A qualified opinion was rendered on the financial statements of Colorado State Veterans Nursing Home - Rifle (the Home) as of and for the year ended June 30, 2006.

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X no
- 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 weakness(es)? _____ yes X no

An unqualified opinion was issued on compliance for the major program.

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

The threshold for distinguishing Type A and B programs was \$300,000.

The Home did not qualify as a low-risk auditee.

COLORADO STATE VETERANS NURSING HOME - RIFLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

June 30, 2006

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs for federal awards were noted.

The electronic version of this report is available on the Web site of the
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303-869-2800

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