

COLORADO STATE VETERANS CENTER AT HOMELAKE

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORTS**

YEAR ENDED JUNE 30, 2013

LEGISLATIVE AUDIT COMMITTEE

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Contract Auditor

**COLORADO STATE VETERANS CENTER AT HOMELAKE
FINANCIAL AUDIT
YEAR ENDED JUNE 30, 2013**

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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 a financial statement audit of the Colorado State Veterans Center at Homelake (the Center) for its year ended June 30, 2013. MBDG, PC performed this audit in accordance with auditing standards generally accepted in the United States of America.

The purpose and scope of our audit was to:

- Express our opinion on the financial statements of the Center as of and for the year ended June 30, 2013. This included a review of internal control in accordance with auditing standards generally accepted in the United States of America.
- Evaluate progress in implementing prior audit findings and recommendations.

SUMMARY OF MAJOR AUDIT FINDINGS AND RECOMMENDATIONS

We expressed an unmodified opinion on the Center's financial statements as of and for the year ended June 30, 2013.

We did not note any material weakness in the internal control over financial reporting or any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements. We also reported to the members of the Legislative Audit Committee and management of the Nursing Home the required items that are included in the "Required Auditor Communication to the Legislative Audit Committee" communication letter.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The last stand-alone audit of the Center was conducted for the Fiscal Year 2009. The audit report for the year ended June 30, 2009 included one finding. The disposition of that audit recommendation as of August 23, 2013 was as follows:

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

DESCRIPTION OF THE CENTER

The Colorado State Veterans Center at Homelake (the Center), established under Section 26-12-201, C.R.S., is a skilled-care nursing facility and also has a domiciliary 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 Center, by statute, serves all veterans of service in the armed forces of the United States, their spouses, their widow(er)s, and their dependents 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 Center must maintain a 75 percent veteran's occupancy. The Center serves veterans without regard to sex, race, color, or national origin.

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

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	108
Average daily census for the year ended June 30, 2013	82
Average occupancy percentage for the year ended June 30, 2013	76%
Average veterans occupancy percentage for the year ended June 30, 2013	77%
Patient days for the year ended June 30, 2013	29,896

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Colorado State Veterans Center at Homelake (the Center) for the year ended June 30, 2013 and have issued our report thereon dated December 5, 2013. In planning and performing our audit of the financial statements, we considered the Center'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 the effectiveness of the Center's internal control over financial reporting. We identified no findings as a result of our audit.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following is the audit recommendation made by MBDG, PC included in the report to the Legislative Audit Committee for the year ended June 30, 2009, and its disposition at August 23, 2013.

Recommendation 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.

Implementation Status: Implemented

FINANCIAL AUDIT REPORT SECTION



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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the Colorado State Veterans Center at Homelake (the Center), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion of these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado State Veterans Center at Homelake, an enterprise fund of the State of Colorado, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

The financial statements present only the Colorado State Veterans Center at Homelake, an enterprise fund of the State of Colorado, and do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2013, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2013, on our consideration of the Center'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Center's internal control over financial reporting and compliance.

McPherson, Bryfogle, Davich & Woodruff, PC

December 5, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section, prepared by the Center's Business Manager, presents an analysis of the Center's performance and an overview of the Center's financial activities for the fiscal year ended June 30, 2013. The financial statements, an integral part of this analysis and figures reported on the MCR01R and MCR02R outputs from the Colorado Financial Reporting System (COFRS) and Exhibit H (Proposed Financial Statement Post-Closing Entry), reflect the Center's Fiscal Year 2013 performances, and are incorporated and referred to throughout this Management's Discussion and Analysis. The analysis below includes comparative information from Fiscal Year 2012 and is based on the Condensed Statement of Net Position and the Condensed Statement of Revenue, Expenses and Changes in Net Position provided.

FINANCIAL HIGHLIGHTS

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

- The Center's Total Assets increased by \$607,023, which is a 4.8% increase from Fiscal Year 2012.
- The Center's Total Operating Revenue increased by \$813,297, which is a 13.8% increase from Fiscal Year 2012.
- The Center's Operating Expenses increased \$699,585, which is a 12.4% increase from Fiscal Year 2012.
- The Center's Non-Operating Revenue increased by \$9,081, which is a 3.1% increase from Fiscal Year 2012.
- The Center's Change in Net Position increased by \$266,602 which is a 58.7% increase from Fiscal Year 2012.

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 2013 Projections. The Financial Analysis includes notes, discussing in varying detail, the information in the financial statements as summarized in Table A and Table B.

**COLORADO STATE VETERANS CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Fund Financial Statements

Statement of Net Position

The Statement of Net Position (see Table A) includes all of the Center's assets, deferred outflows of resources, if any, liabilities and deferred inflows of resources, if any, and provides information pertaining to the nature of these assets, deferred outflows of resources, liabilities and deferred inflows of resources. The Statement also provides the basis for determining the overall financial health of the Center including liquidity and financial flexibility.

Statement of Revenues, Expenses and Changes in Net Position

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

Statement of Cash Flows

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

FINANCIAL ANALYSIS

Summary of Operational Policies and Procedures

The Colorado State Veterans Center - Homelake is a State of Colorado agency with the general mission: "To honor and serve our nation's veterans, their spouses and Gold Star Parents by creating opportunities for meaningful activity, continued growth and feelings of self-worth in resident-centered long-term care and supportive living environment". CSVC - Homelake is within the Division of State and Veterans Nursing Homes, Office of Long Term Care, Department of Human Services, State of Colorado.

The Center operates as a self-supporting enterprise, meaning the revenue received from residents, other third parties, and cash surplus must be adequate to cover the expenses of day-to-day operations of CSVC - Homelake. The State of Colorado does not provide funds to operate the CSVC - Homelake with the exception of partial reimbursement of a certain consulting arrangement and general fund monies for the domiciliary. Costs related to any support provided by the State are reimbursed by the CSVC - Homelake.

**COLORADO STATE VETERANS CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Financial Management Reports are reviewed monthly at the Executive Management level to ensure efficient and effective use of resources.

Financial Analysis

Statement of Net Position

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

TABLE A
Condensed Statement of Net Assets

	2013	2012	Dollar Change	Total Percent Change
Current Assets	3,697,799	2,888,559	809,240	28.0%
Current Assets-Restricted	254,166	277,604	(23,438)	-8.4%
Non-Current Assets	9,409,688	9,588,467	(178,779)	-1.9%
Total Assets (excluding restricted)	13,107,487	12,477,026	630,461	5.1%
Total Restricted Assets	254,166	277,604	(23,438)	-8.4%
TOTAL ASSETS	13,361,653	12,754,630	607,023	4.8%
Current Liabilities	595,460	525,367	70,093	13.3%
Current Liabilities-Restricted	163,569	259,587	(96,018)	-37.0%
Non-Current Liabilities	848,231	946,729	(98,498)	-10.4%
TOTAL LIABILITIES	1,607,260	1,731,683	(124,423)	-7.2%
Net Investment in Capital Assets	8,686,140	8,805,956	(119,816)	-1.4%
Restricted for resident purposes	90,597	18,017	72,580	402.8%
Unrestricted	2,977,656	2,198,974	778,682	35.4%
Total Net Position	11,754,393	11,022,947	731,446	6.6%
TOTAL LIABILITIES AND NET POSITION	13,361,653	12,754,630	607,023	4.8%

As shown in **Table A**, the Center's Total Assets increased by \$607,023 to \$13,361,653 in Fiscal Year 2013 from \$12,754,630 in Fiscal Year 2012. The majority of this increase is a result of the following items: 1) \$589,998 increases for receivable of VA per diem for service connected to veteran reimbursements; 2) \$196,269 increase in the receivable for patient revenue due to increased census.

**COLORADO STATE VETERANS CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

The decrease in Total Liabilities for the same period is also shown in **Table A** and a majority of this decrease is a result of the following item: 1) \$98,498 decrease in liabilities accounts for the compensated absences and capital lease payable.

Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Change in Net Position provides the information as to the nature and the source of the changes seen in the Statements of Net Position. **Table B** provides a summary of revenues and expenses of the Center for Fiscal Year 2013 as compared to the previous year.

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

	2013	2012	Dollar Change	Total Percent Change
Total Operating Revenue	6,687,323	5,874,026	813,297	13.8%
Non-Operating Revenue	297,485	288,404	9,081	3.1%
Restricted Revenue	135,278	37,074	98,204	264.8%
Total Revenue	7,120,086	6,199,504	920,582	14.8%
Operating Expenses – Cash	6,017,410	5,442,694	574,716	10.6%
Operating Expenses - Non Cash (Depr. & Bad Debt)	342,619	217,750	124,869	57.3%
Non-Operating Expenses	20,277	59,409	(39,132)	-65.80%
Restricted Expense	62,698	60,557	2,141	3.4%
Total Expenses	6,443,004	5,780,410	662,594	11.4%
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION	677,082	419,094	257,988	61.6%
Capital Contribution	43,300	34,686	8,614	24.8%
CHANGE IN NET POSITION	720,382	453,780	266,602	58.7%

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

- The Center's operating revenues increased by \$813,297 mainly due to increase in census and service connected to VA per diem.
- The Center's revenues are directly related to the number of resident days of patient care. The CSVC - Homelake has a 60 licensed bed capacity in the nursing home and the 48 unit domiciliary and the census must exceed 80% occupancy level or above to provide sufficient income to recognize a profit. A decrease in the needed occupancy level was achieved with the increased service connected per diem that began in February 2013. We achieved a profit at 76% versus 80% occupancy in Fiscal Year 2013 for the Center due to the vacancy savings in personnel and increased service connected residents.

**COLORADO STATE VETERANS CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

- Operating Expenses increased due to inflationary influence in the area of medical purchase services, and raw food, as well as State of Colorado directed benefit increase for staff and depreciation. Normally, there is minimal opportunity for the CSVC - Homelake to reduce expenses to any significant degree due to the nature of its operation, that of providing health care and quality of life for the residents. The facility monitors all expenses closely and conducts monthly reviews with each manager to discuss departmental expenses. Total cash expenses increased in Fiscal Year 2013 compared to Fiscal Year 2012.

- **Table B** reflects that the Center experienced a \$720,382 Net Gain during Fiscal Year 2013

BUDGETARY HIGHLIGHTS

The Center's Fiscal Year 2013 financial operations resulted in revenues, including capital contributions and non-operating revenue, above the budgeted amounts by \$106,035. This was a result of increases in service connected to VA per diem and increased patient revenue due to increases in the census. Cash and non-cash expenses were less than amounts budgeted by \$338,155. This was because the facility monitors all expenses closely and conducts monthly reviews with each manager to discuss departmental expenses. We also utilized vacancy savings in our personal services.

CAPITAL ASSETS AND DEBT ACTIVITIES

Capital Assets

During Fiscal Year 2013, CSVC - Homelake capitalized \$6,271,025 for domiciliary cottages renovation that was previously reported as construction in progress. In addition, the Center also acquired \$152,829 of other capital assets during Fiscal Year 2013.

Debt Activities

No additional debt was issued during the Fiscal Year 2013.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic factors continue to impact the Center's operations by increasing the costs associated with providing quality health care. A budget has been prepared for Fiscal Year 2014 that includes projections related to expenses and corresponding increases in revenues for skilled nursing care and domiciliary care. Expectations are that, subject to a stable census level and cost containment, CSVC-Homelake will continue to cover expenses with sufficient revenue to improve its net position in Fiscal Year 2014.

**COLORADO STATE VETERANS CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

CONTACTING COLORADO STATE VETERANS CENTER - HOMELAKE

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Colorado State Veterans Center – Homelake’s finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Manager of the Colorado State Veterans Center - Homelake at 3749 Sherman Ave, Monte Vista, CO 81144 or phone 719-852-8212.

**COLORADO STATE VETERANS NURSING HOME AT HOMELAKE
STATEMENT OF NET POSITION
JUNE 30, 2013**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,298,112
Restricted cash, resident funds	254,166
Accounts receivable (net of allowance for uncollectibles of \$12,596)	2,020
Due from other governments	377,766
Prepaid expenses	<u>19,901</u>
TOTAL CURRENT ASSETS	<u>3,951,965</u>

NONCURRENT ASSETS

Capital assets -	
Land	19,161
Buildings	12,574,733
Furniture and equipment	308,575
Vehicles	45,782
Software	47,570
Construction in progress	336,470
Accumulated depreciation	<u>(3,922,603)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>9,409,688</u>
TOTAL NON CURRENT ASSETS	<u>9,409,688</u>

TOTAL ASSETS	<u>13,361,653</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	\$ 140,144
Accrued salaries payable	327,119
Accrued interest payable	5,702
Other accrued liabilities	7,076
Deposits held in trust for residents	163,569
Current portion of capital lease	80,353
Current portion of liability for compensated absences	<u>35,066</u>
TOTAL CURRENT LIABILITIES	<u>759,029</u>

NONCURRENT LIABILITIES

Capital lease	643,195
Liability for compensated absences	<u>205,036</u>
TOTAL NONCURRENT LIABILITIES	<u>848,231</u>

TOTAL LIABILITIES	<u>1,607,260</u>
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NET POSITION

Net investment in capital assets	8,686,140
Restricted for resident purposes	90,597
Unrestricted	<u>2,977,656</u>

TOTAL NET POSITION	<u><u>\$ 11,754,393</u></u>
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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 POSITION
YEAR ENDED JUNE 30, 2013**

OPERATING REVENUE	
Patient charges for services	\$ 3,893,486
VA per diem reimbursement	2,767,412
Miscellaneous revenue	<u>26,425</u>
TOTAL OPERATING REVENUE	<u>6,687,323</u>
OPERATING EXPENSES	
Personnel services and employee benefits	4,765,896
Departmental indirect costs	13,330
Advertising	32,345
Building, laundry and recreational supplies	34,151
Care and subsistence - client benefits	632
Equipment rental	62,549
Food and food service supplies	229,140
Insurance	13,553
Medical and laboratory supplies	280,935
Office	45,298
Other operating expenses	57,273
Professional services	23,555
Repairs and maintenance	222,197
Non-capitalized equipment	50,989
Telephones	16,063
Utilities	155,906
Vehicles and travel	13,598
Depreciation	331,608
Bad debt expense	<u>11,011</u>
TOTAL OPERATING EXPENSES	<u>6,360,029</u>
OPERATING INCOME	<u>327,294</u>
NONOPERATING REVENUE (EXPENSES)	
State operating grant	297,485
Investment loss	(1,339)
Interest expense	(18,938)
Donations - resident funds	135,275
Interest income - resident funds	3
Recreation - resident funds	<u>(62,698)</u>
TOTAL NONOPERATING REVENUE	<u>349,788</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	677,082
CAPITAL CONTRIBUTIONS	<u>43,300</u>
CHANGE IN NET POSITION	720,382
NET POSITION, beginning of year	<u>11,034,011</u>
NET POSITION, end of year	<u>\$ 11,754,393</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, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from patients and third-party payors	\$ 3,934,477
Cash received from federal government	2,946,644
Cash payments to employees for services	(4,788,309)
Cash payments to suppliers for goods and services	(1,220,061)
Cash payments for other expenses	<u>(13,330)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>859,421</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State operating grant	<u>297,485</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>297,485</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(152,829)
Principal payment on capital leases	(58,963)
Interest payment on capital leases	(18,938)
Federal and state capital grants	<u>43,300</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(187,430)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	<u>(1,339)</u>
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(1,339)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

968,137

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

2,329,975

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 3,298,112

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ 327,294
Adjustments to reconcile operating income to net cash used by operating activities -	
Depreciation	331,608
Bad debt expense	11,011
Changes in assets and liabilities -	
Accounts receivable	193,798
Prepaid expenses	(19,901)
Accounts payable and accrued expenses	34,147
Liability for compensated absences	<u>(18,536)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 859,421

The accompanying notes are an integral part of this statement.

**COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of the Center have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center’s accounting policies are described below.

The Financial Reporting Entity

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

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

Fund Accounting

The Center uses an enterprise fund to report its net position, changes in net 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, deferred outflows of resources, if any, liabilities, and deferred inflows of resources, if any, are included on the Statement of Net Position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

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

Net Position

Net Position is classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – 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 position 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 position that does not meet the definition of “restricted” or “net investment in capital assets”.

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

Accounts Receivable

The Center’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 CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

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

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

Statement of Cash Flows

For purposes of the statement of cash flows, the Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents except that the Center 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, 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. Issue costs are expensed when incurred.

COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

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

New Accounting Pronouncements

During the year ended June 30, 2013, the Center implemented new GASB standards as follows:

- GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 GASB and AICPA Pronouncements. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. The implementation of this standard had no material effect on the Center's financial reporting as of and for the year ended June 30, 2013.
- GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. The effect of this standard essentially renamed the proprietary fund statement of net assets to the statement of net position. In addition, the proprietary fund statement of revenues, expenses and changes in net assets was also renamed to the statement of revenues, expenses and changes in net position.
- GASB Statement 65, Items Previously Reported as Assets and Liabilities. The objective of this statement, which is a companion standard to GASB 63, is to specifically identify certain items that were previously reported as assets or liabilities and now report those items as deferred outflows of resources or deferred inflows of resources. The effective date of this statement was for the year ended June 30, 2014, but the Center elected to early implement this standard to correspond with the implementation date for GASB 63. The implementation of this statement had no material effect on the Center's financial reporting as of and for the year ended June 30, 2013.

NOTE 2 – FINANCIAL STATEMENT PRESENTATION

The Center has a Patient Benefit fund and a Resident Trust fund that have been included with the enterprise proprietary fund for financial reporting purposes. The Patient Benefit fund reports donations from the public and is controlled by a committee consisting of resident representatives and other interested outside parties. This fund is used for various resident needs and activities and the assets, liabilities, net position, revenue, and expenses of this fund is included in the Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position. The Resident Trust fund consists of personal funds belonging to the individual residents and this fund's assets, and liabilities are reported in the Statement of Net Position. Since this fund is an agency fund, the additions and deletions of this fund are not included in the Statement of Revenues, Expenses, and Changes in Net Position. Below are the amounts from these funds included in the financial statements:

**COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 2 – FINANCIAL STATEMENT PRESENTATION (Cont'd)

Statement of Net Position

	June 30, 2013	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 90,596	\$ 163,569
 <u>Liabilities and Net Position</u>		
Deposits held in trust for residents	\$ -	\$ 163,569
Total Liabilities	-	163,569
 Net Position		
Restricted for resident purposes	90,596	\$ -
Total Liabilities and Net Position	\$ 90,596	\$ 163,569

Statement of Revenue, Expenses, and Changes in Net Position

	Year ended June 30, 2013	
	Patient Benefit Fund	
Nonoperating revenue		
Donations	\$ 135,275	
Interest income	3	
Total nonoperating revenue	135,278	
 Nonoperating expenses		
Recreation	62,699	
 Change in net position	72,579	
 Net position, beginning of year	18,017	
Net position, end of year	\$ 90,596	

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 1,500
Demand deposits	2,504
Cash with State Treasurer	3,294,108
	\$ 3,298,112

COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 3 – CASH AND CASH EQUIVALENTS (Cont'd)

Patient Benefit and Resident Funds

Cash on hand	\$ 50
Demand deposits	254,116
	\$ 254,166

At June 30, 2013, the carrying amount of the Center's deposits was \$256,620 and the bank balance was \$258,574. The entire bank balance was covered by federal depository insurance and held in PDPA qualified depository insitutions.

Custodial credit risk is the risk that, in the event of a bank failure, the Center's deposits may not be returned to it. The Center's policy for custodial credit risk parallels Colorado statutes as described above. At June 30, 2013, none of the Center's deposits were exposed to custodial credit risk because of federal depository insurance.

The Center deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities as outlined by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2013, the Center had cash on deposit with the State Treasurer of \$3,294,108, which represented approximately 0.045 percent of the total \$7,260.8 million fair value of deposits in the State Treasurer's Pool (Pool).

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year end. On the basis of the Center's participation in the Pool, the Center reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income (\$23,372 loss for the year ended June 30, 2013) reflects only the change in fair value for the fiscal year.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2013, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2013, approximately 88.5 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$41,074,270 of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

**COLORADO STATE VETERANS CENTER AT HOMELAKE
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2013**

NOTE 3 – CASH AND CASH EQUIVALENTS (Cont'd)

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2013, the weighted average maturity of investments in the Treasurer's Pool is 0.037 years for Commercial Paper (1.0 percent of the Pool), 1.321 years for U.S. Government Securities (63.9 percent of the Pool), 3.371 years for Asset Backed Securities (16.0 percent of the Pool), and 3.100 years for Corporate Bonds (19.1 percent of the Pool).

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2012-13.

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2013.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2013 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$12,596	<u>\$ 2,020</u>
Medicaid reimbursements	\$ 75,799
Medicare reimbursements	23,622
VA per diem reimbursements	268,285
VA construction reimbursements	<u>10,060</u>
Total due from other governments	<u>\$ 377,766</u>

COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 5 – CAPITAL ASSETS

Following is a summary of capital assets:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Nondepreciable assets –				
Land	\$ 19,161	\$ -	\$ -	\$ 19,161
Construction in progress	<u>6,607,495</u>	<u>-</u>	<u>6,271,025</u>	<u>336,470</u>
Total capital assets not being depreciated	<u>6,626,656</u>	<u>-</u>	<u>6,271,025</u>	<u>355,631</u>
Depreciable assets –				
Buildings	6,163,492	6,411,241	-	12,574,733
Furniture and equipment	318,940	12,613	22,978	308,575
Vehicles	45,782	-	-	45,782
Software	<u>47,570</u>	<u>-</u>	<u>-</u>	<u>47,570</u>
Total capital assets being depreciated	<u>6,575,784</u>	<u>6,423,854</u>	<u>22,978</u>	<u>12,976,660</u>
Less: accumulated depreciation for –				
Buildings	3,350,033	304,909	-	3,654,942
Furniture and equipment	170,588	26,699	22,798	174,309
Vehicles	45,782	-	-	45,782
Software	<u>47,570</u>	<u>-</u>	<u>-</u>	<u>47,570</u>
Total accumulated depreciation	<u>3,613,973</u>	<u>331,608</u>	<u>22,798</u>	<u>3,922,603</u>
Capital assets being depreciated, net	<u>2,961,811</u>	<u>6,092,246</u>	<u>-</u>	<u>9,054,057</u>
Total capital assets	<u>\$ 9,588,467</u>	<u>\$ 6,092,246</u>	<u>\$ 6,271,025</u>	<u>\$ 9,409,688</u>

**COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

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, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
\$800,871 capital lease: interest rate of 2.55%; due in quarterly installments of \$17,640 including principal and interest through 2022	\$ 607,402	\$ -	\$ 41,567	\$ 565,835
\$230,329 capital lease: interest rate of 4.078%; due in quarterly installments of \$7,244 including principal and interest through 2018	\$ 175,109	\$ -	\$ 17,396	\$ 157,713
Total	<u>\$ 782,511</u>	<u>\$ -</u>	<u>\$ 58,963</u>	<u>\$ 723,548</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, 2013	<u>(411,642)</u>
	<u>\$ 619,558</u>

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

Year Ending June 30,

2014	\$ 97,801
2015	97,801
2016	97,801
2017	97,801
2018	97,801
2019-2022	<u>316,290</u>
	805,295
Less amount representing interest	<u>(81,747)</u>
	<u>\$ 723,548</u>

**COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 7 – RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center's risks related to general liability, motor vehicle liability, worker's compensation and medical claims are covered under the self-insurance fund managed by the Department of Personnel & 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 Center's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require 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.

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. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. 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 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. For members with less than five years of service credit as of January 1, 2011 age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.

COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 8 – PENSION PLANS (Cont'd.)

- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 year of service, or age 65 with 5 years of service,
- Hired on or after January 1, 2017 - any age with 35 years of service, age 60 with 30 years of service, or age 65 with 3 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1 2011 and December 31, 2016 - age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 - age 60 and age plus years of service equals 90.

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 in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the National Consumer Price Index, limited or 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.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under 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.

COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 8 – PENSION PLANS (Cont'd.)

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.

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan.

From July 1, 2012 to December 31, 2012, the Center contributed 15.65 percent of the employee's salary. From January 1, 2013 through June 30, 2013, the Center contributed 16.55 percent. During all of the Fiscal Year 2012-2013, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2012, the division of PERA in which the Center participates has a funded ratio of 59.2 percent and a 53 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 60.2 percent.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5 percent of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4 percent of salary through 2017, to a maximum of 5 percent.

In the 2006 and 2010 legislative sessions, 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, for calendar years 2008 through 2017, to a maximum of 5 percent. The SAED will be deducted from the amount otherwise available to increase the Center's employees' salaries.

At a 103 percent funding ratio, both the AED and the SAED will be reduced by one-half percentage point, and for subsequent declines to below 90 percent funded both the AED and SAED will be increased by one-half percentage point.

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 Center's contributions to the PERA and/or the state defined contribution plan for the fiscal years ended June 30, 2013, 2012, and 2011 were \$444,511, \$327,222, and \$292,851, respectively. These contributions met the contribution requirement for each year.

COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 9 – OTHER RETIREMENT PLANS

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent of their salary. The temporary contribution rate increase to 10.5 percent effective in Fiscal Years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2012, the plan had 4,362 participants.

Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2012, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$17,000. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2012, for total contributions of \$22,500. Contributions and earnings are tax deferred. At December 31, 2012, the plan had 17,469 participants.

Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401k 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 10 – OTHER POSTEMPLOYMENT BENEFITS

Health Care Plan

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

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

COLORADO STATE VETERANS CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

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-B. Beginning July 1, 2004, the Center was required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. As required by statute, the Center contributed \$30,041, \$28,576, and \$27,717, in Fiscal Years 2012-13, 2011-12, and 2010-11, 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, 2012, there were 51,666 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2012, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.43 billion, a funded ratio of 16.5 percent, and a 66-year amortization period.

NOTE 11 – CONTINGENCIES AND COMMITMENTS

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

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

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



McPherson,
Breyfogle,
Daveline &
Goodrich, PC
Certified Public Accountants

503 N. Main Street, Suite 740

Pueblo, CO 81003

Phone (719) 543-0516

Fax (719) 544-2849

REQUIRED AUDITOR COMMUNICATION TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado State Veterans Center at Homelake (the Center) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, 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 6, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies and Practices

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Center are described in Note 1 to the financial statements. As described in the notes to the financial statements, the Authority adopted GASB statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 GASB and AICPA Pronouncements; GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; GASB Statement 65, Items Previously Reported as Assets and Liabilities. We noted no transactions entered into by the Center 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 5, 2013.

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 Center's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant Issues Discussed with Management

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

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

William R. Bryfogle, Director & Woodruff, PC

December 5, 2013

GOVERNMENT AUDITING

STANDARDS REPORT



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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, in accordance with the 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, the financial statements of the Colorado State Veteran's Center at Homelake (the Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lee Robinson, Principal, Darlene Woodruff, PK

December 5, 2013

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Report Control Number 1307-F