

**COLORADO VETERANS COMMUNITY LIVING CENTER-RIFLE**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORTS**

**YEAR ENDED JUNE 30, 2014**

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**COLORADO VETERANS COMMUNITY LIVING CENTER-RIFLE  
FINANCIAL AUDIT  
YEAR ENDED JUNE 30, 2014**

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December 11, 2014

Members of the Legislative Audit Committee

This report contains the results of a financial audit of the Colorado Veterans Community Living Center-Rifle. The audit was conducted pursuant to Section 2-3-103, C.R.S, which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Colorado Veterans Community Living Center-Rifle.

### **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 Veterans Community Living Center-Rifle (the Center) for its fiscal year ended June 30, 2014. The Center was previously known as the Colorado State Veterans Nursing Home at Rifle and this name change became effective August 21, 2014. MBDG, PC performed this 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.

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, 2014. This included a review of internal control 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.
- 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, 2014.

We did note a material weakness in the internal control over financial reporting, but no 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 Center 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 2010. The audit report for the year ended June 30, 2010 included three findings. The disposition of these audit recommendations as of August 23, 2014 was as follows:

Implemented	2
Partially implemented	1
Not implemented	<u>0</u>
Total	<u>3</u>

## RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	5	Work with the Department of Human Services to ensure that all revenue is recognized in the proper accounting period.	Colorado Veterans Community Living Center - Rifle	Agree	November, 2014

## DESCRIPTION OF THE CENTER

The Colorado Veterans Community Living Center-Rifle (the Center), established under Section 26-12-201, C.R.S., is a skilled-care nursing facility. It provides health services (including physician care, physical, speech, and occupational therapy, dietician consultation, dental care, and 24-hour licensed nursing care) and related social care to patients who are severely limited in their ability to care for themselves due to serious illness and/or disability.

The 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	89
Average daily census for the year ended June 30, 2014	69.5
Average occupancy percentage for the year ended June 30, 2014	76.9%
Average veterans occupancy percentage for the year ended June 30, 2014	77.9%
Patient days for the year ended June 30, 2014	25,004

## FINDINGS AND RECOMMENDATIONS

### **CONTROLS OVER THE RECORDING OF GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS**

The Colorado Veterans Community Living Center-Rifle (the Center) is a skilled nursing facility established under Section 26-12-201, C.R.S. The Center provides health services 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 is one of a 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. During the fiscal year 2014 the Center received \$2,384,201 from the VA which represents its per diem reimbursement and the Center also received \$133,732 as part of its federal capital grant.

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

The purpose of the audit work was to assess the adequacy of the Center's internal controls over financial reporting and the recording of federal grants. Specifically, we reviewed the Center's recording of a federal grant received for construction of renovations and facility upgrades. The Center was awarded a federal grant in Fiscal Year 2012; the grant award totaled up to \$2,447,491 but was not to exceed 65% of the actual costs of the renovations as determined by the final audit. During the Fiscal Year ended June 30, 2013, the Center requested and received \$2,242,635 of these grant funds, which were the result of the Center incurring qualifying expenditures.

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

We obtained and reviewed the "memorandum of agreement for a grant to a state veterans nursing home under 38 CFR part 59" made between the federal government and the Colorado Department of Human Services, Division of State and Veterans Nursing Homes, in order to assess the applicable provisions of the agreement and to determine if the department and the Center met the requirements of the agreement. The purpose of the memorandum of agreement was to outline the basic provisions and requirements associated with the award. As outlined in the memorandum of agreement, the essential purpose was to provide funding for renovations, including facility upgrades and energy conservation measures. We also initiated and completed research of Governmental Accounting Standards Board (GASB) statement 33, "Accounting and Financial Reporting for Nonexchange Transactions," along with a review of the GASB's comprehensive implementation guide. Finally, we reviewed the accounting entries made by the Center to record the federal revenue and qualifying expenditures associated with the grant.

Generally accepted accounting principles provides that, for expenditure driven grants, grant revenue should be recognized as qualifying expenditures are incurred. Since the memorandum of agreement clearly identifies the award as an expenditure driven grant, we compared amounts reported in the financial statements to our expectations based on the provisions of generally accepted accounting principles.



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

We found that the Center did not accurately record federal grant funds received during Fiscal Year 2013, which initially caused the beginning and ending balances for Fiscal Year 2014 to be misstated. Specifically, of the \$2,242,635 of federal grant funds received during the fiscal year ended June 30, 2013, the Center recorded \$699,094 as "deferred revenue-federal advance"(a liability) which is not in accordance with generally accepted accounting principles. We found that the staff at the Center responsible for recording the appropriate entries for Fiscal Year 2013 did not fully consider the provisions of generally accepted accounting principles. As a consequence, that oversight resulted in the Center's liabilities being overstated by \$699,094 at June 30, 2013 and federal revenue/capital contributions understated by the same amount. As such, during our Fiscal Year 2014 audit work, we proposed a prior period adjustment totaling \$699,094 so as to recognize the federal revenue/capital contribution in Fiscal Year 2013 since that was the year in which the qualifying expenditures were incurred. The Center subsequently recorded the proposed adjustments and corrected the misstatement.

***Why did the problem occur?***

This error occurred because accounting staff did not have sufficient knowledge of generally accepted accounting principles related to recording federal awards. Specifically, accounting personnel indicated that they believed a portion of the federal award received during the Fiscal Year ended June 30, 2013, should be reported as "deferred revenue-federal advance" at June 30, 2013, based on a similar circumstance encountered in a prior year. In addition, Center staff believed a portion of the federal revenue received during Fiscal Year 2013 should be deferred and accreted to revenue over the life of the capital lease that the Center entered into in a prior year which represented the Center's 35% matching share.

***Why does the problem matter?***

The Center is responsible for accurate accounting in applying generally accepted accounting principles when recording federal grants. If the Center does not appropriately recognize and record federal grants, this could impact the Center's ability to receive further grants.

**Classification of Finding:** Material weakness

**Recommendation No. 1:**

The Colorado Veterans Community Living Center-Rifle should implement appropriate internal controls to ensure that generally accepted accounting principles are considered along with other relevant factors in determining proper revenue recognition, particularly as it relates to significant and infrequent transactions. In addition, accounting staff should receive additional training related to the application of generally accepted accounting principles related to the Center's activities.

**The Colorado Veterans Community Living Center-Rifle's Response:**

Agree. The State Veteran Community Living Centers will coordinate all applicable transactions with accounting to ensure generally accepted accounting principles are followed. Additionally, training gaps will be identified and rectified. Implemented and on going.

## DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

Following are the audit recommendations for the year ended June 30, 2010, and their disposition at August 23, 2014.

<u>Recommendation</u>	<u>Disposition</u>
Recommendation No. 1 - The Center should use available resources to put systems in place and prepare the annual financial statements in accordance with GAAP, such as resources within the Department of Human Services' Division of Accounting and the Office of the State Controller's Field Accounting Services Team.	Fully implemented.
Recommendation No. 2 - The Center should create and implement policies and procedures to improve the controls over the recording of accounts receivable and accounts payable to ensure transactions are handled appropriately and balances are complete and accurate. In addition, the Center should investigate and resolve the unidentified credit balances totaling \$190,748.	Fully implemented.
Recommendation No. 3 - Center management and the Department of Human Services should continue to work on the plan to reverse the operating trends and repay the loan to the State Treasurer. In addition, management should continue to monitor the progress of the plan on a regular basis and make adjustments as necessary.	Partially implemented. The Center has reversed operating trends and is currently working to repay the loan.

**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 Veterans Community Living Center-Rifle (the Center), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectability comprise the Center's basic financial statements as noted 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 on these financial statements based on our audit. 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 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 Veterans Community Living Center-Rifle, an enterprise fund of the State of Colorado, as of June 30, 2014, and the changes in its 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 10-14 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 Veterans Community Living Center-Rifle, 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, 2014, 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 11, 2014, 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, Duvich & Goodrich, PC*

December 11, 2014

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section, prepared by the Colorado Community Living Center at Rifle (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, 2014. 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 2014 performance, and are incorporated and referred to throughout this Management Discussion and Analysis. The analysis below includes comparative information from fiscal year 2013 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, comparing fiscal year 2014 to fiscal year 2013, the following highlights have been identified.

- The Center's Total Assets decreased by \$150,353, which is a 2.6% decrease from fiscal year 2013.
- The Center's Total Operating Revenue increased by \$456,085, which is a 5.8% increase from fiscal year 2013.
- The Center's Cash Operating Expenditures increased \$423,215, which is a 5.4% increase from fiscal year 2013.
- The Center's change in Net Position for fiscal year 2014 was \$56,662. The Center's change in Net Position for fiscal year 2013 was \$1,837,461.

**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 2014 Projections. The Financial Analysis includes notes, discussing in varying detail, the information in the financial statements as summarized in Table A and Table B.

**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.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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

The Statement of Revenues, Expenses, and Changes in Net Position (see Table B) include 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 rate 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 Veterans Community Living Center at Rifle (Center) 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". The Center is within the Division of State and Veterans Community Living Centers, Office of Community Access and Independence, Department of Human Services, State of Colorado.

The Center operates as a self-supporting enterprise, meaning the revenue received from residents and other third parties, and cash surplus must be adequate to cover the expenses of day-to-day operations of the Center. The State of Colorado does not intend to provide funds to operate the Center. Financial Management Reports are reviewed monthly at the executive management level of the Center 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.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

TABLE A  
Condensed Statement of Net Position

	2014	2013	Dollar Change	Total Percent Change
Current Assets	1,251,598	1,567,815	(316,217)	-20.2%
Current Assets-Restricted	91,253	103,236	(11,983)	-11.6%
Non-Current Assets	4,180,852	4,003,005	177,847	4.4%
<b>Total Assets (excluding restricted)</b>	<b>5,432,450</b>	<b>5,570,820</b>	<b>(138,370)</b>	<b>-2.5%</b>
<b>Total Restricted Assets</b>	<b>91,253</b>	<b>103,236</b>	<b>(11,983)</b>	<b>-11.6%</b>
<b>TOTAL ASSETS</b>	<b>5,523,703</b>	<b>5,674,056</b>	<b>(150,353)</b>	<b>-2.6%</b>
Current Liabilities	2,475,523	2,677,396	(201,873)	-7.5%
Current Liabilities-Restricted	29,840	29,060	780	2.7%
Non-Current Liabilities	1,311,077	1,316,999	(5,922)	-0.4%
<b>TOTAL LIABILITIES</b>	<b>3,816,440</b>	<b>4,023,455</b>	<b>(207,015)</b>	<b>-5.1%</b>
Net Position Invested in Capital Assets	3,110,689	2,917,029	193,660	6.6%
Restricted for resident purposes	61,413	74,176	(12,763)	-17.2%
Unrestricted	(1,464,839)	(1,340,604)	(124,235)	-9.3%
<b>Total Net Position</b>	<b>1,707,263</b>	<b>1,650,601</b>	<b>56,662</b>	<b>3.4%</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>5,523,703</b>	<b>5,674,056</b>	<b>(150,353)</b>	<b>-2.64%</b>

As shown in **Table A**, the Center's Total Assets decreased by \$150,353 to \$5,523,703 in fiscal year 2014 from \$5,674,056 in fiscal year 2013. The major reason for the decrease was a collection of a receivable from other governments during fiscal year 2014.

The decrease in Total Liabilities of \$207,015 for the same period is also shown in Table A and is primarily due to a decrease in the amount owed to the State Treasurer.

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

The Statement of Revenues, Expenses, and Change in Net Position provides 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's for fiscal year 2014 as compared to the previous year.



**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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

	2014	2013	Dollar Change	Total Percent Change
Total Operating Revenue	8,369,644	7,913,559	456,085	5.8%
Non-Operating Revenue	127,174	133,844	(6,670)	-5.0%
Restricted Revenue	15,725	22,579	(6,854)	-30.4%
<b>Total Revenue</b>	<b>8,512,543</b>	<b>8,069,982</b>	<b>442,561</b>	<b>5.5%</b>
Operating Expenses – Cash	8,230,231	7,807,016	423,215	5.4%
Operating Expenses - Non Cash (Depr. & Bad Debt)	294,663	161,809	132,854	82.1%
Non-Operating Expenses	36,231	359,052	(322,821)	-90.0%
Restricted Expense	28,488	143,474	(114,986)	-80.1%
<b>Total Expenses</b>	<b>8,589,613</b>	<b>8,471,351</b>	<b>118,262</b>	<b>1.4%</b>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION</b>	<b>(77,070)</b>	<b>(401,369)</b>	<b>324,299</b>	<b>80.8%</b>
Capital Contribution	133,732	2,238,830	(2,206,098)	-98.5%
<b>CHANGE IN NET POSITION</b>	<b>56,662</b>	<b>1,837,461</b>	<b>(1,780,799)</b>	<b>-96.9%</b>

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 \$456,085 mainly due to additional VA per diem revenues earned that were related to military service connected injuries.
- The Operating Expenses increased due to inflationary influence in the area of medical purchased services as well as State of Colorado benefit and salary increases for staff. Normally, there is minimal opportunity for the Center to reduce expenses to any significant degree due to the nature of its operation, that of providing health care and quality of life for the residents.
- The significant change in capital contribution is related to the capital grant received in fiscal year 2013.
- **Table B** reflects that in FY2014, The Center experienced a net loss position with expenses exceeding revenues.

**BUDGETARY HIGHLIGHTS**

The Center's Fiscal Year 2014 financial operations resulted in revenues, including capital contribution and non-operating revenue, below the budgeted amounts by \$99,410. This was a result of decreases in patient revenue. Cash and non-cash expenses were over budgeted amounts by \$100,005 due to increased medical expenses. The medical expenses were higher than the budget due to increases in the level of care.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

The Center continues to monitor all expenses closely and conducts monthly reviews with each manager to discuss departmental expenses.

**CAPITAL ASSETS AND DEBT ACTIVITIES**

*Capital Assets*

During fiscal year 2014 the Center invested a total of \$449,548 in capital assets. This investment was construction in progress and related to the VA construction project.

*Debt Activities*

During the fiscal year 2014, the Center had \$1,085,976 lease agreement. The interest rate is 3.35% and payments are due in quarterly installments of \$15,810 including principal and interest for the lease. Interest increases annually by approximately 5% per year through July 2027.

During the fiscal year 2014, the Center had a balance due to the State Treasurer in the amount of \$2,094,460, which due to operating losses in prior years.

**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 2015 that includes projections related to expenses and corresponding increases in revenues for the skilled nursing care. The Center has shown progress towards reversing the negative income trend and will continue this focus. Expectations are that, subject to a stable census level and cost containment, the Center will make the effort to cover expenses with sufficient revenue to improve its balance sheet position in fiscal year 2015.

**CONTACTING COLORADO STATE VETERANS CENTER - HOMELAKE**

This financial report is designed to provide citizen taxpayers, customers, investors, and creditors with a general overview of the Colorado Veterans Community Living Center at Rifle'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 Veterans Community Living Center at Rifle at 851 E. 5<sup>th</sup> Street, Rifle, CO 81650 or phone 970.625.0842.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 117,420
Restricted cash, resident funds	91,253
Accounts receivable (net of allowance for uncollectibles of \$25,074)	66,065
Due from other governments	1,065,296
Prepaid expenses	<u>2,817</u>
TOTAL CURRENT ASSETS	<u>1,342,851</u>

NONCURRENT ASSETS

Capital assets -	
Land	131,626
Buildings	4,975,952
Furniture and equipment	226,491
Vehicles	60,733
Software	78,683
Construction in progress	2,634,148
Accumulated depreciation	<u>(3,926,781)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>4,180,852</u>
TOTAL NON CURRENT ASSETS	<u>4,180,852</u>

TOTAL ASSETS	<u>5,523,703</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	\$ 139,727
Accrued salaries payable	171,766
Accrued interest payable	6,335
Due to state treasurer	2,094,460
Deposits held in trust for residents	29,840
Current portion of capital lease	30,200
Current portion of liability for compensated absences	<u>33,035</u>
TOTAL CURRENT LIABILITIES	<u>2,505,363</u>

NONCURRENT LIABILITIES

Capital lease	1,039,963
Liability for compensated absences	<u>271,114</u>
TOTAL NONCURRENT LIABILITIES	<u>1,311,077</u>

TOTAL LIABILITIES	<u>3,816,440</u>
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NET POSITION

Net investment in capital assets	3,110,689
Restricted for resident purposes	61,413
Unrestricted	<u>(1,464,839)</u>

TOTAL NET POSITION	<u>\$ 1,707,263</u>
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The accompanying notes are an integral part of this statement.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2014**

OPERATING REVENUE	
Patient charges for services	\$ 5,982,346
VA per diem reimbursement	2,384,201
Miscellaneous revenue	<u>3,097</u>
TOTAL OPERATING REVENUE	<u>8,369,644</u>
OPERATING EXPENSES	
Personnel services and employee benefits	6,190,023
Departmental indirect costs	311,202
Advertising	16,119
Building, laundry and recreational supplies	48,222
Care and subsistence - client benefits	1,021
Equipment rental	101,042
Food and food service supplies	228,005
Insurance	299,912
Medical and laboratory supplies	632,150
Office	34,176
Other operating expenses	57,579
Professional services	27,470
Repairs and maintenance	104,987
Non-capitalized equipment	13,426
Telephones	21,104
Utilities	132,991
Vehicles and travel	10,802
Depreciation	271,700
Bad debt expense	<u>22,963</u>
TOTAL OPERATING EXPENSES	<u>8,524,894</u>
OPERATING INCOME (LOSS)	<u>(155,250)</u>
NONOPERATING REVENUE (EXPENSES)	
State operating grant	127,174
Interest expense	(36,231)
Donations - resident funds	14,241
Interest income - resident funds	1,484
Recreation - resident funds	<u>(28,488)</u>
TOTAL NONOPERATING REVENUE	<u>78,180</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	(77,070)
CAPITAL CONTRIBUTIONS	<u>133,732</u>
CHANGE IN NET POSITION	56,662
NET POSITION, beginning of year	<u>1,650,601</u>
NET POSITION, end of year	<u>\$ 1,707,263</u>

The accompanying notes are an integral part of this statement.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2014**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from patients and third-party payors	\$ 5,960,355
Cash received from federal government	2,754,736
Cash payments to employees for services	(6,174,887)
Cash payments to suppliers for goods and services	(1,756,240)
Cash payments for other expenses	<u>(321,739)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>462,225</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Repayment of State Treasurer advances	(164,410)
State operating grant	<u>127,174</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(37,236)</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	(449,548)
Principal payment on capital leases	(15,812)
Interest payment on capital leases	(37,362)
Capital contribution	<u>133,732</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(368,990)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	55,999
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>61,421</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 117,420</u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (155,250)
Adjustments to reconcile operating income to net cash used by operating activities -	
Depreciation	271,700
Bad debt expense	22,963
Changes in assets and liabilities -	
Accounts receivable	349,252
Prepaid expenses	(31,281)
Accounts payable and accrued expenses	(3,805)
Liability for compensated absences	<u>8,646</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 462,225</u>

The accompanying notes are an integral part of this statement.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

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

The Colorado Veterans Community Living Center-Rifle (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.

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 VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**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 VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**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:

Land Improvements	8-20 years
Buildings	15-40 years
Furniture and equipment	3-15 years
Vehicles	10 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.



**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**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:

**Statement of Net Position**

	June 30, 2014	
	<u>Patient Benefit Fund</u>	<u>Resident Trust Fund</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 61,413	\$ 29,840
<u>Liabilities and Net Position</u>		
Deposits held in trust for residents	\$ -	\$ 29,840
Total Liabilities	-	29,840
<u>Net Position</u>		
Restricted for resident purposes	61,413	\$ -
Total Liabilities and Net Position	\$ 61,413	\$ 29,840

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

	Year ended June 30, 2014
	<u>Patient Benefit Fund</u>
<u>Nonoperating revenue</u>	
Donations	\$ 14,241
Interest income	1,484
Total nonoperating revenue	15,725
<u>Nonoperating expenses</u>	
Recreation	28,488
Change in net position	(12,763)
Net position, beginning of year	74,176
Net position, end of year	\$ 61,413

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 3 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 1,000
Demand deposits	116,420
Cash with State Treasurer	-
	<u>\$ 117,420</u>
 <u>Patient Benefit and Resident Funds</u>	
Cash on hand	\$ 525
Demand deposits	90,728
	<u>\$ 91,253</u>

At June 30, 2014, the carrying amount of the Center's deposits was \$207,148 and the bank balance was \$211,543. The entire bank balance was covered by federal depository insurance. Colorado law requires that a depository institution must apply for and be designated as an eligible public depository before the institution can accept public fund monies. The depository institution must pledge eligible collateral as security for all public deposits held by that institution that are not insured by depository insurance. The market value of the collateral that each institution pledges as security must equal at least 102% of the total uninsured deposits held by that institution. Generally, the eligible collateral in the collateral pools is held by the depository institution or its agent in the name of the depository institution

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, 2014, none of the Center's deposits were exposed to custodial credit risk because of federal depository insurance.

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2014 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$25,074	<u>\$ 66,065</u>
Medicaid reimbursements	\$ 220,579
Medicare reimbursements	253,877
VA per diem reimbursements	414,881
VA construction reimbursements	<u>175,959</u>
 Total due from other governments	 <u>\$ 1,065,296</u>

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 5 – CAPITAL ASSETS**

Following is a summary of capital assets:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Nondepreciable assets –				
Land	\$ 54,200	\$ -	\$ -	\$ 54,200
Construction in progress	<u>3,193,724</u>	<u>449,548</u>	<u>1,009,124</u>	<u>2,634,148</u>
Total capital assets not being depreciated	<u>3,247,924</u>	<u>449,548</u>	<u>1,009,124</u>	<u>2,688,348</u>
Depreciable assets –				
Land improvements	77,426	-	-	77,426
Buildings	3,966,828	1,009,124	-	4,975,952
Furniture and equipment	226,491	-	-	226,491
Vehicles	60,733	-	-	60,733
Software	<u>78,683</u>	<u>-</u>	<u>-</u>	<u>78,683</u>
Total capital assets being depreciated	<u>4,410,161</u>	<u>1,009,124</u>	<u>-</u>	<u>5,419,285</u>
Less: accumulated depreciation for –				
Land improvements	74,559	410	-	74,969
Buildings	3,253,123	263,805	-	3,516,928
Furniture and equipment	187,983	7,485	-	195,468
Vehicles	60,733	-	-	60,733
Software	<u>78,683</u>	<u>-</u>	<u>-</u>	<u>78,683</u>
Total accumulated depreciation	<u>3,655,081</u>	<u>271,700</u>	<u>-</u>	<u>3,926,781</u>
Capital assets being depreciated, net	<u>755,080</u>	<u>737,424</u>	<u>-</u>	<u>1,492,504</u>
Total capital assets	<u>\$ 4,003,004</u>	<u>\$ 1,186,972</u>	<u>\$ 1,009,124</u>	<u>\$ 4,180,852</u>

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 6 – CAPITAL LEASE**

The following is a summary of changes in the capital lease for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
\$1,085,976 capital lease: interest rate of 3.35%; due in quarterly installments of \$15,810 including principal and interest increasing annually by approximately 5% per year through July 2027	\$ 1,085,976	\$ -	\$ 15,813	\$ 1,070,163
Total	<u>\$ 1,085,976</u>	<u>\$ -</u>	<u>\$ 15,813</u>	<u>\$ 1,070,163</u>

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

Conservation project	\$ 1,085,976
Accumulated depreciation as of June 30, 2014	<u>( 108,300)</u>
	<u>\$ 977,676</u>

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

Year Ending June 30,

2015	\$ 65,683
2016	79,758
2017	87,207
2018	91,394
2019	95,788
2020-2027	<u>938,016</u>
	1,357,846
Less amount representing interest	<u>(287,683)</u>
	<u>\$ 1,070,163</u>

**NOTE 7 – DUE TO STATE TREASURER**

The Center is indebted to the State Treasurer for cumulative prior non-interest bearing advances by the Treasurer to cover cash flow shortages for the Center's daily operations, including personnel, medical supplies and drugs, and food necessary to provide care to residents. The balance due to the State Treasurer at June 30, 2014 was \$2,094,460.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 8 – 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 9 – 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 PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

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 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.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 9 – PENSION PLANS (Cont'd.)**

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 (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- Hired between January 1, 2007 and December 31, 2010 – 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.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, 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 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – 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.

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

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.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 9 – PENSION PLANS (Cont'd.)**

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 to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- 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 the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

**B. FUNDING POLICY**

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

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2012, the temporary contribution rate increase of 2.5 percent for members in the State and Judicial Divisions to replace the 2.5 percent reduction in employer contributions effective for Fiscal Years 2010-11 and 2011-12 expired.

From July 1, 2013, to December 31, 2013, the State contributed 16.55 percent (19.25 percent for state troopers and 17.36 percent for the Judicial Branch) of the employee's salary. From January 1, 2014, through June 30, 2014, the state contributed 17.45 percent (20.15 percent for state troopers and 17.36 percent for the Judicial Branch). During all of Fiscal Year 2013-14, 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, 2013, the division of PERA in which the State participates has a funded ratio of 57.5 percent and a 60 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 61.0 percent.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 9 – PENSION PLANS (Cont'd.)**

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 (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

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 (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State 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. For the Judicial Division, if the funding ratio reaches 90 percent and subsequently declines, 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 department/institution's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2014, 2013, and 2012 were \$714,862, \$643,447, and \$543,097, respectively. These contributions met the contribution requirement for each year.

**NOTE 10 – 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 (10 percent for state troopers) of their salary. The temporary contribution rate increase to 10.5 percent (12.5 percent for State Troopers) effective in Fiscal Years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2013, the plan had 4,719 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 2013, 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 \$17,500. The reduction for the 8 percent PERA contribution reflects the expiration of the temporary contribution.



**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 10 – OTHER RETIREMENT PLANS (cont'd)**

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 11 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE**

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.

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, state agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The department/agency/institution contributed \$45,646, \$43,527, and \$47,483 as required by statute in Fiscal Years 2013-14, 2012-13, and 2011-12, 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, 2013, there were 53,041 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2013, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.26 billion, a funded ratio of 18.8 percent, and a 30-year amortization period.

**COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 12 – 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.

**NOTE 13 – NET POSITION**

Net Position at July 1, 2013 has been restated from amounts previously reported as follows:

Net position at July 1, 2013, as previously reported	\$ 951,508
Prior period adjustment to record capital contribution from federal grant revenue	<u>699,094</u>
Net position at July 1, 2013, as restated	<u>\$ 1,650,602</u>

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



503 N. Main Street, Suite 740  
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Phone (719) 543-0516  
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## REQUIRED AUDITOR COMMUNICATION TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado Veterans Community Living Center-Rifle (the Center) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in the engagement letter dated May 13, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

We noted and reported a material weakness in internal control over financial reporting related to the recognition of capital contributions in the proper accounting period.

### *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. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2014. 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.

The financial statement disclosures are neutral, consistent and clear.

### *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. The following material misstatement detected as a result of audit procedures was corrected by management:

Prior period adjustment totaling \$699,094 to recognize revenue/capital contribution from a federal grant that was reported as a current liability at June 30, 2014 by the Center.

### *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 11, 2014.

### *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.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the 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.

### Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consist of inquiries of management regarding the methods of preparing the information and comparing

the information for consistency with management's response to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express our opinion or provide any assurance on the RSI.

*Restriction on Use*

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.

*McPherson, Brayfogel, Davlin & Goodrich, PC*

December 11, 2014

**GOVERNMENT AUDITING**

**STANDARDS REPORT**



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

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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 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 Veterans Community Living Center - Rifle (the Center), as of and for the year ended June 30, 2014, 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 11, 2014.

**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 our 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

*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. We consider the deficiency described in the accompanying schedule of findings and recommendations to be a material weakness.



## **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.

## **The Center's Response to Findings**

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control 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.

*Mr. Pearson, Bryfogle, Davine & Goodrich, PC*

December 11, 2014

## LIMITATIONS ON DISCLOSURE OF INFORMATION CONTAINED IN THIS DOCUMENT

The enclosed report is being distributed to you at this time for your information in accordance with Colorado Revised Statutes (CRS).

SECTION 2-3-103(2) states in part:

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).

SECTION 2-3-103.7(1) states in part:

Any state employee **or other individual acting in an oversight role as a member of a committee, board or commission** who willfully and knowingly discloses the contents of any report prepared by, or at the direction of, the State Auditor's Office prior to **the release of such report by a majority vote** of the committee as provided in Section 2-3-103(2) is guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars (emphasis supplied).