

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER-FLORENCE**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORTS**

**YEAR ENDED JUNE 30, 2015**

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**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER-FLORENCE  
FINANCIAL AUDIT  
YEAR ENDED JUNE 30, 2015**

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February 8, 2016

Members of the Legislative Audit Committee

This report contains the results of a financial audit of the Bruce McCandless Colorado State Veterans Community Living Center-Florence. 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 Bruce McCandless Colorado State Veterans Community Living Center-Florence.

### **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 Bruce McCandless Colorado State Veterans Community Living Center-Florence (the Center) for its fiscal year ended June 30, 2015. The Center was previously known as the Bruce McCandless Colorado State Veterans Nursing Home at Florence 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, 2015. 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, 2015.

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

The audit report for the year ended June 30, 2011 did not identify any findings or recommendations.

## DESCRIPTION OF THE CENTER

The Bruce McCandless Colorado State Veterans Community Living Center-Florence (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 Community Living Centers, within the Colorado Department of Human Services.

### **WORKLOAD AND STATISTICAL FACTORS**

Authorized capacity	105
Average daily census for the year ended June 30, 2015	84
Average occupancy percentage for the year ended June 30, 2015	80.0%
Average veterans occupancy percentage for the year ended June 30, 2015	88.0%
Patient days for the year ended June 30, 2015	30,329

## **FINDINGS AND RECOMMENDATIONS**

We have audited the financial statements of the Bruce McCandless Colorado State Veterans Community Living Center (the Center) for the year ended June 30, 2015 and have issued our report thereon dated February 8, 2016. 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. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated February 8, 2016 on our consideration of the Center's internal control over financial reporting and on compliance and other matters and our tests of its compliance with requirements of laws, regulations, contracts, and grants.

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

During our engagement, we did not note any new matters involving internal control that are presented for the Center's consideration.

\* \* \* \* \*

## **DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS**

There were no audit recommendations made by MBDG, P.C. included in the report to the Legislative Audit Committee for the year ended June 30, 2011.

**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 Bruce McCandless Colorado State Veterans Community Living Center-Florence (the Center), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively 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 Bruce McCandless Colorado State Veterans Community Living Center-Florence, an enterprise fund of the State of Colorado, as of June 30, 2015, 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.

## **Emphasis of Matter**

### *Financial Statement Presentation*

As discussed in Note 1, the financial statements present only the Bruce McCandless Colorado State Veterans Community Living Center-Florence and do not purport to, and do not present fairly the financial position of the State of Colorado, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Change in Accounting Principle*

As described in Note 8 to the financial statements, the Center has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* in fiscal year 2015. Our opinion is not modified with respect to these matters.

## **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 7-11 and the schedule of the Center's proportionate share of the net pension liability on page 32 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 Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2016, 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, Breysse, Paveha, & Goodrich, PC*

February 8, 2016

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER AT FLORENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section, prepared by the Bruce McCandless Colorado State Veterans Community Living Center-Florence (the Center) 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, 2015. The financial statements represent amounts reported on the CORE, (Colorado Operating Resource Engine) financial reporting system and reflect the Center's fiscal year 2015 performance. The analysis below includes comparative information from fiscal year 2014 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 \$123,566, which is a 1.0% increase from fiscal year 2014.
- The Center's Total Operating Revenue increased by \$368,856, which is a 3.3% increase from fiscal year 2014.
- The Center's Cash Operating Expenditures increased \$733,035, which is a 6.9% increase from fiscal year 2014.
- The Center's Change in Net Position decreased by \$1,107,676 which is a 390.1% decrease from fiscal year 2014.

**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 2016 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.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER AT FLORENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

***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 includes 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 Bruce McCandless Colorado State Veterans Community Living Center-Florence (Center) is a State of Colorado Agency with the general mission: "to honor and respect those living and working in our home through companionship, empowerment, and individualized care while providing a comfortable and safe place to live". The Center is operated by the Division of State and Veterans Community Living Centers, within the State of Colorado's Department of Human Services.

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 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.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER AT FLORENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

TABLE A  
Condensed Statement of Net Position

	2015	2014	Dollar Change	Total Percent Change
Current Assets	8,072,403	7,497,980	574,423	7.7%
Current Assets-Restricted	72,146	70,006	2,140	3.1%
Non-Current Assets	4,972,765	5,425,762	(452,997)	-8.3%
<b>Total Assets (excluding restricted)</b>	<b>13,045,168</b>	<b>12,923,742</b>	<b>121,426</b>	<b>0.9%</b>
<b>Total Restricted Assets</b>	<b>72,146</b>	<b>70,006</b>	<b>2,140</b>	<b>3.1%</b>
<b>TOTAL ASSETS</b>	<b>13,117,314</b>	<b>12,993,748</b>	<b>123,566</b>	<b>1.0%</b>
Deferred outflows of resources related to pension	1,262,321	-	1,262,321	
Current Liabilities	1,182,117	900,513	281,604	31.3%
Current Liabilities-Restricted	32,019	30,241	1,778	5.9%
Non-Current Liabilities	20,241,050	752,101	19,488,949	2,591.3%
<b>TOTAL LIABILITIES</b>	<b>21,455,186</b>	<b>1,682,855</b>	<b>19,772,331</b>	<b>1,174.9%</b>
Deferred inflows of resources related to pension	1,452	-	1,452	
Net Position Invested in Capital Assets	4,661,427	5,023,172	(361,745)	-7.2%
Restricted for resident purposes	40,127	39,765	362	0.9%
Unrestricted	(11,778,557)	6,247,956	(18,026,513)	-288.5%
<b>TOTAL NET POSITION</b>	<b>(7,077,003)</b>	<b>11,310,893</b>	<b>(18,387,896)</b>	<b>-162.6%</b>

As shown in **Table A**, the Center's Total Assets increased by \$123,566 to \$13,117,314 in fiscal year 2015 from \$12,993,748 in fiscal year 2014. The majority of this increase is a result of the net of increases in cash and equivalents and decreases in account receivable.

The increase in deferred outflows of resources related to pensions and deferred inflows of resources related to pensions is the result of the State of Colorado's implementation of GASB 68 (Accounting and Financial Reporting for Pensions) in FY15. The same reason caused the increase in Total Liabilities of \$19,772,331 for the same period shown in Table A.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER AT FLORENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

*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 2015 as compared to the previous year.

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

	2015	2014	Dollar Change	Total Percent Change
Total Operating Revenue	11,494,706	11,125,850	368,856	3.3%
Non-Operating Revenue	245,139	226,476	18,663	8.2%
Restricted Revenue	29,520	23,054	6,466	28.0%
<b>Total Revenue</b>	<b>11,769,365</b>	<b>11,375,380</b>	<b>393,985</b>	<b>3.5%</b>
Operating Expenses – Cash	11,280,675	10,547,640	733,035	6.9%
Operating Expenses - Non Cash (Pension expense (GASB 68) Depr., & Bad Debt)	1,292,051	510,914	781,137	152.9%
Non-Operating Expenses	6,914	8,734	(1,820)	-20.8%
Restricted Expense	29,159	24,139	5,020	20.8%
<b>Total Expenses</b>	<b>12,608,799</b>	<b>11,091,427</b>	<b>1,517,372</b>	<b>13.7%</b>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION</b>	<b>(839,433)</b>	<b>283,953</b>	<b>(1,123,386)</b>	<b>-395.6%</b>
Capital Contribution	15,710	0	15,710	N/A
<b>CHANGE IN NET POSITION</b>	<b>(823,723)</b>	<b>283,953</b>	<b>(1,107,676)</b>	<b>-390.1%</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 \$368,856 mainly due to the increase in military service connected VA (Veterans Affairs) per diem revenues. VA per diem revenues are related to conditions attributable to military service.
- The Operating Expenses increased due to the State of Colorado's implementation of GASB 68 and 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 expense to any significant degree due to the nature of its operation, that of providing health care and quality of life for the residents.
- **Table B** reflects that in FY2015, The Center experienced a net loss position with expenses exceeding revenues.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER AT FLORENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

**BUDGETARY HIGHLIGHTS**

The Center's Fiscal Year 2015 financial operations resulted in revenues, including capital contribution and non-operating revenue, below the budgeted amounts by \$366,686. This was a result of a decrease in patient census and related revenue. Cash and non-cash expenses were over budget by \$607,640 mostly due to requirements of GASB 68 related to pension expense.

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 2015, the Center invested a total of \$174,656 in capital assets. This investment included \$11,656 construction in progress, \$144,173 related to a flooring project and \$18,827 for two commercial dryers and a washer in the laundry room.

*Debt Activities*

During the fiscal year 2015, the Center has paid down capital lease debt of \$402,589 to \$311,338. No new debt was acquired during the year.

**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 2016 that includes projections related to expenses and corresponding increases in revenues for the skilled nursing care. Expectations are that, on an operating basis and subject to a stable census level and cost containment, the Center will cover cash expenses with sufficient revenue to improve its net position in fiscal year 2016.

**CONTACTING COLORADO STATE VETERANS CENTER - FLORENCE**

This financial report is designed to provide citizen taxpayers, customers, investors, and creditors with a general overview of the Bruce McCandless Colorado State Veterans Community Living Center-Florence'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 Bruce McCandless Colorado State Veterans Community Living Center-Florence at 903 Moore Drive, Florence CO 81226 or phone (719) 784-6331

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER-FLORENCE  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 6,997,417
Restricted cash, resident funds	72,146
Accounts receivable (net of allowance for uncollectibles of \$90,778)	479,651
Due from other governments(net of allowance for uncollectibles of \$1,628)	466,182
Other current assets	<u>129,153</u>
TOTAL CURRENT ASSETS	<u>8,144,549</u>

NONCURRENT ASSETS

Capital assets -	
Land and improvements	271,927
Buildings	9,208,083
Furniture and equipment	435,057
Vehicles	82,058
Software	54,025
Art and historical treasures	11,122
Construction in progress	84,083
Accumulated depreciation	<u>(5,173,590)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>4,972,765</u>

TOTAL ASSETS

13,117,314

Deferred outflows of resources related to pension

1,262,321

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	891,102
Accrued interest payable	22
Accrued other liabilities	129,646
Deposits held in trust for residents	32,019
Unearned revenue	8,700
Current portion of capital lease	93,954
Current portion of liability for compensated absences	<u>58,693</u>
TOTAL CURRENT LIABILITIES	<u>1,214,136</u>

NONCURRENT LIABILITIES

Capital lease	217,384
Liability for compensated absences	425,785
Net pension liability	<u>19,597,881</u>
TOTAL NONCURRENT LIABILITIES	<u>20,241,050</u>

TOTAL LIABILITIES

21,455,186

Deferred inflows of resources related to pension

1,452

NET POSITION

Invested in capital assets, net of related debt	4,661,427
Restricted for resident purposes	40,127
Unrestricted	<u>(11,778,557)</u>
TOTAL NET POSITION	<u>\$ (7,077,003)</u>

The accompanying notes are an integral part of the financial statements.



**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER-FLORENCE  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2015**

OPERATING REVENUE	
Patient charges for services	\$ 7,003,431
VA per diem reimbursement	4,354,494
Miscellaneous revenue	<u>136,781</u>
TOTAL OPERATING REVENUE	<u>11,494,706</u>
OPERATING EXPENSES	
Personnel services and employee benefits	7,089,060
Departmental indirect costs	723,240
Pension expense	1,809,623
Advertising	67,442
Care and subsistence - client benefits	58,953
Equipment rental	87,366
Food and food service supplies	333,713
Medical and laboratory services and supplies	763,098
Office operations	30,516
Other operating services and supplies	446,209
Professional services	234,886
Repairs and maintenance	98,542
Non-capitalized equipment	79,561
Telephones	35,502
Utilities	184,549
Vehicles and travel	11,254
Depreciation	483,481
Bad debt expense	<u>35,731</u>
TOTAL OPERATING EXPENSES	<u>12,572,726</u>
OPERATING INCOME (LOSS)	<u>(1,078,020)</u>
NONOPERATING REVENUE (EXPENSES)	
Investment income	60,553
State grant	184,586
Interest expense	(6,914)
Donations - resident funds	342
Interest income - resident funds	<u>20</u>
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>238,587</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(839,433)
CAPITAL CONTRIBUTIONS	<u>15,710</u>
CHANGE IN NET POSITION	(823,723)
NET POSITION, beginning of year (before restatement)	11,310,893
Prior period adjustment of pension liability	<u>(17,564,173)</u>
NET POSITION, beginning of the year (after restatement)	<u>(6,253,280)</u>
NET POSITION, end of year	<u>\$ (7,077,003)</u>

The accompanying notes are an integral part of this statement.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER-FLORENCE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from patients and third-party payors	\$ 7,010,075
Cash received from federal government	4,616,876
Cash payments to employees for services	(8,683,966)
Cash payments to suppliers for goods and services	(1,598,588)
Cash payments for other expenses	<u>(723,240)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>621,157</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
State grant	<u>184,586</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>184,586</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	(30,482)
Capital lease payments	(68,931)
Interest payment on capital leases	(6,919)
Federal and state capital grants	<u>15,710</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(90,622)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment income	<u>60,553</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>60,553</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	775,674
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,221,743</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,997,417</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (1,078,020)
Adjustments to reconcile operating loss to net cash provided by operating activities -	
Depreciation	483,481
Bad debt expense	35,731
Pension liability adjustment	772,839
Changes in assets and liabilities -	
Accounts receivable	146,445
Other current assets	(3,247)
Unearned revenue	(14,200)
Accounts payable and accrued expenses	269,676
Liability for compensated absences	<u>8,452</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 621,157</u>

The accompanying notes are an integral part of this statement.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

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

The Bruce McCandless Colorado State Veterans Community Living Center-Florence (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 governmental 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.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**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 schedule 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.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**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.

Pensions

The Center participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**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 are 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, 2015	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 40,127	\$ 32,019
 <u>Liabilities and Net Position</u>		
Deposits held in trust for residents	\$ -	\$ 32,019
Total Liabilities	-	32,019
 Net Position		
Restricted for resident purposes	40,127	\$ -
Total Liabilities and Net Position	\$ 40,127	\$ 32,019

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

	Year ended June 30, 2015
	<u>Patient Benefit Fund</u>
Nonoperating revenue	
Donations	\$ 29,052
Miscellaneous income	448
Interest income	20
Total nonoperating revenue	29,520
Nonoperating expenses	
Materials and supplies	29,158
 Change in net position	362
 Net position, beginning of year	39,766
Net position, end of year	\$ 40,127

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 3 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 200
Demand deposits	195,776
Cash with State Treasurer	<u>6,801,441</u>
	<u>\$ 6,997,417</u>
<u>Patient Benefit and Resident Funds</u>	
Cash on hand	\$ 3,050
Demand deposits	<u>69,096</u>
	<u>\$ 72,146</u>

At June 30, 2015, the carrying amount of the Center's deposits was \$264,872 and the bank balance was \$275,547. 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 fair 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, 2015, 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 approved 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, 2015, the Center had cash on deposit with the State Treasurer of \$6,774,403, which represented approximately 0.088 percent of the total \$7,661.8 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 reflect 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, 2015, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
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YEAR ENDED JUNE 30, 2015**

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

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, 2015, approximately 88.0 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$87,396,440 of corporate bonds rated lower medium, and \$25,018,750 of corporate bonds rated very speculative, 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.

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, 2015, the weighted average maturity of investments in the Treasurer's Pool is 0.063 years for Commercial Paper (6.3 percent of the Pool), 1.339 years for U.S. Government Securities (47.5 percent of the Pool), 2.528 years for Asset Backed Securities (18.5 percent of the Pool), 2.196 years for Corporate Bonds (22.9 percent of the Pool), and 0.010 years for Money Market Mutual Funds (4.8 percent of the Pool).

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2014-15.

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, 2015.

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2015 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$84,495	\$ 124,795
Medicaid reimbursement, net of allowance for doubtful accounts of \$6,040	286,300
Other receivables, net of allowance for doubtful accounts of \$243	<u>68,556</u>
	<u>\$ 479,651</u>
VA per diem reimbursements	\$ 334,393
Medicare, net of allowance for doubtful accounts of \$1,628	<u>121,789</u>
Total due from other governments	<u>\$ 466,182</u>



**BRUCE MCCANDLESS COLORADO STATE VETERANS  
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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 – CAPITAL ASSETS**

Following is a summary of capital assets:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Nondepreciable assets –				
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Art and historical treasures	11,122	-	-	11,122
Construction in progress	<u>216,600</u>	<u>11,656</u>	<u>144,173</u>	<u>84,083</u>
Total capital assets not being depreciated	<u>287,722</u>	<u>11,656</u>	<u>144,173</u>	<u>155,205</u>
Depreciable assets –				
Land improvements	211,927	-	-	211,927
Buildings	9,063,910	144,173	-	9,208,083
Furniture and equipment	416,230	18,827	-	435,057
Vehicles	82,058	-	-	82,058
Software	<u>54,025</u>	<u>-</u>	<u>-</u>	<u>54,025</u>
Total capital assets being depreciated	<u>9,828,150</u>	<u>163,000</u>	<u>-</u>	<u>9,991,150</u>
Less: accumulated depreciation for –				
Land improvements	184,668	6,689	-	191,357
Buildings	4,032,110	443,523	-	4,575,633
Furniture and equipment	337,249	33,268	-	370,517
Vehicles	82,058	-	-	82,058
Software	<u>54,025</u>	<u>-</u>	<u>-</u>	<u>54,025</u>
Total accumulated depreciation	<u>4,690,110</u>	<u>483,480</u>	<u>-</u>	<u>5,173,590</u>
Capital assets being depreciated, net	<u>5,138,040</u>	<u>(308,824)</u>	<u>144,173</u>	<u>4,817,560</u>
Total capital assets	<u>\$ 5,425,762</u>	<u>\$ (308,824)</u>	<u>\$ 144,173</u>	<u>\$ 4,972,765</u>

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 6 – CAPITAL LEASE**

The following is a summary of changes in the capital lease for the year ended June 30, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
\$558,693 capital lease: interest rate of 2.00%; due in quarterly installments of \$24,762 per year through July 2027	\$ 402,590	\$ -	\$ 91,252	\$ 311,338
Total	<u>\$ 402,590</u>	<u>\$ -</u>	<u>\$ 91,252</u>	<u>\$ 311,338</u>

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

Year Ending June 30,

2016	\$ 116,275
2017	99,046
2018	99,046
2019	<u>24,762</u>
	339,129
Less amount representing interest	<u>(27,791)</u>
	<u>\$ 311,338</u>

**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

Eligible employees of the Center are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financialreports](http://www.copera.org/investments/pera-financialreports).

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 8 – PENSION PLANS (Cont'd.)**

**B. BENEFITS PROVIDED**

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by the federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive postretirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 8 – 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.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 8 – PENSION PLANS (Cont'd.)**

**C. CONTRIBUTIONS**

Eligible employees and the Center are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees with the exception of State Troopers are required to contribute 8 percent of their PERA-includable salary. Eligible employees who are State Troopers are required to contribute 10 percent of their PERA-includable salary. The employer contribution requirements for all employees except State Troopers are summarized in the table below:

	Fiscal Year 2013		Fiscal Year 2014		Fiscal Year 2015	
	CY12	CY13	CY14	CY14	CY15	CY15
	7-1-12 to 12-31-12	1-1-13 to 6-30- 13	7-1-13 to 12- 31-13	1-1-14 to 6-30- 14	7-1-14 to 12-31-14	1-1-15 to 6-30- 15
<b>Employer Contribution</b>	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
<b>Amount of Employer Contribution Apportioned to the Health Care Trust</b>	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
<b>Amount Apportioned to Amortization Equalization Disbursement (AED) as</b>	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
<b>Supplemental Amortization Equalization Disbursement (SAED)</b>	3.00%	3.40%	3.40%	3.80%	3.80%	4.20%
<b>Total Employer Contribution Rate to</b>	2.50%	3.00%	3.00%	3.50%	3.50%	4.00%
	14.63%	15.53%	15.53%	16.43%	16.43%	17.33%

Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the Center is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from Bruce McCandless State Veterans Community Living Center at Florence for the fiscal year ending June 30, 2015 were \$977,726.

**D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

At June 30, 2015, the Center reported a liability of \$ 19,597,881 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The Center's proportion of the net pension liability was based on the Center's contributions to the SDTF for the calendar year 2014 relative to the total contributions of participating employers to the SDTF.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 8 – PENSION PLANS (Cont'd.)**

At December 31, 2014, the Bruce McCandless Colorado State Veterans Community Living Center at Florence's proportion was 0.2083 percent, which was an increase of 0.0061 from its proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the Center recognized pension expense of \$1,809,623. At June 30, 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$(1,452)
Net difference between projected and actual earnings on pension plan investments	399,603	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	353,722	-
Contributions subsequent to the measurement date	508,996	N/A
Total	\$ 1,262,321	\$(1,452)

\$508,996 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as the facts underlying the computational assumptions are realized follows:

<b>Year ended June 30,</b>	
2016	\$288,281
2017	263,789
2018	99,901
2019	99,901
2020	-
Thereafter	-

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 8 – PENSION PLANS (Cont'd.)**

**Actuarial assumptions.** The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 9.57 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

The SDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 8 – PENSION PLANS (Cont'd.)**

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

**Discount rate.** The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the Center's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of

7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$ 25,129,223	\$ 19,597,881	\$ 14,945,282

**Pension plan fiduciary net position.** Detailed information about the SDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).



**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 9 – OTHER RETIREMENT PLANS**

A. - DEFINED CONTRIBUTION RETIREMENT PLAN (DC Plan)

**Plan Description** – Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008 which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA’s comprehensive annual financial report as referred to above.

**Funding Policy** – All participating employees in the PERA DC Plan, with the exception of State Troopers, are required to contribute 8.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 10.15 percent of PERA-includable salary on behalf of these employees. All participating State Troopers are required to contribute 10.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 12.85 percent of PERA-includable salary on behalf of these employees. Additionally, the State of Colorado is required to contribute AED and SAED to the SDTF as follows:

	Fiscal Year 2013		Fiscal Year 2014		Fiscal Year 2015	
	CY12	CY13	CY14	CY15		
	7-1-12 to 12- 31-12	1-1-13 to 6- 30-13	7-1-13 to 12- 31-13	1-1-14 to 6- 30-14	7-1-14 to 12- 31-14	1-1-15 to 6- 30-15
<b>Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411</b>	3.00%	3.40%	3.40%	3.80%	3.80%	4.20%
<b>Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411</b>	2.50%	3.00%	3.00%	3.50%	3.50%	4.00%
<b>Total Employer Contribution Rate to the SDTF</b>	5.50%	6.40%	6.40%	7.30%	7.30%	8.20%

Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent.

Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense.

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**NOTE 9 – OTHER RETIREMENT PLANS (cont'd)**

**B – 401K DEFINED CONTRIBUTION PLAN**

**Plan Description** - Employees of the Center that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**Funding Policy** - The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings.

**C – 457 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 2014, 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. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2014, for total contributions of \$23,000. Contributions and earnings are tax deferred. At December 31, 2014, the plan had 17,738 participants.

The Center made contributions to other retirement plans totaling \$29,152 during Fiscal Year 2015.

**NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS**

**HEALTH CARE TRUST FUND**

**Plan Description** – The Center contributes to the Health Care Trust Fund ("HCTF"), a cost sharing multiple employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER - FLORENCE  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (Cont'd)**

**Funding Policy** – The Center is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Center are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2015, 2014 and 2013, the Center's contributions to the HCTF were \$59,058, \$55,105 and \$50,899, respectively, equal to their required contributions for each year.

**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 SUPPLEMENTARY  
INFORMATION**

**BRUCE MCCANDLESS COLORADO STATE VETERANS  
COMMUNITY LIVING CENTER  
SCHEDULE OF THE HOME'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
JUNE 30, 2015  
Last 10 Fiscal Years <sup>a, b</sup>**

*Dollar amounts in thousands*

	<u>2014</u>		<u>2013</u>
Center's proportion of the net pension liability	0.2083437130%		0.2022494309%
Center's proportionate share of the net pension liability	\$ 19,598	\$	18,016
Center's covered-employee payroll	\$ 5,605	\$	5,215
Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	349.65%		345.47%
Plan fiduciary net position as a percentage of the total pension liability	59.84%		61.08%

<sup>a</sup> Amounts prior to 2013 are not available

<sup>b</sup> Amounts presented for each fiscal year were determined as of December 31

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



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

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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 Bruce McCandless Colorado State Veterans Community Living Center-Florence (the Center) for the year ended June 30, 2015. 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, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Center are described in Note 1 to the financial statements. As described in Note 8 to the financial statements, the Center changed accounting policies related to pensions upon adoption of Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in 2015. 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 specific accounts and the 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. There were no misstatements 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 February 8, 2016.

### *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 and the Schedule of the Center's Proportionate Share of the Net Pension Liability, which are 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 an 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.

*Matherson, Greyfogle, Pawlins & Goodrich, PC*

February 8, 2016

**GOVERNMENT AUDITING**

**STANDARDS REPORT**



McPherson,  
Breyfogle,  
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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 Bruce McCandless Colorado State Veterans Community Living Center - Florence (the Center), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated February 8, 2016.

**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.

*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 a 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 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.

*McPherson, Greyfoyle, Pauline & Goodrich, PC*

February 8, 2016

## 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).