

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORTS**

YEAR ENDED JUNE 30, 2017

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**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
FINANCIAL AUDIT
YEAR ENDED JUNE 30, 2017**

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January 9, 2018

Members of the Legislative Audit Committee

This report contains the results of a financial audit of the Colorado Veterans Community Living Center at Homelake. The audit was conducted pursuant to Section 2-3-103, CRS, 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 at Homelake.

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 at Homelake (the Center) for its Fiscal Year Ended June 30, 2017. The Center was previously known as the Colorado State Veterans Nursing Home at Homelake 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, 2017. 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, 2017.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The last stand-alone audit of the Center was conducted for the Fiscal Year 2013. The audit report for the year ended June 30, 2013 included no findings.

DESCRIPTION OF THE CENTER

The Colorado Veterans Community Living Center at Homelake (the Center), established under Section 26-12-201, CRS, is a skilled-care nursing facility. The Center currently serves as a 60-bed long-term care skilled facility and 50 domiciliary cottages (similar to assisted living for individuals who do not require 24-hour care). 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 through the skilled nursing home and social & recreational activities for residents in domiciliary cottages. The Center has a cemetery, the Homelake Military Veterans Cemetery, that has been existence for over 120 years. This is the only state VA cemetery servicing Southern Colorado.

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 - Office of Community Access and Independence.

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	110
Average daily census for the year ended June 30, 2017	85
Average occupancy percentage for the year ended June 30, 2017	78.9%
Average veterans occupancy percentage for the year ended June 30, 2017	81.0%
Patient days for the year ended June 30, 2017	31,104

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of Colorado Veterans Community Living Center at Homelake (the Center) for the Fiscal Year Ended June 30, 2017 and have issued our report thereon dated January 9, 2018. 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 January 9, 2018 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 RECOMMENDATION

There were no prior audit recommendations included in the report to the Legislative Audit Committee for the year ended June 30, 2013.

FINANCIAL AUDIT REPORT SECTION

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 at Homelake (the Center), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 at Homelake, an enterprise fund of the State of Colorado, as of June 30, 2017, 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 Colorado Veterans Community Living Center at Homelake and do not purport to, and do not present fairly the financial position of the State of Colorado, as of June 30, 2017, 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.

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 34 and the schedule of the Center's contributions to the Public Employees' Retirement Association local government division trust fund on page 35 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 January 9, 2018, 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, Brezyski, Davline & Goodrich, PC

January 9, 2018

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section, prepared by the Colorado Veterans Community Living Center at Homelake (the Center), presents an analysis of the Center's performance and an overview of the Center's financial activities for the Fiscal Year Ended June 30, 2017. The financial statements, an integral part of this analysis and figures reported on the outputs from Colorado Operating Resource Engine (CORE), the State's accounting system, reflect the Center's Fiscal Year 2017 performances, and are incorporated and referred to throughout this Management Discussion and Analysis. The analysis below includes comparative information from Fiscal Year 2016 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 decreased by \$353,958 which is a 2.63% decrease from Fiscal Year 2016.
- The Center's Total Operating Revenue increased by \$172,843, which is a 2.48% increase from Fiscal Year 2016.
- The Center's Cash Operating Expenses increased by \$58,000, which is a 0.89% increase from Fiscal Year 2016.
- The Center's Non-Cash Operating Expenses increased by \$1,565,762, which is an 82.56% increase from Fiscal Year 2016.
- The Center's Change in Net Position decreased by \$1,417,911 which is a 129.36% decrease from Fiscal Year 2016.

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 2018 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, liabilities, and deferred inflows of resources and provides information pertaining to the nature of these assets and liabilities. The Statement also provides the basis for determining the overall financial health of the Center, including liquidity and financial flexibility.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Statement of Revenues, Expenses and Changes in Net Position

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

Statement of Cash Flows

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

FINANCIAL ANALYSIS

Summary of Operational Policies and Procedures

The Colorado Veterans Community Living Centers are State of Colorado agencies 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 Colorado Veterans Community Living Center at Homelake is operated by the Division of State and Veterans Community Living Centers within the State of Colorado's Department of Human Services. The Center at Homelake currently serves a 60-bed long-term care skilled-care nursing facility and 48 domiciliary cottages. The Center also operates a cemetery, the Homelake Military Veterans Cemetery.

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 with the exception of partial reimbursement of the indirect cost and general fund for the domiciliary. Financial Management Reports are reviewed monthly at the Executive Management level to ensure efficient and effective use of resources.

Financial Analysis

Statement of Net Position

A condensed Statement of Net Position is included as **Table A** below. Increases or decreases in the Center's Net Position 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 HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

TABLE A
Condensed Statement of Net Position

	2017	2016	Dollar Change	Total Percent Change
Current Assets	4,879,620	4,903,016	(23,396)	-0.48%
Current Assets-Restricted	274,394	178,374	96,020	53.83%
Non-Current Assets	7,936,720	8,363,302	(426,582)	-5.10%
Total Assets (excluding restricted)	12,816,340	13,266,318	(449,978)	-3.39%
Total Restricted Assets	274,394	178,374	96,020	53.83%
TOTAL ASSETS	13,090,734	13,444,692	(353,958)	-2.63%
Deferred out flows of resources related to pension	5,911,920	3,548,328	2,363,592	66.60%
Current Liabilities	713,462	927,804	(214,342)	-23.10%
Current Liabilities-Restricted	212,699	100,620	112,079	111.38%
Non-Current Liabilities	17,049,677	11,986,058	5,063,619	42.25%
TOTAL LIABILITIES	17,975,838	13,014,482	4,961,356	38.12%
Deferred inflows of resources related to pension	1,316,894	1,755,347	(438,453)	-24.98%
Net Assets Invested in Capital Assets, net of related debt	7,545,861	7,831,287	(285,426)	-3.64%
Restricted for resident purposes	61,695	77,754	(16,059)	-20.65%
Unrestricted	(7,898,334)	(5,685,850)	(2,212,484)	-38.96%
Total Net Position	(290,778)	2,223,191	(2,513,969)	-113.08%

As shown in **Table A**, the Center's Total Assets decreased by \$353,958 to \$13,090,734 in Fiscal Year 2017 from \$13,444,692 in Fiscal Year 2016. The majority of this decrease is a result of the following items: 1) \$263,280 decrease for receivable; 2) \$448,062 increase for accumulated depreciation account (contra account) for the depreciation of capital assets for Fiscal Year 2017.

The increase in deferred outflows of resources related to pension and the decrease in deferred inflows of resources related to pension is the result of the State of Colorado's implementation of GASB 68 (Accounting and Financial Reporting for Pensions) in Fiscal Year 2015.

The increase in Total Liabilities for the same period is also shown in **Table A** and majority of this increase is a result of the following items: 1) \$ 5,133,096 increase in GASB 68 pension liability. 2) \$ 195,095 decrease in account and vouchers payable. 3) \$141,157 decrease in Capital Lease payable.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position provides information as to the nature and the source of the changes seen in the Statement of Net Position. **Table B** provides a summary of revenues and expenses of the Center for Fiscal Year 2017 as compared to the previous year.

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

	2017	2016	Dollar Change	Total Percent Change
Total Operating Revenue	7,146,447	6,973,604	172,843	2.48%
Non-Operating Revenue	297,631	292,604	5,027	1.72%
Restricted Revenue	31,112	105,998	(74,886)	-70.65%
Total Revenue	7,475,190	7,372,206	102,984	1.40%
Operating Expenses - Cash	6,539,158	6,481,158	58,000	0.89%
Operating Expenses - Non Cash (Pension Expenses (GASB 68) Depr. & Bad Debt)	3,462,390	1,896,628	1,565,762	82.56%
Restricted Expense	47,252	98,051	(50,799)	-51.81%
Total Expenses	10,048,800	8,475,837	1,572,961	15.65%
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION	(2,573,610)	(1,103,631)	(1,469,979)	-133.19%
Capital Contribution	59,641	7,573	52,068	687.55%
CHANGE IN NET POSITION	(2,513,969)	(1,096,058)	(1,417,911)	-129.36%

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 \$172,843 mainly due to increase in census of the domiciliary. The average census was 76 percent which is an 11.4 percent increase from Fiscal Year 2016.
- Operating Expense-Cash increased due to inflationary influence in the area of medical purchase services, raw food and indirect cost. 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 center monitors all expenses closely and conducts monthly reviews with each manager to discuss departmental expenses.
- The increase in Total Expenses is due to the increase of pension expense. The pension expense increased by \$1,564,793 due to the PERA Board's changes of assumptions and resulting required use of a discount rate of 5.26% to calculate its net pension liability.
- **Table B** reflects that the Center experienced a \$2,513,969 Net Loss during Fiscal Year 2017.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

BUDGETARY HIGHLIGHTS

The Center's Fiscal Year 2017 financial operations resulted in revenues, below the budgeted amounts by \$821,562. This was a result of decrease in patient census. Cash expenses were under the budget amount by \$224,937. This was because the facility monitors all expense closely and conducts monthly reviews with each manager to discuss departmental expenses.

CAPITAL ASSETS AND DEBT ACTIVITIES

Capital Assets

During Fiscal Year 2017 the Center purchased \$ 33,953 in capital assets. This investment included \$24,818 for the furniture & equipment and \$9,135 for the buildings.

Debt Activities

During Fiscal Year 2017, the Center has paid down capital lease debt of \$477,457 to \$390,858. 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 2018 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged to residents for skilled nursing care. Expectations are that, subject to a stable census level and cost containment, the Center will continue to cover expenses with sufficient revenue to improve its net position in Fiscal Year 2018.

CONTACTING COLORADO VETERANS COMMUNITY LIVING CENTER AT HOMELAKE

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Colorado Veterans Community Living Center at Homelake's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact the Budget Director of Colorado State Veterans Community Living Centers at 1575 Sherman Street 10th floor Denver CO 80203 or by phone 303-866-6671.

COLORADO VETERANS COMMUNITY LIVING CENTER AT HOMELAKE
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 4,397,380
Restricted cash, resident funds	274,394
Accounts receivable	138,530
Due from other governments	304,005
Prepaid expenses	<u>39,705</u>
TOTAL CURRENT ASSETS	<u>5,154,014</u>
NONCURRENT ASSETS	
Capital assets -	
Land	19,161
Buildings	12,506,396
Furniture and equipment	456,996
Vehicles	45,782
Software	47,570
Construction in progress	589,504
Accumulated depreciation	<u>(5,728,689)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>7,936,720</u>
TOTAL NON CURRENT ASSETS	<u>7,936,720</u>
TOTAL ASSETS	<u>13,090,734</u>
Deferred outflows of resources related to pensions	<u>5,911,220</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts and vouchers payable	\$ 161,872
Accrued salaries payable	22,398
Accrued fringes	405,659
Accrued interest payable	2,227
Unearned revenue	7,945
Deposits held in trust for residents	212,699
Current portion of capital lease	89,896
Current portion of liability for compensated absences	<u>23,465</u>
TOTAL CURRENT LIABILITIES	<u>926,161</u>
NONCURRENT LIABILITIES	
Net pension liability	16,524,763
Liability under capital lease, net of current	300,963
Liability for compensated absences, net of current	<u>223,951</u>
TOTAL NONCURRENT LIABILITIES	<u>17,049,677</u>
TOTAL LIABILITIES	<u>17,975,838</u>
Deferred inflows of resources related to pensions	1,316,894
NET POSITION	
Net investment in capital assets	7,545,861
Restricted for resident purposes	61,695
Unrestricted	<u>(7,898,334)</u>
TOTAL NET POSITION	<u>\$ (290,778)</u>

The accompanying notes are an integral part of this statement.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT HOMELAKE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017**

OPERATING REVENUE	
Patient charges for services	\$ 4,300,879
VA per diem reimbursement	2,812,104
Miscellaneous revenue	<u>33,464</u>
TOTAL OPERATING REVENUE	<u>7,146,447</u>
OPERATING EXPENSES	
Personnel services and employee benefits	4,295,843
Pension expense	2,996,501
Departmental indirect costs	626,943
Advertising	21,385
Care and subsistence - client benefits	20,328
Equipment rental	94,707
Food and food service supplies	249,822
Legal	(639)
Medical and laboratory supplies	503,389
Office	36,011
Other operating expenses	103,454
Professional services	157,577
Repairs and maintenance	167,773
Non-capitalized equipment	78,455
Telephones	24,056
Utilities	133,260
Vehicles and travel	26,794
Depreciation	460,536
Bad debt expense	<u>5,353</u>
TOTAL OPERATING EXPENSES	<u>10,001,548</u>
OPERATING INCOME (LOSS)	<u>(2,855,101)</u>
NONOPERATING REVENUE (EXPENSES)	
State operating grant	301,429
Investment income	6,868
Interest expense	(10,666)
Donations - resident funds	(16,110)
Interest expense resident benefit fund	<u>(30)</u>
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>281,491</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(2,573,610)
CAPITAL CONTRIBUTIONS	<u>59,641</u>
CHANGE IN NET POSITION	(2,513,969)
NET POSITION, beginning of year	<u>2,223,191</u>
NET POSITION, end of year	<u>\$ (290,778)</u>

The accompanying notes are an integral part of this statement.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT HOMELAKE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from patients and third-party payors	\$ 4,362,735
Cash received from federal government	3,096,787
Cash payments to employees for services	(4,920,770)
Cash payments to suppliers for goods and services	(1,913,280)
Cash payments for other expenses	<u>(622,286)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,186</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State operating grant	<u>361,070</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>361,070</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(33,953)
Principal payment on capital leases	(87,139)
Interest payment on capital leases	<u>(10,660)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(131,752)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	<u>6,838</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>6,838</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

239,342

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

4,158,038

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 4,397,380

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (2,855,101)
Adjustments to reconcile operating income to net cash used by operating activities -	
Depreciation	460,536
Bad debt expense	5,353
Pension liability expense	2,331,751
Changes in assets and liabilities -	
Accounts receivable	257,926
Accounts payable and accrued expenses	(226,896)
Unearned revenue	7,945
Liability for compensated absences	<u>21,672</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 3,186

The accompanying notes are an integral part of this statement.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado Veterans Community Living Center at Homelake ("the Center") is part of the State of Colorado ("the State") Department of Human Services.

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

The Financial Reporting Entity

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

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

Fund Accounting

The Center uses an enterprise fund to report its financial position, changes in financial position, and cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Enterprise funds are used to report activities for which a fee is charged to external users for goods or services.

Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 flow.

Net Position

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

- Net investment in capital assets, net of related debt – This caption consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This caption consists of constraints placed on net 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, net of related debt."

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

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.

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

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

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.

Fair Value Measurement

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Center's recurring fair value measurements as of June 30, 2017 are described in Note 3.

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 and less to be cash equivalents, except that the Center has elected not to include restricted cash as part of cash equivalents.

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 is funded by donations from the public and is controlled by a committee consisting of resident representatives and other interested outside parties. The funds are used for various resident needs and activities. The Resident Trust Fund consists of personal funds belonging to the individual residents. The assets, liabilities, net position, revenue, and expenses of these funds are included in the Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position. Below are amounts from these funds included in the financial statements:

STATEMENT OF NET POSITION:	June 30, 2017	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets:</u>		
Cash and cash equivalents	\$ <u>61,695</u>	\$ <u>212,699</u>
<u>Liabilities and Net Position:</u>		
Deposits held in trust for residents	-	212,699
Restricted for resident purposes	<u>61,695</u>	-
	\$ <u>61,695</u>	\$ <u>12,699</u>

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 2 – FINANCIAL STATEMENT PRESENTATION (Cont'd)

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION:

	<u>Year Ended June 30, 2017</u>
Patient Benefit Fund:	
<u>Non-operating Revenue:</u>	
Donations	\$ 31,142
Interest	(29)
<u>Non-operating Expense:</u>	
Materials and supplies	(47,252)
Change in net positions	(16,139)
Net position, beginning of year	<u>77,834</u>
Net position, end of year	<u>\$ 61,695</u>

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents are summarized as follows:

<u>Proprietary Fund:</u>	
<i>Unrestricted</i>	
Cash on hand	\$ 500
Demand deposits	(3,604)
Cash with State Treasurer	<u>4,400,484</u>
	<u>\$ 4,397,380</u>
 <u>Patient Benefit and Resident Funds:</u>	
<i>Restricted</i>	
Cash on hand	\$ 1,050
Demand Deposits	243,344
Certificate of deposit	<u>30,000</u>
	<u>\$ 274,394</u>

At June 30, 2017, the Center has no deposits that are in excess of the amount covered by federal depository insurance. Colorado law requires that depository institutions 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 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. At June 30, 2017, none of the Center's deposits were exposed to custodial credit risk because of federal depository insurance and the pledge of eligible collateral.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

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 authorized 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, 2017, the Center had cash on deposit with the State Treasurer of \$4,400,484, which represented approximately 0.065 percent of the total \$6,770.2 million fair value of deposits in the State Treasurer’s Pool (Pool).

For financial reporting purposes all of the Treasurer’s pooled investments are reported at fair value, which is determined based on quoted prices in active markets for identical assets (Level 1 - \$2,041.4 million), significant other observable inputs (Level 2 - \$4,697.5 million), and significant unobservable inputs (Level 3 - \$31.3 million) at the fiscal year end.

Type of Investment	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Fair Value
	Level 1	Level 2	Level 3	Total
U.S. Government Securities	\$ 1,776,403,910	\$ 310,874,896		\$ 2,087,278,806
Commercial Paper		746,131,170		746,131,170
Corporate Bonds and Notes		2,365,869,279	31,348,487	2,397,217,766
Asset Backed Securities		577,902,280		577,902,280
Mortgages		2,078,408		2,078,408
Mutual Funds	265,000,000			265,000,000
Municipal Bonds		10,060,000		10,060,000
Supranationals		684,548,050		684,548,050
Total	\$ 2,041,403,910	\$ 4,697,464,083	\$ 31,348,487	\$ 6,770,216,480

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, 2017, none of the investments in the State Treasurer’s Pool are subject to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2017, approximately 87.0 percent of investments of the Treasurer’s Pool are subject to credit quality risk reporting. Except for \$35,175,150 of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2017, the weighted average maturity of investments in the Treasurer's Pool is as follows:

Investment Type	Fair Value of Investments	Weighted Average Maturity	Maturity Amount	Percent of Pool
Asset Backed Securities	\$ 579,980,688	2.161	578,569,106	08.6
Corporate Bonds	2,397,217,766	3.054	2,391,116,000	35.3
Municipal Bonds	10,060,000	4.000	10,000,000	00.2
U.S. Government Securities	2,087,278,806	1.463	2,090,180,000	30.9
Commercial Paper	746,131,170	0.100	747,000,000	11.0
Supranationals	684,548,050	0.147	685,000,000	10.1
Money Market Mutual Funds	265,000,000	0.000	265,000,000	03.9
TOTAL	\$ 6,770,216,480		\$ 6,766,865,106	100.0

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2017.

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, 2017.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2017 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$6,652	\$ 19,204
Medicaid reimbursements, net of allowance for doubtful accounts of \$0	112,668
Other receivables, net of allowance for doubtful accounts of \$0	<u>6,657</u>
Total accounts receivable	<u>\$ 138,529</u>
VA per diem reimbursements	\$ 288,050
Medicare, net of allowance for doubtful accounts of \$1,348	<u>15,955</u>
Total due from other governments	<u>\$ 304,005</u>

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 5 – CAPITAL ASSETS

Following is a summary of Capital Assets:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Nondepreciable Assets:				
Land	\$ 19,161	-	-	\$ 19,161
Construction in Progress	<u>589,504</u>	-	-	<u>589,504</u>
Total capital assets not being depreciated	<u>608,665</u>	-	-	<u>608,665</u>
Depreciable Assets:				
Buildings	\$ 12,497,260	9,136	-	\$ 12,506,396
Furniture and equipment	444,652	24,818	(12,474)	456,996
Vehicles	45,782	-	-	45,782
Software	<u>47,570</u>	-	-	<u>47,570</u>
Total capital assets being depreciated	<u>13,035,264</u>	<u>33,954</u>	<u>(12,474)</u>	<u>13,056,744</u>
Less: Accumulated Depreciation				
Buildings and Improvements	4,955,980	421,601	-	5,377,581
Furniture and equipment	231,295	38,935	(12,474)	257,756
Vehicles	45,782	-	-	45,782
Software	<u>47,570</u>	-	-	<u>47,570</u>
Total accumulated depreciation	<u>5,280,627</u>	<u>460,536</u>	<u>(12,474)</u>	<u>5,728,689</u>
Net capital assets being depreciated	<u>7,754,637</u>	<u>(426,582)</u>	-	<u>7,328,055</u>
Total Net Capital Assets	<u>\$ 8,363,302</u>	<u>\$ (426,582)</u>	<u>\$ -</u>	<u>\$ 7,936,720</u>

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 6 – CAPITAL LEASE PAYABLE

The following is a summary of changes in capital lease payable for the year ended June 30, 2017:

	<u>Balance July 01, 2016</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance June 30, 2017</u>
\$800,871 capital lease, interest rate of 2.55%, principal and interest payments of \$17,640 are payable quarterly through maturity in April, 2022	\$ 391,410	\$ -	\$ 61,161	\$ 330,249
\$230,329 capital lease, interest rate of 4.078%; principal and interest payments 3.35%. Principal and interest payments of \$7,244 are payable quarterly through maturity in 2018	<u>\$ 86,047</u>	<u>\$ -</u>	<u>\$ 25,438</u>	<u>\$ 60,609</u>
Total capital lease payable	<u>\$ 477,457</u>	<u>-</u>	<u>\$ 86,599</u>	<u>\$ 390,858</u>

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

Fiscal Year Ending June 30

2018	\$ 97,801
2019	97,801
2020	77,370
2021	70,560
2022	70,560
	<u>414,092</u>
Less amount representing interest	(23,234)
	<u>\$ 390,858</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.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN

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 (CRS), administrative rules set forth at 8 CCR 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-financial-reports.

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 CRS § 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 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 post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the CRS 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 (AIR) for the SDTF.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Cont’d)

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.

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 CRS § 24-51-401, et seq. Eligible employees with the exception of State Troopers are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements for all employees except State Troopers are summarized in the table below:

	Fiscal Year 2015		Fiscal Year 2016		Fiscal Year 2017	
	CY14	CY15	CY16	CY17		
	7-1-14 to 12- 31-14	1-1-15 to 6- 30-15	7-1-15 to 12- 31-15	1-1-16 to 6-30- 16	7-1-16 to 12- 31-16	1-1-17 to 6- 30-17
Employer Contribution Rate¹	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in CRS Section 24-51-208(1)(f)¹	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in CRS Section 24-51-411¹	3.80%	4.20%	4.20%	4.60%	4.60%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in CRS, Section 24-51-411¹	3.50%	4.00%	4.00%	4.50%	4.50%	5.00%
Total Employer Contribution Rate to the SDTF¹	16.43%	17.33%	17.33%	18.23%	18.23%	19.13%

¹ Rates are expressed as a percentage of salary as defined in CRS § 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 Colorado Veterans Community Living Center at Homelake for the Fiscal Year ending June 30, 2017 were \$630,345.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Cont'd)

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

At June 30, 2017, the Center reported a liability of \$ 16,524,763 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The Center's proportion of the net pension liability was based on the Center's contributions to the SDTF for the calendar year 2016 relative to the total contributions of participating employers to the SDTF.

At December 31, 2016, the Center's proportion was 0.08996%, which was a decrease of 0.00974% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the Center recognized pension expense of \$2,996,501. At June 30, 2017, 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	\$ 164,258	\$ (50,864)
Changes of assumptions or other inputs	4,204,006	(-)
Net difference between projected and actual earnings on pension plan investments	547,809	(-)
Changes in proportion and differences between contributions recognized and proportionate share of contributions	668,812	(1,266,030)
Contributions subsequent to the measurement date	326,335	N/A
Total	\$5,911,220	(\$1,316,894)

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Cont'd)

\$326,335 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2018	\$ 2,266,177
2019	1,844,106
2020	151,910
2021	5,798
2022	-
Thereafter	-

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial cost method	Entry age
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:	7.50 percent
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

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Cont'd)

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.17 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
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 used in the December 31, 2015 valuation 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. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 disabled mortality table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 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.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 white collar employee mortality table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Cont'd)

Healthy, post-retirement mortality assumptions reflect the RP-2014 healthy annuitant mortality table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 disabled retiree mortality table.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and 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 by the investment consultant 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.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Cont'd)

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
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 7.25%.

Discount rate. The discount rate used to measure the total pension liability was 5.26 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA’s Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Cont'd)

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the single equivalent interest rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be depleted in 2039 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2039 and the municipal bond index rate, the December average of the bond buyer general obligation 20-year municipal bond index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2039 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Cont'd)

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 5.26 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 (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	\$20,466,942	\$16,524,763	\$13,285,960

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.

NOTE 9 – OTHER RETIREMENT PLANS

A VOLUNTARY INVESTMENT PROGRAM

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 CRS, 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.

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 CRS, as amended. Employees are immediately vested in their own contributions.

B 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 CRS, 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.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 9 – OTHER RETIREMENT PLANS (Cont'd)

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 2015		Fiscal Year 2016		Fiscal Year 2017	
	CY14	CY15	CY16		CY17	
	7-1-14 to 12-31-14	1-1-15 to 6-30- 15	7-1-15 to 12- 31-15	1-1-16 to 6-30- 16	7-1-16 to 12-31-16	1-1-17 to 6-30- 17
Amortization Equalization Disbursement (AED) as specified in CRS Section 24-51-411	3.80%	4.20%	4.20%	4.60%	4.60%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in CRS Section 24-51-411	3.50%	4.00%	4.00%	4.50%	4.50%	5.00%
Total Employer Contribution Rate to the SDTF	7.30%	8.20%	8.20%	9.10%	9.10%	10.00%

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

Contribution requirements are established under Title 24, Article 51, Section 1505 of the CRS, 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 CRS. As a result, forfeitures do not reduce pension expense.

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 2016, 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 \$18,000. Participants who are age 50 and older, and contributing the maximum amount allowable were allowed to make an additional \$6,000 contribution in 2016. Special 457(b) catch-up contributions allow a participant for 3 years prior to the normal retirement age to contribute the lesser of (1) twice the annual limit (\$36,000 in 2015, 2016, and 2017), or (2) The basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contributions). Contributions and earnings are tax deferred. At December 31, 2016, the plan had 17,921 participants.

The Center made contributions to other retirement plans totaling \$7,940 during Fiscal Year 2017.

**COLORADO VETERANS COMMUNITY
LIVING CENTER AT HOMELAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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 CRS, 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.

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 CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the CRS, as amended. For the years ending June 30, 2017, 2016 and 2015, the Center's contributions to the HCTF were \$34,406, \$34,132 and \$33,675, 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**

COLORADO VETERANS COMMUNITY LIVING CENTER AT HOMELAKE
 SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY JUNE 30, 2017
 Last 10 Fiscal Years ^{a, b}

Dollar amounts in thousands

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Center's proportion of the net pension liability	0.0899643134%	0.0997058852%	0.1037168102%	0.0996656844%
Center's proportionate share of the net pension liability	\$ 16,525	\$ 11,392	\$ 9,207	\$ 8,878
Center's covered-employee payroll	\$ 3,373	\$ 3,346	\$ 3,301	\$ 3,284
Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	489.92%	340.47%	278.92%	270.34%
Plan fiduciary net position as a percentage of the total pension liability	42.60%	56.11%	59.84%	61.08%

^a Amounts prior to 2014 are not available

^b Amounts presented for each fiscal year were determined as of December 31

COLORADO VETERANS COMMUNITY LIVING CENTER AT HOMELAKE
 SCHEDULE OF THE CENTER'S CONTRIBUTION
 PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION JUNE 30, 2017
 Last 10 Fiscal Years ^{a, b}

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 630,345	\$ 595,155	\$ 557,194	\$ 524,678
Contributions in relation to the contractually required contribution	\$ 630,345	\$ 595,155	\$ 557,194	\$ 524,678
Contribution deficiency	\$ -	\$ -	\$ -	\$ -
Center's covered employee payroll	\$ 3,373,098	\$ 3,346,256	\$ 3,301,436	\$ 3,284,325
Contributions as a percentage of covered-employee payroll	18.69%	17.79%	16.88%	15.98%

^a Amounts prior to 2014 are not available

^b Amounts presented for each fiscal year were determined as of December 31

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

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 at Homelake (the Center) for the year ended June 30, 2017. 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 April 25, 2017. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2017. 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 net pension liability, deferred outflows related to pensions and deferred inflows related to pensions. Management's estimate of these amounts is based on management's review of retirement benefits and the determination of the future amounts needed to pay retirement benefits. We evaluated the key factors and assumptions used to develop the net pension liability and the deferred outflows related to pensions and the deferred inflows related to pensions in determining that they were 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 January 9, 2018.

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, the Schedule of the Center's Proportionate Share of the Net Pension Liability and the Schedule of the Center's Contribution to the Public Employees' Retirement Association, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted 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.

He Peterson, Breighogh, Director a Goodrich, PC

January 9, 2018

GOVERNMENT AUDITING

STANDARDS REPORT



McPherson,
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**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Legislative Audit Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Colorado Veterans Community Living Center at Homelake (the Center), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated January 9, 2018.

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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

McPherson, Brezbycki, Danchine & Woodrich, PC

January 9, 2018

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).