

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORTS**

YEAR ENDED JUNE 30, 2018

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**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
FINANCIAL AUDIT
YEAR ENDED JUNE 30, 2018**

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

503 N. Main Street, Suite 740
Pueblo, CO 81003
Phone (719) 543-0516
Fax (719) 544-2849

November 27, 2018

Members of the Legislative Audit Committee

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

REPORT SUMMARY

AUTHORITY, PURPOSE AND SCOPE

The Office of the State Auditor, State of Colorado, engaged McPherson, Breyfogle, Daveline & Goodrich, PC (MBDG, PC) to conduct a financial statement audit of the Colorado Veterans Community Living Center at Rifle (the Center) for its Fiscal Year Ended June 30, 2018. The Center was previously known as the Colorado State Veterans Nursing Home at Rifle and this name change became effective August 21, 2014. MBDG, PC performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

The purpose and scope of our audit was to:

- Express our opinion on the financial statements of the Center as of and for the year ended June 30, 2018. 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, 2018.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The last stand-alone audit of the Center was conducted for the Fiscal Year 2014. The audit report for the year ended June 30, 2014 included two findings. The disposition of these audit recommendations as of June 30, 2018 was as follows:

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

DESCRIPTION OF THE CENTER

The Colorado Veterans Community Living Center at Rifle (the Center), was established under Section 26-12-201, C.R.S., as a skilled-care nursing facility. It provides health services (including Long-term care, Short-term rehabilitation, Short-term "Respite" care and End of life services) 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 honorably discharges veterans, veteran's spouses or widows, and "Gold-Star Parents" (non-veterans, any of whose children have died while serving in the Armed Forces). Preference for admission is given to Colorado veterans and 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 Veterans Community Living Centers within the Colorado Department of Human Services, Office of Community Access and Independence.

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	89
Average daily census for the year ended June 30, 2018	84.8
Average occupancy percentage for the year ended June 30, 2018	95.2%
Average veterans occupancy percentage for the year ended June 30, 2018	85.6%
Patient days for the year ended June 30, 2018	26,234

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of the Colorado State Veterans Community Living Center at Rifle (the Center) for the year ended June 30, 2018 and have issued our report thereon dated November 27, 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 November 27, 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 RECOMMENDATIONS

Following are the audit recommendations for the year ended June 30, 2014, and their disposition at June 30, 2018.

Recommendation

Disposition

Recommendation No. 1 - The Center should implement appropriate internal controls to ensure that generally accepted accounting principles are considered along with other relevant factors in determining proper revenue recognition, particularly as it relates to significant and infrequent transactions. In addition, accounting staff should receive additional training related to the application of generally accepted accounting principles related to the Center's activities.

Fully implemented.

Recommendation No. 2 - Center management and the Department of Human Services should continue to work on the plan to reverse the operating trends and repay the loan to the State Treasurer. In addition, management should continue to monitor the progress of the plan on a regular basis and make adjustments as necessary.

Partially implemented. The Center is working on reversing operating trends and is currently working to repay the loan. The amount of the loan on June 30, 2014 was \$2,094,460 compared to a balance at June 30, 2018 of \$3,175,040. The recommendation is from Fiscal year 2010 and was only partially implemented by June 30, 2014. The Center is working on increasing census along with reducing expenses and reviewing monthly reports to monitor the progress on census and expenses. The Center plans to fully implement this recommendation by December 31, 2018.

FINANCIAL AUDIT REPORT SECTION



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

503 N. Main Street, Suite 740

Pueblo, CO 81003

Phone (719) 543-0516

Fax (719) 544-2849

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 Rifle (the Center), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2018 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 Colorado Veterans Community Living Center at Rifle, an enterprise fund of the State of Colorado, as of June 30, 2018, 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 Rifle and do not purport to, and do not present fairly the financial position of the State of Colorado, as of June 30, 2018, 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 10 to the financial statements, the Center has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the Fiscal Year 2018. Our opinion was 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 9-13 and the schedules of the Center's proportionate share of the net pension liability, the Center's contribution to Public Employees Retirement Association, the Center's proportionate share of the net OPEB liability, and the Center's OPEB contribution to the Health Care Trust Fund on pages 41-44 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 November 27, 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, Bryzlogh, Duclins & Goodrich, PC

November 27, 2018

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section, prepared by the Colorado Veterans Community Living Center, presents an analysis of the Colorado Veterans Community Living Center at Rifle's performance and an overview of the Center's financial activities for the Fiscal Year Ended June 30, 2018. The financial statements, are an integral part of this analysis and they are based on amounts reported in CORE, the State's accounting system, and reflect the Center's performance for Fiscal Year 2018. The analysis below includes comparative information from Fiscal Year 2017 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 \$480,323 which is a 10.83% increase from Fiscal Year 2017.
- The Center's Total Operating Revenue increased by \$202,374, which is a 2.26% increase from Fiscal Year 2017.
- The Center's Cash Operating Expenses increased by \$870,867, which is a 9.81% increase from Fiscal Year 2017.
- The Center's Non-Cash Operating Expenses increased by \$1,418,731, which is a 28.66 % increase from Fiscal Year 2017.
- The Center's Change in Net Position decreased by \$2,019,493 which is a 44.31 % decrease from Fiscal Year 2017.

The reasons for the changes are discussed in the following paragraphs.

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 2019 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, deferred outflows of resources, liabilities, and deferred inflows of resources. The Statement also provides the basis for determining the overall financial health of the Center including liquidity and financial flexibility.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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 Center at Rifle is a State of Colorado agency with the general mission of "To honor and serve our nation's veterans, their spouses and Gold Star Parents by creating opportunities for meaningful activity, continued growth and feelings of self-worth in resident-centered long-term care and supportive living environment". The Center is 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 with the exception of partial reimbursement of the indirect cost. 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 RIFLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

TABLE A
Condensed Statement of Net Position

	2018	2017	Dollar Change	Total Percent Change
Current Assets	1,399,526	961,019	438,507	45.63%
Current Assets-Restricted	129,951	111,526	18,425	16.52%
Non-Current Assets	3,387,772	3,364,371	23,401	0.70%
Total Assets (excluding restricted)	4,787,298	4,325,390	461,908	10.68%
Total Restricted Assets	129,951	111,526	18,425	16.52%
TOTAL ASSETS	4,917,249	4,436,916	480,323	10.83%
Deferred out flows of resources related to pension and OPEB	6,411,606	9,058,493	(2,646,887)	-29.22%
Current Liabilities	4,178,202	2,895,597	1,282,605	44.30%
Current Liabilities-Restricted	87,374	73,274	14,100	19.24%
Non-Current Liabilities	33,078,596	30,096,579	2,982,017	9.91%
TOTAL LIABILITIES	37,344,172	33,065,450	4,278,722	12.94%
Deferred inflows of resources related to pension and OPEB	1,324,229	296,385	1,027,844	346.79%
Net Assets Invested in Capital Assets, net of related debt	2,511,263	2,427,215	84,048	3.46%
Restricted for resident purposes	42,577	38,252	4,325	11.31%
Unrestricted	(29,893,386)	(23,024,473)	(6,868,913)	-29.83%
Total Net Position	(27,339,546)	(20,559,006)	(6,780,540)	-32.98%

As shown in **Table A**, the Center's Total Assets increased by \$480,323 to \$4,917,249 in Fiscal Year 2018 from \$4,436,916 in Fiscal Year 2017. The majority of this increase is a result of the following items: 1) \$426,680 increase for cash and cash equivalents, which is money in the local bank account that has not been transferred to the account at the State Treasurer's office 2) \$30,647 increase for receivables for Fiscal Year 2018.

The decrease in deferred outflows of resources related to pension and OPEB, and the increase in deferred inflows of resources related to pension and OPEB is the result of increase in the pension according to the GASB 68.

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) \$2,316,502 increases in GASB 68 pension liability and GASB 75 OPEB liability, 2) \$362,349 increase in account and vouchers payable, 3) \$991,882 increase in due to state treasurer. The increase is a result of an increase in expenses over revenues.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Change in Net Position provides the information as to the nature and the source of the changes seen in the Statements of Net Position. **Table B** provides a summary of revenues and expenses of the Center's for Fiscal Year 2018 as compared to the previous year.

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

	2018	2017	Dollar Change	Total Percent Change
Total Operating Revenue	9,168,145	8,965,771	202,374	2.26%
Non-Operating Revenue	159,347	105,981	53,366	50.35%
Restricted Revenue	30,409	23,106	7,303	31.61%
Total Revenue	9,357,901	9,094,858	263,043	2.89%
Operating Expenses - Cash	9,743,944	8,873,077	870,867	9.81%
Operating Expenses - Non Cash (Pension Expenses (GASB 68), OPEB (GASB 75), Depr. & Bad Debt)	6,368,413	4,949,682	1,418,731	28.66%
Restricted Expense	26,084	33,146	(7,062)	-21.31%
Total Expenses	16,138,441	13,855,905	2,282,536	16.47%
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION	(6,780,540)	(4,761,047)	(2,109,493)	-44.31%
Capital Contribution	0	0	0	%
CHANGE IN NET POSITION	(6,780,540)	(4,761,047)	(2,019,493)	-44.31%

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 \$202,374 mainly due to increase in VA per diem rate and census of service connected resident (residents with a service-related injury).
- Operating expenses-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 and OPEB expenses. The pension expenses increased by \$1,352,922 due to the changes of assumptions. **Table B** reflects that the Center experienced a \$6,780,540 net loss during Fiscal Year 2018.
- **Table C** reflects the recording of the GASB 68 pension related liabilities and GASB 75 OPEB related liabilities on the net position. The Center's total net position decreased by \$6,780,540 during Fiscal Year 2018 compared to a \$4,761,047 decrease in net position during Fiscal Year 2017.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

TABLE C		
Net Position excluding Pension and OPEB		
(DR) CR		
	Fiscal Year 2018	Fiscal Year 2017
Net Position (GAAP Basis)	\$ (27,339,546)	\$ (20,449,006)
Add back : GASB 68 - Pension	\$ 26,128,634	\$ 20,125,694
GASB 75 - OPEB	\$ 700,703	\$ -
Prior period Adjustment	\$ -	\$ (692,579)
Net Position excluding Pension and OPEB	\$ (510,209)	\$ 369,267

The net loss for Fiscal Year 2018 was \$769,477 not considering the current Fiscal Year 2018 pension and OPEB expense of \$6,011,063. This compares to the Fiscal Year 2017 loss of \$102,906 which also does not consider the Fiscal Year 2017 pension and OPEB expense of \$4,658,141.

BUDGETARY HIGHLIGHTS

The Center's Fiscal Year 2018 financial operations resulted in revenues, below the budgeted amounts by \$717,885. This was a result of decrease in patient census. Cash expenses were over the budget amount by \$674,199. This was because the inflationary influence in the area of medical purchase services, raw food, and the increase in indirect cost.

CAPITAL ASSETS AND DEBT ACTIVITIES

Capital Assets

During Fiscal Year 2018, the Center purchased \$283,468 in capital assets. This investment included \$25,853 for the furniture & equipment and \$257,615 for the construction of building improvements.

Debt Activities

During Fiscal Year 2018, the Center has paid down capital lease debt of \$937,156 to \$876,509. 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 2019 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 cover expenses with sufficient revenue to improve its net position in Fiscal Year 2019.

CONTACTING COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE

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 Rifle's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact the 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 - RIFLE
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 434,195
Restricted cash, resident funds	129,951
Accounts receivable (net of allowance for uncollectibles of \$107,399)	645,246
Due from other governments (net of allowance for uncollectibles of \$30,521)	<u>320,085</u>
TOTAL CURRENT ASSETS	<u>1,529,477</u>

NONCURRENT ASSETS

Capital assets -	
Land	131,626
Buildings	7,857,354
Furniture and equipment	158,263
Vehicles	60,733
Software	78,683
Accumulated depreciation	<u>(4,898,887)</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>3,387,772</u>
TOTAL NON CURRENT ASSETS	<u>3,387,772</u>

TOTAL ASSETS

	<u>4,917,249</u>
Deferred outflows of resources related to pensions and OPEB	<u>6,411,606</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and vouchers payable	\$ 573,812
Other current liabilities	325,407
Accrued interest payable	5,035
Due to state treasurer	3,175,040
Deposits held in trust for residents	87,374
Current portion of capital lease	64,337
Current portion of liability for compensated absences	<u>34,571</u>
TOTAL CURRENT LIABILITIES	<u>4,265,576</u>

NONCURRENT LIABILITIES

Net pension liability	31,204,304
Net liability for other post employment benefits	712,410
Capital lease	812,172
Liability for compensated absences	<u>349,710</u>
TOTAL NONCURRENT LIABILITIES	<u>33,078,596</u>

TOTAL LIABILITIES

	<u>37,344,172</u>
Deferred inflows of resources related to pensions and OPEB	<u>1,324,229</u>

NET POSITION

Net investment in capital assets	2,511,263
Restricted for resident purposes	42,577
Unrestricted	<u>(29,893,386)</u>
TOTAL NET POSITION	<u>\$ (27,339,546)</u>

The accompanying notes are an integral part of this statement.

COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

OPERATING REVENUE	
Patient charges for services	\$ 5,362,513
VA per diem reimbursement	3,805,222
Miscellaneous revenue	410
TOTAL OPERATING REVENUE	<u>9,168,145</u>
 OPERATING EXPENSES	
Personnel services and employee benefits including OPEB expenses of \$8,123	7,604,735
Pension expense	6,002,940
Departmental indirect costs	723,263
Advertising	12,475
Care and subsistence - client benefits	6,133
Equipment rental	92,478
Food and food service supplies	213,946
Insurance	6,370
Medical and laboratory supplies	288,241
Office	20,019
Other operating expenses	109,276
Professional services	48,409
Repairs and maintenance	248,168
Non-capitalized equipment	261,928
Telephones	18,566
Utilities	78,951
Vehicles and travel	19,109
Depreciation	260,067
Bad debt expense	97,283
TOTAL OPERATING EXPENSES	<u>16,112,357</u>
OPERATING INCOME (LOSS)	<u>(6,944,212)</u>
 NONOPERATING REVENUE (EXPENSES)	
State grant	189,680
Interest expense	(30,333)
Donations - resident funds	30,383
Interest income - resident funds	26
Recreation - resident funds	(26,084)
TOTAL NONOPERATING REVENUE	<u>163,672</u>
CHANGE IN NET POSITION	(6,780,540)
NET POSITION, beginning of year	<u>(20,559,006)</u>
NET POSITION, end of year	<u>\$ (27,339,546)</u>

The accompanying notes are an integral part of this statement.

COLORADO VETERANS COMMUNITY LIVING CENTER - RIFLE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	\$ 5,132,456
Cash received from federal government	3,907,760
Cash payments to employees for services	(7,670,242)
Cash payments to suppliers for goods and services	(1,045,157)
Cash payments for other expenses	<u>(723,263)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(398,446)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received from State	189,680
Cash received from State Treasurer	<u>991,882</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,181,562</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(283,467)
Principal payment on capital leases	(60,647)
Interest payment on capital leases	<u>(30,746)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(374,860)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 408,256
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>25,939</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 434,195</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (6,944,212)
Adjustments to reconcile operating income to net cash used by operating activities -	
Depreciation	260,067
Bad debt expense	97,283
Changes in assets and liabilities -	
Accounts receivable	(127,929)
Prepaid expenses	396
Accounts payable and accrued expenses	284,509
Liability for compensated absences	20,377
Accrued pension and other post employment benefits	<u>6,011,064</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (398,445)</u>

The accompanying notes are an integral part of this statement.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Financial Reporting Entity

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

Fund Accounting

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

Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, if any, liabilities, and deferred inflows of resources, if any, are included on the Statement of Net Position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

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".

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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

Budget and Budgetary Accounting

With the exception of the State operating grant, appropriations for the Veterans Centers owned by the State are not included in the annual Long Bill (appropriations bill) passed by the General Assembly. Therefore, no budgetary comparison statement is required to be presented.

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

Accounts Receivable

The Center's accounts receivable consist primarily of open accounts with residents for services, subsidized Medicaid and Medicare reimbursements, and VA per diem reimbursements. Portions of accounts receivable relating to non-subsidized charges for services are subject to credit risk. Consequently, an allowance for doubtful accounts has been established based on management's estimate.

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 fund liability and are measured using an estimate of current employees that will eventually retire.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill 18-200: *Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the collective net pension liability and related amounts for financial reporting purposes be measured using the plan provisions in effect as of the pension plan's measurement date of December 31, 2017. As a result, the sample disclosures shown below, with the exception of the section titled *Changes between the measurement date of the collective net pension liability and June 30, 2018*, do not include the changes to plan provisions due to the passage of Senate Bill 18-200 into law on June 4, 2018. The summary of the bill has been disclosed as a subsequent event in the Notes to the Schedule of Employer Allocations and Schedule of Collective Pension Amounts for the State Division Trust Fund (see Note 20). Note 20 contains a summary of the bill's main provisions and related pro forma estimates of the Collective Net Pension Liability for the State Division Trust Fund had Senate Bill 18-200 become law on December 31, 2017.

Other Post Employment Benefit (OPEB) Plan

The Center participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value. The adoption of this method of accounting pursuant to the requirements of GASB Statement No. 75 resulted in a cumulative charge to net position of \$692,579 effective July 1, 2017.

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, 2018 are described in Note 3.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

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

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.

NOTE 2 – FINANCIAL STATEMENT PRESENTATION

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

Statement of Net Position

	June 30, 2018	
	Patient Benefit Fund	Resident Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 42,577	\$ 87,374
<u>Liabilities and Net Position</u>		
Deposits held in trust for residents	\$ -	\$ 87,374
Total Liabilities	-	87,374
Net Position		
Restricted for resident purposes	42,577	\$ -
Total Liabilities and Net Position	\$ 42,577	\$ 87,374

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 2 – FINANCIAL STATEMENT PRESENTATION (cont'd)

<u>Statement of Revenue, Expenses, and Changes in Net Position</u>	Year ended June 30, 2018
	<u>Patient Benefit Fund</u>
Nonoperating revenue	
Donations	\$ 30,383
Interest income	26
Total nonoperating revenue	<u>30,409</u>
Nonoperating expenses	
Materials and supplies	<u>26,084</u>
Change in net position	4,325
Net position, beginning of year	<u>38,252</u>
Net position, end of year	<u>\$ 42,577</u>

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized as follows:

<u>Proprietary Fund</u>	
Cash on hand	\$ 1,000
Demand deposits	433,195
Cash with State Treasurer	<u>-</u>
	<u>\$ 434,195</u>
 <u>Patient Benefit and Resident Funds</u>	
Cash on hand	\$ 525
Demand deposits	<u>129,426</u>
	<u>\$ 129,951</u>

The Center deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. 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, 2018, the Center had a cash deficit with the State Treasurer of \$(3,175,040), which represented approximately (0.04) percent of the total \$7,635,800 million fair value of investments in the State Treasurer's Pool (Pool).

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.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

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

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, 2018

At June 30, 2018, the carrying amount of the Center’s deposits was \$433,195 and the bank balance was \$441,087. The entire bank balance was covered by federal depository insurance. Colorado law requires that a depository institution must apply for and be designated as an eligible public depository before the institution can accept public fund monies. The depository institution must pledge eligible collateral as security for all public deposits held by that institution that are not insured by depository insurance. The market value of the collateral that each institution pledges as security must equal at least 102% of the total uninsured deposits held by that institution. Generally, the eligible collateral in the collateral pools is held by the depository institution or its agent in the name of the depository institution.

Custodial credit risk is the risk that, in the event of a bank failure, the Center’s deposits may not be returned to it. The Center’s policy for custodial credit risk parallels Colorado statutes as described above. At June 30, 2018, none of the Center’s deposits were exposed to custodial credit risk because of federal depository insurance.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2018 consist of the following:

Patient fees, net of allowance for doubtful accounts of \$31,061	\$ 72,388
Medicaid reimbursements, net of allowance for doubtful accounts of \$63,156	443,761
Other receivables, net of allowance for doubtful accounts of \$13,182	<u>129,097</u>
Total accounts receivable	<u>\$ 645,246</u>
VA per diem reimbursements	\$ 226,365
Medicare, net of allowance for doubtful accounts of \$30,521	<u>93,720</u>
Total due from other governments	<u>\$ 320,085</u>

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 5 – CAPITAL ASSETS

Following is a summary of capital assets:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Nondepreciable assets –				
Land	\$ 54,200	\$ -	\$ -	\$ 54,200
Construction in progress	<u>1,135,800</u>	<u>-</u>	<u>1,135,800</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,190,000</u>	<u>-</u>	<u>1,135,800</u>	<u>54,200</u>
Depreciable assets –				
Land improvements	77,426	-	-	77,426
Buildings	6,463,939	1,393,415	-	7,857,354
Furniture and equipment	132,410	25,853	-	158,263
Vehicles	60,733	-	-	60,733
Software	<u>78,683</u>	<u>-</u>	<u>-</u>	<u>78,683</u>
Total capital assets being depreciated	<u>6,813,191</u>	<u>1,419,268</u>	<u>-</u>	<u>8,232,459</u>
Less: Accumulated depreciation for –				
Land improvements	76,200	410	-	76,610
Buildings	4,314,565	253,040	-	4,567,606
Furniture and equipment	108,639	6,616	-	115,255
Vehicles	60,733	-	-	60,733
Software	<u>78,683</u>	<u>-</u>	<u>-</u>	<u>78,683</u>
Total accumulated depreciation	<u>4,638,820</u>	<u>260,066</u>	<u>-</u>	<u>4,898,887</u>
Capital assets being depreciated, net	<u>2,174,371</u>	<u>1,159,202</u>	<u>-</u>	<u>3,333,572</u>
Total net capital assets	<u>\$ 3,364,371</u>	<u>\$ 1,159,202</u>	<u>\$ 1,135,800</u>	<u>\$ 3,387,772</u>

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 6 – CAPITAL LEASE

The following is a summary of changes in capital lease payable for the Fiscal Year Ended June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
\$1,085,976 capital lease: interest rate of 3.35%; due in quarterly installments of \$15,810 including principal and interest increasing annually by approximately 5% per year through July 2027	\$ 937,156	\$ -	\$ 60,647	\$ 876,509
Total capital lease payable	<u>\$ 937,159</u>	<u>\$ -</u>	<u>\$ 60,647</u>	<u>\$ 876,509</u>

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

Conservation project	\$ 1,085,976
Accumulated depreciation as of June 30, 2018	<u>(397,894)</u>
	<u>\$ 688,082</u>

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

Fiscal Year Ending June 30,

2019	\$ 95,788
2020	100,398
2021	105,235
2022	110,310
2023	110,745
2024-2028	<u>511,327</u>
	1,033,803
Less amount representing interest	<u>(157,294)</u>
	<u>\$ 876,509</u>

NOTE 7 – DUE TO STATE TREASURER

The Center is indebted to the State Treasurer for cumulative prior non-interest bearing advances by the Treasurer to cover cash flow shortages for the Center's daily operations, including personnel, medical supplies and drugs, and food necessary to provide care to residents. The balance due to the State Treasurer at June 30, 2018 was \$3,175,040.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 8 – RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center's risks related to general liability, motor vehicle liability, worker's compensation and medical claims are covered under the self-insurance fund managed by the Department of Personnel & Administration for the State of Colorado. Property claims are covered by commercial insurance and claims settled have not exceeded coverage limits for the last three years. A further description of the state's risks is contained in the State's Comprehensive Annual Financial Report.

NOTE 9 – PENSION PLANS

General Information about the Pension Plan

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-financial-reports.

Benefits provided as of December 31, 2017: 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 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.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 9 – PENSION PLANS (Cont'd.)

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, 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 (AIR) 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.

Contributions provisions as of June 30, 2018: 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. The employer contribution requirements for all employees except State Troopers are summarized in the table below:

	<i>As of June 30, 2018</i>
Employer contribution rate ¹	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%
Amount apportioned to the SDTF ¹	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	5.00%
Total employer contribution rate to the SDTF¹	19.13%

¹ 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 the Center were \$876,070 for the year ended June 30, 2018.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 9 – PENSION PLANS (Cont'd.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Center reported a liability of \$31,204,304 for its proportionate share of the net pension liability. The net pension liability for the SDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017.

The Center's proportion of the net pension liability was based on the Center's contributions to the SDTF for the calendar year 2017 relative to the total contributions of participating employers to the SDTF.

At December 31, 2017, the Center's proportion was 0.15588 percent, which was a decrease of 0.00139 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Center recognized pension expense of \$6,002,940. At June 30, 2018, 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	\$ 486,548	\$ -
Changes of assumptions or other inputs	5,418,257	-
Net difference between projected and actual earnings on pension plan investments	-	1,175,264
Changes in proportion and differences between contributions recognized and proportionate share of contributions	3,724	131,899
Contributions subsequent to the measurement date	474,305	N/A
Total	\$ 6,382,834	\$ 1,307,163

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 9 – PENSION PLANS (Cont'd.)

\$474,305 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30:	
2019	\$ 4,616,645
2020	\$ 867,916
2021	\$ (436,575)
2022	\$ (446,620)
2023	\$ -
Thereafter	\$ -

Actuarial assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

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

A discount rate of 4.72 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

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.

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.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 9 – PENSION PLANS (Cont’d.)

- **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 based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

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.

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 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 adoption of the long-term expected rate of return by the PERA Board, the target asset 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%.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 9 – PENSION PLANS (Cont'd.)

Discount rate. The discount rate used to measure the total pension liability was 4.72 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:

- 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.
- 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 2038 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 2038 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2038 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.72 percent.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
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NOTE 9 – PENSION PLANS (Cont’d.)

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.54 percent higher compared to the current 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 4.72 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 (3.72 percent) or 1-percentage-point higher (5.72 percent) than the current rate:

	1% Decrease (3.72%)	Current Discount Rate (4.72%)	1% Increase (5.72%)
Proportionate share of the net pension liability	\$38,820,395	\$ 31,204,304	\$ 24,951,960

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.

Changes between the measurement date of the net pension liability and June 30, 2018

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications to the Public Employees’ Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 9 – PENSION PLANS (Cont'd.)

- Expands eligibility to participate in the PERA DC Plan to new members hired on or after January 1, 2019, who are classified college and university employees in the State Division. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

At June 30, 2018 the Center reported a liability of \$ 31,204,304 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.72%. For comparative purposes, the following schedule presents an estimate of what the Center's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	\$ 14,796,811

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$14,796,811 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE 10 – OTHER RETIREMENT PLANS

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 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 which includes additional information on the Voluntary Investment 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 C.R.S., as amended. Employees are immediately vested in their own contributions.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 10 – OTHER RETIREMENT PLANS (cont'd)

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). SB 18-200 expands eligibility to participate in the PERA DC Plan to new employees hired on or after January 1, 2019, who are classified college and university employees in the State Division. 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:

	<i>As of June 30, 2018</i>
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	5.00%
Total employer contribution rate to the SDTF¹	10.00%

¹Rates 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. Participating employees in the PERA DC Plan contributed \$11,411,000 and the State of Colorado recognized pension contributions of \$14,309,000, respectively, for the PERA DC Plan.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 10 – OTHER RETIREMENT PLANS (cont'd)

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 2017, 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 \$18,500. Participants who are age 50 and older, and contributing the maximum amount allowable were allowed to make an additional \$6,000 contribution in 2017. 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 (\$37,000 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, 2017, the plan had 18,211 participants.

The Center made contributions to other retirement plans totaling \$24,230 during Fiscal Year 2018.

NOTE 11 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

General Information about the OPEB Plan

Plan description. Eligible employees of the Center are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, 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 the premium subsidies. 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.

Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (cont'd)

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA Benefit Structure

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Center is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Center were \$46,712 for the year ended June 30, 2018.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 11 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (cont'd)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Center reported a liability of \$712,410 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The Center's proportion of the net OPEB liability was based on the Center's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the Center's proportion was 0.05482 percent, which was a decrease of 0.00047 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Center recognized OPEB expense of \$8,123. At June 30, 2018, the Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,369	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	11,918
Changes in proportion and differences between contributions recognized and proportionate share of contributions	114	5,148
Contributions subsequent to the measurement date	25,290	N/A
Total	28,772	17,066

\$25,290 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (3,306)
2020	(3,306)
2021	(3,306)
2022	(3,305)
2023	(327)
Thereafter	(31)

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (cont'd)

Actuarial assumptions. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

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 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
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NOTE 11 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (cont'd)

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on 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.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on 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.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 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 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (cont'd)

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA’s actuary, as needed.

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.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, 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 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 RIFLE
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NOTE 11 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (cont'd)

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset 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%.

Sensitivity of the Center's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$ 692,808	\$ 712,410	\$ 736,050

Discount rate. The discount rate used to measure the total OPEB liability was 7.25 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 health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- 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%.

**COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 11 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) 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. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits 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 HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

Sensitivity of the Center's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 801,007	\$ 712,410	\$ 636,847

OPEB plan fiduciary net position. Detailed information about the HCTF'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 12 – CONTINGENCIES AND COMMITMENTS

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

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY JUNE 30, 2018
Last 10 Fiscal Years ^{a, b}

Dollar amounts in thousands

Fiscal year ended June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Center's proportion of the net pension liability	0.1558813692%	0.1572713199%	0.1571333300%	0.1641118991%	0.1697566762%
Center's proportionate share of the net pension liability	\$ 31,204	\$ 28,888	\$ 16,548	\$ 15,437	\$ 15,122
Center's covered-employee payroll	\$ 4,636	\$ 4,467	\$ 4,525	\$ 4,347	\$ 4,475
Center's proportionate Share of the net pension liability as a percentage of its covered employee payroll	673.09%	646.69%	365.70%	355.12%	337.92%
Plan fiduciary net position as a percentage of the total pension liability	43.20%	42.59%	56.11%	59.84%	61.08%

^a Amounts prior to Fiscal Year 2014 are not available. In future reports, additional years will be added until 10 years of historical data are presented

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

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
 SCHEDULE OF THE CENTER'S CONTRIBUTION
 PUBLIC EMPLOYEES RETIREMENT ASSOCIATION JUNE 30, 2018
 Last 10 Fiscal Years ^{a, b}

Fiscal year ended June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 893,240	\$ 836,445	\$ 806,430	\$ 733,756	\$ 714,862
Contributions in relation to the contractually required contribution	\$ 893,240	\$ 836,445	\$ 806,430	\$ 733,756	\$ 714,862
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -
Center's covered employee payroll	\$4,636,172	\$4,467,440	\$4,524,769	\$4,346,640	\$4,475,112
Contributions as a percentage of covered-employee payroll	19.27%	18.72%	17.82%	16.88%	15.97%

^a Amounts prior to Fiscal Year 2014 are not available. In future reports, additional years will be added until 10 years of historical data are presented

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

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
 SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY JUNE 30, 2018
 Last 10 Fiscal Years ^{a, b}

Dollar amounts in thousands

Fiscal year ended June 30,	<u>2018</u>
Center's proportion of the net OPEB liability	0.0548176416%
Center's proportionate share of the net OPEB liability	\$ 712
Center's covered-employee payroll	\$ 4,636
Center's proportionate Share of the net pension liability as a percentage of its covered employee payroll	15.37%
Plan fiduciary net position as a percentage of the total pension liability	17.53%

^a Amounts prior to Fiscal Year 2018 are not available. In future reports, additional years will be added until 10 years of historical data are presented

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

COLORADO VETERANS COMMUNITY LIVING CENTER AT RIFLE
SCHEDULE OF THE CENTER'S OPEB CONTRIBUTION
HEALTH CARE TRUST FUND JUNE 30, 2018
Last 10 Fiscal Years ^{a, b}

Fiscal year ended June 30,	<u>2018</u>
Contractually required contribution	\$ 47,289
Contributions in relation to the contractually required contribution	\$ 47,289
Contribution deficiency	\$ -
Center's covered employee payroll	\$ 4,636,172
Contributions as a percentage of covered-employee payroll	1.02%

^a Amounts prior to Fiscal Year 2018 are not available. In future reports, additional years will be added until 10 years of historical data are presented

^b 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

503 N. Main Street, Suite 740

Pueblo, CO 81003

Phone (719) 543-0516

Fax (719) 544-2849

REQUIRED AUDITOR COMMUNICATION TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado Veterans Community Living Center at Rifle (the Center) for the year ended June 30, 2018. 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 June 16, 2018. 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 1 to the financial statements, the Center changed accounting policies related to the recording of Other Post-Employment Benefits (OPEB) by adopting Statement of Governmental Accounting Standards No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in Fiscal Year 2018. We noted no transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the allowance for uncollectible accounts. Management's estimate of the allowance for uncollectible accounts is based on management's review of the accounts and determination of the collectability of each account. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. 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 November 27, 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, and the Schedules of the Center's Proportionate Share of the Net Pension Liability, the Center's Contribution to Public Employees Retirement Association, the Center's Proportionate Share of the Net OPEB Liability, and the Center's OPEB Contribution to the Health Care Trust Fund, 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 our opinion or provide any assurance on the RSI.

Restriction on Use

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

W. Pherson, Poreyfogel, D. Avline & Goodrich, PC

November 27, 2018

GOVERNMENT AUDITING

STANDARDS REPORT



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

503 N. Main St., Suite 740

Pueblo, CO 81003-3131

Phone (719) 543-0516

Fax (719) 544-2849

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

Members of the Legislative Audit Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Colorado Veterans Community Living Center at Rifle (the Center), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated November 27, 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 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. and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Use Peterson, Bryzozek, Davoine & Goodrich, PC

November 27, 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).