COLORADO VETERANS COMMUNITY LIVING CENTER AT FITZSIMONS

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORTS

YEAR ENDED JUNE 30, 2016

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COLORADO VETERANS COMMUNITY
LIVING CENTER AT FITZSIMONS
FINANCIAL AUDIT
YEAR ENDED JUNE 30, 2016

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January 11, 2017

Members of the Legislative Audit Committee

This report contains the results of a financial audit of the Colorado Veterans Community Living Center at Fitzsimons. 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 Fitzsimons.

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 Fitzsimons (the Center) for its Fiscal Year Ended June 30, 2016. The Center was previously known as the Colorado State Veterans Nursing Home at Fitzsimons 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, 2016. 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, 2016.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The last stand-alone audit of the Center was conducted for the Fiscal Year 2012. The audit report for the year ended June 30, 2012 included one finding. The disposition of this audit recommendation as of June 30, 2016 was as follows:

Implemented	1
Partially implemented	0
Not implemented	0
Total	1

DESCRIPTION OF THE CENTER

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

The Center, by statute, serves all veterans of service in the armed forces of the United States, their spouses, their widow(er)s, and their dependents and/or "gold star" parents. A gold star parent is a parent whose child died in combat or as a result of injuries received in combat. Preference for admission is given to Colorado veterans. The Center must maintain a 75 percent veteran's occupancy. The Center serves veterans without regard to sex, race, color, or national origin.

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

WORKLOAD AND STATISTICAL FACTORS

Authorized capacity	180
Average daily census for the year ended June 30, 2016	163
Average occupancy percentage for the year ended June 30, 2016	91.0%
Average veterans occupancy percentage for the year ended June 30, 2016	87.0%
Patient days for the year ended June 30, 2016	59,624

FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of Colorado Veterans Community Living Center at Fitzsimons (the Center) for the Fiscal Year Ended June 30, 2016 and have issued our report thereon dated January 11, 2017. In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated January 11, 2017 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.

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DISPOSITION OF PRIOR AUDIT RECOMMENDATION

Following is the audit recommendation for the year ended June 30, 2012, and its disposition at June 30, 2016.

Recommendation	Disposition
Recommendation No. 1 - The Living Center should follow generally accepted accounting principles in recording anticipation bond interest payments and deferred issue costs and reconciling accounts receivable ledgers to the general ledger.	Fully Implemented

FINANCIAL AUDIT REPORT SECTION

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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the Colorado Veterans Community Living Center at Fitzsimons (the Center), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Veterans Community Living Center at Fitzsimons, an enterprise fund of the State of Colorado, as of June 30, 2016, 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 Fitzsimons and do not purport to, and do not present fairly the financial position of the State of Colorado, as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8-12 and the schedule of the Center's proportionate share of the net pension liability on page 35 and the schedule of the Center's contributions to the Public Employees' Retirement Association local government division trust fund on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2017, 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, Breyfogle, Daveline & Goodrich, PC

January 11, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section, prepared by the Colorado State Veterans Community Living Center, presents an analysis of the Colorado State Veterans Community Living Center at Fitzsimons' performance and an overview of the Center's financial activities for the Fiscal Year Ended June 30, 2016. The financial statements, an integral part of this analysis and figures reported on the outputs from Colorado Operating Resource Engine (CORE), the State's accounting System, reflect the Center's Fiscal Year 2016 performances, and are incorporated and referred to throughout this Management Discussion and Analysis. The analysis below includes comparative information from Fiscal Year 2015 and is based on the Condensed Statement of Net Position and the Condensed Statement of Revenue, Expenses and Changes in Net Positon provided.

FINANCIAL HIGHLIGHTS

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

- The Center's Total Assets increased by $335,913, which is a 1.02% increase from Fiscal Year 2015.
- The Center's Total Operating Revenue decreased by $452,425, which is a 1.94% decrease from Fiscal Year 2015.
- The Center's Cash Operating Expenses increased by $340,023, which is a 1.64 % increase from Fiscal Year 2015.
- The Center's Non-Cash Operating Expenses increased by $102,404, which is a 5.85% increase from Fiscal Year 2015.
- The Center's Net Position decreased by $342,045, which is a 4.61% decrease from Fiscal Year 2015.

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 2017 Projections. The Financial Analysis includes notes, discussing in varying detail, the information in the financial statements as summarized in Table A and Table B.

Fund Financial Statements

Statement of Net Position

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

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 State Veterans Community Living Center at Fitzsimons 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. 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.

TABLE A
Condensed Statement of Net Position

	2016	2015	Dollar Change	Total Percent Change
Current Assets	13,212,696	12,119,627	1,093,069	9.02%
Current Assets-Restricted	790,833	819,938	(29,105)	-3.55%
Non-Current Assets	19,259,545	19,987,596	(728,051)	-3.64%
Total Assets (excluding restricted)	**32,472,241**	**32,107,223**	**365,018**	**1.14%**
Total Restricted Assets	**790,833**	**819,938**	**(29,105)**	**-3.55%**
TOTAL ASSETS	**33,263,074**	**32,927,161**	**335,913**	**1.02%**
Deferred out flows of resources related to pension	4,542,422	1,629,511	2,912,911	178.76%
Current Liabilities	2,342,900	2,751,448	(408,548)	-14.85%
Current Liabilities-Restricted	162,431	195,189	(32,758)	-16.78%
Non-Current Liabilities	40,865,113	38,441,545	2,423,568	6.30%
TOTAL LIABILITIES	**43,370,444**	**41,388,182**	**1,982,262**	**4.79%**
Deferred inflows of resources related to pension	1,511,824	587,307	924,517	157.42%
Net Assets Invested in Capital Assets, net of related debt	18,444,991	19,135,215	(690,224)	-3.61%
Restricted for resident purposes	65,480	64,902	578	0.89%
Unrestricted	(25,587,243)	(26,618,934)	1,031,691	3.88%
Total Net Position	**(7,076,772)**	**(7,418,817)**	**342,045**	**4.61%**

As shown in **Table A,** the Center's Total Assets increased by $335,913 to $33,263,074 in Fiscal Year 2016 from $32,927,161 in Fiscal Year 2015. The majority of this increase is a result of the following items: 1) $925,429 increase in accounts receivable. 2) $804,544 increase for accumulated depreciation account (contra account) for the depreciation of capital assets for Fiscal Year 2016.

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

The increase in Total Liabilities for the same period is also shown in **Table A** and majority of this increase is a result of the following items: 1) $2,966,150 increase in GASB 68 pension liability. 2) $1,142,884 decrease in account and vouchers payable and, 3) $490,000 decrease of anticipation warrants.

Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position provides information as to the nature and the source of the changes seen in the Statement of Net Position. **Table B** provides a summary of revenues and expenses of the Center for Fiscal Year 2016 as compared to the previous year.

TABLE B

Condensed Statement of Revenue, Expenses and Changes in Net Position

	2016	2015	Dollar Change	Total Percent Change
Total Operating Revenue	22,814,697	23,267,122	(452,425)	-1.94%
Non-Operating Revenue	480,596	438,981	41,615	9.48%
Restricted Revenue	13,734	25,160	(11,426)	-45.41%
Total Revenue	**23,309,027**	**23,731,263**	**(422,236)**	**-1.78%**
Operating Expenses - Cash	21,036,212	20,696,189	340,023	1.64%
Operating Expenses - Non Cash (Pension Expenses (GASB 68) Depr. & Bad Debt)	1,853,810	1,751,406	102,404	5.85%
Non-Operating Expenses - Cash (Bond/Note Costs)	94,098	112,673	(18,575)	-16.49%
Restricted Expense	12,862	11,999	863	7.19%
Total Expenses	**22,966,982**	**22,572,267**	**394,715**	**1.75%**
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION	**342,045**	**1,158,996**	**(816,915)**	**-70.49%**
Capital Contribution	-	-	-	-
CHANGE IN NET POSITION	**342,045**	**1,158,996**	**(816,915)**	**-70.49%**

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 decreased by $452,425 mainly due to the decrease in census. The average census was 90.4 percent which was a 0.9 percent decrease from Fiscal Year 2015.

- Operating Expenses increased due to inflationary influence in the area of medical purchase services, and raw food, as well as State of Colorado directed benefit increase for staff and depreciation. Normally, there is minimal opportunity for the 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.

- **Table B** reflects that the Center experienced a $342,045 Changes in Net Position during Fiscal Year 2016.

BUDGETARY HIGHLIGHTS

The Center's Fiscal Year 2016 financial operations resulted in revenues, below the budgeted amounts by $1,368,898. This was a result of decrease in patient census. Cash and non-cash expenses were under the budget amount by $806,869. This was because the facility monitors all expense closely and conducts monthly reviews with each manager to discuss departmental expenses.

CAPITAL ASSETS AND DEBT ACTIVITIES

Capital Assets

During Fiscal Year 2016 the Center purchased $76,493 in capital assets. This investment included $6,240 for furniture and $70,253 for the buildings. Also, $2,002,000 was transferred from construction in progress to buildings.

Debt Activities

During Fiscal Year 2016, the Center has paid down capital lease debt of $852,381 to $814,554. 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 2017 that includes projections related to expenses and corresponding increases in revenues through the increase in rates charged to residents for skilled nursing care. Expectations are that, subject to a stable census level and cost containment, the Center will continue to cover expenses with sufficient revenue to improve its net position in Fiscal Year 2017.

CONTACTING COLORADO STATE VETERANS NURSING HOME AT FITZSIMONS

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

COLORADO VETERANS COMMUNITY
LIVING CENTER AT FITZSIMONS
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 9,765,358
Restricted cash, resident benefit fund	227,911
Investment - restricted to payment of long term debt	562,922
Accounts receivable	911,148
Due from other governments	2,469,969
Other current assets	66,221
TOTAL CURRENT ASSETS	14,003,529
NONCURRENT ASSETS	
Capital assets -	
Land and improvements	7,977,317
Buildings	20,255,972
Furniture and equipment	1,277,567
Vehicles	99,016
Construction in progress	254,901
Accumulated depreciation	(10,605,228)
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	19,259,545
TOTAL ASSETS	33,263,074
Deferred outflows of resources related to pension	4,542,422
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts and vouchers payable	602,606
Retainage payable	51,553
Accrued salaries payable	204,965
Accrued fringes	765,215
Accrued interest payable	15,762
Due to state treasurer	53,447
Deposits held in trust for residents	162,431
Unearned revenue	17,080
Current portion of anticipation warrant payable	510,000
Current portion of liability for compensated absences	76,788
Current portion of liability under capital lease	45,484
TOTAL CURRENT LIABILITIES	2,505,331
NONCURRENT LIABILITIES	
Anticipation warrants payable (net of unamortized discount of $11,635)	523,365
Net pension liability	38,833,524
Liability for compensated absences, net of current	739,154
Liability under capital lease, net of current	769,070
TOTAL NONCURRENT LIABILITIES	40,865,113
TOTAL LIABILITIES	43,370,444
Deferred inflows of resources related to pension	1,511,824
NET POSITION	
Invested in capital assets, net of related debt	18,444,991
Restricted for resident purposes	65,480
Unrestricted	(25,587,243)
TOTAL NET POSITION	$ (7,076,772)

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

COLORADO VETERANS COMMUNITY
LIVING CENTER AT FITZSIMONS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

OPERATING REVENUE	
Patient charges for services	$ 9,936,952
VA per diem reimbursement	12,832,297
Miscellaneous revenue	45,448
TOTAL OPERATING REVENUE	22,814,697
OPERATING EXPENSES	
Personnel services and employee benefits	13,087,827
Pension expense	2,948,942
Departmental indirect costs	1,156,553
Advertising	7,210
Care and subsistence - client benefits	42,572
Equipment rental	193,526
Food and food service supplies	642,438
Insurance	8,659
Legal services	25,298
Medical and laboratory services and supplies	1,820,174
Office operations	89,879
Other operating services and supplies	525,597
Professional services	616,722
Repairs and maintenance	221,598
Non-capitalized equipment	134,342
Telephones	115,618
Utilities	342,715
Vehicles and travel	4,298
Depreciation	804,544
Bad debt expense	71,510
TOTAL OPERATING EXPENSES	22,860,022
OPERATING INCOME (LOSS)	(45,325)
NONOPERATING REVENUE (EXPENSES)	
Investment income	103,781
State grant	376,815
Interest expense	(94,098)
Donations - resident fund fund, net of benefit expenses	346
Interest income - resident funds	526
TOTAL NONOPERATING REVENUE (EXPENSES)	387,370
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	342,045
CAPITAL CONTRIBUTIONS	-
CHANGE IN NET POSITION	342,045
NET POSITION, beginning of year	(7,418,817)
NET POSITION, end of year	$ (7,076,772)

The accompanying notes are an integral part of this statement.

COLORADO VETERANS COMMUNITY
LIVING CENTER AT FITZSIMONS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	$ 9,827,413
Cash received from federal government	12,017,839
Cash payments to employees for services	(15,132,121)
Cash payments to suppliers for goods and services	(5,923,075)
Cash payments for other expenses	(391,387)
NET CASH PROVIDED BY OPERATING ACTIVITIES	398,669
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State grant	376,815
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	376,815
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(76,493)
Payment on anticipation warrants	(490,000)
Capital lease payments	(37,828)
Interest paid on capital leases and anticipation warrants	(89,697)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(694,018)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	104,307
NET CASH PROVIDED BY INVESTING ACTIVITIES	104,307
NET INCREASE IN CASH AND CASH EQUIVALENTS	185,773
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,579,585
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,765,358
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	$ (45,325)
Adjustments to reconcile operating loss to net cash provided by operating activities -	
Depreciation	804,544
Bad debt expense	71,510
Pension liability adjustment	977,757
Changes in assets and liabilities -	
Restricted cash	(3,306)
Accounts receivable	(995,787)
Other current assets	16,980
Unearned revenue	17,080
Accounts payable and accrued expenses	(426,063)
Liability for compensated absences	(18,721)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 398,669

The accompanying notes are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Financial Reporting Entity

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

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

Fund Accounting

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

Basis of Accounting

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

Net Position

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

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

- Restricted – This caption consists of constraints placed on net position use through external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

- Unrestricted – Consists of net position that does not meet the definition of "restricted" or "net investment in capital assets, net of related debt."

Budget and Budgetary Accounting

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

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

Accounts Receivable

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

Capital Assets

Any individual item of property and equipment with a cost of $5,000 or more and whose estimated life exceeds two years is capitalized and recorded at cost. Expenses for normal maintenance and repairs are recognized currently as incurred, while renewals and betterments are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives by class using the straight-line method, as follows:

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

Compensated Absences

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

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

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, deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fair Value Measurement

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Center's recurring fair value measurements as of June 30, 2016 are described in Note 3.

Statement of Cash Flows

For purposes of the statement of cash flows, the Center considers all highly liquid investments purchased with an original maturity of three months and less to be cash equivalents, except that the Center has elected not to include restricted cash as part of cash equivalents.

NOTE 2 – FINANCIAL STATEMENT PRESENTATION

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

NOTE 2 – FINANCIAL STATEMENT PRESENTATION (cont'd)

STATEMENT OF NET POSITION

	June 30, 2016	
	Patient Benefit Fund	Resident Trust Fund
Assets:		
Cash and cash equivlants	$ 65,480	$ 162,431
Liabilities and Net Position		
Deposits held in trust for residents	-	162,431
Restricted for resident purposes	65,480	-
	$ 65,480	$ 162,431

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30, 2016
Patient Benefit Fund:	
Non-operating Revenue:	
Donations	$ 13,208
Interest	526
Non-operating Expenses:	
Materials and supplies	(12,862)
Change in net position	872
Net position, beginning of year	64,608
Net position, end of year	$ 65,480

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents are summarized as follows:

Proprietary Fund:	
Unrestricted	
Cash on hand	$ 1,000
Demand deposits	279,848
Cash with State Treasurer	9,484,510
	$ 9,765,358
Restricted	
Restricted to payment of long-term debt (investment)	$ 562,922
Patient Benefit and Resident Funds:	
Restricted	
Cash on hand	$ 1,500
Demand Deposits	226,411
	$ 227,911

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

At June 30, 2016, the carrying amount and bank balance of the Center's deposits was $279,848. Of this amount, $29,848 is in excess of the amount covered by federal depository insurance. Colorado law requires that depository institutions must apply for and be designated as an eligible public depository before the institution can accept public fund monies. The depository institution must pledge eligible collateral as security for all public deposits held by that institution that are not insured by depository insurance. The fair market value of the collateral that each institution pledges as security must equal at least 102% of the total uninsured deposits held by that institution. Generally, the eligible collateral in the collateral pools is held by the depository institution or its agent in the name of the depository institution.

The Center also has restricted investment required for a debt service reserve with a balance of $562,922 at June 30, 2016. These funds are maintained in a treasury money market fund and are collateralized with U.S. Treasury securities whose fair value approximates amortized cost. For financial reporting purposes, the money market fund investment is reported at fair value, determined using significant observable inputs (Level 2 inputs) at year end.

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, 2016, none of the Center's deposits were exposed to custodial credit risk because of federal depository insurance and the pledge of eligible collateral.

The Center deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2016, the Center had cash on deposit with the State Treasurer of $9,484,510, which represented approximately 0.128 percent of the total $7,408.5 million fair value of deposits in the State Treasurer's Pool (Pool).

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted prices in active markets for identical assets ($230 million) and significant other observable inputs ($7,178.5 million) at the fiscal year-end. On the basis of the Center's participation in the Pool, the Center reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2016, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2016, approximately 83.8 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for $77,761,610 of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

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

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2016, the weighted average maturity of investments in the Treasurer's Pool is as follows: inconvenience

Investment Type	Fair Value Amount	Weighted Average Maturity	Maturity Amount	Percent of Pool
Asset Backed Securities	$1,030,324,633	2.585	$1,026,821,023	14.0
Corporate Bonds	1,668,441,771	1.985	1,645,938,000	22.4
U.S. Government Securities	3,633,084,620	1.343	3,608,040,000	49.0
Commercial Paper	846,606,464	0.094	847,000,000	11.5
Money Market Mutual Funds	230,000,000	0.000	230,000,000	3.1
TOTAL	**$7,408,457,488**		**$7,357,799,023**	**100.0**

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2015-16.
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, 2016.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2016 consist of the following:

Patient fees, net of allowance for doubtful accounts of $75,298	$ 332,575
Medicaid reimbursements, net of allowance for doubtful accounts of $33,695	439,765
Other receivables, net of allowance for doubtful accounts of $286	138,808
Total accounts receivable	$ 911,148
VA per diem reimbursements	$ 2,315,481
Medicare, net of allowance for doubtful accounts of $5,018	154,488
Total due from other governments	$ 2,469,969

NOTE 5 – CAPITAL ASSETS

Following is a summary of Capital Assets:

	July 1, 2015	Additions	Deletions	June 30, 2016
Nondepreciable Assets:				
Land	$ 3,312,000	-	-	$ 3,312,000
Construction in Progress	2,256,901	-	2,002,000	254,901
Total capital assets not being depreciated	5,568,901	-	2,002,000	3,566,901
Depreciable Assets:				
Improvements	$ 4,665,317	-	-	$ 4,665,317
Buildings	18,183,719	2,072,253	-	20,255,972
Furniture and equipment	1,271,327	6,240	-	1,277,567
Vehicles	99,016	-	-	99,016
Total capital assets being depreciated	24,219,379	2,078,493	-	26,297,872
Less: Accumulated Depreciation				
Improvements	2,938,393	230,331	-	3,168,724
Buildings	5,630,622	524,487	-	6,155,109
Furniture and equipment	1,132,654	49,725	-	1,182,379
Vehicles	99,016	-	-	99,016
Total accumulated depreciation	9,800,685	804,543	-	10,605,228
Total Net Capital Assets	$ 19,987,595	$ 1,273,950	$ 2,002,000	$ 19,259,545

NOTE 6 – CAPITAL LEASE PAYABLE

The following is a summary of changes in capital lease payable for the year ended June 30, 2016:

	Balance July 01, 2015	Additions	Repayments	Balance June 30, 2016
$1,224,502 capital lease, beginning October 2012, with an interest rate of 3.35%. Principal and interest payments of 18,044 are payable quarterly and adjust annually through maturity, July 2027.	$ 852,381	$ -	$ 37,827	$ 814,554
Total capital lease payable	$ 852,381	-	$ 37,827	$ 814,554

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

Fiscal Year Ending June 30

2017	$ 71,352
2018	74,777
2019	78,372
2020	82,144
2021	86,101
2022-2026	473,455
2027-2028	125,766
	991,967
Less amount representing interest	(177,413)
	$ 814,554

NOTE 7 – LONG –TERM DEBT

The following is a summary of long-term debt:

	Balance July 01, 2015	Additions	Repayments	Balance June 30, 2016
Revenue anticipation warrants, Series 2002A	$1,535,000	$ -	$ 490,000	$ 1,045,000

The issue is described as follows:

$6,045,000 series 2002A Colorado Department of Human Services, Division of State and Veterans Nursing Homes, Enterprise System Revenue Anticipation Warrants; interest rate ranges from 4.20% to 4.75%; due in annual installments ranging from $547,525 to $558,013 including interest through December 2017.

NOTE 7 – LONG –TERM DEBT (Cont'd)

The warrants were issued with original issue discount of $69,811. As of June 30, 2016, the unamortized original issue discount was $11,635, which is netted against the warrant payable on the Statement of Net Position.

Presented below is a summary of debt service requirements to maturity, including interest:

Year ending June 30,	Principal	Interest	Total
2017	$ 510,000	$ 37,525	$ 547,525
2018	535,000	12,706	547,706
	$ 1,045,000	$ 51,231	$ 1,096,231

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 – DEFINED BENEFIT PENSION PLAN

A. PLAN DESCRIPTION

Eligible employees of the Center are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (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.

B. BENEFITS PROVIDED

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

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Cont'd)

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 Internal Revenue Code.

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

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

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Cont'd)

C. CONTRIBUTIONS

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

	Fiscal Year 2014		Fiscal Year 2015		Fiscal Year 2016	
	CY13	CY14		CY15		CY16
	7-1-13 to 12-31-13	1-1-14 to 6-30-14	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12-31-15	1-1-16 to 6-30-16
Employer Contribution Rate	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Heath Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	3.40%	3.80%	3.80%	4.20%	4.20%	4.60%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	3.00%	3.50%	3.50%	4.00%	4.00%	4.50%
Total Employer Contribution Rate to the SDTF	15.53%	16.43%	16.43%	17.33%	17.33%	18.23%

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 Colorado Veterans Community Living Center at Fitzsimons for the Fiscal Year ending June 30, 2016 were $1,864,450.

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Cont'd)

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

At June 30, 2016, the Center reported a liability of $ 38,833,524 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The Center's proportion of the net pension liability was based on the Center's contributions to the SDTF for the calendar year 2015 relative to the total contributions of participating employers to the SDTF.

At December 31, 2015, the Colorado Veterans Community Living Center at Fitzsimons's proportion was 0.36875%, which was a decrease of 0.01255% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the Center recognized pension expense of $2,948,942. At June 30, 2016, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 565,481	$ (1,239)
Changes of assumptions or other inputs	-	(459,678)
Net difference between projected and actual earnings on pension plan investments	2,944,127	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	(1,050,907)
Contributions subsequent to the measurement date	1,032,814	N/A
Total	$ 4,542,422	$(1,511,824)

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Cont'd)

$1,032,814 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2017	140,684
2018	476,454
2019	781,740
2020	598,906
2021	-
Thereafter	-

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

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

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Cont'd)

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
    - Valuation of the full survivor benefit without any reduction for possible remarriage.
    - Reflection of the employer match on separation benefits for all eligible years.
    - Reflection of one year of service eligibility for survivor annuity benefit.
    - Refinement of the 18 month annual increase timing.
    - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- The following methodology changes were made:
    - Recognition of merit salary increases in the first projection year.
    - Elimination of the assumption that 35% of future disabled members elect to receive a refund.
    - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
    - Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

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

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

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Cont'd)

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate 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 3.90%.

- Employee contributions will 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, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. 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 actuarial cost method and assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Cont'd)

Sensitivity of the Center's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	$49,060,699	$38,833,524	$30,278,833

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

NOTE 10 – OTHER RETIREMENT PLANS

A DEFINED CONTRIBUTION RETIREMENT PLAN (DC Plan)

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

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

	Fiscal Year 2014		**Fiscal Year 2015**		**Fiscal Year 2016**	
	CY13	**CY14**		**CY15**		**CY16**
	7-1-13 to 12-31-13	1-1-14 to 6-30-14	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12-31-15	1-1-16 to 6-30-16
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	3.40%	3.80%	3.80%	4.20%	4.20%	4.60%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	3.00%	3.50%	3.50%	4.00%	4.00%	4.50%
Total Employer Contribution Rate to the SDTF	6.40%	7.30%	7.30%	8.20%	8.20%	9.10%

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

NOTE 10 – OTHER RETIREMENT PLANS (Cont'd)

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.

B – 401K DEFINED CONTRIBUTION PLAN

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

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.

C – 457 DEFERRED COMPENSATION PLAN

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2014, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of $18,000. Participants who are age 50 and older and contributing the maximum amount allowable, were allowed to make an additional $6,000 contribution in 2015, for total contributions of $24,000. Contributions and earnings are tax deferred. At December 31, 2015, the plan had 17,814 participants.

The Center made contributions to other retirement plans totaling $16,598 during Fiscal Year 2016.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

HEALTH CARE TRUST FUND

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

Funding Policy – The Center is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Center are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015 and 2014, the Center's contributions to the HCTF were $106,736, $104,450 and $104,807, respectively, equal to their required contributions for each year.

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 Fitzsimons
SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2016

Last 10 Fiscal Years [a, b]

Dollar amounts in thousands

	2015	2014	2013
Center's proportion of the net pension liability	0.3687532296%	0.3813035779%	0.3913765394%
Center's proportionate share of the net pension liability	$ 38,834	$ 35,867	$ 34,863
Center's covered-employee payroll	$ 10,464	$ 10,240	$ 10,275
Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	371.12%	350.26%	339.30%
Plan fiduciary net position as a percentage of the total pension liability	56.11%	59.84%	61.08%

[a] Amounts prior to 2013 are not available

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

Colorado Veterans Community Living Center at Fitzsimons
SCHEDULE OF THE CENTER'S CONTRIBUTION
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
JUNE 30, 2016
Last 10 Fiscal Years [a, b]

	2015	2014	2013
Contractually required contribution	$ 1,864,450	$ 1,729,112	$ 1,641,148
Contributions in relation to the contractually required contribution	$ 1,864,450	$ 1,729,112	$ 1,641,148
Contribution deficiency	$ -	$ -	$ -
Center's covered employee payroll	$ 10,464,286	$ 10,240,231	$ 10,275,241
Contributions as a percentage of covered-employee payroll	17.82%	16.89%	15.97%

[a] Amounts prior to 2013 are not available

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

REQUIRED AUDITOR COMMUNICATION

TO THE

LEGISLATIVE AUDIT COMMITTEE

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

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REQUIRED AUDITOR COMMUNICATION TO THE LEGISLATIVE AUDIT COMMITTEE

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado Veterans Community Living Center at Fitzsimons (the Center) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in the engagement letter dated May 25, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested and received certain representations from management that are included in the management representation letter dated January 11, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Center's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Center's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, the Schedule of the Center's Proportionate Share of the Net Pension Liability and the Schedule of the Center's Contribution to the Public Employees' Retirement Association, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

McPherson, Breyfogle, Daveline & Goodrich, PC

January 11, 2017

GOVERNMENT AUDITING

STANDARDS REPORT

MBDG PC

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

Members of the Legislative Audit Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States , the financial statements of the Colorado State Veterans Community Living Center at Fitzsimons (the Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated January 11, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

McPherson, Breyfogle, Daveling & Goodrich, PC

January 11, 2017

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).