



**Financial Statements
and
Independent Auditors' Report
September 30, 2012 and 2011**

EKS&H
**EHRHARDT • KEEFE
STEINER • HOTTMAN PC**
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

COLORADO HEALTH FACILITIES AUTHORITY

Table of Contents

	<u>Page</u>
Management's Discussion and Analysis.....	1
Independent Auditors' Report.....	5
Financial Statements	
Balance Sheets.....	7
Statements of Revenue, Expenses, and Changes in Net Assets.....	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10
Accompanying Information	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Schedule I - Schedule of Bonds Outstanding.....	21
Schedule II - Schedule of Lease-Purchase Financings Outstanding.....	24

COLORADO HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

The following discussion and analysis presents management's discussion of the financial position and results of operations of the Colorado Health Facilities Authority (the "Authority") during the fiscal years ended September 30, 2012 and 2011. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This analysis should be read in conjunction with the Independent Auditors' Report, financial statements, and accompanying notes.

The Authority was created by the Colorado Legislature in 1977 as a financing vehicle to enable non-profit public and private health care institutions to access the tax-exempt capital market when financing or refinancing health care facilities. The Authority does not receive any state of Colorado ("State") funds and is not a State agency. Its operations are funded through annual fees charged to the organizations on whose behalf the Authority issues bonds and other debt obligations (together, "bonds").

The Authority's statute does not provide that the moral authority of the State can be pledged. To the contrary, it explicitly provides that any bonds issued by the Authority are not an indebtedness, a debt or a liability of the State, or any political subdivision of the State. All bond documents, bonds, and offering circulars pertaining to bonds issued by the Authority state that the bonds are not the obligations of the State or the Authority but are the financial obligations of the health care institutions.

As the Authority has no liability with respect to these bonds and has no beneficial interest in the related assets held by the trustees, the Authority excludes these bonds and related assets held by the trustees from its financial statements.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) the financial statements and 2) notes to the financial statements that provide enhanced disclosure of some of the information in the financial statements.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. This statement provides information about the nature and the amounts of investments in resources (assets) and the amounts due to the Authority's creditors (liabilities). It provides one way to measure the financial health of the Authority by providing the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Authority. This information should be considered along with other non-financial factors such as the change in economic conditions.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures operations over the year and can be used to determine whether the Authority has recovered all of its costs through its revenue sources.

COLORADO HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operating, investing, capital, and non-capital activities. This statement provides answers to such questions as where did cash come from, how was cash used, and what was the change in the cash balance during the period.

Condensed Financial Information

	September 30,	
	2012	2011
Total assets	<u>\$ 6,995,538</u>	<u>\$ 6,897,311</u>
Total liabilities	<u>\$ 304,306</u>	<u>\$ 396,478</u>
Net assets		
Invested in capital assets	\$ 884	\$ 2,264
Unrestricted assets		
Designated - assets limited as to use	2,588,652	2,530,390
Undesignated	2,102,839	1,963,119
Indemnification trust	<u>1,998,857</u>	<u>2,005,060</u>
Total net assets	<u>\$ 6,691,232</u>	<u>\$ 6,500,833</u>
	For the Years Ended	
	September 30,	
	2012	2011
Operating revenue		
Annual service fees	\$ 1,374,075	\$ 1,395,851
Less refunds	<u>(233,563)</u>	<u>(330,168)</u>
Net annual service fees	1,140,512	1,065,683
Initial fees	<u>765,834</u>	<u>302,484</u>
Total operating revenue	<u>1,906,346</u>	<u>1,368,167</u>
Operating expenses		
Direct costs of financings	852,067	400,855
General and administrative expenses	<u>874,861</u>	<u>846,703</u>
Total operating expenses	1,726,928	1,247,558
Investment and miscellaneous income	<u>10,981</u>	<u>12,014</u>
Change in net assets	190,399	132,623
Net assets, beginning of year	<u>6,500,833</u>	<u>6,368,210</u>
Net assets, end of year	<u>\$ 6,691,232</u>	<u>\$ 6,500,833</u>

COLORADO HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Financial Analysis

Balance Sheet

Total assets of the Authority increased \$98,227 or 1.4% from \$6,897,311 on September 30, 2011 to \$6,995,538 on September 30, 2012, and total liabilities decreased \$92,172 or 23.2% from \$396,478 on September 30, 2011 to \$304,306 on September 30, 2012. The decline in total liabilities is due to a decrease in accounts payable as a result of a smaller fee refund than that in the prior fiscal year

The net assets of the Authority (the excess of assets over its liabilities) at September 30, 2012 and 2011 were \$6,691,232 and \$6,500,833, respectively. Of the \$6,691,232, approximately \$2 million is set aside in an irrevocable indemnification trust. An additional \$2,588,652 has been designated by the Board of Directors to provide future working capital and support operations during periods of unusual fluctuations or unexpected or extraordinary expenses. Net assets of \$2,102,839 were undesignated.

Statements of Revenue, Expenses, and Changes in Net Assets

Operating Activities

The Authority's operations consist of issuing bonds and loaning the proceeds thereof to health care providers. The Authority also hosts educational seminars for the providers and sponsors and participates in various State associations comprised of hospitals and long-term care facilities, as well as in national organizations comprised of entities involved in tax-exempt health care finance.

The Authority charges financing and administrative fees for its services as discussed herein and further in Note 1 to the accompanying financial statements.

The total operating revenue for the year ended September 30, 2012 was \$1,906,346, an increase of \$538,179 or 39.3% from the prior year. The initial fees are designed to cover the Authority's costs in issuing the bonds of the borrowing health care facilities and are paid by the borrowers at their closings. These fees are based on a percentage of the issuance amount and the type of issuance. The initial fees increased \$463,350 or 153.2% in 2012 when compared to 2011. This is primarily due to the increase in the total bond issuance amount of \$1,149,886,126 in 2012 versus \$318,908,000 in 2011. The annual fees cover the operating expenses of the Authority since it receives no funding from the State. The annual service fees were approximately the same as prior year, and initial fees increased as discussed above, which resulted in an overall increase in operating revenue.

Total operating expenses increased \$479,370 or 38.4% for the year ended September 30, 2012 when compared to the same period in 2011. This is due primarily to the increase in professional services as a result of the increase in the bond issuance amount noted in the immediately preceding paragraph. Other general and administrative expenses had a minimal increase as there has been minimal change in the Authority's operations.

COLORADO HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Statements of Revenue, Expenses, and Changes in Net Assets (continued)

Non-Operating Activities

The only non-operating revenue shown on the Authority's financial statements is investment income earned on the investments held as part of the Authority's operating fund and trust. These investments are both Board-designated as well as unrestricted money. Investment income decreased \$1,033 from the prior year due to market conditions.

Debt Administration

For the year ended September 30, 2012, the Authority issued \$1,149,886,126 in bonds in 12 bond issues. In fiscal year 2011, the Authority issued \$318,908,000 in 11 bond issues.

Budget Analysis

The Authority had budgeted a surplus of \$271,111 for fiscal year 2012 before taking into account the refund to borrowers of a portion of their previously paid annual fees. The actual surplus was \$423,962. After a refund to borrowers of \$233,563, the remaining surplus was \$190,399.

	September 30,		
	2012 (Actual)	2012 (Budgeted)	2011 (Actual)
Revenue	\$ 1,917,327	\$ 1,782,306	\$ 1,380,181
Expenses	1,726,928	1,511,195	1,247,558
Revenue over expenses	\$ 190,399	\$ 271,111	\$ 132,623

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Colorado Health Facilities Authority
Denver, Colorado

We have audited the accompanying financial statements of Colorado Health Facilities Authority (the "Authority") as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Health Facilities Authority as of September 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 20, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

To the Board of Directors
Colorado Health Facilities Authority

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 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, which 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.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The schedule of bonds outstanding and the schedule of lease-purchase financings outstanding are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements; accordingly, we do not express an opinion or provide any assurance on them.



Ehrhardt Keefe Steiner & Hottman PC

December 20, 2012
Denver, Colorado

COLORADO HEALTH FACILITIES AUTHORITY

Balance Sheets

	<u>September 30.</u>	
	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash	\$ 90,263	\$ 106,914
Accounts receivable	313,877	314,293
Deferred financing expenses	19,796	46,985
Other current assets	<u>41,506</u>	<u>51,514</u>
Total current assets	465,442	519,706
Investments	1,941,703	1,839,891
Capital assets, net of accumulated depreciation of \$132,527 and \$131,147, respectively	884	2,264
Assets limited as to use	2,588,652	2,530,390
Indemnification trust	<u>1,998,857</u>	<u>2,005,060</u>
Total assets	<u>\$ 6,995,538</u>	<u>\$ 6,897,311</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 296,235	\$ 394,294
Accrued liabilities	<u>8,071</u>	<u>2,184</u>
Total liabilities	<u>304,306</u>	<u>396,478</u>
Commitments and contingencies		
Net assets		
Invested in capital assets	884	2,264
Indemnification trust	1,998,857	2,005,060
Unrestricted net assets		
Designated - assets limited as to use	2,588,652	2,530,390
Undesignated	<u>2,102,839</u>	<u>1,963,119</u>
Total net assets	<u>6,691,232</u>	<u>6,500,833</u>
Total liabilities and net assets	<u>\$ 6,995,538</u>	<u>\$ 6,897,311</u>

See notes to financial statements.

COLORADO HEALTH FACILITIES AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Assets

	For the Years Ended	
	September 30,	
	<u>2012</u>	<u>2011</u>
Operating revenue		
Annual service fees	\$ 1,374,075	\$ 1,395,851
Less refunds	<u>(233,563)</u>	<u>(330,168)</u>
Net annual service fees	1,140,512	1,065,683
Initial fees	<u>765,834</u>	<u>302,484</u>
Total operating revenue	<u>1,906,346</u>	<u>1,368,167</u>
Operating expenses		
Direct costs of financings		
Financial consulting	554,891	204,483
Legal costs through closing	261,618	159,641
Post closing legal costs	13,684	16,577
Multi-state fee expense	20,139	19,249
Other	<u>1,735</u>	<u>905</u>
Total direct costs of financings	<u>852,067</u>	<u>400,855</u>
General and administrative expenses		
Salaries and related	520,894	483,060
Office rent and expenses	135,841	137,238
Professional services	115,069	130,300
Legislative relations	40,136	39,318
Meetings	17,627	20,809
Council dues and meetings	32,661	19,950
Public information/business development	10,253	12,779
Depreciation	1,380	2,249
Trust expenses	<u>1,000</u>	<u>1,000</u>
Total general and administrative expenses	<u>874,861</u>	<u>846,703</u>
Total operating expenses	<u>1,726,928</u>	<u>1,247,558</u>
Operating income	179,418	120,609
Non-operating revenue (expense)		
Interest and dividend income	10,730	14,179
Net increase (decrease) in fair value of investments	<u>251</u>	<u>(2,165)</u>
Change in net assets	190,399	132,623
Net assets, beginning of year	<u>6,500,833</u>	<u>6,368,210</u>
Net assets, end of year	<u>\$ 6,691,232</u>	<u>\$ 6,500,833</u>

See notes to financial statements.

COLORADO HEALTH FACILITIES AUTHORITY

Statements of Cash Flows

	For the Years Ended September 30.	
	2012	2011
Cash flows from operating activities		
Cash receipts from customers	\$ 1,906,762	\$ 1,362,575
Cash payments to other suppliers of goods or services	(1,265,516)	(989,506)
Cash payments to employees for services	(515,007)	(486,997)
Net cash provided by (used in) operating activities	126,239	(113,928)
Cash flows from investing activities		
Proceeds from sales of investments	4,138,000	3,501,000
Purchase of investments	(4,301,104)	(3,366,425)
Interest and dividend income	10,730	14,179
Proceeds from investments - indemnification trust	9,484	1,176
Net cash (used in) provided by investing activities	(142,890)	149,930
Net (decrease) increase in cash	(16,651)	36,002
Cash - beginning of year	106,914	70,912
Cash - end of year	\$ 90,263	\$ 106,914
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 179,418	\$ 120,609
Adjustments to reconcile change in operating income to net cash provided by operating activities		
Depreciation	1,380	2,249
Changes in assets and liabilities		
Accounts receivable	416	(5,592)
Deferred financing expenses	27,189	(18,210)
Other current assets	10,008	536
Accounts payable	(98,059)	(209,583)
Accrued liabilities	5,887	(3,937)
	(53,179)	(234,537)
Net cash provided by (used in) operating activities	\$ 126,239	\$ (113,928)

Supplemental disclosure of non-cash activity:

Net increase (decrease) in fair value of investments for years ended September 30, 2012 and 2011 was \$251 and \$(2,165), respectively.

See notes to financial statements.

COLORADO HEALTH FACILITIES AUTHORITY

Notes to Financial Statements September 30, 2012 and 2011

Note 1 - Description of Organization and Summary of Significant Accounting Policies

Organization

Colorado Health Facilities Authority (the "Authority") is an independent public body and political subdivision created, effective July 1, 1977, by an Act of the General Assembly of the state of Colorado. Although the Authority is not considered a component unit of the state of Colorado, the Authority is considered a related party to the state of Colorado.

The purpose of the Authority is to provide access to tax-exempt capital markets to non-profit public and private health care institutions, to refund or refinance outstanding indebtedness, and to finance additional facilities and other capital expenditures.

While the Authority issues tax-exempt revenue bonds and enters into leases on behalf of the borrowing institutions, the Authority is not liable with respect to the bonds or lease payments outstanding. The balances included in the accompanying financial statements represent the financial position of the Authority and do not include balances related to the bonds issued or leases financed.

Component Unit

In 2003, the Authority's Board of Directors approved the creation of the Colorado Health Facilities Authority Trust (the "Trust"). Since the Trust's governing body is the same as the Authority's, the Trust is reported as a blended component unit as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Basis of Accounting

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the Authority is accounted for as a single-column business activity. The accompanying financial statements have been prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. The Authority applies all statements issued by GASB and those statements issued by the Financial Accounting Standards Board after November 30, 1989 that do not conflict with or contradict GASB statements.

Cash

For the purpose of the statements of cash flows, cash includes cash and investments with a maturity of three months or less when purchased.

COLORADO HEALTH FACILITIES AUTHORITY

Notes to Financial Statements September 30, 2012 and 2011

Note 1 - Description of Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable arise in the normal course of business related to the annual fees charged to borrowers. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Authority on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. As of September 30, 2012 and 2011, no allowance was considered necessary.

Investments

Investments are recorded at fair value. Interest, dividend, and realized and unrealized gains and losses are included in non-operating income and expenses when incurred. It is the Authority's intention to hold the investment portfolio on a long-term basis although the underlying investments may have a short-term maturity. Therefore, all investments are reported as non-current assets in the accompanying balance sheets.

Capital Assets

Capital assets are recorded at cost when purchased and are depreciated on the straight-line basis over estimated useful lives of five years.

Assets Limited as to Use

Assets limited as to use represent investments that the Authority's Board of Directors has designated as reserves to provide for future working capital, operating, and capital expenditure needs of the Authority. These funds may be expended only upon specific action by the Board of Directors.

Net Assets and Related Reserves

The Authority's net assets are classified as follows:

Invested in capital assets - consists of capital assets net of accumulated depreciation.

Indemnification trust - consists of Trust assets.

Unrestricted net assets - consist of the remaining net assets that are available for unrestricted use.

COLORADO HEALTH FACILITIES AUTHORITY

Notes to Financial Statements September 30, 2012 and 2011

Note 1 - Description of Organization and Summary of Significant Accounting Policies (continued)

Net Assets and Related Reserves (continued)

The Authority's Board of Directors has approved a policy on the accumulation and maintenance of reserves of two times the amount of the Authority's budgeted general and administrative expenses for the following fiscal year plus \$750,000. This designated reserve of \$2,588,652 and \$2,530,390 at September 30, 2012 and 2011, respectively, is maintained in cash and investments, classified as assets limited as to use in the accompanying balance sheets, and is to be updated annually by the Authority's Board of Directors. Currently, the fund balance is sufficient to meet the requirements of the policy.

The Trust assets and interest accrued thereon of \$1,998,857 and \$2,005,060 as of September 30, 2012 and 2011, respectively, are currently maintained in U.S. Treasury bills and a Federated Treasury Obligation Fund and are classified as the indemnification trust in the accompanying balance sheets.

Revenue and Expenses

The Authority's statements of revenue, expenses, and changes in net assets distinguish between operating and non-operating revenue and expenses. Operating revenue results from exchange transactions associated with arranging financings and includes annual service fees and initial fees. Non-exchange income includes investment income and miscellaneous income and is reported as non-operating. Operating expenses are all expenses incurred to provide financing as well as the administrative expenses of the Authority.

The Authority charges two types of fees to the borrowers, an initial fee and an annual service fee. A portion of the initial fee may be collected prior to the issuance of bonds. In the event that bonds are not issued, any fees collected in excess of legal and other expenses incurred related to the issuance are refundable to the potential borrower. Thus, initial fees are recorded as deferred revenue and recognized as revenue when the related expenses are incurred, with any excess recognized when the bonds are issued. If legal and other expenses incurred exceed fees collected prior to bond issuance, such expenses are deferred and recorded as expense when the bonds are issued. Annual service fees are payable quarterly in arrears based on the bond anniversary date for issuances of borrowers with bonds outstanding of \$100,000,000 or less on a cumulative basis and based on the Authority's fiscal year-end for issuances of borrowers with bonds outstanding of more than \$100,000,000 on a cumulative basis. During the years ended September 30, 2012 and 2011, the Authority determined to refund \$233,563 and \$330,168, respectively, of its annual fees to the borrowers.

COLORADO HEALTH FACILITIES AUTHORITY

Notes to Financial Statements September 30, 2012 and 2011

Note 1 - Description of Organization and Summary of Significant Accounting Policies **(continued)**

Risk Management

The Authority has a risk management program under which the various risks of loss associated with its business operations are identified and managed. The risk management techniques utilized include a combination of standard policies and procedures and purchased insurance. Commercial general liability, medical, property losses, workers' compensation, and public officials' liability are all managed through purchased insurance. In addition, the Authority's Board of Directors entered into an agreement to create a trust to pay or reimburse, upon satisfaction of certain requirements, any indemnification claims of past, present or future directors, officers, and employees of the Authority. The trust is currently funded in the amount of approximately \$2,000,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Authority has evaluated all subsequent events through December 20, 2012 and has determined that there are no events requiring disclosure.

Note 2 - Deposits and Investments

Colorado statutes require that the Authority use eligible public depositories for all cash deposits, as defined by the Public Deposit Protection Act ("PDPA"). Under the PDPA, the depository is required to pledge eligible collateral having a market value at all times equal to at least 102% of the aggregate public deposits held by the depository not insured by the Federal Deposit Insurance Corporation ("FDIC").

Eligible collateral, as defined by the PDPA, primarily includes obligations of, or guarantees by, the U.S. government, the state of Colorado, or any political subdivision thereof, and obligations evidenced by notes secured by first-lien mortgages or deeds of trust on real property.

COLORADO HEALTH FACILITIES AUTHORITY

**Notes to Financial Statements
September 30, 2012 and 2011**

Note 2 - Deposits and Investments (continued)

The Authority's deposits and investments include the following:

	<u>September 30, 2012</u>		
	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash	\$ 90,263	\$ -	\$ 90,263
Investments	-	1,941,703	1,941,703
Assets limited as to use	-	2,588,652	2,588,652
Indemnification trust	-	1,998,857	1,998,857
	<u>\$ 90,263</u>	<u>\$ 6,529,212</u>	<u>\$ 6,619,475</u>
	<u>September 29, 2011</u>		
	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash	\$ 106,914	\$ -	\$ 106,914
Investments	-	1,839,891	1,839,891
Assets limited as to use	-	2,530,390	2,530,390
Indemnification trust	-	2,005,060	2,005,060
	<u>\$ 106,914</u>	<u>\$ 6,375,341</u>	<u>\$ 6,482,255</u>

The bank balances on deposit were \$95,241 and \$120,889 at September 30, 2012 and 2011, respectively.

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, establishes and modifies disclosure requirements related to interest risk, custodial credit risk, concentration of credit risk, and foreign currency risk. The Authority's investment portfolio is not exposed to foreign currency risk. As of September 30, 2012 and 2011, the Authority had the following investments:

	<u>September 30, 2012</u>		<u>September 30, 2011</u>	
<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
U.S. Treasury obligations	\$ 3,652,081	0.62	\$ 5,244,659	0.48
Federated Treasury Obligation Fund	352	N/A	505,025	N/A
U.S. government agency securities	<u>2,876,779</u>	0.42	<u>625,657</u>	1.17
	<u>\$ 6,529,212</u>		<u>\$ 6,375,341</u>	
Portfolio weighted average maturity		0.53		0.28

COLORADO HEALTH FACILITIES AUTHORITY

**Notes to Financial Statements
September 30, 2012 and 2011**

Note 2 - Deposits and Investments (continued)

Interest Rate Risk - In accordance with its investment policy, the Authority manages credit risk by investing surplus funds in accordance with Colorado state statutes, at the maximum interest rates available for maturities coincident with the need for those funds. The Authority manages its exposure to declines in fair values by purchasing investments with different maturities, not to exceed ten years.

Credit Risk - The Authority adheres to an investment policy of purchasing investments restricted to direct U.S. Treasury obligations, U.S. agency obligations, obligations issued by any state or any of its political subdivisions, repurchase agreements secured by U.S. Treasury or U.S. agency obligations, and qualified certificates of deposit or time deposits that are insured by the FDIC. The Authority's investments in U.S. Treasury obligations were rated A-1 by Standard & Poor's and P-1 by Moody's. The Authority's investment in the Federated Treasury Obligation Fund was rated A-1 by Standard & Poor's and P-1 by Moody's. The Authority's U.S. government agency securities were rated A+ by Standard & Poor's and Aa2 by Moody's.

Note 3 - Capital Assets

Capital assets consist of the following:

<u>September 30, 2012</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Furniture and fixtures	\$ 133,411	\$ -	\$ -	\$ 133,411
Less accumulated depreciation				
Furniture and fixtures	<u>(131,147)</u>	<u>(1,380)</u>	<u>-</u>	<u>(132,527)</u>
Total capital assets being depreciated	<u>\$ 2,264</u>	<u>\$ (1,380)</u>	<u>\$ -</u>	<u>\$ 884</u>
<u>September 30, 2011</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Furniture and fixtures	\$ 133,411	\$ -	\$ -	\$ 133,411
Less accumulated depreciation				
Furniture and fixtures	<u>(128,898)</u>	<u>(2,249)</u>	<u>-</u>	<u>(131,147)</u>
Total capital assets being depreciated	<u>\$ 4,513</u>	<u>\$ (2,249)</u>	<u>\$ -</u>	<u>\$ 2,264</u>

COLORADO HEALTH FACILITIES AUTHORITY

**Notes to Financial Statements
September 30, 2012 and 2011**

Note 4 - Budget Policies

The Authority prepares a non-appropriated operating budget annually. This budget is adopted by the Authority's Board of Directors, who review actual results as compared to the budget on a quarterly basis. The budget is prepared on the accrual basis of accounting.

Note 5 - Lease Commitments

The Authority entered into a lease for office space through July 31, 2016. The future minimum rental commitment under the lease agreement is as follows:

For the Years Ending September 30,

2013	\$	69,056
2014		69,661
2015		72,690
2016		<u>60,575</u>
	\$	<u>271,982</u>

Rental expense of \$70,816 and \$74,224 was charged to operations for the years ended September 30, 2012 and 2011, respectively.

Note 6 - Pension Plan

The Authority contributes to the Local Government Division Trust Fund ("LGDTF"), a cost-sharing multiple-employer defined benefit pension plan (the "Plan") administered by the Public Employee's Retirement Association of Colorado ("PERA"). The LGDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of the Authority are members of the LGDTF. Title 24, Article 51 of the Colorado Revised Statutes ("CRS"), as amended, assigns the Authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the LGDTF. That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, CO 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

COLORADO HEALTH FACILITIES AUTHORITY

Notes to Financial Statements September 30, 2012 and 2011

Note 6 - Pension Plan (continued)

Plan members and the Authority are required to contribute to the LGDTF at a rate set by statute. The contribution requirements of Plan members and the Authority are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0%, and for the Authority, it is 10% of covered salary. A portion of the Authority's contribution, 1.02% for the years ended September 30, 2012 and 2011, is allocated for the Health Care Trust Fund. The Authority is also required to pay an amortization equalization disbursement of 2.2% of the total payroll for the calendar years 2012 and 2011. The Authority is also required to pay a supplemental amortization equalization of 1.5% of total payroll for the calendar years 2012 and 2011. The total contribution rate was 13.7% for the calendar years 2012 and 2011. The Authority's employer contributions to PERA for the years ended September 30, 2012 and 2011 were \$49,801 and \$47,190, respectively, equal to its required contributions for the year.

Note 7 - Defeased Bond Issues

A number of the Authority's bond issues have been defeased with the proceeds of the Authority refunding bonds or escrow deposits made by the borrower institutions. In these instances, cash, U.S. government obligations, or other securities permitted by the bond indentures are deposited with a trustee in an irrevocable escrow account to be used solely to retire the bonds being refunded at a future date. This escrow deposit must be sufficient in amount to pay maturing principal, interest, and applicable call premiums on the advance refunded bonds when due. The escrowed assets are pledged solely to the bondholders of the refunded issues. The lien and secured interests of the bond trustee and the Authority created by the bond indenture and loan agreement governing the advance refunded bond issue are defeased or released at the time the escrow deposit is made. As such, defeased bond issues are not considered to be outstanding as of September 30, 2012 and 2011, as applicable, in Schedule I - schedule of bonds outstanding (unaudited) and the balance disclosed in Note 9.

Note 8 - Defaults

Certain bond issues may be declared to be in default from time to time. While the Authority is not responsible for the repayment of the bonds, it does incur costs to assist in the resolution of the defaults. As of September 30, 2012, the Authority was not aware of any bond issues that were in default.

Note 9 - Bond Issues and Lease-Purchase Financings (Unaudited)

As of September 30, 2012 and 2011, the Authority was involved in the bond issues and lease-purchase financings as shown in Schedule I - schedule of bonds outstanding (unaudited) and Schedule II - schedule of lease-purchase financings outstanding (unaudited). The total amount of conduit debt outstanding at September 30, 2012 and 2011 is \$5,578,485,017 and \$5,068,421,021 for bonds and \$1,391,509 and \$5,161,246 for leases, respectively.

ACCOMPANYING INFORMATION



**BHRHARDT • KEEFE
STEINER • HOTTMAN PC**
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

7979 E. Tufts Avenue, Suite 400

Denver, Colorado 80237-2843

P: 303-740-9400 F: 303-740-9009

**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***

To the Board of Directors
Colorado Health Facilities Authority
Denver, Colorado

We have audited the accompanying financial statements of Colorado Health Facilities Authority (the "Authority") as of and for the year ended September 30, 2012 and have issued our report thereon dated December 20, 2012. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

To the Board of Directors
Colorado Health Facilities Authority

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.



Ehrhardt Keefe Steiner & Hottman PC

December 20, 2012
Denver, Colorado

COLORADO HEALTH FACILITIES AUTHORITY

**Schedule I - Schedule of Bonds Outstanding
(Unaudited)**

Bond Issue	Amount Outstanding as of September 30,	
	2012	2011
Adventist Health System/Sunbelt Obligated Group, Series 2004	\$ -	\$ 46,145,000
Adventist Health System/Sunbelt Obligated Group, Series 2006	230,935,000	235,745,000
Adventist Health System/Sunbelt Obligated Group, Series 2010	24,500,000	25,000,000
Allosource Project, Series 2010	22,250,534	22,641,000
American Baptist, Series 2007	36,200,000	36,750,000
American Baptist Homes, Series 2009	27,970,000	28,115,000
Arapahoe House, Series 2004A & B	3,995,000	4,260,000
Augustana Elk Run Assisted Living Project, Series 2011	2,167,000	2,167,000
Bethesda Living Centers, Series 2011	23,593,723	24,000,000
Boulder Community Hospital Project, Series 1989 B & C	6,185,000	7,960,000
Boulder Community Hospital Project, Series 2000	54,490,000	56,040,000
Boulder Community Hospital Project, Series 2010 A & B	89,990,000	92,625,000
Boulder Community Hospital Project, Series 2012	30,000,000	-
Brent Eley Center, Series 2007	-	4,249,110
Brent Eley Center, Series 2012	3,373,247	-
Catholic Health Initiatives, Composite Issue, Series 1997A & B	-	9,140,000
Catholic Health Initiatives, Series 2000B	-	53,300,000
Catholic Health Initiatives, Series 2002A & B	46,800,000	48,100,000
Catholic Health Initiatives, Series 2004	54,200,000	164,400,000
Catholic Health Initiatives, Series 2006	520,635,000	520,635,000
Catholic Health Initiatives, Series 2008	55,000,000	115,000,000
Catholic Health Initiatives, Series 2008D	212,600,000	212,600,000
Catholic Health Initiatives, Series 2009	639,645,000	658,135,000
Catholic Health Initiatives, Series 2011A & C	541,990,000	-
Christian Living Campus - Holly Creek Project, Series 2004	15,980,000	16,340,000
Christian Living Campus, Series 2006	64,000,000	64,970,000
Christian Living Communities - Clermont Park, Series 2009	29,335,000	29,755,000
Christian Living Communities - Clermont Park, Series 2011A & B	36,445,000	-
Colorado Senior Residences - Casey's Pond, Series 2012	45,109,980	-
Composite Issue, Revenue Bonds, Series 1998A-H	4,445,000	5,065,000
Covenant Retirement Communities, Inc., Series 1999A	-	12,900,000
Covenant Retirement Communities, Inc., Series 2002A & B	-	48,020,000
Covenant Retirement Communities, Inc., Series 2005	125,705,000	128,020,000
Covenant Retirement Communities, Inc., Series 2006	-	15,800,000
Covenant Retirement Communities, Inc., Series 2012A, B, & C	150,170,000	-
Craig Hospital Project, Series 2003	8,855,000	9,705,000
Denver Options, Inc., Series 2002	11,940,000	12,275,000
Denver Hospice, Series 2009	3,180,136	6,102,660
Devereux Foundation, Series 2002	8,835,000	9,540,000
Eaton Terrace Residences Project, Series 2006	7,385,000	7,580,000
Evangelical Lutheran Good Samaritan Society Project, Series 2000	-	11,200,000
Evangelical Lutheran Good Samaritan Society Project, Series 2002	-	24,455,000
Evangelical Lutheran Good Samaritan Society Project, Series 2004	24,730,000	25,075,000

(Continued on the following page)

COLORADO HEALTH FACILITIES AUTHORITY

**Schedule I - Schedule of Bonds Outstanding
(Unaudited)**

(Continued from the previous page)

Bond Issue	Amount Outstanding as of	
	2012	2011
Evangelical Lutheran Good Samaritan Society Project, Series 2005	58,135,000	59,495,000
Evangelical Lutheran Good Samaritan Society Project, Series 2006	92,280,000	95,465,000
Evangelical Lutheran Good Samaritan Society Project, Series 2007	23,830,000	23,830,000
Evangelical Lutheran Good Samaritan Society Project, Series 2008	9,580,000	13,800,000
Evangelical Lutheran Good Samaritan Society Project, Series 2009	25,200,000	80,975,000
Evangelical Lutheran Good Samaritan Society Project, Series 2011	60,000,000	-
Evangelical Lutheran Good Samaritan Society Project, Series 2012	169,955,000	-
Frasier Meadows Manor Inc. Project, Series 1999	13,815,000	15,025,000
Frasier Meadows Manor Inc. Project, Series 2008	30,000,000	30,000,000
Global Country, Series 2006	-	17,145,000
Global Country, Series 2007	-	17,460,000
Golden West Manor, Series 2005	7,865,300	8,043,887
Golden West Manor, Series 2006	6,500,000	6,620,000
Goodwill Industries of Denver, Series 2004	3,885,000	4,205,000
Kentucky Circle Village, Series 2005	4,031,388	4,103,739
Longmont United Hospital Project, Series 2003	9,100,000	9,915,000
Longmont United Hospital Project, Series 2006	80,760,000	83,070,000
MARC, Series 2008	3,088,362	3,573,985
Maranatha Volunteers International, Inc., Series 2004A & B	8,910,000	9,045,000
Maranatha Volunteers International, Inc., Series 2008	5,700,000	5,800,000
Mental Health Center of Denver, Series 2010	18,647,375	19,787,440
Metro Community, Series 2006	7,673,341	8,062,055
National Jewish Medical and Research Center Project, Revenue Bonds, Series 1998	-	24,370,000
National Jewish Medical and Research Center Project, Series 1998B	-	4,365,000
National Jewish Medical and Research Center Project, Series 2005	11,700,000	12,000,000
National Jewish Medical and Research Center Project, Series 2012	26,790,000	-
North Colorado Medical Center Inc. Project, Series 2003	84,430,000	86,155,000
North Colorado Medical Center Inc. Project, Series 2008	47,285,000	49,625,000
North Colorado Medical Center Inc. Project, Series 2009	38,780,000	40,880,000
North Colorado Medical Center Inc. Project, Series 2012	60,000,000	-
Parkview Medical Center, Series 2004	15,005,000	15,835,000
Parkview Medical Center, Series 2005	7,205,000	7,590,000
Parkview Medical Center, Series 2007	65,480,000	66,355,000
Plan De Salud del Valle, Series 2010	15,330,000	15,790,000
Porter Place, Inc. Project, Series 2011	8,915,290	9,377,887
Poudre Valley Health Care, Inc., Series 2005	357,510,000	363,695,000
Project Cure, Series 2008	7,905,000	7,905,000
Rocky Mountain Youth Clinic, Series 2010	1,279,531	1,312,881
Shalom Park, Series 2001	14,115,000	14,745,000
Sisters of Charity of Leavenworth Health System, Series 2002	61,800,000	63,800,000
Sisters of Charity of Leavenworth Health System, Series 2003A	69,715,000	72,710,000

(Continued on the following page)

COLORADO HEALTH FACILITIES AUTHORITY

**Schedule I - Schedule of Bonds Outstanding
(Unaudited)**

(Continued from the previous page)

Bond Issue	Amount Outstanding as of September 30.	
	2012	2011
Sisters of Charity of Leavenworth Health System, Series 2010	568,540,000	580,300,000
Sisters of Charity of Leavenworth Health System, Series 2011	61,635,000	62,620,000
Sunnyrest Villa Project, Series 2004	2,080,292	2,129,377
Sunny Vista, Series 2010	15,721,618	15,965,000
Total Longterm Care, Series 2010	27,605,000	28,000,000
Total Longterm Care, Series 2011	7,000,000	-
Vail Valley Medical Center, Series 2001	-	20,755,000
Vail Valley Medical Center, Series 2004	8,700,000	16,265,000
Vail Valley Medical Center, Series 2012	19,052,900	-
Valley View Hospital, Series 2006	4,985,000	6,085,000
Valley View Hospital, Series 2007	45,000,000	45,000,000
Valley View Hospital, Series 2008	51,145,000	51,145,000
Visiting Nurse Corporation of Colorado, Inc., Revenue Bonds, Series 1997	550,000	660,000
Visiting Nurse Corporation of Colorado, Inc., Series 2001A & B	325,000	425,000
Volunteers of America Care Facilities Obligated Group Projects, Series 2007	34,615,000	35,290,000
Yampa Valley, Series 2007	36,695,000	38,040,000
	<u>\$ 5,578,485,017</u>	<u>\$ 5,068,421,021</u>

COLORADO HEALTH FACILITIES AUTHORITY

**Schedule II - Schedule of Lease-Purchase Financings Outstanding
(Unaudited)**

<u>Lease</u>	<u>Maturity</u>	<u>Principal Portion of Lease Payments Outstanding as of September 30,</u>	
		<u>2012</u>	<u>2011</u>
National Jewish Medical and Research Center, Series 2008	2008-2013	\$ 1,391,509	\$ 4,111,332
Longmont, Series 2006	2006-2011	<u>-</u>	<u>1,049,914</u>
		<u>\$ 1,391,509</u>	<u>\$ 5,161,246</u>