

# **Colorado Rural Health Center**

Accountants' Reports and Financial Statements

December 31, 2010 and 2009

**Colorado Rural Health Center**  
**December 31, 2010 and 2009**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors  
Colorado Rural Health Center  
Aurora, Colorado

We have audited the accompanying statements of financial position of Colorado Rural Health Center (CRHC) as of December 31, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of CRHC'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Colorado Rural Health Center as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the year 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 March 9, 2011, on our consideration of CRHC's internal control over financial reporting and 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 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 audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ BKD, LLP

March 9, 2011

**Colorado Rural Health Center**  
**Statements of Financial Position**  
**December 31, 2010 and 2009**

**Assets**

	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 2,321,721	\$ 1,543,522
Accounts receivable	136,639	227,307
Grants receivable	45,674	48,675
Contributions receivable	1,902,051	948,842
Prepays and other assets	78,851	48,993
Property and equipment, net	153,170	172,520
Total assets	\$ 4,638,106	\$ 2,989,859

**Liabilities**

Accounts payable	\$ 136,559	\$ 151,026
Accrued payroll and vacation	85,467	74,101
Deferred membership and other revenue	410,722	80,786
Capital lease obligation	5,396	7,717
Total liabilities	638,144	313,630

**Net Assets**

Unrestricted		
Undesignated	1,206,772	1,072,220
Board-designated	18,377	27,902
	1,225,149	1,100,122
Temporarily restricted	2,774,813	1,576,107
Total net assets	3,999,962	2,676,229
Total liabilities and net assets	\$ 4,638,106	\$ 2,989,859

**Colorado Rural Health Center**  
**Statement of Activities**  
**Year Ended December 31, 2010**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenue, Gains and Other Support</b>			
Governmental grants	\$ 860,186	\$ -	\$ 860,186
Foundation contributions	-	2,267,000	2,267,000
Fiscal agent fees and contracted services	811,244	-	811,244
Individual contributions	8,206	1,895	10,101
Program service fees	175,646	-	175,646
Workshops and trainings	109,488	-	109,488
Membership dues	62,899	-	62,899
Conference	40,021	-	40,021
Interest income	8,561	-	8,561
Other	16,961	-	16,961
Net assets released from restrictions	1,070,189	(1,070,189)	-
	<u>3,163,401</u>	<u>1,198,706</u>	<u>4,362,107</u>
Total revenue, gains and other support			
<b>Expenses</b>			
Program services	<u>2,405,469</u>	<u>-</u>	<u>2,405,469</u>
Supporting services			
Management and general	610,095	-	610,095
Fundraising expenses	<u>22,810</u>	<u>-</u>	<u>22,810</u>
Total supporting services	<u>632,905</u>	<u>-</u>	<u>632,905</u>
Total expenses	<u>3,038,374</u>	<u>-</u>	<u>3,038,374</u>
<b>Change in Net Assets</b>	125,027	1,198,706	1,323,733
<b>Net Assets, Beginning of Year</b>	<u>1,100,122</u>	<u>1,576,107</u>	<u>2,676,229</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,225,149</u>	<u>\$ 2,774,813</u>	<u>\$ 3,999,962</u>

**Colorado Rural Health Center**  
**Statement of Activities**  
**Year Ended December 31, 2009**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenue, Gains and Other Support</b>			
Governmental grants	\$ 907,301	\$ -	\$ 907,301
Foundation contributions	-	1,439,916	1,439,916
Fiscal agent fees	648,952	-	648,952
Individual contributions	3,030	105	3,135
Program service fees	68,510	-	68,510
Workshops and trainings	148,641	-	148,641
Membership dues	44,926	-	44,926
Conference	45,655	-	45,655
Interest income	7,988	-	7,988
Other	39,156	-	39,156
Net assets released from restrictions	509,203	(509,203)	-
	<u>2,423,362</u>	<u>930,818</u>	<u>3,354,180</u>
<b>Expenses</b>			
Program services	<u>2,061,775</u>	<u>-</u>	<u>2,061,775</u>
Supporting services			
Management and general	578,952	-	578,952
Fundraising expenses	16,688	-	16,688
	<u>595,640</u>	<u>-</u>	<u>595,640</u>
Total supporting services	<u>595,640</u>	<u>-</u>	<u>595,640</u>
Total expenses	<u>2,657,415</u>	<u>-</u>	<u>2,657,415</u>
<b>Change in Net Assets</b>	(234,053)	930,818	696,765
<b>Net Assets, Beginning of Year</b>	<u>1,334,175</u>	<u>645,289</u>	<u>1,979,464</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,100,122</u>	<u>\$ 1,576,107</u>	<u>\$ 2,676,229</u>

**Colorado Rural Health Center**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2010**

	<b>Total Program Services Expenses</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total Supporting Services Expenses</b>	<b>Total Expenses</b>
Salaries	\$ 811,603	\$ 331,552	\$ 13,835	\$ 345,387	\$ 1,156,990
Payroll taxes and benefits	164,656	67,265	2,807	70,072	234,728
Grants	600,726	44,503	-	44,503	645,229
Professional services	362,169	60,053	3,941	63,994	426,163
Conferences and workshops	93,157	8,841	-	8,841	101,998
Travel	112,419	21,064	254	21,318	133,737
Rent	119,469	28,464	1,043	29,507	148,976
Outreach	1,396	333	12	345	1,741
Supplies	10,357	1,586	155	1,741	12,098
Telephone	27,322	2,948	218	3,166	30,488
Printing	4,715	3,076	-	3,076	7,791
Dues	25,181	6,237	-	6,237	31,418
Postage	3,821	1,886	-	1,886	5,707
Professional development	5,588	16,421	-	16,421	22,009
Equipment	28,943	6,896	253	7,149	36,092
Depreciation	26,820	6,390	234	6,624	33,444
Other	7,127	2,580	58	2,638	9,765
	<u>7,127</u>	<u>2,580</u>	<u>58</u>	<u>2,638</u>	<u>9,765</u>
Total expenses	<u>\$ 2,405,469</u>	<u>\$ 610,095</u>	<u>\$ 22,810</u>	<u>\$ 632,905</u>	<u>\$ 3,038,374</u>

**Colorado Rural Health Center**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2009**

	<b>Total Program Services Expenses</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total Supporting Services Expenses</b>	<b>Total Expenses</b>
Salaries	\$ 652,458	\$ 328,052	\$ 11,878	\$ 339,930	\$ 992,388
Payroll taxes and benefits	105,112	52,956	1,920	54,876	159,988
Grants	735,257	6,325	-	6,325	741,582
Professional services	134,356	55,677	322	55,999	190,355
Conferences and workshops	149,742	4,896	-	4,896	154,638
Travel	85,656	30,127	278	30,405	116,061
Rent	85,646	42,115	1,030	43,145	128,791
Outreach	1,250	328	8	336	1,586
Supplies	22,403	7,029	192	7,221	29,624
Telephone	16,929	4,383	295	4,678	21,607
Printing	8,015	2,269	-	2,269	10,284
Dues	7,345	5,540	-	5,540	12,885
Postage	3,736	1,224	-	1,224	4,960
Professional development	3,979	11,979	-	11,979	15,958
Equipment	29,488	701	527	1,228	30,716
Depreciation	15,421	10,040	185	10,225	25,646
Other	4,982	15,311	53	15,364	20,346
	<u>4,982</u>	<u>15,311</u>	<u>53</u>	<u>15,364</u>	<u>20,346</u>
Total expenses	<u>\$ 2,061,775</u>	<u>\$ 578,952</u>	<u>\$ 16,688</u>	<u>\$ 595,640</u>	<u>\$ 2,657,415</u>

**Colorado Rural Health Center**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Change in net assets	\$ 1,323,733	\$ 696,765
Items not requiring (providing) cash		
Depreciation expense	33,444	25,646
Loss on disposal of fixed assets	-	4,292
Changes in		
Accounts receivable	90,668	(204,050)
Grants receivable	3,001	(128)
Contributions receivable	(953,209)	(634,238)
Prepaid expenses and other assets	(29,858)	(36,683)
Accounts payable and accrued expenses	(3,101)	183,067
Deferred revenue	<u>329,936</u>	<u>40,406</u>
Net cash provided by operating activities	794,614	75,077
<b>Investing Activities</b>		
Purchase of furniture and equipment	(14,094)	(115,009)
<b>Financing Activities</b>		
Principal payments under capital lease obligation	<u>(2,321)</u>	<u>(2,100)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	778,199	(42,032)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,543,522</u>	<u>1,585,554</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,321,721</u>	<u>\$ 1,543,522</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 715</u>	<u>\$ 957</u>

# Colorado Rural Health Center

## Notes to Financial Statements

### December 31, 2010 and 2009

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Colorado Rural Health Center (CRHC) was established to maximize the quality, delivery and coordination of health care services throughout rural areas of the State of Colorado by providing information, education, tools and networking towards identifying and addressing rural health needs. CRHC's revenues and other support are derived principally from government grants, contributions and fiscal agent fees.

CRHC's program services are as follows:

**Rural Assistance Services** – includes all general technical assistance provided to members and constituents. The assistance can be in response to inquiries generated through phone, internet, mail and face-to-face interactions. Assistance can include referral to other programs or communities, or coaching and on-site technical assistance. The assistance can be specific to one entity or generalized to a group, community, region or statewide, if shared needs are identified.

**Education and Linkages** – refers to the outreach and networking activities of CRHC. This includes general and topic specific workshops, developing and nurturing of mentoring relationships among communities or agencies and creation of "Fact Sheets" on a variety of topics. Education is distributed through written materials, the website, presentations, the library (virtual and in-house) or conference calls.

##### ***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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

##### ***Cash and Cash Equivalents***

CRHC considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010 and 2009, cash equivalents consisted primarily of money market accounts and certificates of deposit.

One or more of the financial institutions holding CRHC's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions.

**Colorado Rural Health Center**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2010, CRHC's interest-bearing cash accounts exceeded federally insured limits by approximately \$1,424,000.

Of this amount, approximately \$770,000 is maintained in a repurchase investment sweep account. This account allows excess operating funds to be invested in securities collateralized by the U.S. government. Interest is earned daily on these funds and is transferred into CRHC's operating account.

***Accounts Receivable***

Accounts receivable are stated at the amount billed to hospitals and/or grantors. CRHC provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the account.

***Property and Equipment***

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Depreciation is recorded using the straight-line method over the following estimated useful lives:

Computer/IT equipment	3 years
Office equipment	5 years
Furniture	7 years
Leasehold improvements (life of building lease)	8 years

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use by CRHC has been limited by donors to a specific time period or purpose.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

# Colorado Rural Health Center

## Notes to Financial Statements

### December 31, 2010 and 2009

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique.

Foundation contributions represent contributions from unrelated Foundations.

#### ***Deferred Revenue***

Membership revenue is deferred and recognized over the periods in which the memberships relate.

#### ***Government Grants***

Support funded by governmental grants is recognized as CRHC performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

#### ***Income Taxes***

CRHC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, CRHC is subject to federal income tax on any unrelated business taxable income.

CRHC files tax returns in the U.S. federal jurisdiction. With a few exceptions, CRHC is no longer subject to U.S. federal examinations by tax authorities for years before 2007.

#### ***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program services, management and general and fundraising categories.

**Colorado Rural Health Center**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 2: Contributions Receivable**

Contributions receivable consisted of the following as of December 31:

	<b>2010</b>	<b>2009</b>
Due within one year	\$ 1,213,397	\$ 546,782
Due in one to five years	688,654	402,060
	<u>\$ 1,902,051</u>	<u>\$ 948,842</u>

Contributions receivable are restricted as follows as of December 31:

	<b>2010</b>	<b>2009</b>
Workforce related grants	\$ 744,335	\$ 96,000
Provider recruitment and rural health clinic programs	-	55,000
Hospitals and clinics	363,960	721,642
Advocacy	330,656	50,000
Grants council program	13,100	26,200
For periods after December 31	450,000	-
	<u>\$ 1,902,051</u>	<u>\$ 948,842</u>

**Note 3: Property and Equipment**

Property and equipment at December 31 consists of the following:

	<b>2010</b>	<b>2009</b>
Furniture and equipment	\$ 128,114	\$ 114,020
Leasehold improvements	95,831	95,831
	<u>223,945</u>	<u>209,851</u>
Less accumulated depreciation and amortization	70,775	37,331
	<u>\$ 153,170</u>	<u>\$ 172,520</u>

**Colorado Rural Health Center**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 4: Capital Lease Obligation**

CRHC has a capital lease obligation relating to its office copier, which expires in January 2013. Annual maturities on capital lease obligations at December 31, 2010:

2011	\$ 2,988
2012	2,988
	<u>5,976</u>
Less amounts representing interest	<u>580</u>
	<u><u>\$ 5,396</u></u>

Property and equipment under the capital lease are as follows:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 11,719	\$ 11,719
Less accumulated depreciation	<u>7,031</u>	<u>4,688</u>
	<u><u>\$ 4,688</u></u>	<u><u>\$ 7,031</u></u>

**Note 5: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at December 31 are available for the following purposes or periods:

	<u>2010</u>	<u>2009</u>
Workforce related grants	\$ 1,110,746	\$ 408,765
Provider recruitment and rural health clinic programs	57,919	114,737
Hospitals and clinics	773,275	947,244
Advocacy	356,910	63,561
Technical assistance	1,895	-
Grants council program	36,568	41,800
For periods after December 31	<u>437,500</u>	<u>-</u>
	<u><u>\$ 2,774,813</u></u>	<u><u>\$ 1,576,107</u></u>

**Colorado Rural Health Center**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

***Net Assets Released from Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<b>2010</b>	<b>2009</b>
Purpose restrictions accomplished		
Workforce related grants	\$ 626,519	\$ 165,300
Provider recruitment and rural health clinic programs	56,818	88,509
Hospitals and clinics	249,864	175,118
Advocacy	106,651	52,876
Technical assistance	12,605	14,300
Grants council program	5,232	13,100
Time restrictions accomplished	12,500	-
	<b>\$ 1,070,189</b>	<b>\$ 509,203</b>

***Board-designated Net Assets***

In December 2008, the board of directors voted to set aside \$300,000 of unrestricted net assets to invest back into CRHC for program development and expansion. These funds were designated for the following purposes:

- Fee for service planning and development
- Grant writing and fundraising programs
- STRIDES program
- Outreach, communication and advocacy

The balance of board-designated net assets for the years ended December 31, 2010 and 2009, were \$18,377 and \$27,902, respectively.

**Note 6: Operating Leases**

CRHC is obligated under an operating lease agreement for its office space, which expires on October 31, 2018. The original lease agreement was amended during 2008 to include an expansion to the leased premises (lease amendment). The operating lease agreement includes rent holidays from January 11, 2008, through September 1, 2008, for the original lease agreement and rent holidays from January 1, 2009, through March 1, 2009, for the lease amendment. A portion of the leased space is also subleased through March 31, 2012. Future minimum lease payments as of December 31, 2010:

**Colorado Rural Health Center**  
**Notes to Financial Statements**  
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2011	\$ 148,744
2012	152,800
2013	156,858
2014	160,924
2015	164,982
Thereafter	<u>487,422</u>
	<u><u>\$ 1,271,730</u></u>

Minimum future rental receivable under the non-cancelable operating sublease as of December 31, 2010, was \$18,000.

Rental expense for all operating leases for the years ended December 31, 2010 and 2009, consisted of the following:

	<u>2010</u>	<u>2009</u>
Minimum rentals	\$ 148,976	\$ 128,791
Less sublease rental income	<u>14,400</u>	<u>10,343</u>
	<u><u>\$ 134,576</u></u>	<u><u>\$ 118,448</u></u>

**Note 7: Defined Contribution Plan**

CRHC has a defined contribution pension plan covering substantially all employees. The board of directors annually determines the amount, if any, of CRHC's contributions to the plan during the budgeting process. CRHC matches employees' contributions up to 3% of the employees' annual salary. Pension expense was \$15,344 and \$7,416 for the years ended December 31, 2010 and 2009, respectively.

**Note 8: State Pass-through Contract**

CRHC has a contract with the Colorado Department of Public Health and Environment's Emergency Preparedness and Response Division in which CRHC will act as the distribution agency for funds, supplies and equipment for local hospitals, rural health centers, Regional Emergency and Trauma Advisory Council (RETAC), Medical Reserve Corps (MRC), statewide universities and other health providers. In 2010, CRHC also has a contract with the Colorado Department of Public Health and Environment to provide program administration services on behalf of the Emergency Medical and Trauma Services (EMTS) Section to meet the goals of

**Colorado Rural Health Center**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

EMTS Grants Training and Education Program. As part of these contracts, CRHC received and distributed approximately \$4,244,000 and \$3,908,000 for the years ended December 31, 2010 and 2009, respectively. The amounts received and distributed are not included in the statements of activities. Fiscal agent fees received for administering the contract were \$541,422 and \$514,915 for the years ended December 31, 2010 and 2009, respectively.

**Note 9: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Contributions***

Approximately 83% of all contributions were received from two grantors in 2010, 65% from one grantor and 18% from the second grantor.

***Current Economic Conditions***

The current protracted economic environment continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in contributions, governmental support, grant revenue, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to CRHC.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue, governmental support and grant revenue could have an adverse impact on CRHC's future operating results.

In addition, given the volatility of current economic conditions, the values of assets recorded in the financial statements could change rapidly, resulting in material future adjustments that could negatively impact CRHC's ability to maintain sufficient liquidity.

**Note 10: Subsequent Events**

Subsequent to December 31, 2010, CRHC received a \$30,000 grant from Caring for Colorado restricted for the Colorado Rural Outreach Program.

Subsequent events have been evaluated through March 9, 2011, which is the date the financial statements were available to be issued.

## **Supplementary Information**

**Colorado Rural Health Center**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2010**

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	CFDA Number	Amount
<b>U.S. Department of Health and Human Services</b>		
State Rural Hospital Flexibility Program	93.241	\$ 528,024
Small Rural Hospital Improvement Grants	93.301	51,812
Grants to States for Operation of Offices of Rural Health	93.913	194,469
Rural Access to Emergency Devices	93.259	<u>85,881</u>
Total U.S. Department of Health and Human Services		<u>\$ 860,186</u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of Colorado Rural Health Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, Colorado Rural Health Center provided federal awards to subrecipients as follows:

Program	CFDA Number	Amount Provided
State Rural Hospital Flexibility Program	93.241	\$ 180,108
Rural Access to Emergency Devices	93.913	<u>71,070</u>
Total		<u>\$ 251,178</u>

**Independent Accountants' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters Based on an  
Audit of the Financial Statements Performed in Accordance with  
*Government Auditing Standards***

Board of Directors  
Colorado Rural Health Center  
Aurora, Colorado

We have audited the financial statements of Colorado Rural Health Center (CRHC) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 9, 2011. 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**

In planning and performing our audit, we considered CRHC'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 CRHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CRHC'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of CRHC'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 above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CRHC's financial statements are free of 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*.

We also noted certain matters that we reported to CRHC's management in a separate letter dated March 9, 2011.

Board of Directors  
Colorado Rural Health Center

This report is intended solely for the information and use of the governing body, management and others within CRHC and is not intended to be and should not be used by anyone other than these specified parties.

**/s/ BKD, LLP**

March 9, 2011

## **Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Directors  
Colorado Rural Health Center  
Aurora, Colorado

### **Compliance**

We have audited Colorado Rural Health Center's (CRHC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on CRHC's major federal program for the year ended December 31, 2010. CRHC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of CRHC's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CRHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of CRHC's compliance with those requirements.

As described in item 10-01 in the accompanying schedule of findings and questioned costs, Colorado Rural Health Center did not comply with requirements regarding subrecipient monitoring that are applicable to its State Rural Hospital Flexibility Program. Compliance with such requirements is necessary, in our opinion, for Colorado Rural Health Center to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Colorado Rural Health Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 10-02.

### **Internal Control over Compliance**

Management of Colorado Rural Health Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered CRHC's internal

control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CRHC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-01 to be a material weakness.

CRHC's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit CRHC's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the governing body, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**/s/ BKD, LLP**

March 9, 2011



**Colorado Rural Health Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2010**

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  Yes  No

**Colorado Rural Health Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2010**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
No matters are reportable.		

**Colorado Rural Health Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2010**

**Findings Required to be Reported by OMB Circular A-133**

Reference Number	Finding	Questioned Costs
10-01	<p><b>Subrecipient Monitoring</b>  <b>CFDA No. 93.241 - State Rural Hospital Flexibility Program</b></p> <p><b>Criteria or specific requirement:</b> An organization that passes federal funds to subrecipients is responsible for 1) identifying to the subrecipient the federal award information and applicable compliance requirements; 2) monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means; and 3) ensuring that subrecipients expending \$500,000 or more in federal awards have met the audit requirements of OMB Circular A-133.</p> <p><b>Condition:</b> CRHC did not comply with its during-the-award subrecipient monitoring responsibilities.</p> <p><b>Context:</b> We selected a sample of four subrecipients and noted that for all four subrecipients 1) award monitoring was restricted only to reviewing invoices prior to reimbursement; and 2) there were no procedures in place to ensure that subrecipients expending \$500,000 or more in federal awards met the audit requirements under OMB Circular A-133.</p> <p><b>Cause:</b> As a result of prior year finding 09-03, CRHC implemented subrecipient monitoring procedures during August 2010 on a prospective basis for the 2011 subrecipients. However, CRHC did not retroactively implement procedures to ensure that 2010 subrecipients are monitored for compliance in accordance with federal grant requirements.</p> <p><b>Effect:</b> By not establishing an adequate subrecipient monitoring plan and not conducting timely reviews, errors in applicable compliance requirements could remain undetected.</p> <p><b>Recommendation:</b> We recommend CRHC continue to enhance its subrecipient monitoring process, documentation of monitoring procedures, results of the testing, and follow-up action to ensure that subrecipients are appropriately expending funds in accordance with applicable laws, regulations and provisions of contracts, and, if applicable, are meeting the audit requirements under OMB Circular A-133.</p>	None

**Colorado Rural Health Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2010**

Reference Number	Finding	Questioned Costs
10-01	<p><b>Views of responsible officials and planned corrective actions:</b></p> <p>This finding is an issue of timing. The audit for the year ending December 31, 2009, was not complete until July 2010. Effective August, 1, 2010, CRHC implemented additional subrecipient monitoring procedures per the recommendations made by the auditors as part of the 2009 audit. These procedures were implemented for all payments made going forward. However, several subrecipient awards were paid out to subrecipients prior to August 1, 2010. Since these payments were made prior to the audit completion and the new procedures being implemented, CRHC had not implemented the additional subrecipient monitoring procedures. Since the grant files for all payments made prior to August 1, 2010, were closed out, CRHC did not retroactively implement these procedures. Appropriate procedures have been implemented for all subrecipient payments made after August 1, 2010.</p> <p><b>Name(s) of the contact person(s) responsible for corrective action:</b> Michelle Mills, Program Director.</p> <p><b>Corrective action planned:</b></p> <p>Effective August 1, 2010, CRHC implemented additional subrecipient monitoring procedures. CRHC will continue to monitor its subrecipient monitoring procedures and enhance them as needed to comply with the requirements under OMB Circular A-133.</p> <p><b>Anticipated completion date:</b> August 1, 2010</p>	None

**Colorado Rural Health Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2010**

Reference Number	Finding	Questioned Costs
10-02	<p><b>Procurement / Suspension and Debarment</b>  <b>CFDA No. 93.241 - State Rural Hospital Flexibility Program</b></p> <p><b>Criteria or specific requirement:</b> Per 2 CFR 245.46, procurement records and files for purchases in excess of the small purchase threshold (\$25,000) shall include the following at a minimum:  1) basis for contractor selection; 2) justification for lack of competition when competitive bids are not obtained; and 3) basis for award cost or price.</p> <p><b>Condition:</b> Sole source documentation was not available to support the procurement compliance requirement.</p> <p><b>Context:</b> We tested one vendor whose contract exceeded the \$25,000 small-purchase threshold.</p> <p><b>Effect:</b> By not maintaining documentation of the competitive bid process, including sole source documentation, CRHC is at risk of improperly evaluating the bid process, which could result in higher than necessary costs and unfair procurement practices.</p> <p><b>Cause:</b> The vendor has been contracted with CRHC since 2001. CRHC's document retention policy requires documentation to be purged after seven years. Documentation of the competitive bid process and sole source documentation of this vendor was destroyed in accordance with CRHC policy.</p> <p><b>Recommendation:</b> We recommend that CRHC enhance its document retention policy to include a clause noting documentation should be maintained beyond seven years, if necessary, to support active contracts.</p>	None

**Colorado Rural Health Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2010**

Reference Number	Finding	Questioned Costs
10-02	<p><b>Views of responsible officials and planned corrective actions:</b>  This is a vendor that CRHC has had a relationship with since 2001. CRHC first contracted with this vendor as the result of a competitive bid process. Since that time, we have renewed his contract annually and we have not re-opened the contracting process for competitive bid. This contractor has a unique skill set and an unmatched level of experience working with rural communities and facilities with technology implementation and privacy and security related to medical records and transmission of information. CRHC purged documentation of the 2001 competitive bid process in accordance with our document retention policy.</p> <p><b>Name(s) of the contact person(s) responsible for corrective action:</b>  Michelle Mills, Program Director</p> <p><b>Corrective action planned:</b>  CRHC will enhance our document retention policy to require maintaining documentation for active contracts for as long as those contracts are active.</p> <p>Additionally, CRHC will annually review all contracts that are paid with federal dollars to ensure that either a competitive bid process is completed or that sole source documentation is available and updated as needed.</p> <p><b>Anticipated completion date:</b>  March 1, 2011</p>	None

**Colorado Rural Health Center**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2010**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
09-01	<p><b>Financial Reporting</b>  CRHC should develop processes and procedures to strengthen the financial reporting processes.</p>	Implemented.
09-02	<p><b>Segregation of Duties</b>    CRHC should implement a policy in which there is a secondary review of the Financial Coordinator's monthly account reconciliations as well as non-standard journal entries initiated and recorded by the Financial Coordinator. CRHC should develop processes to ensure adequate segregation of duties within the cash disbursements area.</p>	Implemented.
09-03	<p><b>Subrecipient Monitoring</b>    CRHC should enhance its subrecipient monitoring process, including establishing award identification, documentation of monitoring procedures performed, results of the testing, and follow-up action to ensure that subrecipients are appropriately expending funds in accordance with applicable laws, regulations and provisions of contracts, and, if applicable, are meeting the audit requirements under OMB Circular A-133.</p>	Not implemented. See current year finding 10-01.
09-04	<p><b>Suspension and Debarment</b>  CRHC should develop policies and processes to ensure that the "Excluded Parties List" is reviewed on an annual basis or at a minimum, prior to accepting a subrecipient into the federal program and that such a review be documented by including supporting documentation in the contract file.</p>	Implemented