

Colorado Rural Health Center

Independent Auditor's Reports and Financial Statements

December 31, 2013 and 2012

Colorado Rural Health Center
December 31, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Colorado Rural Health Center
Aurora, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Colorado Rural Health Center (CRHC), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Colorado Rural Health Center

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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2012 financial statements were audited by other auditors and their report thereon, dated April 9, 2013, expressed an unmodified opinion.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2014, on our consideration of CHRC'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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CRHC's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
May 21, 2014

Colorado Rural Health Center
Statements of Financial Position
December 31, 2013 and 2012

Assets

	2013	2012
Cash and cash equivalents	\$ 1,476,711	\$ 1,649,728
Certificates of deposit	495,427	495,054
Accounts receivable	50,919	126,129
Grants receivable	169,573	70,641
Contributions receivable	359,500	249,828
Prepays and other assets	59,480	72,708
Property and equipment, net	65,949	98,383
Total assets	\$ 2,677,559	\$ 2,762,471

Liabilities

Accounts payable	\$ 121,665	\$ 116,890
Accrued payroll and vacation	82,322	56,247
Deferred membership and other revenue	541,178	538,882
Capital lease obligation	12,248	16,860
Total liabilities	757,413	728,879

Net Assets

Unrestricted		
Undesignated	1,404,158	1,384,969
Temporarily restricted	515,988	648,623
Total net assets	1,920,146	2,033,592
Total liabilities and net assets	\$ 2,677,559	\$ 2,762,471

Colorado Rural Health Center
Statement of Activities
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Governmental grants	\$ 1,188,086	\$ -	\$ 1,188,086
Foundation contributions	-	739,648	739,648
Fiscal agent fees and contracted services	1,348,324	-	1,348,324
Individual contributions	3,352	-	3,352
Program service fees	190,525	-	190,525
Workshops and trainings	56,235	-	56,235
Membership dues	111,120	-	111,120
Conference	66,577	-	66,577
Interest income	1,942	-	1,942
Other	1,765	-	1,765
Net assets released from restrictions	872,283	(872,283)	-
	<u>3,840,209</u>	<u>(132,635)</u>	<u>3,707,574</u>
Expenses			
Program services	<u>3,489,377</u>	<u>-</u>	<u>3,489,377</u>
Supporting services			
Management and general	277,184	-	277,184
Fundraising expenses	54,459	-	54,459
	<u>331,643</u>	<u>-</u>	<u>331,643</u>
Total supporting services	<u>331,643</u>	<u>-</u>	<u>331,643</u>
Total expenses	<u>3,821,020</u>	<u>-</u>	<u>3,821,020</u>
Change in Net Assets	19,189	(132,635)	(113,446)
Net Assets, Beginning of Year	<u>1,384,969</u>	<u>648,623</u>	<u>2,033,592</u>
Net Assets, End of Year	<u>\$ 1,404,158</u>	<u>\$ 515,988</u>	<u>\$ 1,920,146</u>

Colorado Rural Health Center
Statement of Activities
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Governmental grants	\$ 1,004,045	\$ -	\$ 1,004,045
Foundation contributions	-	88,494	88,494
Fiscal agent fees and contracted services	982,999	-	982,999
Individual contributions	2,724	-	2,724
Program service fees	143,573	-	143,573
Workshops and trainings	75,355	-	75,355
Membership dues	96,200	-	96,200
Conference	34,582	-	34,582
Interest income	5,770	-	5,770
Other	6,935	-	6,935
Net assets released from restrictions	1,149,280	(1,149,280)	-
	<u>3,501,463</u>	<u>(1,060,786)</u>	<u>2,440,677</u>
Total revenue, gains and other support			
Expenses			
Program services	<u>3,104,543</u>	<u>-</u>	<u>3,104,543</u>
Supporting services			
Management and general	331,668	-	331,668
Fundraising expenses	<u>23,619</u>	<u>-</u>	<u>23,619</u>
Total supporting services	<u>355,287</u>	<u>-</u>	<u>355,287</u>
Total expenses	<u>3,459,830</u>	<u>-</u>	<u>3,459,830</u>
Change in Net Assets	41,633	(1,060,786)	(1,019,153)
Net Assets, Beginning of Year	<u>1,343,336</u>	<u>1,709,409</u>	<u>3,052,745</u>
Net Assets, End of Year	<u>\$ 1,384,969</u>	<u>\$ 648,623</u>	<u>\$ 2,033,592</u>

Colorado Rural Health Center
Statement of Functional Expenses
Year Ended December 31, 2013

	Total Program Services Expenses	Management and General	Fund Raising	Total Supporting Services Expenses	Total Expenses
Salaries	\$ 1,039,796	\$ 163,073	\$ 41,404	\$ 204,477	\$ 1,244,273
Payroll taxes and benefits	222,062	34,732	8,819	43,551	265,613
Grants	581,871	-	-	-	581,871
Professional services	1,032,460	24,638	617	25,255	1,057,715
Conferences and workshops	93,335	1,933	-	1,933	95,268
Travel	150,020	14,746	223	14,969	164,989
Rent	148,429	10,777	1,999	12,776	161,205
Outreach	3,360	-	70	70	3,430
Supplies	14,586	384	109	493	15,079
Telephone	20,802	804	152	956	21,758
Printing	6,264	35	-	35	6,299
Dues	81,841	9,152	299	9,451	91,292
Postage	2,838	345	18	363	3,201
Professional development	20,559	13,061	99	13,160	33,719
Equipment	30,885	710	132	842	31,727
Depreciation	29,864	2,168	402	2,570	32,434
Other	10,405	626	116	742	11,147
	<u>\$ 3,489,377</u>	<u>\$ 277,184</u>	<u>\$ 54,459</u>	<u>\$ 331,643</u>	<u>\$ 3,821,020</u>
Total expenses	<u>\$ 3,489,377</u>	<u>\$ 277,184</u>	<u>\$ 54,459</u>	<u>\$ 331,643</u>	<u>\$ 3,821,020</u>

Colorado Rural Health Center
Statement of Functional Expenses
Year Ended December 31, 2012

	Total Program Services Expenses	Management and General	Fund Raising	Total Supporting Services Expenses	Total Expenses
Salaries	\$ 957,297	\$ 209,689	\$ 16,949	\$ 226,638	\$ 1,183,935
Payroll taxes and benefits	203,967	44,494	3,596	48,090	252,057
Grants	607,037	-	-	-	607,037
Professional services	742,202	17,452	714	18,166	760,368
Conferences and workshops	110,596	4,881	-	4,881	115,477
Travel	135,894	22,394	234	22,628	158,522
Rent	139,270	13,428	929	14,357	153,627
Outreach	2,021	7	1	8	2,029
Supplies	15,500	606	173	779	16,279
Telephone	24,408	1,435	72	1,507	25,915
Printing	4,979	897	11	908	5,887
Dues	79,127	6,887	278	7,165	86,292
Postage	3,432	803	-	803	4,235
Professional development	8,293	3,933	173	4,106	12,399
Equipment	27,891	907	223	1,130	29,021
Depreciation	33,263	3,207	222	3,429	36,692
Other	9,366	648	44	692	10,058
	<u>\$ 3,104,543</u>	<u>\$ 331,668</u>	<u>\$ 23,619</u>	<u>\$ 355,287</u>	<u>\$ 3,459,830</u>
Total expenses	<u>\$ 3,104,543</u>	<u>\$ 331,668</u>	<u>\$ 23,619</u>	<u>\$ 355,287</u>	<u>\$ 3,459,830</u>

Colorado Rural Health Center
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Change in net assets	\$ (113,446)	\$ (1,019,153)
Items not requiring (providing) cash		
Depreciation expense	32,434	36,692
Interest earned on certificate of deposit	(373)	(823)
Contributions receivable for long-term purposes	-	(65,328)
Changes in		
Accounts receivable	75,210	(30,235)
Grants receivable	(98,932)	41,355
Contributions receivable	(109,672)	987,286
Prepaid expenses and other assets	13,228	15,066
Accounts payable and accrued expenses	30,850	(25,400)
Deferred revenue	2,296	(75,233)
	<u>(168,405)</u>	<u>(135,773)</u>
Net cash used in operating activities		
Investing Activities		
Purchase of certificate of deposit	-	(40,000)
Contributions receivable for long-term purposes	-	65,328
	<u>-</u>	<u>25,328</u>
Net cash provided by investing activities		
Financing Activities		
Principal payments under capital lease obligation	(4,612)	(4,365)
	<u>(4,612)</u>	<u>(4,365)</u>
Net cash used in operating activities		
Decrease in Cash and Cash Equivalents	(173,017)	(114,810)
Cash and Cash Equivalents, Beginning of Year	<u>1,649,728</u>	<u>1,764,538</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,476,711</u>	<u>\$ 1,649,728</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 812</u>	<u>\$ 1,058</u>

Colorado Rural Health Center

Notes to Financial Statements

December 31, 2013 and 2012

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, 2013 and 2012, cash equivalents consisted primarily of money market accounts and certificates of deposit.

At December 31, 2013, CRHC's cash accounts exceeded federally insured limits by approximately \$1,609,926.

Of this amount, approximately \$661,000 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.

Colorado Rural Health Center

Notes to Financial Statements

December 31, 2013 and 2012

Accounts Receivable

Accounts receivable are stated at the amount billed to hospitals and/or grantors plus any accrued and unpaid interest. 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 customer.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method 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.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

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

Long-lived Asset Impairment

CRHC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2013 and 2012.

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.

Colorado Rural Health Center
Notes to Financial Statements
December 31, 2013 and 2012

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.

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. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

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.

Colorado Rural Health Center
Notes to Financial Statements
December 31, 2013 and 2012

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 2010.

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.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Contributions Receivable

Contributions receivable consisted of the following as of December 31:

	2013	2012
Due within one year	\$ 309,500	\$ 249,828
Due in one to five years	50,000	-
	\$ 359,500	\$ 249,828

Colorado Rural Health Center
Notes to Financial Statements
December 31, 2013 and 2012

Note 3: Property and Equipment

Property and equipment at December 31 consists of the following:

	2013	2012
Furniture and equipment	\$ 175,273	\$ 175,273
Leasehold improvements	60,617	60,617
	235,890	235,890
Less accumulated depreciation and amortization	169,941	137,507
	\$ 65,949	\$ 98,383

Note 4: Capital Lease Obligation

CRHC has a capital lease obligation relating to its office copier, which expires in June 2016. Annual maturities on capital lease obligations at December 31, 2013:

	Capital Lease Obligations
2014	\$ 5,424
2015	5,424
2016	2,260
	13,108
Less amounts representing interest	860
	\$ 12,248

Property and equipment under the capital lease are as follows:

	2013	2012
Equipment	\$ 23,663	\$ 23,663
Less accumulated depreciation	12,266	7,493
	\$ 11,397	\$ 16,170

Colorado Rural Health Center

Notes to Financial Statements

December 31, 2013 and 2012

Note 5: Net Assets

Temporarily Restricted Net Assets

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

	2013	2012
Workforce related grants	\$ 976	\$ 139,570
Loan Repayment	10,674	-
Hospitals and clinics	154,162	241,349
Advocacy	-	74,028
Technical assistance	9,397	12,500
Grant for loan repayments	-	43,676
Outreach	15,779	-
For periods after December 31	325,000	137,500
	\$ 515,988	\$ 648,623

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.

	2013	2012
Purpose restrictions accomplished		
Workforce related grants	\$ 291,145	\$ 399,240
Loan repayment	33,002	-
Hospitals and clinics	288,009	374,310
Advocacy	74,028	138,298
Technical assistance	17,603	9,342
Grants council program	-	28,295
Grants for loan repayments	-	49,795
Outreach	5,996	-
Time restrictions accomplished	162,500	150,000
	\$ 872,283	\$ 1,149,280

Colorado Rural Health Center
Notes to Financial Statements
December 31, 2013 and 2012

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). A portion of the leased space was subleased through March 31, 2012. Future minimum lease payments as of December 31, 2013:

2014	\$ 160,924
2015	164,982
2016	169,050
2017	172,812
2018	<u>145,560</u>
	<u>\$ 813,328</u>

Rental expense for all operating lease consisted of:

	<u>2013</u>	<u>2012</u>
Minimum rentals	\$ 161,205	\$ 153,627
Less sublease rental income	<u>-</u>	<u>3,600</u>
	<u>\$ 161,205</u>	<u>\$ 150,027</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 \$25,060 and \$23,395 for the years ended December 31, 2013 and 2012, respectively.

Colorado Rural Health Center

Notes to Financial Statements

December 31, 2013 and 2012

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. 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 EMTS Grants Training and Education Program. As part of these contracts, CRHC received and distributed approximately \$2,402,000 and \$2,846,000 for the years ended December 31, 2013 and 2012, respectively. The amounts received and distributed are not included in the statements of activities. Fiscal agent fees received for administering the contract were \$912,568 and \$447,332 for the years ended December 31, 2013 and 2012, 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 95% of all contributions were received from three grantors in 2013, 68% from one grantor, 17% from the second grantor and 10% from the third grantor.

Supplementary Information

Colorado Rural Health Center
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	CFDA Number	Amount
U.S. Department of Health and Human Services		
State Rural Hospital Flexibility Program	93.241	\$ 576,336
Small Rural Hospital Improvement Grants	93.301	282,965
Grants to States for Operation of Offices of Rural Health	93.913	172,643
Rural Access to Emergency Devices	93.259	<u>156,142</u>
Total U.S. Department of Health and Human Services		<u>\$ 1,188,086</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	\$ 2,472
Small Rural Hospital Improvement Grants	93.301	113,468
Rural Access to Emergency Devices	93.259	<u>142,042</u>
Total		<u>\$ 257,982</u>

**Independent Auditor's 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Colorado Rural Health Center (CRHC), which comprise the statement of financial position as of December 31, 2013 and the related statements of activities and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated May 21, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Directors
Colorado Rural Health Center

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 noted certain matters that we reported to CRHC's management in a separate letter dated May 21, 2014.

Purpose of this Report

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

BKD, LLP

Colorado Springs, Colorado
May 21, 2014

**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on 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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Colorado Rural Health Center (CRHC) with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. CRHC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CRHC's major federal programs based on our audit of the types of compliance requirements referred to above.

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 on compliance for each major federal program. However, our audit does not provide a legal determination of CRHC's compliance.

Board of Directors
Colorado Rural Health Center

Opinion on Each Major Federal Program

In our opinion, CRHC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of CRHC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CRHC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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.

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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Colorado Springs, Colorado
May 21, 2014

Colorado Rural Health Center
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Section I – Summary of Auditor’s Results

Financial Statements

1. The opinion expressed in the independent auditor’s report was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor’s report on internal control over financial reporting disclosed:
 Significant deficiency(ies)? Yes None reported
 Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent auditor’s report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:
 Significant deficiency(ies)? Yes None reported
 Material weakness(es)? Yes No

5. The opinion(s) expressed in the independent auditor’s report on compliance with requirements that could have a direct and material effect on major federal awards was (were):
 (Check each description that applies. If any other than unmodified apply, also list the name of each major program by the type of opinion applicable to that program.)
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. CRHC’s major programs were:

Cluster/Program	CFDA Number
State Rural Hospital Flexibility Program	93.241

Colorado Rural Health Center
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. CRHC 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, 2013

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Colorado Rural Health Center
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Colorado Rural Health Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2013

Reference Number	Summary of Finding	Status
12-01	General Finding The 2011 data collection form and reporting package was not submitted within 30 days of receipt of the audit report.	Corrected.