

Colorado Rural Health Center

Financial Report
December 31, 2011

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Independent Auditor's Report

To the Board of Directors
Colorado Rural Health Center
Aurora, Colorado

We have audited the accompanying statement of financial position of Colorado Rural Health Center (CRHC) as of December 31, 2011, and the related statement of activities, functional expenses and cash flows for the year 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 audit. The financial statements of CRHC for the year ended December 31, 2010 were audited by other auditors whose report, dated March 9, 2011, expressed an unqualified opinion on those statements.

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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of CRHC as of December 31, 2011, 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.

McGladrey & Pullen, LLP

Denver, Colorado
April 6, 2012

Colorado Rural Health Center

Statements of Financial Position
December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 1,764,538	\$ 1,868,549
Certificates of deposit	454,231	453,172
Accounts receivable	95,894	136,639
Grants receivable	111,996	45,674
Contributions receivable	1,237,114	1,902,051
Prepays and other assets	87,774	78,851
Property and equipment, net	135,075	153,170
	\$ 3,886,622	\$ 4,638,106
LIABILITIES		
Accounts payable	\$ 140,057	\$ 136,559
Accrued payroll and vacation	58,480	85,467
Deferred membership and other revenue	614,115	410,722
Capital lease obligation	21,225	5,396
	833,877	638,144
NET ASSETS		
Unrestricted:		
Undesignated	1,343,336	1,206,772
Board-designated	-	18,377
	1,343,336	1,225,149
Temporarily restricted	1,709,409	2,774,813
Total net assets	3,052,745	3,999,962
	\$ 3,886,622	\$ 4,638,106

See Notes to Financial Statements.

Colorado Rural Health Center

Statements of Activities

Years Ended December 31, 2011 and 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support:			
Governmental grants	\$ 1,148,422	\$ -	\$ 1,148,422
Foundation contributions	-	83,955	83,955
Fiscal agent fees and contracted services	1,144,277	-	1,144,277
Individual contributions	4,446	-	4,446
Program service fees	117,669	-	117,669
Workshops and trainings	64,005	-	64,005
Membership dues	133,050	-	133,050
Conference	45,579	-	45,579
Interest income	8,042	-	8,042
Other	13,683	-	13,683
Net assets released from restrictions	1,149,359	(1,149,359)	-
Total revenue, gains and other support	3,828,532	(1,065,404)	2,763,128
Expenses:			
Program services	3,336,555	-	3,336,555
Supporting services:			
Management and general	327,866	-	327,866
Fundraising expenses	45,924	-	45,924
Total supporting services	373,790	-	373,790
Total expenses	3,710,345	-	3,710,345
Change in net assets	118,187	(1,065,404)	(947,217)
Net assets, beginning of year	1,225,149	2,774,813	3,999,962
Net assets, end of year	\$ 1,343,336	\$ 1,709,409	\$ 3,052,745

See Notes to Financial Statements.

2010		
Unrestricted	Temporarily Restricted	Total
\$ 860,186	\$ -	\$ 860,186
-	2,267,000	2,267,000
811,244	-	811,244
8,206	1,895	10,101
175,646	-	175,646
109,488	-	109,488
62,899	-	62,899
40,021	-	40,021
8,561	-	8,561
16,961	-	16,961
1,070,189	(1,070,189)	-
3,163,401	1,198,706	4,362,107
2,405,469	-	2,405,469
610,095	-	610,095
22,810	-	22,810
632,905	-	632,905
3,038,374	-	3,038,374
125,027	1,198,706	1,323,733
1,100,122	1,576,107	2,676,229
\$ 1,225,149	\$ 2,774,813	\$ 3,999,962

Colorado Rural Health Center

Statements of Functional Expenses
Years Ended December 31, 2011 and 2010

	2011				
	Total Program Services Expenses	Management and General	Fund Raising	Total Supporting Services Expenses	Total Expenses
Salaries	\$ 1,119,176	\$ 196,249	\$ 28,500	\$ 224,749	\$ 1,343,925
Payroll taxes and benefits	239,610	41,884	6,082	47,966	287,576
Grants	653,122	-	-	-	653,122
Professional services	733,267	23,901	8,101	32,002	765,269
Conferences and workshops	95,540	1,770	55	1,825	97,365
Travel	159,808	20,690	369	21,059	180,867
Rent	138,282	12,494	1,741	14,235	152,517
Outreach	5,392	19	3	22	5,414
Supplies	15,088	718	123	841	15,929
Telephone	28,684	2,029	153	2,182	30,866
Printing	6,527	2,720	35	2,755	9,282
Dues	36,125	6,405	10	6,415	42,540
Postage	3,665	1,159	-	1,159	4,824
Professional development	16,628	11,695	-	11,695	28,323
Equipment	41,354	1,600	223	1,823	43,177
Depreciation	34,497	3,117	434	3,551	38,048
Other	9,790	1,416	95	1,511	11,301
Total expenses	\$ 3,336,555	\$ 327,866	\$ 45,924	\$ 373,790	\$ 3,710,345

See Notes to Financial Statements.

2010

Total Program Services Expenses	Management and General	Fund Raising	Total Supporting Services Expenses	Total Expenses
\$ 811,603	\$ 331,552	\$ 13,835	\$ 345,387	\$ 1,156,990
164,656	67,265	2,807	70,072	234,728
600,726	44,503	-	44,503	645,229
362,169	60,053	3,941	63,994	426,163
93,157	8,841	-	8,841	101,998
112,419	21,064	254	21,318	133,737
119,469	28,464	1,043	29,507	148,976
1,396	333	12	345	1,741
10,357	1,586	155	1,741	12,098
27,322	2,948	218	3,166	30,488
4,715	3,076	-	3,076	7,791
25,181	6,237	-	6,237	31,418
3,821	1,886	-	1,886	5,707
5,588	16,421	-	16,421	22,009
28,943	6,896	253	7,149	36,092
26,820	6,390	234	6,624	33,444
7,127	2,580	58	2,638	9,765
<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

Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (947,217)	\$ 1,323,733
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	38,048	33,444
Interest earned on certificate of deposit	(1,059)	-
Write-off of property and equipment	3,710	-
Contributions receivable for long-term purposes	(623,326)	-
Changes in:		
Accounts receivable	40,745	90,668
Grants receivable	(66,322)	3,001
Contributions receivable	664,937	(953,209)
Prepaid expenses and other assets	(8,923)	(29,858)
Accounts payable and accrued expenses	(23,489)	(3,101)
Deferred revenue	203,393	329,936
Net cash (used in) provided by operating activities	(719,503)	794,614
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest added to certificate of deposit	-	(3,172)
Purchase of property and equipment	-	(14,094)
Contributions receivable for long-term purposes	623,326	-
Net cash provided by (used in) investing activities	623,326	(17,266)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments under capital lease obligation	(7,834)	(2,321)
(Decrease) increase in cash and cash equivalents	(104,011)	775,027
CASH AND CASH EQUIVALENTS:		
Beginning	1,868,549	1,093,522
Ending	\$ 1,764,538	\$ 1,868,549
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
Cash paid for interest	\$ 896	\$ 715
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES,		
Equipment acquired under capital lease	\$ 23,663	\$ -

See Notes to Financial Statements.

Colorado Rural Health Center

Notes to Financial Statements

Note 1. Nature of Operations and 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.

Significant Accounting Policies:

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, 2011 and 2010, cash equivalents consisted primarily of money market accounts.

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, 2011, 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 through December 31, 2012 at all FDIC-insured institutions.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2011, CRHC's interest-bearing cash accounts exceeded federally insured limits by approximately \$1,390,000.

Of this amount, approximately \$673,000 is maintained in a repurchase investment sweep account. This account allows excess operating funds to be invested in U.S Government agencies. Interest is earned daily on these funds and is transferred into CRHC's operating account.

Certificates of deposit: Certificates of deposit generally mature within one year and are carried at cost.

Colorado Rural Health Center

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

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. All accounts receivable were considered collectible at December 31, 2011 and no accounts receivable were written off during the year ended December 31, 2011.

Property and equipment: Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the lease term or estimated useful lives of the improvements.

Equipment leased under capital leases are stated at the lesser of the present value of the minimum lease payments during the lease term or the fair market value at the date they were placed into service. Amortization is provided using the straight-line method over the lesser of the term of the lease or the estimated useful lives of the assets and is included with depreciation expense on owned assets.

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

Net assets: Unrestricted net assets include those funds presently available for use by CRHC at the discretion of management and the Board of Directors.

Temporarily restricted net assets include net assets restricted by donors to a specific time period or purpose.

Permanently restricted net assets consist of funds that are subject to the donor's specifications that the principal balance be invested and only the interest and dividend income or a portion of the income is available for restricted purposes as specified by the donor or, if not specified, for unrestricted purposes at the discretion of management. There are no permanently restricted net assets at December 31, 2011 or 2010.

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.

Colorado Rural Health Center

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

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. All contributions receivable were considered collectible at December 31, 2011 and no contributions receivable were written off during the year ended December 31, 2011.

Foundation contributions represent contributions from unrelated Foundations.

Deferred membership revenue: Membership revenue is deferred and recognized over the periods to 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.

Fiscal agent fees and contracted services: During 2010 and January 2011 through June 2011, fiscal agent fees were recognized in accordance with the agreement, as 15% of the pass-through amount that CRHC was awarded. For July 2011 through December 2011, revenue was recognized in the amount of actual program expenditures each month. Contracted services revenue is recognized each month in the amount of actual program expenditures incurred.

Income taxes: CRHC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, CRHC is subject to federal income tax on any unrelated business income. No provision for federal income taxes has been included in the accompanying financial statements.

Management evaluated CRHC's tax positions and concluded that CHRC has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of accounting guidance related to income taxes. With few exceptions, CRHC is no longer subject to income tax examinations by the U.S. federal, state or local authorities for years before 2008. As of December 31, 2011, CRHC has addressed uncertainty in its income tax positions under this guidance and determined there are no unrecognized/derecognized tax benefits requiring an accrual.

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.

Reclassifications: Certain items on the balance sheet as of December 31, 2010 have been reclassified to be consistent with classifications adopted as of December 31, 2011. The reclassifications had no effect on total net assets.

Note 2. Contributions Receivable

Contributions receivable consisted of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Due within one year	\$ 1,171,786	\$ 1,213,397
Due in one to five years	65,328	688,654
	<u>\$ 1,237,114</u>	<u>\$ 1,902,051</u>

Colorado Rural Health Center

Notes to Financial Statements

Note 2. Contributions Receivable (Continued)

Contributions receivable are restricted as follows as of December 31:

	<u>2011</u>	<u>2010</u>
Workforce related grants	\$ 367,670	\$ 744,335
Hospitals and clinics	363,960	363,960
Advocacy	195,984	330,656
Grants council program	-	13,100
General operations for future years	309,500	450,000
	<u>\$ 1,237,114</u>	<u>\$ 1,902,051</u>

Note 3. Property and Equipment

Property and equipment at December 31 consists of the following:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 175,273	\$ 163,328
Leasehold improvements	60,617	60,617
	<u>235,890</u>	<u>223,945</u>
Less accumulated depreciation and amortization	100,815	70,775
	<u>\$ 135,075</u>	<u>\$ 153,170</u>

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, 2011:

2012	\$ 5,424
2013	5,424
2014	5,424
2015	5,424
2016	2,260
	<u>23,956</u>
Less amounts representing interest	2,731
	<u>\$ 21,225</u>

Colorado Rural Health Center

Notes to Financial Statements

Note 4. Capital Lease Obligation (Continued)

Property and equipment under the capital lease are as follows:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 23,663	\$ 11,719
Less accumulated depreciation	2,761	7,031
	<u>\$ 20,902</u>	<u>\$ 4,688</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>2011</u>	<u>2010</u>
Workforce related grants	\$ 486,174	\$ 1,110,746
Provider recruitment and rural health clinic programs	-	57,919
Hospitals and clinics	567,510	773,275
Advocacy	212,326	356,910
Technical assistance	9,342	1,895
Grants council program	28,295	36,568
Grants for loan repayments	118,262	-
For periods after December 31	287,500	437,500
	<u>\$ 1,709,409</u>	<u>\$ 2,774,813</u>

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.

	<u>2011</u>	<u>2010</u>
Purpose restrictions accomplished:		
Workforce related grants	\$ 493,898	\$ 626,519
Provider recruitment and rural health clinic programs	57,919	56,818
Hospitals and clinics	217,615	249,864
Advocacy	144,584	106,651
Technical assistance	9,657	12,605
Grants council program	8,274	5,232
Grants for loan repayments	67,412	-
Time restrictions accomplished	150,000	12,500
	<u>\$ 1,149,359</u>	<u>\$ 1,070,189</u>

Colorado Rural Health Center

Notes to Financial Statements

Note 5. Net Assets (Continued)

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 year ended December 31, 2010, was \$18,377. During 2011, the Board of Directors approved the release of the remaining board-designated net assets to unrestricted net assets.

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. Total rent expense for the years ended December 31, 2011 and 2010 was approximately \$151,000 and \$149,000, respectively. Future minimum lease payments as of December 31, 2011 are as follows:

2012	\$	152,799
2013		156,861
2014		160,923
2015		164,984
2016		169,046
Thereafter		316,124
	\$	<u>1,120,737</u>

A portion of the leased space is also subleased through March 31, 2012. Minimum future rental income under the non-cancelable operating sublease as of December 31, 2011 was \$3,600. Rental income for each of the years ended December 31, 2011 and 2010 was \$14,400 and is included in other income on the statement of activities.

Note 7. Defined Contribution Plan

CRHC has a 401(k) 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. After one year of employment, CRHC matches employees' contributions up to 3% of the employees' annual salary. Pension expense was \$18,777 and \$15,344 for the years ended December 31, 2011 and 2010, respectively.

Colorado Rural Health Center

Notes to Financial Statements

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. Starting 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 EMTS Grants Training and Education Program. As part of these contracts, CRHC received and distributed approximately \$4,840,000 and \$4,244,000 for the years ended December 31, 2011 and 2010, respectively. The amounts received and distributed are not included in the statements of activities as CRHC serves in an agent capacity for the state. Fiscal agent fees received for administering the contract were \$426,055 and \$541,422 for the years ended December 31, 2011 and 2010, 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 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 events have been evaluated through April 6, 2012, which is the date the financial statements were available to be issued.