

Colorado Rural Health Center

Financial Report
December 31, 2012

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Independent Auditor's Report

To the 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 which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years 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 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 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.

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, 2012 and 2011, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2013 on our consideration of Colorado Rural Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Colorado Rural Health Center's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Denver, Colorado
April 9, 2013

Colorado Rural Health Center

Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 1,649,728	\$ 1,764,538
Certificates of deposit	495,054	454,231
Accounts receivable	126,129	95,894
Grants receivable	70,641	111,996
Contributions receivable	249,828	1,237,114
Prepays and other assets	72,708	87,774
Property and equipment, net	98,383	135,075
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Total assets	\$ 2,762,471	\$ 3,886,622
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LIABILITIES		
Accounts payable	\$ 116,890	\$ 140,057
Accrued payroll and vacation	56,247	58,480
Deferred membership and other revenue	538,882	614,115
Capital lease obligation	16,860	21,225
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Total liabilities	728,879	833,877
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NET ASSETS		
Unrestricted:		
Undesignated	1,384,969	1,343,336
Temporarily restricted	648,623	1,709,409
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Total net assets	2,033,592	3,052,745
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Total liabilities and net assets	\$ 2,762,471	\$ 3,886,622
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See Notes to Financial Statements.

Colorado Rural Health Center

Statements of Activities

Years Ended December 31, 2012 and 2011

	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)	-
Total revenue, gains and other support	3,501,463	(1,060,786)	2,440,677
Expenses:			
Program services	3,104,543	-	3,104,543
Supporting services:			
Management and general	331,668	-	331,668
Fundraising expenses	23,619	-	23,619
Total supporting services	355,287	-	355,287
Total expenses	3,459,830	-	3,459,830
Change in net assets	41,633	(1,060,786)	(1,019,153)
Net assets, beginning of year	1,343,336	1,709,409	3,052,745
Net assets, end of year	\$ 1,384,969	\$ 648,623	\$ 2,033,592

See Notes to Financial Statements.

2011		
Unrestricted	Temporarily Restricted	Total
\$ 1,148,422	\$ -	\$ 1,148,422
-	83,955	83,955
1,144,277	-	1,144,277
4,446	-	4,446
117,669	-	117,669
64,005	-	64,005
133,050	-	133,050
45,579	-	45,579
8,042	-	8,042
13,683	-	13,683
1,149,359	(1,149,359)	-
3,828,532	(1,065,404)	2,763,128
3,336,555	-	3,336,555
327,866	-	327,866
45,924	-	45,924
373,790	-	373,790
3,710,345	-	3,710,345
118,187	(1,065,404)	(947,217)
1,225,149	2,774,813	3,999,962
\$ 1,343,336	\$ 1,709,409	\$ 3,052,745

Colorado Rural Health Center

Statements of Functional Expenses
Years Ended December 31, 2012 and 2011

	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	18,165	760,367
Conferences and workshops	110,596	4,881	-	4,881	115,477
Travel	135,894	22,394	234	22,628	158,521
Rent	139,270	13,428	929	14,357	153,628
Outreach	2,021	7	1	8	2,029
Supplies	15,500	605	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	4,234
Professional development	8,293	3,933	173	4,106	12,400
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
Total expenses	\$ 3,104,543	\$ 331,668	\$ 23,619	\$ 355,287	\$ 3,459,830

See Notes to Financial Statements.

2011

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

Colorado Rural Health Center

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (1,019,153)	\$ (947,217)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation expense	36,692	38,048
Interest earned on certificate of deposit	(823)	(1,059)
Write-off of property and equipment	-	3,710
Contributions receivable for long-term purposes	(65,328)	(623,326)
Changes in:		
Accounts receivable	(30,235)	40,745
Grants receivable	41,355	(66,322)
Contributions receivable	987,286	664,937
Prepaid expenses and other assets	15,066	(8,923)
Accounts payable and accrued expenses	(25,400)	(23,489)
Deferred revenue	(75,233)	203,393
Net cash used in operating activities	(135,773)	(719,503)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificate of deposit	(40,000)	-
Contributions receivable for long-term purposes	65,328	623,326
Net cash provided by investing activities	25,328	623,326
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments under capital lease obligation	(4,365)	(7,834)
Decrease in cash and cash equivalents	(114,810)	(104,011)
CASH AND CASH EQUIVALENTS:		
Beginning	1,764,538	1,868,549
Ending	\$ 1,649,728	\$ 1,764,538
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,058	\$ 896
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:

Basis of accounting: CRHC's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

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, 2012 and 2011, cash equivalents consisted primarily of money market accounts.

At December 31, 2012, CRHC's interest-bearing cash accounts exceeded federally insured limits by approximately \$772,000. Noninterest bearing accounts were fully insured by the FDIC as of December 31, 2012.

Of this amount, approximately \$569,000 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.

CRHC has not experienced any losses in such accounts and management believes they are not subject to any credit risk with respect to cash and cash equivalents.

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, 2012 and 2011 and no accounts receivable were written off during the years ended December 31, 2012 and 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 is 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 it was 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, 2012 or 2011.

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, 2012 and 2011 and no contributions receivable were written off during the years ended December 31, 2012 and 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 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 2012, 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 CRHC 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 2009. As of December 31, 2012, 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.

Note 2. Contributions Receivable

Contributions receivable consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Due within one year	\$ 249,828	\$ 1,171,786
Due in one to five years	-	65,328
	<u>\$ 249,828</u>	<u>\$ 1,237,114</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>2012</u>	<u>2011</u>
Workforce related grants	\$ 25,000	\$ 367,670
Hospitals and clinics	-	363,960
Advocacy	65,328	195,984
General operations for future years	159,500	309,500
	<u>\$ 249,828</u>	<u>\$ 1,237,114</u>

Note 3. Property and Equipment

Property and equipment at December 31 consists of the following:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 175,273	\$ 175,273
Leasehold improvements	60,617	60,617
	<u>235,890</u>	<u>235,890</u>
Less accumulated depreciation and amortization	137,507	100,815
	<u>\$ 98,383</u>	<u>\$ 135,075</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, 2012 are as follows:

2013	\$ 5,424
2014	5,424
2015	5,424
2016	2,260
	<u>18,532</u>
Less amounts representing interest	1,672
	<u>\$ 16,860</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>2012</u>	<u>2011</u>
Equipment	\$ 23,663	\$ 23,663
Less accumulated depreciation	7,493	2,761
	<u>\$ 16,170</u>	<u>\$ 20,902</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>2012</u>	<u>2011</u>
Workforce related grants	\$ 139,570	\$ 486,174
Hospitals and clinics	241,349	567,510
Advocacy	74,028	212,326
Technical assistance	12,500	9,342
Grants council program	-	28,295
Grants for loan repayments	43,676	118,262
For periods after December 31	137,500	287,500
	<u>\$ 648,623</u>	<u>\$ 1,709,409</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>2012</u>	<u>2011</u>
Purpose restrictions accomplished:		
Workforce related grants	\$ 399,240	\$ 493,898
Provider recruitment and rural health clinic programs	-	57,919
Hospitals and clinics	374,310	217,615
Advocacy	138,298	144,584
Technical assistance	9,342	9,657
Grants council program	28,295	8,274
Grants for loan repayments	49,795	67,412
Time restrictions accomplished	150,000	150,000
	<u>\$ 1,149,280</u>	<u>\$ 1,149,359</u>

Colorado Rural Health Center

Notes to Financial Statements

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, 2012 and 2011 was approximately \$154,000 and \$153,000, respectively. Future minimum lease payments as of December 31, 2012 are as follows:

2013	\$	156,861
2014		160,923
2015		164,984
2016		169,046
2017		172,431
Thereafter		143,693
	\$	<u>967,938</u>

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. Employer contributions were \$23,395 and \$18,777 for the years ended December 31, 2012 and 2011, 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. 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 \$2,846,000 and \$4,840,000 for the years ended December 31, 2012 and 2011, 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 \$447,332 and \$426,055 for the years ended December 31, 2012 and 2011, respectively.

Colorado Rural Health Center

Notes to Financial Statements

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 90% of all contributions were received from two contributors in 2012, 57% from one contributor and 33% from the second contributor. There were no major contributors in 2011.

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 9, 2013, which is the date the financial statements were available to be issued.