

Colorado Rural Health Center

Independent Auditor's Reports and Financial Statements

December 31, 2017 and 2016

Colorado Rural Health Center
December 31, 2017 and 2016

Contents

Independent Auditor’s Report.....	1
Financial Statements	
Statements of Financial Position	3
Statement of Activities – Year Ended December 31, 2017	4
Statement of Activities – Year Ended December 31, 2016	5
Statement of Functional Expenses – Year Ended December 31, 2017	6
Statement of Functional Expenses – Year Ended December 31, 2016	7
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information	
Schedule of Expenditures of Federal Awards	15
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 <i>Government Auditing Standards</i>	16
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance	18
Schedule of Findings and Questioned Costs.....	20
Summary Schedule of Prior Audit Findings.....	23

Independent Auditor's Report

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 statements of financial position as of December 31, 2017 and 2016, 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 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 CRHC as of December 31, 2017 and 2016, and the changes in its 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 Matters

Other Information

Our 2017 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the 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 financial statements or to the 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 16, 2018, 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 16, 2018

Colorado Rural Health Center
Statements of Financial Position
December 31, 2017 and 2016

Assets

	2017	2016
Cash and cash equivalents	\$ 943,071	\$ 1,235,959
Certificates of deposit	463,137	6,008
Accounts receivable	61,386	199,518
Grants receivable	215,795	235,059
Prepays and other assets	53,989	55,311
Property and equipment, net	41,837	79,691
Total assets	\$ 1,779,215	\$ 1,811,546

Liabilities

Accounts payable	\$ 69,065	\$ 87,366
Accrued payroll and vacation	112,398	151,420
Deferred membership and other revenue	128,729	140,468
Total liabilities	310,192	379,254

Net Assets

Unrestricted	1,076,584	1,054,920
Temporarily restricted	392,439	377,372
Total net assets	1,469,023	1,432,292
Total liabilities and net assets	\$ 1,779,215	\$ 1,811,546

Colorado Rural Health Center
Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Governmental grants	\$ 1,212,337	\$ 21,335	\$ 1,233,672
Foundation contributions	15,000	340,500	355,500
Fiscal agent fees and contracted services	1,036,137	-	1,036,137
Individual contributions	13,173	-	13,173
Program service fees	135,260	-	135,260
Conferences and workshops	142,257	-	142,257
Membership dues	97,940	-	97,940
Interest income	5,444	-	5,444
Other	2,789	-	2,789
HIT revenue	34,366	-	34,366
Net assets released from restrictions	346,768	(346,768)	-
	<u>3,041,471</u>	<u>15,067</u>	<u>3,056,538</u>
Expenses			
Program services	<u>2,489,273</u>	<u>-</u>	<u>2,489,273</u>
Supporting services			
Management and general	510,566	-	510,566
Fundraising expenses	19,968	-	19,968
	<u>530,534</u>	<u>-</u>	<u>530,534</u>
Total supporting services	<u>530,534</u>	<u>-</u>	<u>530,534</u>
Total expenses	<u>3,019,807</u>	<u>-</u>	<u>3,019,807</u>
Change in Net Assets	21,664	15,067	36,731
Net Assets, Beginning of Year	<u>1,054,920</u>	<u>377,372</u>	<u>1,432,292</u>
Net Assets, End of Year	<u>\$ 1,076,584</u>	<u>\$ 392,439</u>	<u>\$ 1,469,023</u>

Colorado Rural Health Center
Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Governmental grants	\$ 1,362,724	\$ 14,500	\$ 1,377,224
Foundation contributions	-	300,500	300,500
Fiscal agent fees and contracted services	1,000,633	-	1,000,633
Individual contributions	25,333	-	25,333
Program service fees	191,212	-	191,212
Conferences and workshops	155,931	-	155,931
Membership dues	102,395	-	102,395
Interest income	2,247	-	2,247
Other	467	-	467
Gain on disposal of fixed asset	78	-	78
HIT revenue	101,801	-	101,801
Net assets released from restrictions	506,140	(506,140)	-
	<u>3,448,961</u>	<u>(191,140)</u>	<u>3,257,821</u>
Expenses			
Program services	<u>3,037,222</u>	<u>-</u>	<u>3,037,222</u>
Supporting services			
Management and general	607,254	-	607,254
Fundraising expenses	15,593	-	15,593
	<u>622,847</u>	<u>-</u>	<u>622,847</u>
Total supporting services	<u>622,847</u>	<u>-</u>	<u>622,847</u>
Total expenses	<u>3,660,069</u>	<u>-</u>	<u>3,660,069</u>
Change in Net Assets	(211,108)	(191,140)	(402,248)
Net Assets, Beginning of Year	<u>1,266,028</u>	<u>568,512</u>	<u>1,834,540</u>
Net Assets, End of Year	<u>\$ 1,054,920</u>	<u>\$ 377,372</u>	<u>\$ 1,432,292</u>

Colorado Rural Health Center
Statement of Functional Expenses
Year Ended December 31, 2017

	Total Program Services Expenses	Management and General	Fund Raising	Total Supporting Services Expenses	Total Expenses
Salaries	\$ 1,164,445	\$ 306,339	\$ 15,378	\$ 321,717	\$ 1,486,162
Payroll taxes and benefits	218,210	80,832	2,881	83,713	301,923
Grants	186,722	609	-	609	187,331
Professional services	446,990	33,782	321	34,103	481,093
Conferences and workshops	96,135	4,497	-	4,497	100,632
Travel	77,530	26,105	-	26,105	103,635
Rent	105,973	21,146	797	21,943	127,916
Supplies	16,882	1,696	64	1,760	18,642
Telephone	20,932	3,527	79	3,606	24,538
Printing	3,693	429	-	429	4,122
Dues	55,515	14,666	-	14,666	70,181
Postage	1,086	217	8	225	1,311
Professional development	13,703	5,610	26	5,636	19,339
Equipment	33,529	1,547	53	1,600	35,129
Depreciation	36,177	7,219	272	7,491	43,668
Other	11,751	2,345	89	2,434	14,185
	<u>\$ 2,489,273</u>	<u>\$ 510,566</u>	<u>\$ 19,968</u>	<u>\$ 530,534</u>	<u>\$ 3,019,807</u>
Total expenses	<u>\$ 2,489,273</u>	<u>\$ 510,566</u>	<u>\$ 19,968</u>	<u>\$ 530,534</u>	<u>\$ 3,019,807</u>

Colorado Rural Health Center
Statement of Functional Expenses
Year Ended December 31, 2016

	Total Program Services Expenses	Management and General	Fund Raising	Total Supporting Services Expenses	Total Expenses
Salaries	\$ 1,308,426	\$ 396,771	\$ 12,620	\$ 409,391	\$ 1,717,817
Payroll taxes and benefits	276,467	57,754	1,477	59,231	335,698
Grants	217,564	590	-	590	218,154
Professional services	626,805	35,542	180	35,722	662,527
Conferences and workshops	127,235	3,778	-	3,778	131,013
Travel	138,041	21,435	35	21,470	159,511
Rent	139,826	29,109	747	29,856	169,682
Outreach	1,489	-	-	-	1,489
Supplies	4,814	8,340	-	8,340	13,154
Telephone	12,660	12,015	11	12,026	24,686
Printing	2,525	143	-	143	2,668
Dues	51,732	14,318	-	14,318	66,050
Postage	2,231	931	8	939	3,170
Professional development	30,819	6,504	-	6,504	37,323
Equipment	59,300	12,262	315	12,577	71,877
Depreciation	25,931	5,398	139	5,537	31,468
Other	11,357	2,364	61	2,425	13,782
	<u>\$ 3,037,222</u>	<u>\$ 607,254</u>	<u>\$ 15,593</u>	<u>\$ 622,847</u>	<u>\$ 3,660,069</u>
Total expenses	<u>\$ 3,037,222</u>	<u>\$ 607,254</u>	<u>\$ 15,593</u>	<u>\$ 622,847</u>	<u>\$ 3,660,069</u>

Colorado Rural Health Center
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ 36,731	\$ (402,248)
Items not requiring (providing) cash		
Depreciation expense	43,668	31,468
Gain on disposal of fixed assets	-	(78)
Changes in		
Accounts receivable	138,132	36,649
Grants receivable	19,264	(43,749)
Contributions receivable	-	350,000
Prepaid expenses and other assets	1,322	(2,937)
Accounts payable and accrued expenses	(57,323)	(79,188)
Deferred revenue	(11,739)	(46,674)
	<u>170,055</u>	<u>(156,757)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of certificate of deposit	(457,129)	-
Proceeds from maturity of certificate of deposit	-	29,461
Purchase of property, plant and equipment	(5,814)	(58,645)
Proceeds from the sale of property and equipment	-	135
	<u>(462,943)</u>	<u>(29,049)</u>
Net cash used in investing activities		
Financing Activities		
Principal payments under capital lease obligation	-	(2,229)
	<u>-</u>	<u>(2,229)</u>
Net cash used in operating activities		
Decrease in Cash and Cash Equivalents	(292,888)	(188,035)
Cash and Cash Equivalents, Beginning of Year	<u>1,235,959</u>	<u>1,423,994</u>
Cash and Cash Equivalents, End of Year	<u>\$ 943,071</u>	<u>\$ 1,235,959</u>

Colorado Rural Health Center

Notes to Financial Statements

December 31, 2017 and 2016

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 toward 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, 2017 and 2016, cash equivalents consisted primarily of money market accounts.

Colorado Rural Health Center
Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016

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.

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.

Colorado Rural Health Center
Notes to Financial Statements
December 31, 2017 and 2016

Functional Allocation of Expenses

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

Note 2: Property and Equipment

Property and equipment at December 31 consists of the following:

	2017	2016
Furniture and equipment	\$ 264,096	\$ 264,550
Leasehold improvements	60,617	60,617
	324,713	325,167
Less accumulated depreciation and amortization	282,876	245,476
	<u>\$ 41,837</u>	<u>\$ 79,691</u>

Note 3: Net Assets

Temporarily Restricted Net Assets

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

	2017	2016
Workforce-related grants	\$ -	\$ 23,137
Technical assistance	15,604	1,735
Outreach	11,835	2,500
For periods after December 31	365,000	350,000
	<u>\$ 392,439</u>	<u>\$ 377,372</u>

Colorado Rural Health Center
Notes to Financial Statements
December 31, 2017 and 2016

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.

	2017	2016
Purpose restrictions accomplished		
Workforce-related grants	\$ 23,137	\$ 42,644
Hospitals and clinics	10,207	147,731
Technical assistance	10,924	13,265
Outreach	2,500	2,500
Time restrictions accomplished	300,000	300,000
	\$ 346,768	\$ 506,140

Note 4: Operating Leases

During 2017, CRHC renewed their operating lease for its office space and is obligated under an operating lease agreement which expires on January 31, 2024. Future minimum lease payments as of December 31, 2017:

2018	\$ 150,627
2019	154,694
2020	158,751
2021	162,818
2022	166,875
Thereafter	184,821
	\$ 978,586

Rental expense for all operating leases consisted of minimum rentals in the amount of \$127,916 and \$169,682 for the years ended December 31, 2017 and 2016, respectively.

Note 5: 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 \$29,326 and \$27,657 for the years ended December 31, 2017 and 2016, respectively.

Colorado Rural Health Center

Notes to Financial Statements

December 31, 2017 and 2016

Note 6: 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. CRHC also has a contract to advance the Improving Communications AND Readmission (iCARE) Rural Diabetes Collaborative to employ a number of interventions to improve clinical systems quality improvement tailored to meet the unique challenges of rural providers and patients to improve diabetes outcomes in Colorado. Another grant that CRHC is working with the Colorado Department of Public Health and Environment relates to increasing breast, cervical, and colorectal cancer screenings and to improve the management of hypertension and diabetes in a few specific rural clinics in Colorado. As part of these contracts, CRHC received and distributed approximately \$1,258,000 and \$1,542,000 for the years ended December 31, 2017 and 2016, respectively. The amounts received and distributed are not included in the statement of activities. Fiscal agent fees received for administering the contract were \$688,801 and \$681,563 for the years ended December 31, 2017 and 2016, respectively.

Note 7: 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 81% of Foundation and individual contributions were received from one grantor in 2017.

Supplementary Information

Colorado Rural Health Center
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipient	Amount
U.S. Department of Health and Human Services				
National Rural Health Association / Rural Health Research Centers	93.155	2U16TH03702-13-00	\$ -	\$ 9,500
State Rural Hospital Flexibility Program	93.241		-	627,725
Small Rural Hospital Improvement Grant Program	93.301		76,934	352,497
Rio Grande Hospital / Rural Health Care Services Outreach Rural Health Network	93.912	5R01RH26280-02/03-00	-	67,505
Grants to States for Operation of Offices of Rural Health	93.913		-	164,610
Total U.S. Department of Health and Human Services			<u>\$ 76,934</u>	<u>\$ 1,221,837</u>

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Colorado Rural Health Center (CRHC) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CRHC, it is not intended to and does not present the financial position, changes in net assets or cash flows of CRHC.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. CRHC has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**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***

Independent Auditor's Report

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, 2017 and the related statements of activities, functional expense, 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 16, 2018.

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*.

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 CRHC'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

Denver, Colorado
May 16, 2018

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Colorado Rural Health Center
Aurora, Colorado

Report on Compliance for Each Major Federal Program

We have audited Colorado Rural Health Center's (CRHC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on CRHC's major federal program for the year ended December 31, 2017. CRHC's major federal program is 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 federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for CRHC's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 its major federal program for the year ended December 31, 2017.

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 Uniform Guidance, 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
May 16, 2018

Colorado Rural Health Center
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 for major federal awards programs disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

Colorado Rural Health Center
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2017

7. CRHC's major program was:

Cluster/Program	CFDA Number
State Rural Hospital Flexibility Program	93.241

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. CRHC qualified as a low-risk auditee? Yes No

Colorado Rural Health Center
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2017

Findings Required to be Reported by *Government Auditing Standards*

**Reference
Number**

Finding

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

**Reference
Number**

Finding

No matters are reportable.

Colorado Rural Health Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

Reference Number	Summary of Finding	Status
No matters are reportable.		