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Independent Auditor's Report

**Board of Directors
Colorado Regional Health Information Organization:**

We have audited the accompanying statement of financial position of Colorado Regional Health Information Organization (CORHIO) as of September 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of CORHIO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CORHIO as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2011, on our consideration of CORHIO'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* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KUNDINGER, CORDER & ENGLE, P.C.

January 14, 2011

Colorado Regional Health Information Organization
Statement of Financial Position
September 30, 2010

Assets:	
Cash	\$ 2,189,258
Accounts receivable	852,621
Prepaid expenses	74,251
Property and equipment	342,207
Accumulated depreciation and amortization	<u>(101,923)</u>
Net property and equipment	<u>240,284</u>
Total assets	<u>\$ 3,356,414</u>
Liabilities and Net Assets:	
Accounts payable	\$ 566,260
Accrued liabilities	150,709
Deferred rent	<u>13,578</u>
Total liabilities	<u>730,547</u>
Net Assets:	
Unrestricted	135,745
Temporarily restricted (note 3)	<u>2,490,122</u>
Total net assets	2,625,867
Commitments (notes 4, 5 and 7)	<u> </u>
Total liabilities and net assets	<u>\$ 3,356,414</u>

See accompanying notes to financial statements.

Colorado Regional Health Information Organization
Statement of Activities
Year Ended September 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue:			
Grant revenue	\$ 220,624	6,592,126	6,812,750
Contract revenue	2,096,199	-	2,096,199
In-kind contributions	82,516	-	82,516
Other revenue	3,440	-	3,440
Net assets released due to satisfaction of time and purpose restrictions	<u>4,102,004</u>	<u>(4,102,004)</u>	<u>-</u>
Total revenue	<u>6,504,783</u>	<u>2,490,122</u>	<u>8,994,905</u>
Expenses:			
Program services:			
Private grants and contracts	3,349,245	-	3,349,245
Federal contracts	<u>2,096,199</u>	<u>-</u>	<u>2,096,199</u>
Total program services	<u>5,445,444</u>	<u>-</u>	<u>5,445,444</u>
Supporting services:			
Management and general	<u>950,276</u>	<u>-</u>	<u>950,276</u>
Total supporting services	<u>950,276</u>	<u>-</u>	<u>950,276</u>
Total expenses	<u>6,395,720</u>	<u>-</u>	<u>6,395,720</u>
Change in net assets	109,063	2,490,122	2,599,185
Net assets at beginning of year	<u>26,682</u>	<u>-</u>	<u>26,682</u>
Net assets at end of year	<u>\$ 135,745</u>	<u>2,490,122</u>	<u>2,625,867</u>

See accompanying notes to financial statements.

Colorado Regional Health Information Organization
Statement of Cash Flows
Year Ended September 30, 2010

Cash flows from operating activities:	\$ 2,599,185
Change in net assets	
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	47,926
Increase in operating assets:	
Accounts receivable	(803,530)
Prepaid expenses	(74,251)
Increase in operating liabilities:	
Accounts payable and accrued liabilities	477,422
Deferred rent	13,578
	<u>2,260,330</u>
Net cash provided by operating activities	
	<u>2,260,330</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(187,386)</u>
Net cash used in investing activities	<u>(187,386)</u>
Net increase in cash and cash equivalents	2,072,944
Cash and cash equivalents at beginning of year	<u>116,314</u>
Cash and cash equivalents at end of year	\$ <u>2,189,258</u>

See accompanying notes to financial statements.

Colorado Regional Health Information Organization

Notes to Financial Statements

September 30, 2010

(1) Summary of Significant Accounting Policies

(a) Organization

The Colorado Regional Health Information Organization (CORHIO) is a nonprofit corporation organized in Colorado to facilitate health information exchange to improve care for all Coloradoans.

CORHIO's activities are supported primarily by grants and contract revenue.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

CORHIO reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. CORHIO did not have any permanently restricted net assets at September 30, 2010.

(d) Contributions

CORHIO accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a 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.

Unconditional contributions receivable are recognized as revenue in the period the pledge is received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional pledges are recognized when the conditions on which they depend are substantially met. There are conditional pledges totaling \$10,246,376 at September 30, 2010.

Colorado Regional Health Information Organization

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Contributed Property and Services

Contributed property and equipment are recorded at fair value on the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Contributed services meeting the criteria of recognition under generally accepted accounting principles are recorded as contributions and corresponding expense at their estimated fair values on the date of donation. In-kind contributions in 2010 consisted of the following:

Services	\$ 66,222
Facilities	<u>16,294</u>
Total in-kind contributions	\$ <u>82,516</u>

(f) Contract Revenue

Contract revenue is recognized as related expenses are incurred and work is performed. Funding received in advance is recorded as deferred income.

(g) Cash Equivalents

For purposes of the statement of cash flows, CORHIO considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

(h) Accounts Receivable

CORHIO considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful amounts is considered necessary. Accounts deemed uncollectible are charged to the change in net assets when that determination is made.

(i) Property and Equipment

CORHIO follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$3,000, as well as donations of property and equipment with estimated fair value exceeding \$3,000, at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five years.

(j) Concentrations of Credit Risk

Financial instruments which potentially subject CORHIO to concentrations of credit risk consist principally of cash. CORHIO places its cash with creditworthy, high quality, financial institutions and the accounts are insured by the Federal Deposit Insurance Corporation. From time to time CORHIO's cash may exceed the FDIC insured limit.

CORHIO also receives a substantial amount of its support from two Federal grants and one grant from a local foundation. If a significant reduction in the level of this support occurs, it may have an effect on CORHIO's programs and activities.

Colorado Regional Health Information Organization

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(l) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited

(m) Income Taxes

CORHIO is exempt from federal income tax on its related business activities under the provisions of Internal Revenue Code Section 501(c)(3) and qualifies for the charitable contribution deduction. Accordingly, the accompanying financial statements contain no provision for income taxes.

CORHIO files Form 990, Return of Organization Exempt From Income Tax. As such, tax returns for the three previous periods are open to inspection by the Internal Revenue Service.

(n) Subsequent Events

Generally accepted accounting principles require management to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. CORHIO's financial statements were available to be issued on January 14, 2011, and this is the date through which subsequent events were evaluated.

(2) Contributions Receivable

As of September 30, 2010, CORHIO had received conditional promises to give of \$10,246,376. These conditional promises to give will not be recognized as an asset or revenue until the conditions are substantially met.

(3) Restrictions on Net Assets

Temporarily restricted net assets at September 30, 2010 consist of \$2,490,122 restricted for HIE projects. Net assets totaling \$4,102,004 were released from restrictions due to the satisfaction of donor restrictions.

Colorado Regional Health Information Organization

Notes to Financial Statements, Continued

(4) Leases

CORHIO is obligated under various non-cancelable operating leases for office space and equipment that expire at various dates through March 2015. Total rent expense for operating leases was \$61,973 in 2010. Future minimum lease payments under operating leases at September 30, 2010 are \$139,549 in 2011; \$103,621 in 2012; \$17,213 in 2013; \$2,663 in 2014; and \$1,332 in 2015.

(5) Retirement Plan

CORHIO has a 403(b) defined contribution plan (the Plan) that covers substantially all employees who have completed six consecutive months of service. Employer contributions are discretionary. Plan benefits vest over a three year modified vesting schedule. CORHIO contributions to the Plan totaled \$26,416 in 2010.

(6) Related Party Transactions

CORHIO received below market office space from an organization whose Executive Vice President is a member of CORHIO's Board of Directors. During the year ended September 30, 2010, CORHIO paid \$5,672 and recorded \$6,294 as an in-kind donation for the use of this space. CORHIO also paid \$69,147 for business policy insurance premiums and brokerage services from this organization.

CORHIO paid \$12,498 in 2010 for real estate advisory services related to the relocation of its offices to an organization whose Managing Principal is related to CORHIO's Chief Executive Officer.

CORHIO paid \$119,943 for staffing services to an organization whose Chairman is a member of CORHIO's Board of Directors. Amounts payable at September 30, 2010 were \$2,546.

CORHIO paid \$7,380 for negotiation of office space sublease to an organization whose shareholder is a member of CORHIO's Board of Directors.

CORHIO paid a total of \$397,216 for REC milestones to three organizations whose Executive Directors/Presidents are on CORHIO's Board of Directors. Amounts payable to these organizations at September 30, 2010 totaled \$260,052.

(7) Commitments

Effective February 2010, CORHIO entered into an agreement for a phone system that expires in January 2013. If CORHIO terminates this agreement early they must pay to the contractor 100% of all monthly recurring charges associated with the terminated services for the first twelve months of the service term and 75% of the remaining monthly recurring charges for month 13 through the end of the applicable service term. Monthly recurring charges at the effective date of the agreement total \$2,425.