Audited Financial Report	December 31, 2014

Keystone Rural Health Center d/b/a Keystone Health

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Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Keystone Rural Health Center
Chambersburg, Pennsylvania

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Keystone Rural Health Center (the Center), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, changes in net assets, 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 Center'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 Center'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.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keystone Rural Health Center as of December 31, 2014 and 2013, and the results of its operations, 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, 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 March 25, 2015, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Center's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC.

Chambersburg, Pennsylvania
March 25, 2015

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 3,664,690	$ 3,909,996
Investments	8,467,218	6,935,220
Accounts receivable - Patients (net of allowance for doubtful accounts of $ 574,455 for 2014 and $ 277,043 for 2013)	1,689,272	1,259,772
Grants receivable	232,773	143,325
Accounts receivable - 340B program	573,464	674,549
Estimated receivable under third-party agreements	25,463	55,938
Other receivables	404,554	274,281
Inventory	472,963	540,422
Prepaid expenses	215,110	238,306
Total current assets	15,745,507	14,031,809
Assets limited as to use		
Cash - USDA reserve	195,930	195,246
Investments - Board designated for future development	412,074	310,962
Total assets limited as to use	608,004	506,208
Property and equipment, net	12,679,557	13,638,638
Other assets		
Other investments	49,309	49,309
Deferred financing costs (net of accumulated amortization of $ 16,613 for 2014 and $ 15,575 for 2013)	13,626	14,664
Total other assets	62,935	63,973
Total assets	$ 29,096,003	$ 28,240,628

	2014	2013
Liabilities and net assets		
Current liabilities		
Current maturities of long-term debt	**$ 87,504**	$ 83,526
Accounts payable	**610,311**	646,144
Accrued payroll and taxes	**636,616**	587,090
Accrued compensated absences	**577,964**	589,079
Deferred compensation	**440,313**	407,098
Deferred grant revenue	**8,000**	189,500
Other liabilities	**12,642**	10,927
Total current liabilities	**2,373,350**	2,513,364
Long-term liabilities		
Long-term debt	**1,664,725**	1,752,229
Total liabilities	**4,038,075**	4,265,593
Net assets		
Unrestricted:		
Board designated	**412,074**	310,962
Undesignated	**24,645,854**	23,662,501
Temporarily restricted	**-**	1,572
Total net assets	**25,057,928**	23,975,035
Total liabilities and net assets	**$ 29,096,003**	$ 28,240,628

	2014	2013
Revenue, gains, and other support		
Net patient service revenue	**$ 22,747,254**	$ 22,170,560
Provision for bad debts	**(686,608)**	(354,605)
Net patient service revenue less provision for bad debts	**22,060,646**	21,815,955
Premium revenue	**268,651**	338,302
Other service revenue	**4,945,053**	5,192,748
Grant revenue:		
Federal grants and support	**3,956,477**	3,305,243
State grants and support	**145,942**	116,758
Local grants and other support	**50,047**	29,536
Grant funds released from restrictions	**1,572**	6,721
Total revenue, gains, and other support	**31,428,388**	**30,805,263**
Expenses		
Salaries and wages	**18,511,607**	16,663,185
Fringe benefits	**3,732,395**	3,007,397
Contracted services	**1,615,830**	1,060,811
Medical - Other	**40,569**	58,034
Pharmaceuticals	**3,972,220**	3,505,114
Materials, supplies, other	**2,510,098**	2,245,788
Rent - Facilities	**322,047**	262,475
Utilities	**416,742**	417,256
Insurance	**73,269**	48,606
Interest expense	**84,395**	89,795
Depreciation	**1,063,526**	1,055,890
Total expenses	**32,342,698**	28,414,351
Operating income (loss)	**(914,310)**	2,390,912
Other income		
Contributions	**191,449**	8,457
Other revenue	**104,385**	69,220
Investment income	**205,149**	133,043
Community Benefit Grant - Affiliate	**750,000**	750,000
Electronic Health Records' Incentive	**395,250**	195,500
Gain on sale of assets	**300**	6,148
Total other income	**1,646,533**	1,162,368
Excess of revenues over expenses	**732,223**	3,553,280
Unrealized gains on investments	**352,242**	369,202
Increase in unrestricted net assets	**$ 1,084,465**	$ 3,922,482

	2014	2013
Unrestricted net assets		
Excess of revenue over expenses	**$ 732,223**	$ 3,553,280
Unrealized gains on investments	**352,242**	369,202
Increase in unrestricted net assets	**1,084,465**	3,922,482
Temporarily restricted net assets		
Grant funds released from restrictions	**(1,572)**	(6,721)
(Decrease) in temporarily restricted net assets	**(1,572)**	(6,721)
Increase in net assets	**1,082,893**	3,915,761
Net assets, **beginning**	**23,975,035**	20,059,274
Net assets, **ending**	**$ 25,057,928**	$ 23,975,035

	2014	2013
Cash flows from operating activities:		
Change in net assets	**$ 1,082,893**	$ 3,915,761
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**1,064,564**	1,056,928
Provision for bad debts	**686,608**	354,605
Gain on disposal of assets	**(300)**	(6,148)
Unrealized gains on investments	**(352,242)**	(367,053)
Realized gains on sales of investments	**(4,517)**	(39,044)
(Increase) decrease in:		
Accounts receivable - Patients	**(1,116,108)**	(135,369)
Grants receivable	**(89,448)**	(66,575)
Accounts receivable - 340B program	**101,085**	(363,418)
Estimated receivable under third-party agreements	**30,475**	591,909
Other receivables	**(130,273)**	167,759
Inventory	**67,459**	(361,291)
Prepaid expenses	**23,196**	(145,786)
Increase (decrease) in:		
Accounts payable	**(35,833)**	357,667
Accrued payroll and taxes	**49,526**	160,199
Accrued compensated absences	**(11,115)**	104,145
Deferred compensation	**33,215**	102,161
Deferred grant revenue	**(181,500)**	189,500
Other liabilities	**1,715**	(226,054)
Net cash provided by operating activities	**1,219,400**	5,289,896
Cash flows from investing activities:		
Deposits to restricted cash reserve accounts	**(118,200)**	(712)
Purchase of investments	**(1,178,209)**	(6,866,740)
Proceeds from sale of investments	**19,374**	288,214
Purchase of property and equipment	**(104,445)**	(322,711)
Proceeds from disposal of fixed assets	**300**	6,148
Net cash used by investing activities	**$ (1,381,180)**	$ (6,895,801)

		2014		2013
Cash flows from financing activities:				
Payments on long-term debt	**$**	**(83,526)**	$	(87,554)
Net cash (used) by financing activities		**(83,526)**		(87,554)
Net (decrease) in cash and cash equivalents		**(245,306)**		(1,693,459)
Cash and cash equivalents, **beginning**		**3,909,996**		5,603,455
Cash and cash equivalents, **ending**	**$**	**3,664,690**	$	3,909,996
Supplemental disclosure of cash flow information				
Cash paid for interest	**$**	**84,395**	$	91,294

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Keystone Rural Health Center (the Center) is a not-for-profit, Federally Qualified Health Center formed for the purpose of providing, coordinating, and delivering health and human care services to individuals presenting themselves to the Center. The Center provides a broad range of services, which includes primary care, dental, obstetrics and gynecology, pediatrics, cardiology, and mental health. The Center also provides medical services to the local migrant farm worker population. The service area encompasses South-Central Pennsylvania. The Center grants credit without collateral to patients not covered by Medicare, Medical Assistance, or other commercial payors.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive management estimates affecting the financial statements were estimates of the allowance for doubtful accounts and amounts receivable or payable under third-party contractual agreements, which are based on historical collection rates and analysis of specific third-party receivables and prior cost report settlement information. Consequently, these estimates may change in the near term. The amount of the change that is reasonably possible cannot be determined.

Accounting Method

The Center presents its financial statements on the accrual basis of accounting, with income recognized when earned and expenses recognized when incurred.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in the change in net assets, but are excluded from the excess of revenues over expenses unless the investments are trading securities. Other investments are accounted for using the cost method.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use

Assets limited as to use represent assets held by the Center and set aside by the board for further development or required as collateral for loans, including cash reserves and required debt service reserves with lending institutions. These assets consist of cash, for which the cost approximates fair value, and money market and mutual funds, which are recorded at fair value.

Accounts Receivable – Patients

Accounts receivable – Patients are based on the outstanding balance after any contractual reimbursements are applied and are generally due 30 days after billed. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, management analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that some patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

An allowance for doubtful accounts is carried for patient accounts that may become uncollectible in future periods based on a sliding scale of estimated uncollectible percentages of 5% to 100% applied against aging balance categories with higher percentages applied to older account balance categories to recognize the elevated level of collectability risk for these receivable balances. The estimated allocations are based on management's judgment of uncollectible accounts, historical trends of charge-offs, and other information. Patient receivables are charged against the allowance when, in the judgment of management, it is unlikely they will be collected. The Center periodically reviews it charity care program and uninsured discount policy. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Estimated Receivables Under Third-Party Agreements

Estimated receivables under third-party agreements consist of Medical Assistance estimated wrap settlements at December 31, 2014 and 2013.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consisting of pharmaceutical drugs and vaccines are stated at the lower of cost (average cost) or market, using the first-in first-out (FIFO) method of accounting for inventories.

Property and Equipment

Property and equipment is stated at cost. The Center capitalizes fixed assets in excess of $ 2,500. Depreciation is provided on straight-line basis based upon the estimated useful lives of the assets as follows:

Buildings	10 - 40 years
Leasehold improvements	5 - 20 years
Computer hardware and software	3 - 7 years
Vehicles	4 - 5 years
Furniture and fixtures	3 - 20 years
Medical and dental equipment	3 - 20 years

Deferred Financing Costs

The Center incurred costs associated with obtaining U.S. Department of Agriculture (USDA) loans. These costs are included in other assets on the balance sheets and are being amortized over the 30 year life of the loans. Amortization expense included in materials, supplies, other on the statements of operations was $ 1,038 for the years ended December 31, 2014 and 2013. The estimated amortization expense for the remainder of the term of the loans is as follows:

2015	$	1,038
2016		1,038
2017		1,038
2018		1,038
2019		1,038
Thereafter		8,436
	$	13,626

Temporarily Restricted Net Assets

The Center reports information regarding its financial position and activities in three classes of net assets according to the existence or absence of donor-imposed restrictions: unrestricted, temporarily restricted and permanently restricted net assets. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific time period or purpose.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in the future periods as final settlements are determined.

Laws and regulations governing Medicare, Medicaid, and other third-party programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Charity Care

The Center has a policy of providing charity care to patients who are unable to pay. The following describes the Center's calculation for estimating the annual cost of providing charity care.

- The Center calculates a cost per encounter.
- The cost per encounter over the reimbursement rate per encounter for Medicare and Medicaid is multiplied by the allocated encounters for each respective payor to determine a portion of charity care costs.
- The Center records the total cost of operating and providing care to the migrant population as a component of charity care costs.

The Center's estimated annual cost of providing charity care for the years ending December 31, 2014 and 2013 was $ 2,063,074 and $ 1,017,460, respectively. Grant income received to offset the cost of charity care for the years ending December 31, 2014 and 2013 was $ 3,275,256 and $ 2,904,228, respectively.

The amount of charges for services and supplies furnished under the community service criteria calculations as defined in the Institutions of Purely Public Charity Act aggregated approximately $ 4,121,941 and $ 2,816,851 for the years ended December 31, 2014 and 2013, respectively.

Premium Revenue

The Center has agreements with various Health Maintenance Organizations (HMOs) to provide medical service to subscribing participants. Under these agreements, the Center receives monthly capitation payments based on the number of each HMO's participants, regardless of service actually performed by the Center. In addition, the HMO's make fee-for-service payments to the Center for certain covered services based upon discounted fee schedules.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Malpractice Insurance

The Center has an occurrence policy, which covers malpractice claims reported to the insurance carrier during and after the policy term. This coverage is provided under the Federal Tort Claims Act.

The Center also maintains a claims-made policy for the Center's cardiologist. Management is not aware of any incurred but not reported claims requiring accrual in the financial statements as of December 31, 2014 and 2013.

Deferred Compensation

Deferred compensation represents physician incentive payments earned but not yet paid.

Tax-Exempt Status

The Center is a nonprofit corporation organized under the provisions of the non-profit laws of the Commonwealth of Pennsylvania. The Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded. With few exceptions, the Center is no longer subject to federal income tax examinations by tax authorities for years before 2011.

The Center follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in the Center's financial statements. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits would be classified as other operating expenses in the statements of operations. At December 31, 2014 and 2013, there was no liability for unrecognized tax benefits.

Advertising

The Center follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was $ 185,117 and $ 59,623 for the years ended December 31, 2014 and 2013, respectively.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications were made to the previously reported amounts in the 2013 financial statements in order for them to be comparative to the presentation in the 2014 financial statements.

NOTE 2 NET PATIENT SERVICE REVENUE

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include reimbursed costs, discounted charges and payments under capitation contracts. Revenues received under cost reimbursement agreements with Medicare for medical services are based upon the Center's cost per patient encounter. Interim rates are established and paid throughout the year with a final settlement determined after the Center files its annual cost report for these services. Payment for the Commonwealth of Pennsylvania Department of Public Welfare for Medical and Dental Services are based on a prospective payment system.

A summary of net patient service revenue before the provision for bad debts for the years ended December 31 is as follows:

	2014	2013
Patient service revenue	**$ 30,414,349**	$ 28,859,613
Deductions from revenue	**(7,667,095)**	(6,689,053)
Net patient service revenue	**$ 22,747,254**	$ 22,170,560

The Center's major payor sources consist of the Medicare, Medicaid, commercial insurance programs, and private pay individuals. Net patient service revenue, net of contractual allowances provided (but before the provision for bad debts), recognized in the statements of operations and changes in net assets for the years ended December 31 from these major payor sources is as follows:

	2014	2013
Medicare	**$ 1,960,335**	$ 2,138,130
Medicaid	**10,543,103**	11,131,401
Commercial	**8,221,970**	7,735,089
Self-pay	**2,021,846**	1,165,940
	$ 22,747,254	$ 22,170,560

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

The Center's net patient service revenue concentrations and utilization of third-party payor agreements for the years ended December 31 are as follows:

	Patients		Gross Patient Service Revenue		Net Patient Service Revenue	
	2014	2013	**2014**	2013	**2014**	2013
Medicare	**10.6%**	9.4%	**8.9%**	8.9%	**8.6%**	9.6%
Medicaid	**25.3%**	25.8%	**36.7%**	38.3%	**46.2%**	50.2%
Commercial	**46.7%**	46.6%	**43.5%**	45.4%	**36.0%**	34.9%
Self-pay	**17.4%**	18.2%	**10.9%**	7.4%	**9.2%**	5.3%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

NOTE 3 GRANT REVENUE

Grant revenue for the years ended December 31, 2014 and 2013 is comprised of the following:

	2014	2013
Federal grants and support:		
Operating grants		
Community Health Centers:		
Health center grants	**$ 3,275,256**	$ 2,904,228
Connecting Kids to Coverage	**390,501**	154,579
Outpatient Services with Respect to HIV Diseases	**279,671**	246,436
Oral Health Workforce	**11,049**	-
	$ 3,956,477	$ 3,305,243
State grants and support:		
State Aids Program	**$ 145,942**	$ 116,758
	$ 145,942	$ 116,758
Local grants and other support:		
Miscellaneous dental grants	**$ 15,000**	$ 6,000
United Way	**21,886**	22,536
Partner Violence Prevention	**-**	1,000
Drug and Alcohol Program	**7,940**	-
Other miscellaneous grants	**5,221**	-
	$ 50,047	$ 29,536

NOTE 4 INVESTMENTS

The composition of investments (including board designated investments) at December 31 is as follows:

	2014		2013	
	Cost	**Fair Value**	Cost	Fair Value
Cash and cash equivalents	**$ 30,006**	**$ 30,006**	$ 19,138	$ 19,138
Fixed income mutual funds	**3,294,837**	**3,395,136**	2,741,219	2,755,277
Equity mutual funds	**4,797,704**	**5,454,150**	4,081,319	4,471,767
	$ 8,122,547	**$ 8,879,292**	$ 6,841,676	$ 7,246,182

Other investments consist of an investment in Central Pennsylvania's Physicians Risk Retention Group, Inc. in order to obtain malpractice insurance coverage for the Center's cardiologist and an investment in Value Drug to support purchases at Keystone Pharmacy. These investments are accounted for using the cost method since market value is not readily available. The total carrying value of these investments was $ 49,309 at December 31, 2014 and 2013.

Investment income consists of interest, dividends, and realized gains and (losses) earned on investment and cash accounts as follows for the years ended December 31:

	2014	2013
Investment Income	**$ 224,808**	$ 137,433
Less: investment expenses	**(19,659)**	(4,390)
	$ 205,149	$ 133,043

NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 is as follows:

	2014	2013
Land	**$ 557,324**	$ 557,324
Building	**11,805,621**	11,777,204
Leasehold improvements	**337,121**	337,121
Computer hardware	**1,141,145**	1,110,687
Computer software	**1,585,912**	1,443,323
Vehicles	**8,109**	8,109
Furniture and fixtures	**720,162**	720,162
Dental equipment	**598,368**	598,368
Medical equipment	**1,265,777**	1,261,348
Construction in progress	**76,763**	178,209
	18,096,302	17,991,855
Less accumulated depreciation	**(5,416,745)**	(4,353,217)
	$ 12,679,557	$ 13,638,638

NOTE 6 LONG-TERM DEBT

A summary of long-term debt at December 31 is as follows:

	2014	2013
Note payable, U.S. Dept. of Agriculture/RECD, due June 2028, monthly payments of $ 9,569, interest of 4.75%, secured by real estate, personal property, and revenue with a carrying value of $2,265,603 and $2,349,313 at December 31, 2014 and 2013, respectively.	**$ 1,134,511**	$ 1,193,910
Note payable, U.S. Dept. of Agriculture/RECD, due Sept. 2029, monthly payments of $ 1,436, interest of 4.75%, secured by real estate with a carrying value of $2,265,603 and $2,349,313 at December 31, 2014 and 2013, respectively.	**163,139**	172,383
Note payable, U.S. Dept. of Agriculture/RECD, due April 2034, monthly payments of $ 2,879, interest of 4.25%, secured by real estate, personal property, and revenue with a carrying value of $847,986 and $ 897,832 at December 31, 2014 and 2013, respectively.	**454,579**	469,462
	1,752,229	1,835,755
Less current maturities	**(87,504)**	(83,526)
	$ 1,664,725	$ 1,752,229

As of December 31, 2014, the future principal payments on long-term debt for the next five years and thereafter are as follows:

2015	$ 87,504
2016	91,671
2017	96,037
2018	100,611
2019	105,404
Thereafter	1,271,002
	$ 1,752,229

The loans with the U.S. Department of Agriculture contain various covenants such as maintaining adequate insurance coverage, charging enough to cover debt service, and funding various reserve accounts.

Under the balance sheets' caption "Assets limited as to use," cash includes reserves required by the loan agreements with the U.S. Department of Agriculture. The balance of these reserves was $ 195,930 and $ 195,246 at December 31, 2014 and 2013, respectively.

There are no prepayment penalties associated with any of these loans.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	2014	2013
PA Forum Emergency Preparedness	**$ -**	$ 1,572
	$ -	$ 1,572

Temporarily net assets released from restrictions during each year were:

	2014	2013
PA Forum Emergency Preparedness	**$ 1,572**	$ 553
HIV/Outreach	**-**	6,168
	$ 1,572	$ 6,721

NOTE 8 RETIREMENT PLAN

The Center offers a 403(b) employee retirement plan to eligible employees. Employees are eligible to participate in the plan after they complete 1,000 hours of service during the plan year based on the first anniversary of the employee's start date. The Center will match a contribution equal to 100% of the participant's elective deferrals up to 3% of the participant's compensation and 50% of each participant's elective deferrals exceeding 3% but not in excess of 5% of the participant's compensation. Before 2014, highly compensated employees and employees working less than 20 hours per week were not eligible to participate in the plan, but the plan was amended in 2014 to allow these employees to be eligible to participate in the plan. Total pension expense was $ 555,596 and $128,000 for the years ended December 31, 2014 and 2013, respectively.

NOTE 9 CONCENTRATION OF CREDIT RISK

The Center maintains its funds at several financial institutions. During the course of the year, these funds may periodically exceed limits insured by the Federal Deposit Insurance Corporation. Management considers this to be a normal business risk.

The Center received 13% and 11% during 2014 and 2013, respectively, of its total operating revenues, gains and other support from federal, state and local grants. Any significant reduction in this funding could have a significant negative financial impact on the Center.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Litigation

The Center is subject to legal proceedings and claims arising in the ordinary course of its business. Based on information presently available and advice received from legal counsel, management is not aware of any claims or litigation that would have a material effect on operations of the Center. The Center is currently involved in litigation involving the real estate tax exemption of one of its facilities in Chambersburg, Pennsylvania. While the case proceeds through the court system, the Center is paying the applicable real estate taxes on the property and if the property is ultimately determined to be exempt from real estate taxes, the Center would be reimbursed for any taxes paid during the period of litigation. The Center has no contingent liabilities associated with this claim as any settlements would result in reimbursements to the Center.

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments

Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with rent expense charged to operations as incurred. The Center currently has various operating leases for office space at several locations and a parking lot. Total rental expense for the years ended December 31, 2014 and 2013 was $ 322,047 and $ 262,475, respectively.

Minimum rentals on long-term leases are as follows at December 31, 2014:

2015	$ 168,208
2016	84,612
2017	12,360
2018	12,360
2019	12,360
Total	$ 289,900

Investments

The Center's investments are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

NOTE 11 AFFILIATED ORGANIZATION

Summit Health had previously awarded a Community Benefit Grant to the Center. Operationally, the Community Benefit Grant is to support the otherwise uncompensated costs in providing services, to maintain the existing level of physician and health care services, and patient access thereto. In addition, the Community Benefit Grant should enhance the financial stability of the Center with a goal of meeting the suggested Federally Qualified Health Center guideline requirement for ninety days cash on hand and other purposes Summit Health and the Center mutually agree. The term of the current grant is for ten years commencing January 1, 2011 and ending December 31, 2021. The financial commitment of Summit Health was $ 1.5 million per grant year to cover anticipated operating deficits. The grant has various conditions covering the availability of these funds to the Center.

The terms of the grant were amended on March 18, 2013. Summit Health will award the Center up to $ 750,000 annually, for eight consecutive years. For each grant year, the Community Benefit Grant funds will be distributed to the Center in four equal payments. The funding during the years ended December 31, 2014 and 2013 was $ 750,000. Should the Community Benefit Grant be discontinued, this could have a negative financial impact upon the Center.

NOTE 12 FUNCTIONAL EXPENSE ALLOCATION

The Center provides general health care services to residents within its geographic location. The allocation by total program services and general and administrative is as follows:

	2014	2013
Program services	**$ 26,795,106**	$ 24,098,939
General and administrative	**5,547,592**	4,315,412
	$ 32,342,698	$ 28,414,351

NOTE 13 FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets and liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The levels of the hierarchy and those investments included in each are as follows:

Level 1: Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products, and exchange traded equities.

Level 2: Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, directly or indirectly, through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets, and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate and asset backed securities.

Level 3: Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement, including the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and internally developed values.

The following valuation techniques were used to measure fair value of assets in the table below on a recurring basis:

- *Money Market Funds and Mutual Funds* – Fair values are priced at the net asset value of the underlying securities at the end of each day.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

There were no liabilities measured on a recurring basis and no nonrecurring assets or liabilities measured at fair value at December 31, 2014 and 2013. Fair values of assets measured on a recurring basis at December 31 are as follows:

2014	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 30,006	$ -	$ 30,006	$ -
Fixed income mutual funds:				
Intermediate term bond fund	2,123,155	-	2,123,155	-
Short term bond fund	602,696	-	602,696	-
International bond fund	669,285	-	669,285	-
Equity mutual funds:				
Large blend domestic fund	3,820,222	-	3,820,222	-
Large blend foreign fund	1,425,248	-	1,425,248	-
Large cap fund	148,398	-	148,398	-
Mid cap fund	34,018	-	34,018	-
Small cap fund	26,264	-	26,264	-
	$ 8,879,292	$ -	$ 8,879,292	$ -

2013	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 19,138	$ -	$ 19,138	$ -
Fixed income mutual funds:				
Intermediate term bond fund	1,720,181	-	1,720,181	-
Short term bond fund	506,798	-	506,798	-
International bond fund	528,298	-	528,298	-
Equity mutual funds:				
Large blend domestic fund	3,037,382	-	3,037,382	-
Large blend foreign fund	1,277,768	-	1,277,768	-
Large cap fund	115,312	-	115,312	-
Mid cap fund	25,249	-	25,249	-
Small cap fund	16,056	-	16,056	-
	$ 7,246,182	$ -	$ 7,246,182	$ -

NOTE 14 SUBSEQUENT EVENTS

The Center has evaluated events and transactions subsequent to December 31, 2014 through March 25, 2015, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that require recognition or disclosure in the financial statements.

Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Health and Human Services			
Health Center Cluster:			
Community Health Centers	93.224	H80CS00076	**$ 2,975,522**
Health Center Outreach and Enrollment Assistance	93.527	H80CS00076	**180,649**
Expanded Services	93.527	H80CS00076	**107,688**
Health Center Quality Improvement	93.527	H80CS00076	**11,397**
Subtotal - Health Center Cluster			**3,275,256**
Ryan White HIV/AIDS: Early Intervention Services	93.918	H76HA00668	**220,816**
Children's Health Insurance Program	93.767	1Z0CMS331198	**390,501**
Passed through the Pennsylvania Department of Health:			
Oral Health Workforce	93.236	SAP410055156	**11,049**
Passed through the Family Health Council of Central Pennsylvania:			
HIV Care Formula Grant	93.917	SAP 4100039370	**22,120**
Subtotal - U.S. Department of Health Human Services			**3,919,742**
U.S. Department of Housing and Urban Development			
Passed through the Family Health Council of Central Pennsylvania:			
Housing Opportunities for Persons with AIDS	14.241	SAP 4100039370	**36,735**
Total			**$ 3,956,477**

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Keystone Rural Health Center under programs of the federal government for the year ended December 31, 2014. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Keystone Rural Health Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Keystone Rural Health Center.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Community Facilities Loan Program

The community facilities loan program is not included in this schedule as it was determined to not have any on-going compliance requirements.

Pass-through entity identifying numbers are presented where available.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Keystone Rural Health Center
Chambersburg, Pennsylvania

We have audited, in accordance with the 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 financial statements of Keystone Rural Health Center (the Center) (a nonprofit organization), which comprise the balance sheet as of December 31, 2014, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 the entity'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 over financial reporting 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Center's financial statements are free from 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 Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC.

Chambersburg, Pennsylvania
March 25, 2015

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY *OMB CIRCULAR A-133*

Board of Directors
Keystone Rural Health Center
Chambersburg, Pennsylvania

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Keystone Rural Health Center's (the Center's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

SEK&Co
Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the Center 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, we considered the Center'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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation 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 or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Smith Elliott Kearns & Company, LLC.

Chambersburg, Pennsylvania
March 25, 2015

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Keystone Rural Health Center.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements of Keystone Rural Health Center.
3. No instances of noncompliance material to the financial statements of Keystone Rural Health Center were disclosed during the audit.
4. No significant deficiencies or material weaknesses were disclosed during the audit of the major federal award programs for Keystone Rural Health Center.
5. The auditor's report on compliance for the major federal award programs for Keystone Rural Health Center expresses an unqualified opinion.
6. The audit findings relative to the major federal award programs for Keystone Rural Health Center are reported in Part C of this Schedule.
7. The programs tested as a major programs were:

   Community Health Center Cluster:
   Community Health Centers (CFDA Number 93.224)
   Health Center Outreach and Enrollment Assistance (CFDA Number 93.527)
   Expanded Services (CFDA Number 93.527)
   Health Center Quality Improvement (93.527)
   Children's Health Insurance Program (93.767)

8. The threshold for distinguishing Types A and B programs was $ 300,000.
9. Keystone Rural Health Center was not determined to be a low-risk auditee.

B. Findings - Financial Statements

None

C. Findings and Questioned Costs- Major Federal Award Programs

None

There were no findings in 2013

March 25, 2015

Board of Directors
Keystone Rural Health Center
Chambersburg, Pennsylvania

We have completed our audit of the financial statements of Keystone Rural Health Center (the Center) for the year ended December 31, 2014. We believe part of our responsibility, as your independent certified public accountants, is to bring to your attention our observations and suggestions which we believe are opportunities for strengthening internal controls, improving operating efficiency, and assisting you in the growth of the Center. The comments and suggestions which follow cover matters that came to our attention during our recent audit that we believe merit your consideration.

REDUCED FEE CALCULATIONS

During our testing of forty reduced fee calculations, there were three instances in which the patient's income was incorrectly calculated with two of these cases resulting in the patient receiving the incorrect reduced fee charge based on their income level. These errors were caused by a calculator not being cleared before the amounts used in the calculations were entered into the calculator. While these are considered minor clerical errors that resulted in incorrect fee reductions, the patients were sill eligible to participate in the plan. Greater care should be taken to ensure reduced fee calculations are accurately calculated.

INFORMATION TECHNOLOGY OBSERVATIONS

A formal, documented Change Management Policy has not been approved. Although change management best practices appear to be consistently followed, the procedures have only been written in draft form. Finalizing, approving, and implementing change management policies and procedures will help enforce and standardize the practices in place within the Center's information systems. Management should develop a formal Change Management Policy that provides specific guidance regarding application changes, operating system changes, hardware changes, emergency changes, and patch management. Procedures should be formalized to address hardware (configuration settings, maintenance, planned, unplanned, and emergency changes) as well as application and database changes.

While backup restore testing of information technology systems is performed, formal documentation showing the extent of the tests performed on the information technology systems and dates performed are not maintained. Management should maintain documentation of its backup and restore testing practices to ensure key financial systems are being tested on a periodic basis and to ensure timely recovery of financial applications.

Board of Directors
Keystone Rural Health Center

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

On December 26, 2013, OMB published a comprehensive overhaul of federal grant administrative, cost accounting, and audit policies in the Federal Register. This final guidance, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, supersedes and combines the requirements of eight existing OMB Circulars (A-21, A-50, A-87, A-89, A-102, A-110, A-122, and A-133). The Uniform Guidance significantly reforms federal grant making to focus resources on improving performance and outcomes with the intent to reduce administrative burdens for grant applicants and recipients and reduce the risk of waste, fraud, and abuse.

The Uniform Guidance will require supporting documentation for costs attributable to grants in order for the costs to be claimed against grant funds. Rough estimates or unsupported allocations of costs to grants will no longer be allowed under the new Guidance. This will require the Center to develop a new system to enhance documentation of time and costs budgeted for new grants received. Particularly related to the Center would be the costs related to payroll allocations as rough estimations without supporting documentation will no longer be acceptable. We suggest the Center look at its current allocation methods to ensure appropriate documentation exists to support the costs.

The Uniform Guidance is effective December 26, 2014. New and incrementally-funded awards issued on or after December 26, 2014 will be subject to the Uniform Guidance. Audit Requirements will apply to audits of fiscal years beginning on or after December 26, 2014.

CONCLUSION

This report is intended solely for the information and use of management, the Board of Directors and others within the Center and is not intended to be and should not be used by anyone other than these specified parties.

We acknowledge and appreciate the courtesy and assistance extended to our representatives by the Center during our audit. The above comments and suggestions are made because we are interested in the continued success of Keystone Rural Health Center. We will be pleased to further discuss these comments and recommendations at your convenience.

Smith Elliott Kearns & Company, LLC.