

EASTERN HIGHLANDS HEALTH DISTRICT
FINANCIAL STATEMENTS

JUNE 30, 2012

EASTERN HIGHLANDS HEALTH DISTRICT
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

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Independent Auditors' Report

To the Board of Directors
Eastern Highlands Health District

We have audited the accompanying financial statements of the governmental activities and each major fund of the Eastern Highlands Health District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Eastern Highlands Health District as of June 30, 2012 and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2012 on our consideration of the District'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blum, Shapiro & Company, P.C.

November 10, 2012



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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

Management of the Eastern Highlands Health District offers readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$505,251 (*net assets*). Of this amount, \$416,561 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to creditors.
- The District's total net assets increased by \$72,468. This was primarily due to more than anticipated grant revenue for salary and benefit expenses (\$62,441), medical insurance premiums less than budget (\$21,128) offset by less than anticipated service fee revenues of \$12,497.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$447,854, an increase of \$62,779 in comparison with the prior year. Of combined fund balances, \$384,622 is *available for spending* at the District's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$384,622 or 61% of total General Fund expenditures and transfers out.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Health Grants Fund and Capital Projects Fund, all of which are considered to be major funds.

The General Fund is the general operating fund of the District and operates under a budget. Annually, the budget is voted upon by District Board Members. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$505,251 at the close of the most recent fiscal year.

Of the net assets, \$88,690 reflects the District's investment in capital assets (e.g., office equipment and vehicles). These assets are not available for future spending.

**EASTERN HIGHLANDS HEALTH DISTRICT
NET ASSETS
JUNE 30, 2012 AND 2011**

	2012	2011
Current and other assets	\$ 513,450	\$ 500,891
Capital assets, net of accumulated depreciation	88,690	84,687
Total assets	602,140	585,578
Long-term liabilities outstanding	31,293	36,979
Other liabilities	65,596	115,816
Total liabilities	96,889	152,795
Net Assets:		
Invested in capital assets	88,690	84,687
Unrestricted	416,561	348,096
Total Net Assets	\$ 505,251	\$ 432,783

At the end of the current fiscal year, the District is able to report positive balances in both of the categories of net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental activities. The District's net assets increased by \$72,468 during the current fiscal year. The increase is primarily the result of more than anticipated grant funding for salaries and benefits.

**EASTERN HIGHLANDS HEALTH DISTRICT
CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 229,365	\$ 223,331
Operating grants and contributions	346,753	329,002
General revenues:		
Assessment to member towns	<u>373,027</u>	<u>360,947</u>
Total revenues	949,145	913,280
Expenses:		
Health services	<u>876,677</u>	<u>882,839</u>
Change in net assets	72,468	30,441
Net Assets - July 1	<u>432,783</u>	<u>402,342</u>
Net Assets - June 30	<u>\$ 505,251</u>	<u>\$ 432,783</u>

- Charges for services increased slightly from the prior year by \$6,034, primarily due to an increase in food protection services (\$7,347). Other services fluctuated slightly due to demand for services.
- Operating grants and contributions increased by a net of \$17,751 primarily due to the following changes in funding from the prior year:
 - Addition of the Comprehensive Cancer Control Grant \$37,556
 - Addition of the Community Transformation Grant \$38,359
 - Bioterrorism Response Grant decreased \$17,165
 - Reduction in the amount received for the H1N1 Preparedness Grant \$14,790
 - Reduction in the Lead Poisoning Prevention Grant \$13,472
 - Reduction in the Achieve Grant \$10,369
- Health services expenditures decreased by \$6,162 primarily due to a reduction in salary and benefit costs due to unfilled vacancies and grant offsets.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$447,854, an increase of \$62,779 in comparison with the prior year. Of the ending fund balances, \$384,622 constitutes unassigned fund balance, which is available for spending at the District's discretion.

The General Fund is the operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$384,622.

The fund balance of the District's General Fund increased by \$74,014 during the current fiscal year. The key factors in this increase are:

- Less than anticipated salary and benefit costs of \$80,889 primarily due to unfilled vacancies and grant offsets
- Less than anticipated other supplies and services costs of \$14,088
- Less than anticipated service fee revenues \$16,868, primarily well permit fees of \$8,365 and B100a review fees of \$7,230.

The Capital Projects Fund has a total fund balance of \$63,232, all of which is restricted for capital projects. The net decrease in fund balance during the current year in the Capital Projects Fund was \$11,235 due to a capital outlay of \$14,235 for a 2011 Ford F150 purchase.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget for the year.

During the year, expenditures were less than budgetary estimates by \$90,881. The key factors are a reduction in salary and benefit costs of \$80,889 plus savings in multiple service and supply accounts.

Capital Assets

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2012 amounts to \$88,690 (net of accumulated depreciation). This investment in capital assets includes office equipment and vehicles. There were \$23,770 in capital asset additions in the current year for a trailer to store and transport emergency equipment and supplies (\$7,154) and a 2011 Ford F150 (\$16,617) . Depreciation expense was \$16,291 for the year. There were several disposals during the year, primarily computer equipment (book cost of \$10,020) and vehicles (book cost \$24,690). Vehicles yielded a net gain on sale of \$1,221.

**EASTERN HIGHLANDS HEALTH DISTRICT CAPITAL ASSETS
(NET OF DEPRECIATION)**

	<u>2012</u>		<u>2011</u>
Office equipment	\$ 30,874	\$	32,634
Vehicles	<u>57,816</u>		<u>52,053</u>
 Total	 <u>\$ 88,690</u>	 \$	 <u>84,687</u>

Economic Factors and Next Year's Budgets and Rates

The facilities and offices of the Eastern Highlands Health District are located east of Hartford, Connecticut. The Eastern Highlands Health District is one of 20 local Health Districts in the State of Connecticut. Established on June 6, 1997, it now serves the towns of Andover, Ashford, Bolton, Chaplin, Columbia, Coventry, Scotland, Tolland, Willington and Mansfield, with a total district population of 80,008. The main Health District office is located in the town of Mansfield.

The budget for fiscal year 2013 was passed by its Board of Directors on January 19, 2012 for \$714,375.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Cheryl A. Trahan, Director of Finance, Town of Mansfield, 4 South Eagleville Road, Mansfield, CT 06268.

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 494,748
Receivables:	
Intergovernmental	15,502
Prepaid items	3,200
Capital assets (net of accumulated depreciation):	
Office equipment	30,874
Vehicles	<u>57,816</u>
Total assets	<u>602,140</u>
Liabilities:	
Accounts payable	13
Accrued liabilities	6,320
Unearned revenue	59,263
Noncurrent liabilities:	
Compensated absences, due within one year	6,259
Compensated absences, due in more than one year	<u>25,034</u>
Total liabilities	<u>96,889</u>
Net Assets:	
Invested in capital assets	88,690
Unrestricted	<u>416,561</u>
Total Net Assets	<u>\$ 505,251</u>

The accompanying notes are an integral part of the financial statements

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net Expenses and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Governmental Activities:				
Health services	\$ <u>876,677</u>	\$ <u>229,365</u>	\$ <u>346,753</u>	\$ (300,559)
		General Revenues:		
		Assessment to member towns		373,027
				72,468
				432,783
				\$ 505,251

The accompanying notes are an integral part of the financial statements

EASTERN HIGHLANDS HEALTH DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

	General	Health Grants	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 390,942	\$ 43,774	\$ 60,032	\$ 494,748
Receivables:				
Intergovernmental		15,502		15,502
Prepaid expenses			3,200	3,200
Total Assets	\$ 390,942	\$ 59,276	\$ 63,232	\$ 513,450
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and other payables	\$	\$ 13	\$	\$ 13
Accrued liabilities	6,320			6,320
Deferred and unearned revenue		59,263		59,263
Total liabilities	6,320	59,276	-	65,596
Fund Balances:				
Restricted for capital projects			63,232	63,232
Unassigned	384,622			384,622
Total fund balances	384,622	-	63,232	447,854
Total Liabilities and Fund Balances	\$ 390,942	\$ 59,276	\$ 63,232	\$ 513,450

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EASTERN HIGHLANDS HEALTH DISTRICT

BALANCE SHEET (CONTINUED) - GOVERNMENTAL FUNDS

JUNE 30, 2012

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets (Exhibit I) are different because of the following:

Total Fund Balances (Exhibit III, Page 1) \$ 447,854

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Governmental capital assets	\$ 174,722	
Less accumulated depreciation	<u>(86,032)</u>	
Net capital assets		88,690

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Compensated absences		<u>(31,293)</u>
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Net Assets of Governmental Activities (Exhibit I) \$ 505,251

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Health Grants</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Member town contributions	\$ 365,537	\$ 52,394	\$	\$ 417,931
Intergovernmental	149,942	196,418		346,360
Septic permits	29,295			29,295
Well permits	12,135			12,135
B100a building permit review	20,770			20,770
Soil testing service	31,475			31,475
Engineered plan review	13,220			13,220
Food protection service	48,930			48,930
Non-engineered plan review	8,550			8,550
Group home/daycare inspection	900			900
Subdivision review	2,595			2,595
Food plan review	2,851			2,851
Other health services	14,133			14,133
	<u>700,333</u>	<u>248,812</u>	<u>-</u>	<u>949,145</u>
Expenditures:				
Current:				
Payroll and benefits	549,023	179,268		728,291
Other purchased services	39,711	1,200		40,911
Liability insurance	15,336			15,336
Supplies and services	11,530	7,719		19,249
Repairs and maintenance	3,731	303		4,034
Other	3,988	41,690		45,678
Capital outlay		18,632	14,235	32,867
	<u>623,319</u>	<u>248,812</u>	<u>14,235</u>	<u>886,366</u>
Excess Revenues over Expenditures	<u>77,014</u>	<u>-</u>	<u>(14,235)</u>	<u>62,779</u>
Other Financing Sources (Uses):				
Transfers in			3,000	3,000
Transfers out	(3,000)			(3,000)
Total other financing sources (uses)	<u>(3,000)</u>	<u>-</u>	<u>3,000</u>	<u>-</u>
Net Change in Fund Balances	74,014	-	(11,235)	62,779
Fund Balances at Beginning of Year	<u>310,608</u>	<u>-</u>	<u>74,467</u>	<u>385,075</u>
Fund Balances at End of Year	<u>\$ 384,622</u>	<u>\$ -</u>	<u>\$ 63,232</u>	<u>\$ 447,854</u>

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EASTERN HIGHLANDS HEALTH DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (CONTINUED) - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2012

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Net change in fund balances - total governmental funds (Exhibit IV) \$ 62,779

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlay	23,770
Depreciation expense	(16,291)
Loss on disposal of capital assets	(3,476)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences	<u>5,686</u>
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Change in Net Assets of Governmental Activities (Exhibit II) \$ 72,468

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:				
Member town contributions	\$ 365,530	\$ 365,530	\$ 365,537	\$ 7
Intergovernmental	149,950	149,950	149,942	(8)
Septic permits	31,000	31,000	29,295	(1,705)
Well permits	20,500	20,500	12,135	(8,365)
B100a building permit review	28,000	28,000	20,770	(7,230)
Soil testing service	32,480	32,480	31,475	(1,005)
Engineered plan review	18,080	18,080	13,220	(4,860)
Food protection service	46,580	46,580	48,930	2,350
Non-engineered plan review	8,220	8,220	8,550	330
Group home/daycare inspection	660	660	900	240
Subdivision review	2,200	2,200	2,595	395
Food plan review	5,130	5,130	2,851	(2,279)
Other health services	4,500	4,500	14,133	9,633
Total revenues	<u>712,830</u>	<u>712,830</u>	<u>700,333</u>	<u>(12,497)</u>
Expenditures:				
Current:				
Regular salaries - non-union	474,340	474,340	411,899	(62,441)
Social Security	30,700	30,700	31,644	944
Workers' compensation	11,800	11,800	9,234	(2,566)
Medicare	7,150	7,150	8,059	909
ICMA	28,910	28,910	31,922	3,012
Life insurance	2,160	2,160	1,793	(367)
RHS contribution	1,930	1,930	1,938	8
Dues and subscriptions	1,760	1,760	1,769	9
Training	2,000	2,000	281	(1,719)
Mileage reimbursement	400	400		(400)
Professional and technical	6,000	6,000	6,246	246
Legal	3,200	3,200	315	(2,885)
Audit expense	6,500	6,500	6,500	-
Vehicle repair and maintenance	4,000	4,000	3,212	(788)
General liability	15,650	15,650	15,336	(314)
Medical insurance	75,600	75,600	54,472	(21,128)
Advertising	2,000	2,000	1,528	(472)
Printing and binding	1,000	1,000	862	(138)
Postage	1,500	1,500	1,500	-
Copier maintenance fees	1,500	1,500	519	(981)
Voice communications	4,500	4,500	4,500	-
Instructional supplies	800	800	251	(549)

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EASTERN HIGHLANDS HEALTH DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Books and periodicals	\$ 200	\$ 200	\$ 149	\$ (51)
Office supplies	2,000	2,000	1,965	(35)
Gasoline	5,000	5,000	4,858	(142)
Office equipment	850	850	157	(693)
Equipment - other	600	600	260	(340)
Administrative overhead	22,150	22,150	22,150	-
Total expenditures	<u>714,200</u>	<u>714,200</u>	<u>623,319</u>	<u>(90,881)</u>
Excess of Revenues over (under) Expenditures	<u>(1,370)</u>	<u>(1,370)</u>	<u>77,014</u>	<u>78,384</u>
Other Financing Sources (Uses):				
Appropriation of fund balance	4,370	4,370		(4,370)
Transfers out	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>1,370</u>	<u>1,370</u>	<u>(3,000)</u>	<u>(4,370)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	74,014	<u>\$ 74,014</u>
Fund Balance at Beginning of Year			<u>310,608</u>	
Fund Balance at End of Year			<u>\$ 384,622</u>	

EASTERN HIGHLANDS HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Eastern Highlands Health District (the District) was formed in June 1997 as a cooperative effort to create a regional, full-time professional health department and consists of the following member towns in the state of Connecticut: Andover, Ashford, Bolton, Chaplin, Columbia, Coventry, Mansfield, Scotland, Tolland and Willington. The Board of Directors of the District consists of appointed representatives from each member town. The District provides a wide range of public health services for its member towns. The services are funded by local assessments, federal and state grants and direct charges for specific services.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by member town assessments and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Member town assessments and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Member town assessments, expenditure reimbursement type grants, certain intergovernmental revenues and transfers associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Health Grants Fund* accounts for the grants activity of the District. The major source of revenue for this fund is governmental grants.

The *Capital Projects Fund* accounts for the financial revenues to be used for major capital asset construction and/or purchases. The major source of revenue for this fund is governmental grants.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. Unrestricted resources are used in the following order: committed, assigned then unassigned.

C. Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

D. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

E. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office equipment	5-10
Vehicles	6-10

F. Compensated Absences

A limited amount of vacation earned may be accumulated by employees until termination of their employment, at which time they are paid for accumulated vacation. Sick time does not vest.

G. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets.

H. Fund Equity and Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In the government wide-financial statements, net assets are classified into the following categories:

Invested in Capital Assets - This category presents the net assets that reflect the value of capital assets, net of accumulated depreciation.

Unrestricted Net Assets - This category presents the net assets of the District that are not restricted.

The equity of the fund financial statements is defined as "fund balance" and is classified in the following categories:

Nonspendable Fund Balance - This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance - This represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors, or laws and regulations of their governments.

Committed Fund Balance - This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority (Eastern Highlands Health District Board of Directors).

Assigned Fund Balance - For all governmental funds other than the General Fund, this represents any remaining positive amounts not classified as nonspendable, restricted or committed. For the General Fund, this includes amounts constrained for the intent to be used for a specific purpose by the Director of Health.

Unassigned Fund Balance - This represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

I. Estimates

The preparation of the 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, including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The District adheres to the following procedures in establishing the budgetary data included in the financial statements of the General Fund, the only fund with a legally adopted annual budget.

Annually, the budget is voted upon by District Board members.

The District Board may amend the budget. A public hearing is required if the per capita costs to the member towns increase as a result of the amendment. With the exception of payroll, Social Security, workers' compensation, Medicare, retirement, health insurance and life insurance, the Director of Health may make necessary line item transfers in the operating portion of the budget without Board approval, provided the total operating portion of the budget does not increase. Transfers greater than \$5,000 shall be reported to the Finance committee. Changes in payroll, Social Security, workers' compensation, Medicare, retirement, health insurance and life insurance line items shall be approved by the Finance committee. There were no additional appropriations this year.

Formal budgetary integration is employed as a management control device during the year.

Legal level of control (the level at which expenditures may not legally exceed appropriations) is at the total budget level.

Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued, and, accordingly, encumbrances outstanding at year end are reported in budgetary reports (Exhibit V) as expenditures in the current year. Generally, all unencumbered appropriations lapse at year end, except those of the Capital Projects Fund. Encumbered appropriations are carried forward to the ensuing fiscal year.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits

At June 30, 2012, the carrying amount of the District's deposits was \$494,748 and is part of the Town of Mansfield, Connecticut's pooled cash account. The District does not have a deposit policy for custodial credit risk. Separate risk classification is not available.

B. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets being depreciated:				
Office equipment	\$ 66,414	\$ 7,154	\$ 10,020	\$ 63,548
Vehicles	<u>119,248</u>	<u>16,616</u>	<u>24,690</u>	<u>111,174</u>
Total capital assets being depreciated	<u>185,662</u>	<u>23,770</u>	<u>34,710</u>	<u>174,722</u>
Less accumulated depreciation for:				
Office equipment	33,780	7,907	9,013	32,674
Vehicles	<u>67,195</u>	<u>8,384</u>	<u>22,221</u>	<u>53,358</u>
Total accumulated depreciation	<u>100,975</u>	<u>16,291</u>	<u>31,234</u>	<u>86,032</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 84,687</u>	<u>\$ 7,479</u>	<u>\$ 3,476</u>	<u>\$ 88,690</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Health services	\$ <u>16,291</u>

C. Deferred Revenue/Unearned Revenue

Governmental funds report deferred revenue in connection with resources that have been received, but not yet earned. At June 30, 2012, the deferred revenue and unearned revenue reported in the governmental funds consisted of grant drawdowns prior to meeting all eligibility requirements of \$59,263.

D. Long-Term Debt

Long-term liability activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated Absences	\$ 36,979	\$ 35,853	\$ 41,539	\$ 31,293	\$ 6,259

4. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to public officials, torts, injuries to employees or acts of God. The District purchases commercial insurance for all risks of loss, except for medical insurance. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Hospital and medical surgical health coverage for District employees is administered by the Town of Mansfield, Connecticut (the Town), which has been recorded in the Town's records as an internal service fund. The fund's general objectives are to formulate, on behalf of the members, a health insurance program at lower cost of coverage and to develop a systematic method to control health costs.

A third party administers the plan through a contract with the Town for which the fund pays a fee. The fund has purchased aggregate stop loss coverage at 125% of expected claims. In addition to the aggregate stop loss, the fund has also purchased \$150,000 of combined medical surgical and major medical individual stop loss coverage.

B. Related Party Transactions

As disclosed in Note 1, the District's Board of Directors consists of appointed representatives from the member towns consisting of Andover, Ashford, Bolton, Chaplin, Columbia, Coventry, Mansfield, Scotland, Tolland and Willington. Revenues received from these member towns are as follows for the year ended June 30, 2012:

Andover	\$	14,477
Ashford		20,160
Bolton		23,249
Chaplin		11,537
Columbia		24,214
Coventry		55,505
Mansfield		113,959
Scotland		7,762
Tolland		66,852
Willington		<u>27,822</u>
	\$	<u><u>365,537</u></u>

No amounts were due to or from the member towns as of June 30, 2012.

C. Contingent Liabilities

The District's management indicates that there are no material or substantial claims, judgments or litigation against the District.