
ANNUAL FINANCIAL REPORT

OF THE

EASTERN HIGHLANDS HEALTH DISTRICT

FOR THE YEAR ENDED
JUNE 30, 2005

EASTERN HIGHLANDS HEALTH DISTRICT

ANNUAL FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005
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Financial Section



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Highlands Health District

We have audited the accompanying financial statements of the governmental activities and each major fund of Eastern Highlands Health District, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

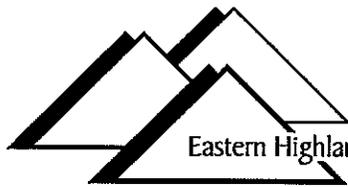
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Eastern Highlands Health District, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof 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 September 9, 2005, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

The Management Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kostin, Ruffkess & Company, LLC

Farmington, Connecticut
September 9, 2005



Eastern Highlands Health District

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

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, 2005.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$292,314 (*net assets*). Of this amount, \$259,440 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to creditors.
- The District's total net assets increased by \$129,416. Current assets (mainly cash) increased by \$135,391 and liabilities increased by \$5,975.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$280,909, an increase of \$129,542 in comparison with the prior year. 100.0% of combined fund balances are *available for spending* at the District's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved undesignated fund balance for the general fund was \$204,650 or 31.6% of total general fund expenditures and transfers out.

Overview of the Basic Financial Statements

This discussion and analysis are 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 two 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 and the capital projects fund, both 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 \$292,314 at the close of the most recent fiscal year.

Of the net assets, \$32,874 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, 2005**

| | <u>Governmental Activities</u> | |
|---|---------------------------------------|--------------------|
| | <u>2005</u> | <u>2004</u> |
| Current and other assets | \$ 301,199 | \$ 165,808 |
| Capital assets | <u>32,874</u> | <u>36,404</u> |
| Total assets | <u>334,073</u> | <u>202,212</u> |
| Long-term liabilities outstanding | 21,469 | 125,374 |
| Other liabilities..... | <u>20,290</u> | <u>14,441</u> |
| Total liabilities..... | <u>41,759</u> | <u>139,815</u> |
| Net assets: | | |
| Investment in capital assets | 32,874 | 36,404 |
| Restricted | | 4,116 |
| Unrestricted | <u>259,440</u> | <u>21,877</u> |
| Total net assets | <u>\$ 292,314</u> | <u>\$ 62,397</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Governmental activities. The District's net assets increased by \$129,416 during the current fiscal year. The increase is primarily the result of an increase in program revenues.

**EASTERN HIGHLANDS HEALTH DISTRICT CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

| | <u>Governmental Activities</u> | |
|--|--------------------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 232,757 | \$ 141,144 |
| Operating grants and contributions | 271,041 | 216,383 |
| Capital grants and contributions..... | 3,804 | |
| General revenues: | | |
| Assessment to member towns | <u>260,254</u> | <u>213,980</u> |
| Total revenues | 767,856 | 571,507 |
| Expenses: | | |
| Health services | <u>638,440</u> | <u>633,521</u> |
| Change in net assets | 129,416 | (62,014) |
| Net assets - July 1 (as restated) | <u>162,898</u> | <u>124,411</u> |
| Net assets - June 30 | <u>\$ 292,314</u> | <u>\$ 62,397</u> |

- Charges for service increase due to the admission of new member towns during the fiscal year.
- Operating grants and contributions also increase due to the new member towns as a result of an increase in the per capital grant.
- For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, unreserved 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 \$280,909, an increase of \$129,542 in comparison with the prior year. All \$280,909 constitutes unreserved 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, unreserved fund balance of the general fund was \$214,920.

The fund balance of the District's general fund increased by \$119,542 during the current fiscal year. Key factors in this increase are as follows:

- Total revenues were \$81,834 more than final budget and charges for services were \$63,314 less than budget. Revenue categories more than budget included soil testing service + \$29,170, Intergovernmental + \$23,273, Subdivision review + \$15,670, and Member town contributions + \$11,894.
- Charges for services were lower than budget mainly because salaries were under spent by \$64,767.

The capital projects fund has a total fund balance of \$65,989, all of which is unreserved and available for spending. The net increase in fund balance during the current year in the capital projects fund was \$10,000.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are due to the inclusion of several grant programs including \$82,376 for a bioterrorism response grant, \$30,000 for a cardiovascular health grant, and \$21,126 for a skin cancer prevention grant.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$32,874 (net of accumulated depreciation). This investment in capital assets includes office equipment and vehicles. The District's additions in capital assets for the current fiscal year were \$3,804. This was offset by depreciation expense of \$7,334 so that the District's investment in capital assets decreased from \$36,404 to \$32,874 or by \$3,530.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital asset expenditures during the current fiscal year consisted of the following:

- \$3,804 for (2) IBM laptop computers

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

| | <u>Governmental Activities</u> | |
|-----------------------|--------------------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| Office Equipment..... | \$ 6,979 | \$ 5,286 |
| Vehicles | <u>25,895</u> | <u>31,118</u> |
| Total..... | <u>\$ 32,874</u> | <u>\$ 36,404</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 nineteen 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 77,800. The main Health District office is located in the Town of Mansfield.

The amended budget for fiscal year 2006 was passed by its Board of Directors on June 16, 2005, for \$679,540.

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, Jeffrey H. Smith, Director of Finance, Town of Mansfield, 4 South Eagleville Road, Mansfield, CT 06268.

Basic Financial Statements

EXHIBIT A

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2005

| | GOVERNMENTAL ACTIVITIES |
|--|----------------------------|
| <u>ASSETS</u> | |
| Current assets: | |
| Cash..... | \$ 288,210 |
| Receivables: | |
| Intergovernmental..... | <u>12,989</u> |
| Total current assets..... | <u>301,199</u> |
| Noncurrent assets: | |
| Capital assets (net of accumulated depreciation): | |
| Office equipment..... | 6,979 |
| Vehicles..... | <u>25,895</u> |
| Total Capital assets (net of accumulated depreciation.....): | <u>32,874</u> |
| TOTAL ASSETS..... | <u>334,073</u> |
| <u>LIABILITIES</u> | |
| LIABILITIES: | |
| Current liabilities: | |
| Accounts payable..... | <u>20,290</u> |
| Noncurrent liabilities: | |
| Long-term liabilities due within one year..... | 4,294 |
| Due in more than one year..... | <u>17,175</u> |
| Total noncurrent liabilities..... | <u>21,469</u> |
| TOTAL LIABILITIES..... | <u>41,759</u> |
| <u>NET ASSETS</u> | |
| Invested in capital assets..... | 32,874 |
| Unrestricted..... | <u>259,440</u> |
| TOTAL NET ASSETS..... | <u>\$ 292,314</u> |

The notes to the financial statements are an integral part of this statement.

EASTERN HIGHLANDS HEALTH DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

| | GENERAL | CAPITAL PROJECTS | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|---------------------|--------------------------------|
| <u>ASSETS</u> | | | |
| Cash..... | \$ 222,221 | \$ 65,989 | \$ 288,210 |
| Receivables: | | | |
| Intergovernmental..... | 12,989 | | 12,989 |
| TOTAL ASSETS..... | \$ 235,210 | \$ 65,989 | \$ 301,199 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| LIABILITIES: | | | |
| Accounts and other payables..... | \$ 20,290 | | \$ 20,290 |
| FUND BALANCES: | | | |
| Unreserved, reported in: | | | |
| Designated for subsequent year budget..... | 10,270 | | 10,270 |
| General fund..... | 204,650 | | 204,650 |
| Capital projects funds..... | | 65,989 | 65,989 |
| TOTAL FUND BALANCES..... | 214,920 | 65,989 | 280,909 |
| TOTAL LIABILITIES AND FUND BALANCES.... | \$ 235,210 | \$ 65,989 | \$ 301,199 |

(Continued)

EASTERN HIGHLANDS HEALTH DISTRICT

**RECONCILIATION OF FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (EXHIBIT A)
ARE DIFFERENT FROM THE GOVERNMENTAL FUND BALANCE SHEET. THE DETAILS OF THIS DIFFERENCE ARE
AS FOLLOWS:

| | | |
|--|----|----------------|
| TOTAL FUND BALANCES (EXHIBIT C, PAGE 1)..... | \$ | 280,909 |
| CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS: | | |
| Beginning net capital assets and current additions..... | | 40,208 |
| Depreciation expense..... | | (7,334) |
| SOME LIABILITIES, INCLUDING BONDS PAYABLE, ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS: | | |
| Beginning long-term liabilities and current year additions..... | | (43,246) |
| Long-term liability payments..... | | <u>21,777</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES..... | \$ | <u>292,314</u> |

(Concluded)

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | GENERAL | CAPITAL PROJECTS | TOTAL GOVERNMENTAL FUNDS |
|---|-------------------|---------------------|--------------------------------|
| REVENUES: | | | |
| Member town contributions..... | \$ 260,254 | \$ | \$ 260,254 |
| Intergovernmental..... | 274,845 | | 274,845 |
| Septic permits..... | 40,575 | | 40,575 |
| Well permits..... | 14,120 | | 14,120 |
| B100a building permit review..... | 19,595 | | 19,595 |
| Soil testing service..... | 73,540 | | 73,540 |
| Engineered plan review..... | 14,280 | | 14,280 |
| Food protection service..... | 24,572 | | 24,572 |
| Non-Engineered plan review..... | 4,575 | | 4,575 |
| Group home/daycare inspection..... | 840 | | 840 |
| Subdivision review..... | 24,530 | | 24,530 |
| Food plan review..... | 1,305 | | 1,305 |
| Local support..... | 2,500 | | 2,500 |
| Other health services..... | 12,325 | | 12,325 |
| TOTAL REVENUES..... | 767,856 | - | 767,856 |
| EXPENDITURES: | | | |
| Current: | | | |
| Payroll and benefits..... | 456,648 | | 456,648 |
| Other purchased services..... | 115,301 | | 115,301 |
| Liability insurance..... | 9,048 | | 9,048 |
| Supplies and services..... | 27,722 | | 27,722 |
| Repairs and Maintenance..... | 5,285 | | 5,285 |
| Other..... | 20,506 | | 20,506 |
| Capital outlay..... | 3,804 | | 3,804 |
| TOTAL EXPENDITURES..... | 638,314 | - | 638,314 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | 129,542 | - | 129,542 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers in..... | | 10,000 | 10,000 |
| Transfers out..... | (10,000) | | (10,000) |
| NET OTHER FINANCING SOURCES (USES)..... | (10,000) | 10,000 | - |
| NET CHANGE IN FUND BALANCES..... | 119,542 | 10,000 | 129,542 |
| FUND BALANCES - JULY 1, 2004..... | 95,378 | 55,989 | 151,367 |
| FUND BALANCES - JUNE 30, 2005..... | \$ 214,920 | \$ 65,989 | \$ 280,909 |

The notes to the financial statements are an integral part of this statement.

EASTERN HIGHLANDS HEALTH DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
(EXHIBIT B) ARE DUE TO:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (EXHIBIT D)..... \$ 129,542

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..... 3,804
Depreciation expense..... (7,334)

Total (3,530)

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..... 3,404

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (EXHIBIT B)..... \$ 129,416

EASTERN HIGHLANDS HEALTH DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|---|--------------------|-----------------|----------------|-------------------------------------|
| REVENUES: | | | | |
| Member town contributions..... | \$ 248,360 | \$ 248,360 | \$ 260,254 | \$ 11,894 |
| Intergovernmental..... | 105,890 | 251,572 | 274,845 | 23,273 |
| Septic permits..... | 45,000 | 45,000 | 40,575 | (4,425) |
| Well permits..... | 18,480 | 18,480 | 14,120 | (4,360) |
| B100a building permit review..... | 17,750 | 17,750 | 19,595 | 1,845 |
| Soil testing service..... | 44,370 | 44,370 | 73,540 | 29,170 |
| Engineered plan review..... | 14,480 | 14,480 | 14,280 | (200) |
| Food protection service..... | 30,000 | 30,000 | 24,572 | (5,428) |
| Non-Engineered plan review..... | 4,580 | 4,580 | 4,575 | (5) |
| Group home/daycare inspection..... | 1,550 | 1,550 | 840 | (710) |
| Subdivision review..... | 8,860 | 8,860 | 24,530 | 15,670 |
| Food plan review..... | 300 | 300 | 1,305 | 1,005 |
| Local support..... | | | 2,500 | 2,500 |
| Other health services..... | 720 | 720 | 12,325 | 11,605 |
| TOTAL REVENUES..... | 540,340 | 686,022 | 767,856 | 81,834 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Regular salaries - non-union | 385,570 | 385,570 | 320,803 | 64,767 |
| Social security..... | 23,820 | 23,820 | 23,628 | 192 |
| Workers' compensation..... | 6,230 | 6,230 | 8,415 | (2,185) |
| Medicare..... | 5,540 | 5,540 | 5,526 | 14 |
| ICMA..... | 23,480 | 23,480 | 22,200 | 1,280 |
| Life insurance..... | 390 | 390 | 1,218 | (828) |
| Dues and subscriptions..... | 660 | 660 | 1,205 | (545) |
| Training..... | 1,000 | 1,000 | 1,358 | (358) |
| Mileage reimbursement..... | 400 | 400 | 193 | 207 |
| Professional and technical..... | 10,000 | 10,000 | 13,958 | (3,958) |
| Legal..... | 3,000 | 3,000 | 4,897 | (1,897) |
| Audit expense..... | 2,300 | 2,300 | 2,400 | (100) |
| Vehicle repair and maintenance..... | 5,200 | 5,200 | 5,285 | (85) |
| General liability..... | 9,380 | 9,380 | 9,048 | 332 |
| Medical insurance..... | 53,630 | 53,630 | 38,170 | 15,460 |
| Advertising..... | 1,000 | 1,000 | 596 | 404 |
| Printing and binding..... | 1,000 | 1,000 | 662 | 338 |
| Telephone..... | 4,200 | 4,200 | 4,200 | - |
| Other purchased services..... | 5,500 | 5,500 | 5,500 | - |
| Instructional supplies..... | 800 | 800 | 359 | 441 |
| Books and periodicals..... | 200 | 200 | 139 | 61 |
| Office supplies..... | 1,000 | 1,000 | 1,288 | (288) |
| Gasoline..... | 2,000 | 2,000 | 3,097 | (1,097) |
| Office equipment..... | 400 | 400 | 572 | (172) |
| Equipment - other..... | 130 | 130 | 340 | (210) |
| Admin. overhead..... | 5,000 | 5,000 | 5,150 | (150) |
| Other general..... | | 12,180 | 14,136 | (1,956) |
| Health regular grant programs..... | | 21,126 | 21,126 | - |
| Cardiovascular disease prevention..... | | 30,000 | 23,059 | 6,941 |
| Bioterrorism response grant..... | | 82,376 | 95,670 | (13,294) |
| TOTAL EXPENDITURES..... | 551,830 | 697,512 | 634,198 | 63,314 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | (11,490) | (11,490) | 133,658 | 145,148 |

(Continued)

The notes to the financial statements are an integral part of this statement.

EASTERN HIGHLANDS HEALTH DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|--|--------------------|-----------------|-------------------|-------------------------------------|
| OTHER FINANCING SOURCES (USES): | | | | |
| Appropriation of fund balance..... | \$ 21,490 | \$ 21,490 | \$ | \$ (21,490) |
| Transfers out..... | (10,000) | (10,000) | (10,000) | - |
| NET OTHER FINANCING SOURCES (USES)..... | 11,490 | 11,490 | (10,000) | (21,490) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES..... | | | | |
| | \$ - | \$ - | 123,658 | \$ 123,658 |
| FUND BALANCE - JULY 1, 2004..... | | | 91,262 | |
| FUND BALANCE - JUNE 30, 2005..... | | | \$ 214,920 | (Concluded) |

The notes to the financial statements are an integral part of this statement.

EASTERN HIGHLANDS HEALTH DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**HISTORY AND ORGANIZATION**

The Eastern Highlands Health 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: 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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.

B. 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 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.

EASTERN HIGHLANDS HEALTH DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 *Capital Projects Fund* accounts for the financial revenues to be used for major capital asset construction and/or purchases.

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.

C. Assets, Liabilities, and Net Assets or Equity

1. 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 |

EASTERN HIGHLANDS HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

2. 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.

3. Long-Term Obligations

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

4. 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, Net of Related Debt

This category presents the net assets that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purpose is excluded.

Restricted Net Assets

This category presents the net assets restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Assets

This category presents the net assets of the District which are not restricted.

5. 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.

6. Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

EASTERN HIGHLANDS HEALTH DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. 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. The Director of Health may make necessary line item changes in the operating portion of the budget without Board approval, provided the total operating portion of the budget does not increase.
- 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 F) 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.
- Additional appropriations of \$145,682 funded by revised revenue estimates were made during the year.

B. Budget - GAAP Reconciliation

A reconciliation of revenues, expenditures, and fund balance between the accounting treatment required by GAAP (Exhibit D), and budgetary requirements (Exhibit F), is as follows:

| | <u>EXPENDITURES</u> |
|--|---------------------|
| BALANCE, BUDGETARY BASIS, EXHIBIT F - JUNE 30, 2005..... | \$ 634,198 |
| Encumbrances outstanding at June 30, 2004 liquidated during the year ended June 30, 2005..... | 4,116 |
| BALANCE, GAAP BASIS, EXHIBIT D - JUNE 30, 2005..... | <u>\$ 638,314</u> |

EASTERN HIGHLANDS HEALTH DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES

A. Cash and Investments

Deposits - At June 30, 2005, the carrying amount of the District's deposits was \$288,210 and is part of the Town of Mansfield, Connecticut's pooled cash account. Separate risk classification is not available.

B. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

| | BALANCE JULY 1, 2004 | INCREASES | DECREASES | BALANCE JUNE 30, 2005 |
|--|-------------------------|------------|-----------|--------------------------|
| <u>Governmental Activities:</u> | | | | |
| <u>Capital Assets, being Depreciated:</u> | | | | |
| Office equipment..... | \$ 12,652 | \$ 3,804 | \$ | \$ 16,456 |
| Vehicles..... | 50,808 | | | 50,808 |
| Total Capital Assets being Depreciated | 63,460 | 3,804 | -- | 67,264 |
| <u>Less Accumulated Depreciation for:</u> | | | | |
| Office equipment..... | 7,366 | 2,111 | | 9,477 |
| Vehicles..... | 19,690 | 5,223 | | 24,913 |
| Total Accumulated Depreciation..... | 27,056 | 7,334 | -- | 34,390 |
| Total Capital Assets, being Depreciated, net | \$ 36,404 | \$ (3,530) | \$ -- | \$ 32,874 |

C. Changes in Long-Term Obligations

Summary of Changes

The following is a summary of changes in long-term obligations during the fiscal year:

| | BALANCE JULY 1, 2004 (AS RESTATED) | INCREASES | DECREASES | BALANCE JUNE 30, 2005 |
|---------------------------|--|-----------|-----------|--------------------------|
| COMPENSATED ABSENCES..... | \$ 24,873 | \$ 18,373 | \$ 21,777 | \$ 21,469 |

The current portion of the June 30, 2005 balance was \$4,294.

All long-term liabilities are generally liquidated by the General Fund.

EASTERN HIGHLANDS HEALTH DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. 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 are administered by the Town of Mansfield, Connecticut (the Town), which have 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 percent of expected claims. In addition to the aggregate stop loss, the Fund has also purchased \$100,000 of combined medical surgical and major medical individual stop loss.

B. Restatements

Government-Wide Financial Statements

Beginning net assets for governmental activities was restated as follows:

| | |
|-------------------------------------|-------------------|
| Net Assets as of June 30, 2004..... | \$ 62,397 |
| Add: Prior Period Adjustment: | |
| Compensated Absences | <u>100,501</u> |
| Net Assets as of July 1, 2004 | <u>\$ 162,898</u> |

**State
Single
Audit**

EASTERN HIGHLANDS HEALTH DISTRICT

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2005

| STATE GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE | STATE GRANT PROGRAM IDENTIFICATION PROGRAM | EXPENDITURES |
|---|---|-------------------|
| <hr/> | | |
| <u>DEPARTMENT OF PUBLIC HEALTH</u> | | |
| Skin Cancer Prevention..... | 11000-DPH48500-10020 | \$ 2,535 |
| Local District Departments of Health..... | 11000-DPH48500-17009 | <u>127,859</u> |
| TOTAL STATE FINANCIAL ASSISTANCE..... | | <u>\$ 130,394</u> |

See note to Schedule of Expenditures of State Financial Assistance

EASTERN HIGHLANDS HEALTH DISTRICT

**NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2005**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Eastern Highlands Health District conform to accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The following is the significant policy relating to state financial assistance.

Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance is presented on the modified accrual basis of accounting and a current financial resources measurement focus.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-5), certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

EASTERN HIGHLANDS HEALTH DISTRICT

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

Summary Schedule of Prior Audit Findings

- There were no prior year audit findings or questioned costs.

EASTERN HIGHLANDS HEALTH DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

I. Summary of Audit Results

Financial Statements

Type of auditors' report issued: Unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? yes x no
- Reportable condition(s) identified
not considered to be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Reportable condition(s) identified
not considered to be material weakness(es)? yes x none reported

Type of auditors' report issued on compliance
for major programs: Unqualified opinion

Any audit findings disclosed that are required
to be reported in accordance with
Section 4-236-24 of the Regulations
to the State Single Audit Act? yes x no

The following schedule reflects the major programs included in the audit:

| <u>State Grantor And Program</u> | <u>State Core-CT Number</u> | <u>Expenditures</u> |
|--|---------------------------------|---------------------|
| Department of Public Health: Local District Departments of Health | 11000-DPH48500-17009 | \$ 127,859 |

**II. SUMMARY OF FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED UNDER
GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

- We issued our report dated September 9, 2005, 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.
- Our report on compliance and other matters indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated no reportable conditions.

III. FINDINGS AND QUESTIONED COSTS FOR STATE FINANCIAL ASSISTANCE

No findings or questioned costs are reported relating to State financial assistance programs.



**KOSTIN,
RUFFKESS
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Eastern Highlands Health District

We have audited the basic financial statements of the Eastern Highlands Health District, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Eastern Highlands Health District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Highlands Health District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Board of Directors, Office of Policy and Management, and State awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffkess & Company, LLC

Farmington, Connecticut
September 9, 2005



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT AND ON
THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

Board of Directors
Eastern Highlands Health District

Compliance

We have audited the compliance of Eastern Highlands Health District with the types of compliance requirements described in the Office of Policy and Management Compliance Supplement that are applicable to each of its major state programs for the year ended June 30, 2005. The major state programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of Eastern Highlands Health District's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about Eastern Highlands Health District'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. Our audit does not provide a legal determination on Eastern Highlands Health District's compliance with those requirements.

In our opinion, Eastern Highlands Health District complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Eastern Highlands Health District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act.



Eastern Highlands Health District
Page Two

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Highlands Health District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Eastern Highlands Health District's basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Directors, Office of Policy and Management, and State awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffkess & Company, LLC

Farmington, Connecticut
September 9, 2005

INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Highlands Health District

We have audited the accompanying financial statements of the governmental activities and each major fund of Eastern Highlands Health District, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic 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 Eastern Highlands Health District, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof 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 September 9, 2005, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

The Management Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kostin, Ruffless & Company, LLC

Farmington, Connecticut
September 9, 2005

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

Board of Directors
Eastern Highlands Health District

We have audited the basic financial statements of the Eastern Highlands Health District, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Eastern Highlands Health District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Highlands Health District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Board of Directors, Office of Policy and Management, and State awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffness & Company, LLC

Farmington, Connecticut
September 9, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT AND ON
THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Board of Directors
Eastern Highlands Health District

Compliance

We have audited the compliance of Eastern Highlands Health District with the types of compliance requirements described in the Office of Policy and Management Compliance Supplement that are applicable to each of its major state programs for the year ended June 30, 2005. The major state programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of Eastern Highlands Health District's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about Eastern Highlands Health District'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. Our audit does not provide a legal determination on Eastern Highlands Health District's compliance with those requirements.

In our opinion, Eastern Highlands Health District complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Eastern Highlands Health District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act.

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Highlands Health District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Eastern Highlands Health District's basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Directors, Office of Policy and Management, and State awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kostin, Ruffless & Company, LLC

Farmington, Connecticut
September 9, 2005