

San Juan Basin Health Department

Annual Financial Report

December 31, 2012

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**Haynie &
Company**

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Report of Independent Certified Public Accountants

Board of Health
San Juan Basin Health Department
Durango, Colorado

We have audited the accompanying financial statements of the governmental activities and the major funds of San Juan Basin Health Department as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the major funds of San Juan Basin Health Department, as of December 31, 2012 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise San Juan Basin Health Department's financial statements as a whole. The other supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2013, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Department's internal control over financial reporting and compliance.



Littleton, Colorado
June 25, 2013

San Juan Basin Health Department Management's Discussion and Analysis (Unaudited) December 31, 2012

Introduction

San Juan Basin Health Department (the Department) is a district health department serving La Plata and Archuleta Counties, as well as contracting to serve other surrounding counties. The governing board (the Board of Health) of the Department is made up of one representative County Commissioner from each member county and five non-elected members (three from La Plata County and two from Archuleta County).

Operations Highlights

The Department has continued to provide essential public health services in spite of the ongoing financial downturn. Funding has been reduced from both the public and private sectors. The Department's budget has declined although the demand for services in the community has continued to increase. The continued decrease in funding has led to operational changes to adapt services to maintain a balanced budget. During 2012, the department discontinued providing Home Health Services. These services are provided by other agencies in the area and it is no longer cost effective for the department to provide them. New services funded in 2012 include the Worksite Wellness program and the Promotora program.

Financial Highlights

- Decrease in cash and cash equivalents by \$111,638, or 11.78%.
- Increase in net position of \$214,392, in comparison to a decrease in net position in 2011 of \$484,149.
- Decreased revenues by \$1,271,062, or 20.21%, compared to 2011. The majority of this decrease was anticipated and reflected in the 2012 budget.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's financial statements have been prepared in accordance with Governmental Accounting Standards Board. (GASB) Statement No. 34 and consists of (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Government-wide Financial Statements

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

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

**San Juan Basin Health Department
Management's Discussion and Analysis (Unaudited)
December 31, 2012
(Continued)**

The statement of activities presents information showing how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as an underlying event giving rise to the change occurs, regardless of when cash is received or paid.

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 Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 current inflows and outflows of available resources, as well as on balances of unrestricted resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term 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 government's near-term decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found immediately following the basic financial statements.

**San Juan Basin Health Department
Management's Discussion and Analysis (Unaudited)
December 31, 2012
(Continued)**

Government-wide Financial Analysis

Condensed Statement of Net Position

The Department's net position is the difference between its assets and liabilities reported in the statement of net assets. The Department's net position increased by \$214,392, or 11%, to \$2,128,702 in 2012 over 2011.

Table 1: Condensed Statement of Net Position

December 31,	2012	2011
ASSETS		
Current assets	\$ 1,509,860	\$ 1,756,923
Capital assets, net	<u>1,620,219</u>	<u>1,677,851</u>
Total assets	<u>3,130,079</u>	<u>3,434,774</u>
 LIABILITIES		
Current liabilities	896,962	1,313,308
Long-term liabilities	<u>104,415</u>	<u>207,155</u>
Total liabilities	<u>1,001,377</u>	<u>1,520,463</u>
 NET POSITION		
Net investment in capital assets	1,372,265	1,293,772
Restricted for debt service	58,515	59,793
Unrestricted	<u>697,922</u>	<u>560,745</u>
Total net position	<u>\$ 2,128,702</u>	<u>\$ 1,914,310</u>

The increase in the Department's net position resulted primarily from the following:

- Decrease in accounts receivable of \$47,841
- Decrease in fixed assets of \$57,632 mainly due to depreciation
- Decrease in unearned revenue of \$147,983
- Decrease in accrued payroll and related benefits and liabilities of \$359,150

**San Juan Basin Health Department
Management's Discussion and Analysis (Unaudited)
December 31, 2012
(Continued)**

Condensed Statement of Activities

In 2012, the Department's net position increased by \$214,392, or 9%, as show in Table 2.

Table 2: Condensed Statement of Activities

December 31,	<u>2012</u>	<u>2011</u>
Revenues		
Program		
Charges for services	\$ 1,452,850	\$ 2,660,253
Operating contracts, grants and contributions	3,493,171	3,497,650
General		
Interest	1,288	14,971
Miscellaneous	<u>70,494</u>	<u>115,991</u>
Total revenues	5,017,803	6,288,865
Program Expenses		
Public health	<u>4,803,411</u>	<u>6,773,017</u>
Change in Net Position	214,392	(484,152)
Net Position Beginning of Year	<u>1,914,310</u>	<u>2,398,462</u>
Net Position End of Year	<u>\$ 2,128,702</u>	<u>\$ 1,914,310</u>

Revenues for 2012 decreased by \$1,271,062, or 20.21% over 2011, while expenses decreased proportionately. These decreases were in line with the 2012 budget. Key factors include:

- Closure of the Personal Care Provider agency
- Mid-year closure of the Department's Home Health Care program.
- Certain program funding ended and was not renewed.

Governmental Fund Financial Analysis

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

**San Juan Basin Health Department
Management's Discussion and Analysis (Unaudited)
December 31, 2012
(Continued)**

As of the end of the current year, the Department's general fund reported an ending fund balance of \$869,052, an increase of 2%, in comparison to the prior year. Approximately 88% of this fund balance is unassigned, therefore available for spending at the Department's discretion. The remaining portion of the fund balance is reserved to indicate that it is not available for new spending as it has already been committed to pay debt service.

The fund balance of the Department's general fund increased by \$17,581 during the current year. This is largely due to less than anticipated payroll expenses in Administration.

Analysis of Significant Budget Variances

Historically, the Department has had to adapt to meet the changing community needs. Demands for service and variations in revenue from fees, grants and contracts, is a constant challenge. Utilizing State and County Public Health support funds the department has been able to assure continuation of essential programs. The Department is legally mandated by the State of Colorado to provide certain services that are not necessarily funded. Budget variances in 2012 were due to closure of the Home Health Department and changes to public and private funding.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Department had \$1,620,219 invested in capital assets, net of accumulated depreciation, as detailed in Note 3 to the financial statements.

Debt

At December 31, 2012, the Department had \$207,155 in lease obligations outstanding.

Economic Factors

The current protracted economic decline presents the Department with many challenges. Ability to fund reserves is difficult and contributions are on the decline. The financial statements have been prepared using values and information currently available to the Department.

Contacting the Department's Financial Management

This financial report is designed to provide a general overview of the Department's finances and to show the Department's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Administration Services Director at 281 Sawyer Drive, Durango, Colorado 81303.

Basic Financial Statements

San Juan Basin Health Department
Statement of Net Position
December 31, 2012

Current Assets	
Cash and cash equivalents	\$ 842,808
Intergovernmental receivables, net of \$4,992 allowance	536,219
Other receivables	24,475
Prepaid expenses and other	21,819
Restricted cash	<u>84,539</u>
Total current assets	1,509,860
Capital Assets, Net	<u>1,620,219</u>
Total assets	<u>3,130,079</u>
Current Liabilities	
Accounts payable	257,357
Accrued payroll and other	449,666
Unearned revenue	87,199
Current portion of lease obligation	<u>102,740</u>
Total current liabilities	896,962
Long-term Lease Obligations	<u>104,415</u>
Total liabilities	<u>1,001,377</u>
Net Position	
Net investment in capital assets	1,372,265
Restricted	
Debt service	58,515
Unrestricted	<u>697,922</u>
Total net position	<u><u>\$ 2,128,702</u></u>

The accompanying notes are an integral part of these financial statements.

San Juan Basin Health Department
Statement of Activities
For the Year Ended December 31, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
		<u>Charges</u> <u>for</u> <u>Services</u>	<u>Operating</u> <u>Contracts,</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Contracts,</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental activities:					
Public health	<u>\$ 4,803,411</u>	<u>\$ 1,452,850</u>	<u>\$ 3,493,171</u>	<u>\$ -</u>	<u>\$ 142,610</u>
General revenues:					
Interest					1,288
Miscellaneous					<u>70,494</u>
Total general revenues					<u>71,782</u>
Change in net position					214,392
Net position - beginning of year					<u>1,914,310</u>
Net position - end of year					<u>\$ 2,128,702</u>

The accompanying notes are an integral part of these financial statements.

San Juan Basin Health Department
Governmental Fund Balance Sheet
and Reconciliation of Fund Balances to Net Position
December 31, 2012

Assets	<u>Total</u>
Cash and cash equivalents	\$ 842,808
Intergovernmental receivables, net of \$4,992 allowance	536,219
Other receivables	24,475
Prepaid expenses and other	21,819
Restricted cash	84,539
Total assets	<u>\$ 1,509,860</u>
Liabilities	
Accounts payable	\$ 257,357
Accrued payroll and other	296,252
Unearned revenue	87,199
Total liabilities	<u>640,808</u>
Fund Equity	
Nonspendable - Prepaid expenses	21,819
Restricted for cash reserve	58,515
Assigned - Insurance claims	26,024
Unassigned	762,694
Total fund equity	<u>869,052</u>
Total Liabilities and Fund Equity	<u>\$ 1,509,860</u>
Total governmental fund equity per above	\$ 869,052
Capital assets used in governmental activities are not financial resources, and therefore, not reported in the fund balance sheet. In the statement of net assets the cost of these assets are capitalized and expensed over their estimated useful lives through annual depreciation	1,620,219
Liabilities, including lease obligations and compensated absences are not payable out of current financial resources, and therefore, are not reported in the fund balance sheet.	
Lease obligations	(207,155)
Compensated absences	(153,414)
Net position of governmental activities	<u>\$ 2,128,702</u>

The accompanying notes are an integral part of these financial statements.

San Juan Basin Health Department
Statement of Revenues, Expenditures, and Changes
in Fund Balance—Governmental Fund
For the Year Ended December 31, 2012

Revenues	
Charges for services	\$ 1,452,850
Intergovernmental	3,283,366
Grants	209,805
Interest income	1,288
Other	70,494
Total revenues	<u>5,017,803</u>
Expenditures	
Current	
Salaries and benefits	3,284,654
Travel	140,241
Contract Services	545,571
Operating	681,029
Other	128,857
Capital outlay	26,864
Debt service	
Principal	176,923
Interest and financing fees	16,083
Total expenditures	<u>5,000,222</u>
Net change in fund balance	<u>17,581</u>
Fund Balances, Beginning of Year	<u>851,471</u>
Fund Balances, End of Year	<u>\$ 869,052</u>

The accompanying notes are an integral part of these financial statements.

San Juan Basin Health Department
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance—Governmental Fund
to the Statement of Activities
For the Year Ended December 31, 2012

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance—governmental fund	\$	17,581
<p>Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized outlay exceeded depreciation expense in the current period.</p>		
Capital outlay		26,864
Depreciation expense		(84,494)
<p>Repayment of general obligation debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		176,923
<p>Compensated absences in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental fund.</p>		
Liability at December 31, 2012		153,414
Liability at December 31, 2011		<u>230,932</u>
Change in liability		77,518
Change in net position of governmental activities	\$	<u><u>214,392</u></u>

The accompanying notes are an integral part of these financial statements.

San Juan Basin Health Department

Notes to Financial Statements

December 31, 2012

1. Nature of Operations

San Juan Basin Health Department (the Department is a district health department serving La Plata and Archuleta Counties, as well as contracting to serve other surrounding counties. The governing board (the Board of Health) of the Department is made up of one representative County Commissioner from each member county and five non-elected members (three from La Plata County and two from Archuleta County).

Colorado Senate Bill 194, passed by the legislature in 2008, replaced Colorado Revised Statutes Title 25, Part 5, effective July 1, 2009. As a part of the requirement under this new law, all local health departments, including those previously organized under the original law, had to be authorized or reauthorized as county or district health departments. The Boards of County Commissioners of Archuleta and La Plata Counties held public hearings on the potential organizational structure and, on April 7th and 8th, 2009, respectively, passed resolutions to retain San Juan Basin Health Department as the district health department for the two counties. They have also, through a committee comprised of the chairs of the respective county commissions, appointed a seven member Board of Health, which was also required by law.

2. Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements of the Department consist only of the single governmental fund of the Department. The Department has no financial accountability for any other governmental entity. Financial accountability includes appointment of the Department's governing body, imposition of will and fiscal dependency. The Department's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

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. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

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 for both exchange and nonexchange transactions. 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 Department considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

Nonexchange transactions, in which the Department receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants, certain contracts and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource is required to be used or the fiscal year when use is first permitted; matching requirements, in which the Department must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Department on a reimbursement basis.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Government-wide and Fund Financial Statements

The government-wide financial statements (statement of net position and statement of activities) report information for the Department as a whole. Individual funds are not displayed, but the statements are designed to distinguish governmental activities, generally supported by grants and charges for services, from business-type activities. The Department does not report any business-type activities.

The statement of net position presents the financial position of the governmental activities of the Department as of year-end.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The Department reports only one function, which is public health.

Program revenues include:

- Charges for Service
- Operating Contracts, Grants and Contributions
- Capital Contracts, Grants and Contributions

These revenues are subject to externally imposed restrictions to certain program uses.

San Juan Basin Health Department

Notes to Financial Statements (continued)

December 31, 2012

2. Summary of Significant Accounting Policies (continued)

Other revenue sources not included with program revenues are reported as general revenues of the Department. The comparison of direct expenses with program revenues identifies the extent to which the governmental function of public health is self-financing or draws from the general revenues of the Department.

Fund Accounting

The Department uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Department only uses governmental funds and has only one such fund, the general fund.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources of funds and uses the balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The Department reports the following major governmental fund:

General Fund - The general fund is used to account for all financial resources of the Department. The general fund balance is available to the Department for any purpose, provided it is expended or transferred according to the general laws of Colorado and the bylaws of the Department.

Fund Equity

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provision, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the Department’s policy to use the most restrictive classification first.

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the Department or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net positions are reported as unrestricted.

The Department applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

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

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Department considers all liquid investments with original maturities of one year or less to be cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure or expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. The Department has set a capitalization threshold at \$5,000. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Department:

Buildings	40 years
Furniture, fixtures and equipment	3 to 15 years
Vehicles	1 to 5 years

Compensated Absences

The Department policies permit most employees to accumulate a total of 15 to 30 days of vacation and 12 days of sick leave benefits per year. Vacation may be realized as paid time off or, at time of separation of service, as a cash payment. A maximum of 40 days of vacation may be accumulated by each employee.

The total compensated absence liability is reported on the government-wide financial statements. Governmental funds report the compensated absence liability at the fund reporting level when due.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. Capital leases are recognized as a liability in the governmental fund financial statements when due.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Revenues are deferred for grants, contracts and entitlements received before the eligibility requirements are met (e.g., cash advances).

Budgets and Budgetary Accounting

The Board of Health is required to follow these procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with State Statute, prior to September 20, the Department Executive Director submits to the Board of Health a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The State Statutes require more detailed line item budgets to be submitted in summary form. In addition, more detailed line item budgets are included for administration control. The level of control for the detailed budgets is at the department head or function level.
- Public hearings are conducted to obtain taxpayer comment.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- Formal budgetary integration is employed as a management control device for the General Fund.
- Budgets for the General Fund are adopted on a basis consistent with GAAP.
- Appropriations lapse at the end of the year.
- The Board of Health may authorize supplemental appropriations during the year.

Colorado State Constitution Article X, Section 20

The Department has concluded that the revenue, spending and debt limitations imposed by Colorado State Constitution Article X, Section 20 (Amendment 1, the 'TABOR' amendment) do not apply to them. This conclusion was primarily based on the fact that the Department operates as an enterprise. In its deliberations, the Board of Health and management took under consideration a legal opinion drawing the same conclusion.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

Effective January 1, 2012, the Department implemented the provisions of Governmental Accounting Standards Board Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* (GASB No. 63).

GASB No. 63 provides guidance for reporting deferred outflows and deferred inflows of resources as introduced and defined in GASB Concepts Statement No. 4 *"Elements of Financial Statements"* (Concepts Statement No. 4). Concepts Statement No. 4 defines a deferred outflow of resources as a consumption of net assets that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net assets applicable to a future reporting period. The impact on the Department's financial statements has been to replace the term "net assets" with "net position".

3. Cash and Investments

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2012, all of the Department's bank balances were FDIC insured and collateralized by the pledging financial institution's trust department.

Investments

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Department's deposit policy for custodial credit risk requires compliance with the provisions of state law.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

3. Cash and Investments (continued)

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado State Senate Bill 194 requires the County Treasurer of the most populous county to serve as the public health agency's treasurer. Further, C.R.S 25-1-511 mandates that the County Treasurer create a district public health agency fund, segregating public health agency's funds from the county coffers.

The carrying values of deposits in the amount of \$927,347 are shown in the following captions in the statement of net position:

	Carrying Value	Bank Value	
Cash and cash equivalents	\$ 868,832	\$ 868,832	
Restricted cash	<u>58,515</u>	<u>87,595</u>	
	<u>\$ 927,347</u>	<u>\$ 956,427</u>	

4. Capital Assets

An analysis of the changes in net capital asset during 2012 follows:

	Balance December 31, 2011	Additions	Disposals	Balance December 31, 2012
Capital assets				
Land	\$ 224,627	\$ -	\$ -	\$ 224,627
Buildings	1,988,396	26,864	-	2,015,260
Furniture and equipment	179,179	-	-	179,179
Vehicles	<u>98,349</u>	-	-	<u>98,349</u>
Total capital assets	<u>2,490,551</u>	<u>26,864</u>	-	<u>2,517,415</u>
Less accumulated depreciation				
Buildings	650,784	58,201	-	708,985
Furniture and equipment	69,724	20,138	-	89,862
Vehicles	<u>92,192</u>	<u>6,157</u>	-	<u>98,349</u>
Total accumulated depreciation	<u>812,700</u>	<u>84,496</u>	-	<u>897,196</u>
Capital assets, net	<u>\$ 1,677,851</u>	<u>\$ (57,632)</u>	<u>\$ -</u>	<u>\$ 1,620,219</u>

Depreciation expense was \$84,496 for the year ending December 31, 2012 and was charged to governmental activities.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

5. Lease Obligation

The following is an analysis of changes in the Department's long-term debt for the year ended December 31, 2012:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Lease obligation	\$ 384,078	\$ -	\$ (176,923)	\$ 207,155	\$ 102,740

The lease obligation is payable in annual installments which vary each year through maturity in the year 2014. The annual interest rate is variable based on the Wells Fargo weekly published interest rate. The rate was 1.67% at December 31, 2012, and includes an additional 1.00% fixed financing fee. Interest and financing fees for 2012 were \$6,874. The obligation is secured by land and building.

The following is a schedule by year of future minimum lease payments under the lease obligation as of December 31, 2012:

	Total to be Paid	Principal	Interest
2013	\$ 105,221	\$ 102,740	\$ 2,481
2014	<u>105,375</u>	<u>104,415</u>	<u>960</u>
	<u>\$ 210,596</u>	<u>\$ 207,155</u>	<u>\$ 3,441</u>

The cost basis of the building is \$1,337,612, exclusive of the basis in land of \$224,627. The accumulated depreciation related to the building and related improvements was \$708,985 at December 31, 2012.

See Note 9 for discussion of contingent liability associated with this debt.

6. Group Health Insurance

The Department partially self-insures the cost of employee health care benefits. Stop-loss coverage has been purchased for all claims in excess of \$20,000 per claim per plan year. Liabilities on the statement of net position include an accrual for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The claims liability outstanding at December 31, 2012 was \$66,729 and is included in accrued payroll and other on the statement of net position and in the balance sheet. Restricted cash reflected in the accompanying statement of net position and balance sheet at December 31, 2012 includes \$26,024 representing the Department's balance in the plan.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

7. Pension Plan

The Department provides pension benefits for most of its regular employees, full and part-time employees with at least twenty hours a week, through an agent multi-employer public retirement system, the Colorado County Officials and Employee Retirement Association (CCOERA), a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Qualifying employees are required to participate upon completion of one year of employment.

The Department has established that employees, upon completion of one year of employment, contribute 5% of the employee's base earnings each month in a 401a Plan. The Department's matching contributions for each employee and interest allocated to the employee's account are fully vested after five years of continuous plan participation. Contributions for, and interest forfeited by, employees who leave employment before six years of service are used to reduce current contribution requirements. Ten year historical trend information about the plan is available in a separately issued financial report.

The Department and the covered employees made the required 5% contribution, amounting to \$98,695 from the Department and \$99,572 from employees. Employees also contributed \$49,761 in voluntary 457 retirement contributions for a total contribution of \$248,028.

8. Risk Management

The Department is exposed to various risks of loss related to limited torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the Department carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage for the current year or the past three years.

9. Building Acquisition and Related Debt

During 1995, the Department and two non-profit corporations (the Corporations) undertook the construction of an office building for their own use. Since the Corporations could not issue public bonds, the Department's ability to incur long--term debt is limited by state statute, the City of Durango, Colorado agreed to issue revenue bonds and loan the full amount of the bond proceeds to the Corporations to facilitate the project. The Corporations and the Department then entered into a separate agreement regarding the building and repayment of the debt. Payments on the bonded debt are made directly to the bond paying agent by the Corporations and the Department. The City of Durango is not involved in any debt repayment transactions.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

9. Building Acquisition and Related Debt (continued)

In December 2002, the Department and the Corporations entered into an advance refunding transaction to take advantage of lower interest rates. Again, the City of Durango facilitated this transaction. The refunding decreased the old debt and funded the cost of construction of an addition to the building. The bond paying agent used the net proceeds of the new bonds to purchase U.S. Government securities to provide for all future debt service on the refunded bonds.

The substance of the agreement between the Corporations and the Department is that each entity is responsible for its pro-rata share of the debt incurred based on square footage occupied and that each entity will own their pro-rata share of the building when the debt is satisfied.

The Department recorded the investment as follows:

	Cost Basis	Lease Obligation
Original allocation of land and building, 1995	\$ 847,342	\$ 859,250
Adjustment for re-measure	<u>81,586</u>	<u>27,697</u>
Adjusted original basis	928,928	886,947
Reallocation and additions	52,810	29,082
Debt retirements, as scheduled, 1995-2002	-	(242,636)
Advance refunding, 2002	-	(673,393)
Additions, 2002	588,688	1,080,443
Debt retirements, as scheduled, 2003-2012	<u>-</u>	<u>(873,288)</u>
Balance, December 31, 2012	<u>\$ 1,570,426</u>	<u>\$ 207,155</u>

Should any of the parties default or otherwise fail to pay their pro-rata share, the other parties will be liable for the full amount of the periodic debt payment. The Department, along with the Corporations, is required to maintain an irrevocable letter of credit in the amount of \$499,248, during the period in which the bonds are outstanding, which is scheduled to be through 2014. This letter of credit is equal to the amount due on the bond plus interest for six months.

Restricted cash in the accompanying statement of net position and balance sheet at December 31, 2012, includes \$58,515 representing the Department's share of the reserve required to be held by the Trustee on behalf of the bond holders.

San Juan Basin Health Department
Notes to Financial Statements (continued)
December 31, 2012

10. Significant Estimates and Concentrations

Some of the Department's patients are covered by government sponsored Medicare or Medicaid programs. The effect of the current economic conditions on government budgets may have an adverse effect on the cash flow from these programs. Further, current economic conditions have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans, services provided to self-pay and other payers may significantly impact the Department's future operating results.

Concentration of Credit Risk

Approximately 46% of net total revenue was derived under federal and state third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the representative third-party fiscal intermediaries.

11. Subsequent Events

San Juan Basin Health Department has evaluated all events or transactions that occurred after December 31, 2012 through June 25, 2013, the date at which the financial statements were available to be issued. During this period, the Department was not aware of any material recognizable subsequent events.

Required Supplementary Information

San Juan Basin Health Department
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund
For the Year Ended December 31, 2012

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for services	\$1,758,597	\$1,452,850	\$ (305,747)
Intergovernmental	3,136,265	3,283,366	147,101
Grants	231,523	209,805	(21,718)
Interest income	-	1,288	1,288
Other	75,028	70,494	(4,534)
Total revenues	5,201,413	5,017,803	(183,610)
Expenditures			
Current			
Salaries and benefits	3,723,736	3,284,654	439,082
Travel	155,355	140,241	15,114
Contract Services	449,786	545,571	(95,785)
Operating	668,973	681,029	(12,056)
Other	103,563	128,857	(25,294)
Capital outlay	-	26,864	(26,864)
Debt service			-
Principal	98,070	176,923	(78,853)
Interest and financing fees	1,930	16,083	(14,153)
Total expenditures	5,201,413	5,000,222	201,191
Net change in Fund Balance	\$ (0)	\$ 17,581	\$ 17,581

Actual expenditures are not to exceed the approved budget. Expenditures for 2012 were less than the final budget by \$201,191.

The accompanying notes are an integral part of these financial statements.

Supplementary Information

San Juan Basin Health Department
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Agency/Pass-through Entity/Cluster/Program	CFDA Number	Grant or Identifying Number	Amount
U.S. Department of Health and Human Services			
Drug-Free Communities Support Program	93.276	1H79SP018687-01	\$ 14,503
Pass Through: Colorado Department of Public Health and Environment			
Immunization Grants	93.268	IMM-KA2-HHS	14,004
Maternal and Child Health Services Block Grant to the States	93.994	MCH-MC1-HHS MCH-MC2-HHS	100,169
Public Health Emergency Preparedness	93.069	EPR-HW2-HHS	130,769
Family Planning Services	93.217	FPP-JA2-HHS FPP-JA3-HHS	60,455
Prevention and Public Health Fund	93.539	IMM-KL2-HHS	27,807
Preventive Health and Health Services	93.991	PRV-HC1-HHS	18,750
Subtotal Colorado Department of Public Health and Environment			<u>351,954</u>
Pass Through: Colorado Department of Health Care Policy & Financing			
Children's Health Insurance	93.767		2,496
State Health Access Program	93.256		24,626
Medical Assistance Program	93.778		<u>227,963</u>
Subtotal Colorado Department of Health Care Policy & Financing & Medicaid Cluster			<u>255,085</u>
Pass Through: Colorado Department of Human Services			
Prevention and Treatment of Substance Abuse	93.959	ADA11B1COSAP ADA12B1COSAP	136,085
Law Enforcement Assistance	N/A	DBHS12-122	29,996
Signle Entry Point	N/A	12SEPHB1146 13SEPHB1146	8,572

San Juan Basin Health Department
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2012

Federal Agency/Pass-through Entity/Cluster/Program	CFDA Number	Grant or Identifying Number	Amount
SPHCA	N/A	P12SPHCA	115
Subtotal Colorado Department of Human Services			<u>174,768</u>
Total US Department of Health and Human Services			<u>796,310</u>
U.S. Department of Agriculture Food and Nutrition			
Pass Through: Colorado Department of Public Health and Environment			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	WIC-ABD-DOA WIC-AB3-DOA WIC-AL2-DOA WIC-AL3-DOA	257,525
U.S. Environmental Protection Agency			
Pass Through: Colorado Department of Public Health and Environment			
Performance Partnership Grants	66.605	HAZ-AS1-EPA	<u>19,677</u>
Total Expenditures of Federal Awards			<u>\$ 1,073,512</u>

San Juan Basin Health Department

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2012

Notes to the Schedule

1. This schedule includes the federal awards activity of San Juan Basin Health Department and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular AA-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Certain federal assistance programs do not involve cash awards to the Department. The State of Colorado has arranged with the District to perform the intake function for the Special Supplemental Nutrition Program for Women, Infants and Children. These value of these noncash vouchers which are redeemed by the state to the participants are made up of the following:

Federal Agency/Pass-through Entity/Cluster/Program	CFDA Number	Grant or Identifying Number	Amount
U.S. Department of Agriculture Food and Nutrition - Colorado			
Department of Public Health and Environment			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	Value of food vouchers issued	<u>\$ 616,231</u>
U.S. Department of Health and Human Services - Colorado			
Department of Public Health and Environment			
Preventive Health Services - Sexually Transmitted Diseases	93.977	Value of tests performed	5,250
Total noncash award			<u>\$ 621,481</u>

3. Of the federal expenditures presented in this schedule, the Department provided no federal awards to sub-recipients.



Certified Public Accountants (a professional corporation)
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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Health
San Juan Basin Health Department
Durango, Colorado

We have audited the financial statements of San Juan Basin Health Department as of and for the year ended December 31, 2012, and have issued our report thereon June 25, 2013. 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 of the financial statements, we considered San Juan Basin Health Department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the San Juan Basin Health Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Juan Basin Health Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the San Juan Basin Health Department's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

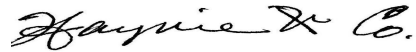
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and on compliance and other matters, and the results of that testing, and not to provide an opinion on the effectiveness of 's internal control over financial reporting or on compliance and other matters. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Juan Basin Health Department's internal control over financial reporting and on compliance and other matters. Accordingly, this report is not suitable for any other purpose.



Littleton, Colorado
June 25, 2013



**Haynie &
Company**

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

Board of Health
San Juan Basin Health Department
Durango, Colorado

Report on Compliance for Each Major Federal Program

We have audited San Juan Basin Health Department's compliance with the 14 types of compliance requirements described in the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations Compliance Supplement (OMB Circular A-133)* applicable to San Juan Basin Health Department's major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

Management's Responsibility for Compliance

Compliance with the requirements referred to above is the responsibility of San Juan Basin Health Department's management.

Auditor's Responsibility

Our responsibility is to express an opinion on San Juan Basin Health Department's 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 *OMB Circular A-133*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about San Juan Basin Health Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of San Juan Basin Health Department's compliance with those requirements.

Opinion

In our opinion, San Juan Basin Health Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures also disclosed immaterial instances of noncompliance with the requirements referred to above that are required to be communicated to management in accordance with the *Consolidated Audit Guide for Audits of HUD Programs (The Guide)*, issued by the U.S. Department of Housing and Urban Development, Office of Inspector General, and which have been communicated in a separate letter dated June 25, 2013. Our opinion is not modified with respect to this matter.

Internal Control Over Compliance

Management of San Juan Basin Health Department is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered San Juan Basin Health Department's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the San Juan Basin Health Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Littleton, Colorado

June 25, 2013

San Juan Basin Health Department
Schedule of Findings and Questioned Costs
for the Year Ended December 31, 2012

1. Summary of Auditor's Results

1. The opinion expressed in the independent certified public accountant's report was:
 Unqualified Qualified Adverse Disclaimed

2. The independent certified public accountants' report on internal control over financial reporting described:
 Significant deficiency(ies)? Yes No
 Material Weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit?
 Yes No

4. The independent certified public accountant's report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiency(ies)? Yes No
 Material Weakness(es)? Yes No

5. The opinion expressed in the independent certified public accountant's report on compliance with requirements applicable to major federal awards was:
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133?
 Yes No

7. The Departments major programs were:

Cluster/Program	CFDA Number
Medical Assistance Program	93.778
Special Supplemental Nutrition Program for Women, Infants and Children	10.557
Public Health Emergency Preparedness	93.069

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Department qualified as low-risk auditee as that term is defined in OMB Circular A-133?
 Yes No

San Juan Basin Health Department
Schedule of Findings and Questioned Costs (continued)
for the Year Ended December 31, 2012

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
<hr/>		
None reported.		

San Juan Basin Health Department
Summary Schedule of Prior Audit Findings
for the Year Ended December 31, 2011

Reference Number	Finding	Questioned Costs
11-1	<p>Questioned costs</p> <p>Criteria on Specific Requirement – The objectives of internal control are to ensure that policies and procedures are in place and are being followed to prevent or detect fraud or misstatements in the financial statements on a timely basis.</p> <p>Condition and Criteria — In several areas, the Department did not follow policies and procedures in place in regards to internal control and various accounting policies. These issues resulted in numerous deficiencies as follows:</p> <ul style="list-style-type: none"> • Review of indirect cost calculations and approval prior to submittal to the pass through agency <p>Effect — Deficiencies in internal control were identified.</p> <p>Cause — The Department had previously experienced turnover of key management positions, including the Executive Director and the Director of Finance positions. Due in part to these changes, certain controls were not in place, and other controls were not being followed until the 2010 audit identified such deficiencies in internal control.</p> <p>Recommendation — We recommended that the Department continue to follow the newly adopted Internal Control Policy adopted on July 28th, 2011.</p> <p>Current Status —The corrective action plan was completed in July 2011 and the Department has followed this plan since that date. No similar findings were noted in the 2012 audit.</p>	None

San Juan Basin Health Department
Summary Schedule of Prior Audit Findings (continued)
for the Year Ended December 31, 2011

Reference Number	Finding	Questioned Costs
11-2	<p>Indirect cost rate review and approval</p> <p>Criteria or Specific Requirement — Allowable Costs and Activities Allowable.</p> <p>Condition and Criteria — Occupancy expenses were included in the indirect cost computation; however they were also being charged to the program as a direct expense.</p> <p>Effect — The Department was not in compliance with the guidelines of OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments which indicate costs that are included in the indirect cost calculation can not also be included as a direct cost. Expenditures being recorded to the program as a direct and indirect cost could result in overstated reimbursement.</p> <p>Cause — This occurred because prior to 2011 there was no formal review of the indirect cost rate calculation prior to submitall to the granting or pass-through agency.</p> <p>Recommendation — As this finding was discovered in the 2010 audit, and corrected in June 2011, we recommend that District follow its corrective action plan by following the newly adopted Internal Control Policy and reviewing the details of the indirect cost rate calculation to ensure that it follows federal guidelines and no unallowable or unallowed charged are included.</p> <p>Current Status — The corrective action plan was completed in July 2011 and the Department has followed this plan since that date. No similar findings were noted in the 2012 audit.</p>	\$7,018

San Juan Basin Health Department
Summary Schedule of Prior Audit Findings (continued)
for the Year Ended December 31, 2011

Reference Number	Finding	Questioned Costs
11-3	<p>Tracking and reporting of personnel costs</p> <p>Condition and Criteria — Wages for three hourly individuals were different than the wages on the time cards.</p> <p>Effect — Incorrect costs for personnel were charged to the grant as a result.</p> <p>Cause — This occurred because the payroll data for a few individuals was being input into various spreadsheets and calculations by various departments before being included in the grant worksheet which tracts all grant costs. Thus, if some numbers were updated or changed, those changes were not communicated and updated on all spreadsheets. Also, the payroll amounts were not reviewed by a separate party for accuracy.</p> <p>Recommendation — We recommended the process for tracking payroll costs for each grant be condensed so information only needs to be tracked in once place and not multiple places. We also recommended the payroll amounts entered into the grant spreadsheet each month get reviewed by a separate individual.</p> <p>Current Status — Management made changes to the tracking and recording of payroll costs for grants and has eliminated unnecessary steps. The new process eliminates the need for various departments to track the payroll costs, and was implemented on December 1, 2011. No similar findings were noted in the 2012 audit.</p>	\$800