

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

June 30, 2017

and

Independent Auditor's Report

**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***

**Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Schedule of Findings and Questioned Costs

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the County Commissioners
County of Hillsborough, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Hillsborough, New Hampshire, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Hillsborough, New Hampshire, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof 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, budgetary comparison information, the schedule of funding progress for other post-employment benefits, the schedule of changes in the County's proportionate share of the net pension liability, and the schedule of County contributions, on pages i-vi and 29-34 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 the County of Hillsborough, New Hampshire's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2018 on our consideration of the County of Hillsborough, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 County of Hillsborough, New Hampshire's internal control over financial reporting and compliance.

Vorlon Chiksey & Company PC

Manchester, New Hampshire
March 6, 2018

**Hillsborough County
Financial Management's Discussion and Analysis
For Year Ended June 30, 2017**

As the Financial Managers of Hillsborough County we offer the readers of this document the following narrative overview and analysis of the financial activities of Hillsborough County for the fiscal year ended June 30, 2017.

REPORTING THE MOST SIGNIFICANT FUNDS OF THE COUNTY

The Government Accounting Standards Board (GASB) has initiated standards for reporting municipal financial activities each year. The standard, GASB No. 34, requires a County to report the activity in its most significant funds. Those funds are determined by the application of a defined test to the County's activity.

Hillsborough County currently has two significant funds to be reported. They include the following:

General Fund (Government Activities): The majority of County spending is reported as General Fund expenditures. These expenditures reflect the spending of all County departments except the Nursing Home. Expenses in this category include the expenditures of the Department of Corrections, Registry of Deeds, Sheriff's Office, County Attorney, Delegation, Cooperative Extension, Conservation District, and all Administrative Departments.

Proprietary Fund (Business-type activities): The revenue and expenditures of the Hillsborough County Nursing Home are isolated in a special fund (Proprietary Fund) that has been established for this purpose. Since a significant amount of expense is reimbursed (in whole or in part) by federal and state agencies it is critical to isolate the financial activity at the Nursing Home in this special fund.

FUND FINANCIAL STATEMENTS

A fund is an accounting entity with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The County divides its funds into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds: - Most basic services provided by the County are financed and accounted for through governmental funds. Governmental fund financial statements focus on current inflows and outflows of spendable resources as well as the available balances of these resources at the end of the fiscal year. This information is useful in determining the County's financing requirements for the subsequent fiscal period. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Because the focus of governmental funds is for the current period, it is useful to compare this information to the data presented in the government-wide financial statements so readers may better understand the long-term impact of the County's current financing 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.

The County currently has two individual governmental funds: General and the Registry of Deeds Equipment Replacement Fund. Of these, the General fund is the only one that is considered a major fund, and is presented in separate columns on the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance.

Proprietary fund – This fund is used to show activities that operate similar to private business enterprises. Because these funds charge fees for services provided, they are known as enterprise funds. Proprietary fund

financial statements use the economic resources measurement focus and the accrual basis of accounting, like the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside of Hillsborough County. The fiduciary funds are not reflected in the government-wide financial statements because the assets of these funds are not available to support the activities of the County. The economic resources management focus and accrual basis of accounting is used for fiduciary funds, the same as that used for the proprietary funds.

The County's only fiduciary fund is the agency fund for the inmate savings, correctional commissary funds, Nursing Home patient funds, Sheriff bond and escrow funds, and court-forfeited funds.

Notes to the Financial Statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found following the fund financial statements.

Other Information - Additional schedules can be found immediately following the notes to the financial statements. These include the combining statements for the nonmajor funds and a schedule of budget to actual comparisons.

STATEMENT OF NET POSITION

The Statement of Net Position reports information about the County as a whole. This statement includes all of the assets of the County using the accrual basis of accounting, which is similar to the accounting method used by most private – sector companies. All current year revenue and expenditures are taken into account regardless of when the cash is received, or paid.

This report reflects the difference between the County's assets and deferred outflows of resources and liabilities and deferred inflows of resources. This is one way to measure the financial health of the County. Over time, increases or decreases in the net position of the County are an indicator of whether the financial health of the County is improving or deteriorating. In the case of Hillsborough County the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,828,749 for fiscal year ended June 30, 2017. This figure represents an increase of \$2,260,182 over the fiscal year ended June 30, 2016.

A portion of the County's net position, (\$5,948,619), reflects its investments in capital assets, (e.g., land, buildings and equipment), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investments in capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The statement following reflects the County's Net Position as of June 30, 2017.

**Hillsborough County
Statement of Net Position
June 30, 2017**

	2017	2016	2017	2016		
	Governmental	Governmental	Business-Type	Business-Type	2017 Total	2016 Total
	Activities	Activities	Activities	Activities	County	County
Assets						
Current Assets	\$ 20,002,894	\$ 14,386,299	\$ 29,330,132	\$ 28,081,386	\$ 49,333,026	\$ 42,467,685
Capital & Noncurrent Assets	<u>3,753,987</u>	<u>4,368,302</u>	<u>3,200,152</u>	<u>2,288,317</u>	<u>6,954,139</u>	<u>6,656,619</u>
Total Assets	\$ 23,756,881	\$ 18,754,601	\$ 32,530,284	\$ 30,369,703	\$ 56,287,165	\$ 49,124,304
Deferred Outflows of Resources	\$ 9,887,481	\$ 2,383,768	\$ 5,006,122	\$ 1,289,291	\$ 14,893,603	\$ 3,673,059
Liabilities						
Noncurrent Liabilities	\$ 38,427,413	\$ 27,212,653	\$ 19,311,729	\$ 15,023,046	\$ 57,739,142	\$ 42,235,699
Other Liabilities	<u>\$ 7,565,793</u>	<u>\$ 5,396,055</u>	<u>\$ 1,254,531</u>	<u>\$ 1,233,833</u>	<u>\$ 8,820,324</u>	<u>\$ 6,629,888</u>
Total Liabilities	\$ 45,993,206	\$ 32,608,708	\$ 20,566,260	\$ 16,256,879	\$ 66,559,466	\$ 48,865,587
Deferred Inflows of Resources	\$ 1,190,030	\$ 2,182,680	\$ 602,523	\$ 1,180,529	\$ 1,792,553	\$ 3,363,209
Net Position						
Invested in Capital Assets	\$ 3,753,987	\$ 4,368,302	\$ 2,194,632	\$ 2,191,811	\$ 5,948,619	\$ 6,560,113
Restricted	148,452	6,634			148,452	6,634
Unrestricted	<u>\$(17,441,313)</u>	<u>\$(18,027,955)</u>	<u>\$ 14,172,991</u>	<u>\$ 12,029,775</u>	<u>\$ (3,268,322)</u>	<u>\$ (5,998,180)</u>
Total Net Position	\$(13,538,874)	\$(13,653,019)	\$ 16,367,623	\$ 14,221,586	\$ 2,828,749	\$ 568,567
Total Liabilities and Net Position	<u>\$ 33,644,362</u>	<u>\$ 21,138,369</u>	<u>\$ 37,536,406</u>	<u>\$ 31,658,994</u>	<u>\$ 71,180,768</u>	<u>\$ 52,797,363</u>

CHANGES IN NET POSITION

Total County Activities:

During FY17, Hillsborough County generated \$93,507,476 in overall revenue. This was comprised of \$62,461,166 in general revenue and \$31,046,310 in revenue from business-type activities. Departmental expenditures for the fiscal year were \$91,247,294.

Governmental Activities:

Charges for services accounted for \$7,081,970 or 11.34 percent of the \$62,461,166 in governmental activities revenue and were primarily generated from the Registry of Deeds office, Sheriff's Department and the Department of Corrections. In addition, there was \$1,502,597 in operating grants, \$94,802 in interest income, \$427,852 in rental income and \$267,098 in miscellaneous income.

The cost of governmental activities for the fiscal year ended June 30, 2017 was \$64,926,778. Programs that were funded included General Government, Public Safety, Corrections, County Attorney, Registry of Deeds, Cooperative Extension and all administrative departments.

General government accounted for \$9,562,989 or 14.73 percent of overall expenditures of the County, which include expenditures of all the administrative departments and the Office of the County Attorney.

The Human Services Department represented expenditures of \$32,526,685 that were used to fund Interim Nursing Care.

The Sheriff's Office expended \$5,546,425 during the year to perform all of the statutory duties required of that office. These expenditures were offset by charges for services that amounted to \$1,842,571.

Expenditures in support of the operation of the Department of Corrections during the fiscal year equaled \$17,190,608. Offsetting revenue generated from services equaled \$1,055,827.

Budgeted invested fund earnings estimates were increased slightly to reflect expectations from the current interest rate environment. The total amount generated equaled \$94,802 as compared to the budget amount of \$55,000.

Business-type Activities:

The Hillsborough County Nursing Home functions as a business-type activity (Proprietary Fund). Revenue is generated through the care of residents. Total revenue received by the Nursing Home in FY17 was \$31,046,310 and overall expenditures amounted to \$26,320,516. The Nursing Home's net position at fiscal year-end was \$16,367,623.

Charges for services increased at the Nursing Home by \$61,565 over the fiscal year that ended on June 30, 2016. Overall operating expenditures for the Nursing Home increased by \$1,275,601 over the prior fiscal year.

Hillsborough County Changes in Net Position Actual Revenue and Expenditures June 30, 2017

	2017 Governmental <u>Activities</u>	2016 Governmental <u>Activities</u>	2017 Business-Type <u>Activities</u>	2016 Business-Type <u>Activities</u>	2017 Total <u>Government</u>	2016 Total <u>Government</u>
Revenues						
Program Revenue:						
Charges for Services	\$ 7,081,970	\$ 7,150,377	\$ 22,725,149	\$ 22,663,584	\$ 29,807,119	\$ 29,813,961
Operating Grants	1,502,597	266,264	7,526,943	7,405,108	9,029,540	7,671,372
Capital Grants						
General Revenues:						
County Taxes	53,086,847	51,063,836	-	-	53,086,847	51,063,836
Interest and Invested Funds	94,802	56,319	2,130	144	96,932	56,463
Rental Income	427,852	419,128	-	-	427,852	419,128
Miscellaneous	<u>267,098</u>	<u>266,802</u>	<u>792,088</u>	<u>805,017</u>	<u>1,059,186</u>	<u>1,071,819</u>
Total Revenue	<u>\$ 62,461,166</u>	<u>\$ 59,222,726</u>	<u>\$ 31,046,310</u>	<u>\$ 30,873,853</u>	<u>\$ 93,507,476</u>	<u>\$ 90,096,579</u>
Program Expenditures:						
General Government	\$ 3,312,233	\$ 2,830,153	-	-	\$ 3,312,233	\$ 2,830,152
Sheriff	5,546,425	4,689,728	-	-	5,546,425	4,689,728
Corrections	17,190,608	15,219,887	-	-	17,190,608	15,219,888
Nursing Home			\$ 26,320,516	\$ 25,044,915	26,320,516	25,044,915
County Attorney	4,277,154	3,658,708	-	-	4,277,154	3,658,708
Medical Referee	100,071	107,053	-	-	100,071	107,053
Registry of Deeds	1,533,738	1,428,836	-	-	1,533,738	1,428,836

Human Services	32,526,685	29,444,771	-	-	32,526,685	29,444,771
Cooperative Extension	439,864	379,522			439,864	379,522
Intergovernmental	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 64,926,778</u>	<u>\$ 57,758,658</u>	<u>\$ 26,320,516</u>	<u>\$ 25,044,915</u>	<u>\$ 91,247,294</u>	<u>\$ 82,803,573</u>
Transfers	2,579,757	2,672,981	(2,579,757)	(2,672,981)		
Change in net position	114,145	4,137,049	2,146,037	3,155,957	2,260,182	7,293,006
Net assets 6/30/16	<u>(13,653,019)</u>	<u>(17,790,068)</u>	<u>14,221,586</u>	<u>11,065,629</u>	<u>568,567</u>	<u>(6,724,439)</u>
Net assets 6/30/17	<u>\$ (13,538,874)</u>	<u>\$ (13,653,019)</u>	<u>\$ 16,367,623</u>	<u>\$ 14,221,586</u>	<u>\$ 2,828,749</u>	<u>\$ 568,567</u>

COUNTY FINANCIAL ANALYSIS

Governmental Funds:

For the fiscal year ended June 30, 2017, the County reported a combined ending fund balance of \$12,437,101, which is an increase of \$3,446,857 from fiscal year 2016.

The General Fund is the primary operating fund for Hillsborough County. At the end of the fiscal year, the General Fund Balance was \$12,388,111. The General Fund Balance for the County increased by \$3,462,479 during the current fiscal year.

One measure of financial strength is the level of cash reserves (unassigned fund balance) that is maintained by the County. Hillsborough County has maintained an unassigned fund balance that has allowed the County to manage cash flow during the year and for the fifteenth year in a row eliminate the need to borrow in anticipation of taxes. This has saved the County thousands of dollars each year in interest expense.

Fund balance amounts totaling \$2,159,754 have been dedicated to the General Fund. The majority of this is reported as assigned and has been assigned for encumbrances and \$500,947 has been assigned in the Capital Reserve Fund.

The Unassigned Fund balance of \$10,228,357, as indicated, is unassigned. This balance may serve as a useful measure of the County's available resources.

The County's other Governmental Fund consists of the Registry of Deeds Equipment Replacement Fund. This fund was established to continue to provide services to the residents of Hillsborough County. The Registry of Deeds Equipment Replacement Fund designates a portion of the revenue collected by that department to be used to defray the costs associated with replacing equipment. The other Governmental fund balance as of June 30, 2017 consists of the Registry of Deeds Equipment Replacement fund balance of \$48,990.

Expenditures: Budgetary expenditures for the year were \$62,023,035, which was \$2,513,138 less than the budget of \$64,536,173. All departments across the county contributed to this under spending and returned money at the end of the fiscal year.

Revenue: Variances between actual revenue and budgeted revenue for fiscal year 2017 reflect a net positive variance of \$379,426.

Proprietary Funds: The County's proprietary funds provide the same type of information found in the government-wide financial statements. Please refer to the business-type activities section listed previously for discussion on the activity in the proprietary funds.

Capital Assets - The County's investments in capital assets for its governmental activities amounted to \$3,753,987 (net of accumulated depreciation). In addition, the County's investments in business-type activities amounted to \$2,194,632 (net of accumulated depreciation). The following statement provides additional detail.

**Hillsborough County
Capital Assets
(Net of Depreciation)**

	2017	2016	2017	2016	2017 Total	2016 Total
	Governmental	Governmental	Business-Type	Business-Type	2017 Total	2016 Total
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>County</u>	<u>County</u>
Land Improvements	\$ 12,791	\$ 9,139	\$ 55,639	\$ 10,347	\$ 68,429	\$ 19,486
Buildings and Improvements	2,616,334	3,320,803	602,102	616,154	3,218,436	3,936,957
Equipment	1,064,702	1,038,360	1,536,891	1,555,867	2,601,594	2,594,227
Construction in Progress	60,160			9,443	60,160	9,443
	<u>\$ 3,753,987</u>	<u>\$ 4,368,302</u>	<u>\$ 2,194,632</u>	<u>\$ 2,191,811</u>	<u>\$ 5,948,619</u>	<u>\$ 6,560,113</u>

Additional information on the County's capital assets can be found in Note 3 of the Notes to Basic Financial Statements.

In Summary: Hillsborough County has continued to practice sound fiscal management in FY17. As a result the County continued to maintain available surplus at a level that allowed fiscal managers to insulate the County Taxpayers from fluctuation in the economy. The available surplus and the elimination of debt have allowed the County to maintain a bond rating of AA, to avoid unnecessary borrowing, and to minimize fluctuations in the tax rate.

Our Fiscal-Year 2018 operating budget reflects an increase of 1.72 percent over the Fiscal-Year 2017 operating budget.

CONTACTING THE FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors with a general overview of Hillsborough County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Chad D. Monier, County Administrator, Hillsborough County, 329 Mast Road, Goffstown, NH 03045, telephone (603) 627-5602, or visit the County's website at www.hcnh.org.

EXHIBIT A
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 38,192,988	\$ 56,003	\$ 38,248,991
Investments	7,057,689		7,057,689
Accounts receivable, net	623,670	2,056,268	2,679,938
Due from other governments	160,403	1,119,796	1,280,199
Internal balance	(26,033,463)	26,033,463	-
Prepaid expenses	1,607		1,607
Inventory		64,602	64,602
Total Current Assets	<u>20,002,894</u>	<u>29,330,132</u>	<u>49,333,026</u>
Noncurrent Assets:			
Restricted cash		1,005,520	1,005,520
Capital assets:			
Non-depreciable capital assets	60,160		60,160
Depreciable capital assets, net	3,693,827	2,194,632	5,888,459
Total Noncurrent Assets	<u>3,753,987</u>	<u>3,200,152</u>	<u>6,954,139</u>
Total Assets	<u>23,756,881</u>	<u>32,530,284</u>	<u>56,287,165</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to net pension liability	<u>9,887,481</u>	<u>5,006,122</u>	<u>14,893,603</u>
Total Deferred Outflows of Resources	<u>9,887,481</u>	<u>5,006,122</u>	<u>14,893,603</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	3,026,672	176,129	3,202,801
Accrued expenses	360,337	432,408	792,745
Due to other governments	4,178,784	589,991	4,768,775
Unearned contributions		56,003	56,003
Total Current Liabilities	<u>7,565,793</u>	<u>1,254,531</u>	<u>8,820,324</u>
Noncurrent Liabilities:			
Other post-employment benefits obligation	2,157,858	948,121	3,105,979
Net pension liability	36,269,555	18,363,608	54,633,163
Total Noncurrent Liabilities	<u>38,427,413</u>	<u>19,311,729</u>	<u>57,739,142</u>
Total Liabilities	<u>45,993,206</u>	<u>20,566,260</u>	<u>66,559,466</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to net pension liability	<u>1,190,030</u>	<u>602,523</u>	<u>1,792,553</u>
Total Deferred Inflows of Resources	<u>1,190,030</u>	<u>602,523</u>	<u>1,792,553</u>
NET POSITION			
Net investment in capital assets	3,753,987	2,194,632	5,948,619
Restricted	148,452		148,452
Unrestricted (Deficit)	(17,441,313)	14,172,991	(3,268,322)
Total Net Position	<u>\$ (13,538,874)</u>	<u>\$ 16,367,623</u>	<u>\$ 2,828,749</u>

See accompanying notes to the basic financial statements

EXHIBIT B
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Business-Type Activities</u>	
Governmental Activities:						
General government	\$ 9,562,989	\$ 4,183,572	\$ 500,000	\$ (4,879,417)		\$ (4,879,417)
Public safety	22,837,104	2,898,398	558,347	(19,380,359)		(19,380,359)
Health and welfare	32,526,685		444,250	(32,082,435)		(32,082,435)
Total governmental activities	<u>64,926,778</u>	<u>7,081,970</u>	<u>1,502,597</u>	<u>(56,342,211)</u>	<u>\$ -</u>	<u>(56,342,211)</u>
Business-type activities:						
Nursing Home	<u>26,320,516</u>	<u>22,725,149</u>	<u>7,526,943</u>		<u>3,931,576</u>	<u>3,931,576</u>
Total business-type activities	<u>26,320,516</u>	<u>22,725,149</u>	<u>7,526,943</u>		<u>3,931,576</u>	<u>3,931,576</u>
Total primary government	<u>\$ 91,247,294</u>	<u>\$ 29,807,119</u>	<u>\$ 9,029,540</u>	<u>(56,342,211)</u>	<u>3,931,576</u>	<u>(52,410,635)</u>
General revenues:						
Property taxes				53,086,847		53,086,847
Interest and investment earnings				94,802	2,130	96,932
Miscellaneous				694,950	792,088	1,487,038
Transfers				<u>2,579,757</u>	<u>(2,579,757)</u>	<u>-</u>
Total general revenues and transfers				<u>56,456,356</u>	<u>(1,785,539)</u>	<u>54,670,817</u>
Change in net position				114,145	2,146,037	2,260,182
Net position (deficit) at beginning of year				<u>(13,653,019)</u>	<u>14,221,586</u>	<u>568,567</u>
Net position (deficit) at end of year				<u>\$ (13,538,874)</u>	<u>\$ 16,367,623</u>	<u>\$ 2,828,749</u>

See accompanying notes to the basic financial statements

EXHIBIT C
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 38,192,988		\$ 38,192,988
Investments	7,057,689		7,057,689
Accounts receivable	623,670		623,670
Due from other governments	160,403		160,403
Due from other funds		\$ 48,990	48,990
Prepaid expenses	1,607		1,607
Total Assets	<u>46,036,357</u>	<u>48,990</u>	<u>46,085,347</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 46,036,357</u>	<u>\$ 48,990</u>	<u>\$ 46,085,347</u>
LIABILITIES			
Accounts payable	\$ 3,016,672		\$ 3,016,672
Accrued expenses	360,337		360,337
Due to other governments	4,178,784		4,178,784
Due to other funds	26,092,453		26,092,453
Total Liabilities	<u>33,648,246</u>	<u>\$ -</u>	<u>33,648,246</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	1,607		1,607
Restricted	148,452		148,452
Assigned	2,009,695	48,990	2,058,685
Unassigned	10,228,357		10,228,357
Total Fund Balances	<u>12,388,111</u>	<u>48,990</u>	<u>12,437,101</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 46,036,357</u>	<u>\$ 48,990</u>	<u>\$ 46,085,347</u>

See accompanying notes to the basic financial statements

EXHIBIT C-1
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 12,437,101
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	3,753,987
Deferred outflows of resources and deferred inflows of resources that do not provide or require the use of current financial resources are not reported within the funds.	
Deferred outflows of resources attributable to net pension liability	9,887,481
Deferred inflows of resources attributable to net pension liability	(1,190,030)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:	
Other post-employment benefits obligation	(2,157,858)
Net pension liability	(36,269,555)
Net Position of Governmental Activities (Exhibit A)	<u>\$ (13,538,874)</u>

See accompanying notes to the basic financial statements

EXHIBIT D
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 53,086,847		\$ 53,086,847
Intergovernmental	1,502,597		1,502,597
Charges for services	6,957,592	\$ 124,378	7,081,970
Interest and investment income	94,802		94,802
Miscellaneous	694,950		694,950
Total Revenues	<u>62,336,788</u>	<u>124,378</u>	<u>62,461,166</u>
Expenditures:			
Current operations:			
General government	8,512,573	238,500	8,751,073
Public safety	20,316,308		20,316,308
Health and welfare	32,526,685		32,526,685
Total Expenditures	<u>61,355,566</u>	<u>238,500</u>	<u>61,594,066</u>
Excess revenues over (under) expenditures	<u>981,222</u>	<u>(114,122)</u>	<u>867,100</u>
Other Financing Sources (Uses):			
Transfers in	2,579,757	98,500	2,678,257
Transfers out	(98,500)		(98,500)
Total Other Financing Sources (Uses)	<u>2,481,257</u>	<u>98,500</u>	<u>2,579,757</u>
Net change in fund balances	3,462,479	(15,622)	3,446,857
Fund balances at beginning of year	<u>8,925,632</u>	<u>64,612</u>	<u>8,990,244</u>
Fund balances at end of year	<u>\$ 12,388,111</u>	<u>\$ 48,990</u>	<u>\$ 12,437,101</u>

See accompanying notes to the basic financial statements

EXHIBIT D-1
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2017

Net Change in Fund Balances - Governmental Funds (Exhibit D) \$ 3,446,857

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

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 as depreciation
expense. This is the amount by which depreciation expense
exceeded capital outlays in the current period. (614,315)

Some expense reported in the statement of activities, such as other
post-employment benefits, do not require the use of current financial
resources and, therefore, are not reported as expenditures in
governmental funds. (316,733)

Governmental funds report pension contributions as expenditures.

However, in the statement of activities, pension expense reflects
the change in the net pension liability and related deferred outflows
and inflows of resources, and do not require the use of current
financial resources. This is the amount by which pension
expense exceeded pension contributions in the current period. (2,401,664)

Change in Net Position of Governmental Activities (Exhibit B) \$ 114,145

EXHIBIT E
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2017

	Nursing Home Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 56,003
Accounts receivable, net	2,056,268
Due from other governments	1,119,796
Due from other funds	26,033,463
Inventory	64,602
Total Current Assets	<u>29,330,132</u>
Noncurrent Assets:	
Restricted cash	1,005,520
Capital assets:	
Depreciable capital assets, net	2,194,632
Total Noncurrent Assets	<u>3,200,152</u>
Total Assets	<u>32,530,284</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to net pension liability	5,006,122
Total Deferred Outflows of Resources	<u>5,006,122</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	176,129
Accrued expenses	432,408
Due to other governments	589,991
Unearned contributions	56,003
Total Current Liabilities	<u>1,254,531</u>
Noncurrent Liabilities:	
Other post-employment benefits obligation	948,121
Net pension liability	18,363,608
Total Noncurrent Liabilities	<u>19,311,729</u>
Total Liabilities	<u>20,566,260</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to net pension liability	602,523
Total Deferred Inflows of Resources	<u>602,523</u>
NET POSITION	
Net investment in capital assets	2,194,632
Unrestricted	14,172,991
Total Net Position	<u>\$ 16,367,623</u>

See accompanying notes to the basic financial statements

EXHIBIT F
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Nursing Home Fund
Operating revenues:	
Intergovernmental revenue	\$ 7,526,943
Charges for services	22,725,149
Miscellaneous	<u>792,088</u>
Total operating revenues	<u>31,044,180</u>
Operating expenses:	
Administrative	3,451,697
Maintenance and operations	992,527
Physical therapy	1,990,659
Dietary	2,170,836
Nursing	14,472,661
Laundry	372,452
Housekeeping	739,702
Physician/pharmacy	643,219
Restorative services	672,793
Social services	372,053
Barber/beauty	43,271
Depreciation	<u>398,646</u>
Total operating expenses	<u>26,320,516</u>
Operating income	4,723,664
Non-operating revenues:	
Interest revenue	<u>2,130</u>
Net non-operating revenues	<u>2,130</u>
Transfers out	<u>(2,579,757)</u>
Change in net position	2,146,037
Total net position at beginning of year	<u>14,221,586</u>
Total net position at end of year	<u>\$ 16,367,623</u>

See accompanying notes to the basic financial statements

EXHIBIT G
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Nursing Home Fund
Cash flows from operating activities:	
Cash received from patient care/services	\$ 23,843,264
Cash received from Medicaid pool funds	7,435,778
Cash paid to suppliers	(10,643,703)
Cash paid to employees	(15,262,077)
Net cash provided by operating activities	<u>5,373,262</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	(2,579,757)
Net cash (used) for noncapital financing activities	<u>(2,579,757)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(401,467)
Net cash (used) for capital and related financing activities	<u>(401,467)</u>
Cash flows from investing activities:	
Interest on investments	2,130
Net cash provided by investing activities	<u>2,130</u>
Net increase in cash and cash equivalents	2,394,168
Cash and cash equivalents at beginning of year	24,700,818
Cash and cash equivalents at end of year	<u>\$ 27,094,986</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,723,664
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	398,646
Provision for bad debts	(25,000)
Change in deferred outflows related to pension	(3,716,831)
Change in deferred inflows related to pension	(578,006)
Changes in assets and liabilities:	
Accounts receivable	351,027
Due from other governments	(91,165)
Inventory	1,546
Accounts payable	(66,257)
Accrued expenses	54,371
Due to other governments	6,995
Unearned revenue	25,589
Other post-employment benefits payable	131,278
Net pension liability	4,157,405
Net cash provided by operating activities	<u>\$ 5,373,262</u>

See accompanying notes to the basic financial statements

EXHIBIT H
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 515,209
Accounts receivable	<u>10,000</u>
Total Assets	<u>\$ 525,209</u>
LIABILITIES	
Due to specific individuals	<u>\$ 525,209</u>
Total Liabilities	<u>\$ 525,209</u>

See accompanying notes to the basic financial statements

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Hillsborough, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

The County of Hillsborough, New Hampshire (the County) was established in 1769 under the laws of the State of New Hampshire. The County boundaries include thirty-one New Hampshire municipalities located in southern New Hampshire. The County operates under the Commissioner/Delegation form of government and provides services as authorized by state statutes.

The financial statements include those of the various departments governed by the Commissioners and other officials with financial responsibility. The County has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

Basis of Presentation

The County'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.

1. Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental and business-type activities of the County at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the County. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the County.

2. Fund Financial Statements

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

Fund Accounting

The County uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The County employs the use of three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes 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 assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following is the County's major governmental fund:

The *General Fund* is the main operating fund of the County and is used to account for all financial resources except those required to be accounted for in another fund.

2. Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The County has no internal service funds. The following is the County's major proprietary fund:

The *Nursing Home Fund* accounts for all revenues and expenses pertaining to the County's Nursing Home facility operations. The Nursing Home Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The County maintains one type of fiduciary fund: agency funds. The County's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The County's agency funds account for inmate savings, correctional commissary funds, sheriff bond, escrow and court-forfeited funds, and Nursing Home patient funds.

Measurement Focus

1. Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the County are included on the Statement of Net Position.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

2. Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue and in the presentation of expenses versus expenditures.

1. Revenues – Exchange and Non-exchange Transactions

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. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the County, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 9). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the County must provide local resources to be used for a specified purpose; and expenditure requirements in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes, charges for services and interest on investments.

Miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Grants and entitlements received before the eligibility requirements are met are recorded as advances from grantors. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

2. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

Budgetary Data

The County's budget represents functional appropriations as authorized by the County Delegation. The County Delegation may transfer funds between operating categories as they deem necessary. The County adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2017, the County did not apply unassigned fund balance to reduce taxes.

Cash and Cash Equivalents

The County pools its cash resources for the governmental and proprietary funds. Cash applicable to a particular fund is reflected as an interfund balance. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash, restricted cash, and the interfund receivable of the Nursing Home Fund.

Investments

Investments are stated at their fair value in all funds. Certificates of deposit with a maturity of greater than ninety days from the date of issuance are included in investments.

Accounts Receivable

Nursing Home Fund accounts receivable at June 30, 2017 are recorded net of an allowance for uncollectible receivables of \$250,000.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

Inventory

The County accounts for inventories under the consumption method on a first-in, first out basis. Inventories are recorded at cost.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net position, but are not reported in the governmental fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition cost as of the date received. The County maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets of the business-type activities is also capitalized.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Description</u>	<u>Years</u>
Land improvements		5-15
Buildings and improvements		3-87
Equipment		3-20

Compensated Absences

Employees earn vacation and sick leave as they provide services. Provision is made in the annual budget for vacation and sick leave. Pursuant to County personnel policy and collective bargaining agreements, employees may not accumulate sick and vacation time beyond one year.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement.

The estimated value of accrued sick time for the Nursing Home Fund has been accrued as a liability in that fund as required by accounting principles generally accepted in the United States of America.

Accrued Liabilities and Long-Term Obligations

All payables and accrued liabilities 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 resources are reported as obligations of the funds.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire Retirement System (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Policy

Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the County has segregated fund balance into five classifications: Non-spendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- *Non-spendable Fund Balance*: Amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted Fund Balance*: Amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation.
- *Committed Fund Balance*: Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority: to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- *Assigned Fund Balance*: Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- *Unassigned Fund Balance*: Amounts that are available for any purpose; these amounts are reported only in the General Fund.

As of June 30, 2017, the County has not adopted a fund balance policy. In instances when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications may be applied, committed resources are to be applied first, followed by assigned and unassigned.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Nursing Home Fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2--DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 38,248,991
Investments	7,057,689
Restricted cash	1,005,520
Statement of Fiduciary Net Position:	
Cash and cash equivalents	515,209
	<u>\$ 46,827,409</u>

Deposits and investments at June 30, 2017 consist of the following:

Cash on hand	\$ 5,950
Deposits with financial institutions	46,821,459
	<u>\$ 46,827,409</u>

The County's investment policy for governmental fund types requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The County limits its investments to demand deposits, money market accounts,

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

certificates of deposit, and repurchase agreements in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the County's deposits may not be returned to it. Currently, the County does not have an investment policy for assurance against custodial credit risk; however, the County has an agreement with the bank to collateralize deposits in excess of the FDIC insurance limits.

Of the County's deposits with financial institutions at year end, \$49,302,471 was collateralized by securities held by the bank in the bank's name.

NOTE 3--CAPITAL ASSETS

The following is a summary of changes in capital assets in the governmental activities:

	Balance <u>7/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2017</u>
Governmental activities:				
Capital assets not depreciated:				
Construction in process		\$ 60,160		\$ 60,160
Total capital assets not being depreciated	\$ -	60,160	\$ -	60,160
Other capital assets:				
Land improvements	189,035	8,430		197,465
Buildings and improvements	31,492,519	1,780		31,494,299
Equipment	8,777,737	414,111		9,191,848
Total other capital assets at historical cost	40,459,291	424,321	-	40,883,612
Less accumulated depreciation for:				
Land improvements	(179,896)	(4,778)		(184,674)
Buildings and improvements	(28,171,717)	(706,248)		(28,877,965)
Equipment	(7,739,376)	(387,770)		(8,127,146)
Total accumulated depreciation	(36,090,989)	(1,098,796)	-	(37,189,785)
Total other capital assets, net	4,368,302	(674,475)	-	3,693,827
Total capital assets, net	<u>\$ 4,368,302</u>	<u>\$ (614,315)</u>	<u>\$ -</u>	<u>\$ 3,753,987</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 373,619
Public safety	725,177
Total governmental activities depreciation expense	<u>\$ 1,098,796</u>

The following is a summary of changes in capital assets in the proprietary fund:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017
Business-type activities:				
Capital assets not depreciated:				
Construction in process	\$ 9,443		\$ (9,443)	\$ -
Total capital assets not being depreciated	9,443	\$ -	(9,443)	-
Other capital assets:				
Land improvements	508,873	59,226		568,099
Buildings and improvements	8,180,842	118,660		8,299,502
Vehicles and equipment	5,450,021	233,024		5,683,045
Subtotal	14,139,736	410,910	-	14,550,646
Accumulated depreciation:				
Land improvements	(498,525)	(13,935)		(512,460)
Buildings and improvements	(7,564,688)	(132,712)		(7,697,400)
Vehicles and equipment	(3,894,155)	(251,999)		(4,146,154)
Total accumulated depreciation	(11,957,368)	(398,646)	-	(12,356,014)
Total other capital assets, net	2,182,368	12,264	-	2,194,632
Total capital assets, net	\$ 2,191,811	\$ 12,264	\$ (9,443)	\$ 2,194,632

Depreciation expense was charged to the proprietary fund as follows:

Nursing Home	\$ 398,646
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NOTE 4--DEFINED BENEFIT PENSION PLAN

Plan Descriptions

The County contributes to the New Hampshire Retirement System (NHRS), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The New Hampshire Retirement System is a public employee retirement system that administers a single cost-sharing multiple-employer defined benefit pension plan. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature.

The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

Benefits Provided

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members vested by January 1, 2012, who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have not attained status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by 1/4 of 1%. For Group II members who commenced service prior to July 1, 2011, who have not attained vested status prior to January 1, 2012, benefits are calculated depending on age and years of creditable service as follows:

<u>Years of Creditable Service as of January 1, 2012</u>	<u>Minimum Age</u>	<u>Minimum Service</u>	<u>Benefit Multiplier</u>
At least 3 but less than 10 years	46	21	2.4%
At least 6 but less than 8 years	47	22	2.3%
At least 4 but less than 6 years	48	23	2.2%
Less than 4 years	49	24	2.1%

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Funding Policy

Covered police officers are required to contribute 11.55% of their covered salary, whereas general employees are required to contribute 7.0% of their covered salary. The County is required to contribute at an actuarially determined rate. The County's contribution rates for the year ended June 30, 2017 were 22.54% and 10.86% of covered payroll to police officers and general employees, respectively. The County contributed 100% of the employer cost for police officers and general employees of the County.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The County's pension contributions to the NHRS for the year ending June 30, 2017, was \$3,654,318, equal to the required contributions for the year.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the County reported a liability of \$54,633,163 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2015. The County's proportion of the net pension liability was based on actual contributions by the County during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2016, the County's proportion was approximately 1.0274 percent, which was an increase of 0.0283 percentage points from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the County recognized pension expense of \$5,924,408. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 151,825	\$ 689,881
Changes of assumptions	6,723,606	
Net difference between projected and actual earnings on pension plan investments	3,418,131	
Changes in proportion and differences between County contributions and proportionate share of contributions	945,723	1,102,672
County contributions subsequent to the measurement date	<u>3,654,318</u>	<u> </u>
Total	<u>\$ 14,893,603</u>	<u>\$ 1,792,553</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as an increase to unrestricted net position in the amount of \$13,101,050. The County reported \$3,654,318 as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement periods as follows:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

<u>June 30,</u>	
2017	\$ 1,782,811
2018	1,782,811
2019	3,032,323
2020	2,704,837
2021	143,950
	<u>\$ 9,446,732</u>

Actuarial Assumptions

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2015, using the following actuarial assumptions:

Inflation	2.5 percent
Wage inflation	3.25 percent
Salary increases	5.6 percent, average, including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study. Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2015 pursuant to an experience study of the period July 1, 2010 – June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of weighted average long-term expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 2.5%)</u>
Fixed income	25%	(0.25)-1.71%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.75-6.25%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.75%
Opportunistic	5%	3.68%
Total	<u>100%</u>	

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

Discount Rate

The discount rate used to measure the collective pension liability was 7.25%, which is a decrease of 0.50% from the discount rate used for the prior measurement period of June 30, 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer contributions are projected based on the expected payroll of current members only. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

	1% Decrease (<u>6.25%</u>)	Current Discount Rate (<u>7.25%</u>)	1% Increase (<u>8.25%</u>)
County's proportionate share of the net pension liability	\$ 70,199,892	\$ 54,633,163	\$ 41,723,027

NOTE 5--OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the County provides medical benefits to its eligible retirees and their covered dependents. The following groups of retirees qualify for this benefit: Group I employees hired before July 1, 2011: retire after (1) attaining age 60 or (2) attaining age 50 with 10 or more years of service or (3) age plus service is at least 70 with 20 or more years of service; Group I employees hired on or after July 1, 2011: retire after (1) attaining age 65 or (2) attaining age 60 with 30 or more years of service; Group II employees hired before July 1, 2011: retire after (1) attaining age 60 or (2) attaining age 45 with 20 or more years of service; or Group II employees hired on or after July 1, 2011: retire after (1) attaining age 60 or (2) attaining age 46 with 21 years of service.

Retirees and surviving spouses pay the full cost of the medical premium. Medical coverage continues to the spouse after the death of the retiree provided the spouse makes the required contributions. As of July 1, 2016, the actuarial valuation date, approximately 10 retirees and 491 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

Annual OPEB Costs

The County's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The County's annual OPEB cost for the year ending June 30, 2017, including the amount actually contributed to the plan, and the change in the County's net OPEB obligation based on an actuarial valuation as of July 1, 2016, is as follows:

Annual Required Contributions (ARC)	\$ 586,830
Interest on net OPEB obligation	106,319
Adjustment to ARC	<u>(153,729)</u>
Annual OPEB Cost	539,420
Contributions made	<u>(91,409)</u>
Increase in net OPEB obligation	448,011
Net OPEB obligation - beginning of year	<u>2,657,968</u>
Net OPEB obligation - end of year	<u>\$ 3,105,979</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2017, 2016 and 2015 are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 777,815	30.6%	\$ 2,118,529
6/30/2016	\$ 807,835	33.2%	\$ 2,657,968
6/30/2017	\$ 539,420	16.9%	\$ 3,105,979

The County's net OPEB obligation as of June 30, 2017, is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

The funded status of the plan as of July 1, 2016, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 5,230,422
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 5,230,422</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 23,408,540
UAAL as a percentage of covered payroll	22.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and other actuarial assumptions. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions for OPEB

Projections of benefits for financial reporting purposes are based on the plan as understood by the County and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2016 actuarial valuation, the Entry Age Normal Cost Method was used. The actuarial value of assets was not determined as the County has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend of 8.0% which decreases to a 5.0% long-term rate for all healthcare benefits after four years. The amortization costs for the Unfunded Actuarial Accrued Liability (UAAL) is a level dollar amortization for a period of thirty years on an open group basis.

NOTE 6--INTERFUND BALANCES AND TRANSFERS

The County has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at June 30, 2017 are as follows:

		Due from
		General
		Fund
Due to	Nonmajor Governmental Fund	\$ 48,990
	Nursing Home Fund	26,033,463
	Fiduciary Funds	10,000
		<u>\$ 26,092,453</u>

Interfund transfers for the year ended June 30, 2017 consisted of a transfer of \$98,500 to the Registry of Deeds Fund (Nonmajor Governmental Fund) from the General Fund to support current operations. There was a budgetary transfer of \$2,579,757 from the Nursing Home Fund to the General Fund.

NOTE 7--RESTRICTED NET POSITION

Net position is restricted for specific purposes at June 30, 2017 are as follows:

Drug Forfeiture Funds	<u>\$ 148,452</u>
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NOTE 8--COMPONENTS OF FUND BALANCE

The components of the County's fund balance for its governmental funds at June 30, 2017 are as follows:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

<u>Fund Balances</u>	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Prepaid expenses	\$ 1,607		\$ 1,607
Restricted for:			
Drug Forfeiture	148,452		148,452
Assigned for:			
Deeds surcharge fund		\$ 48,990	48,990
Encumbrances	1,508,748		1,508,748
Capital reserves	500,947		500,947
Unassigned	<u>10,228,357</u>		<u>10,228,357</u>
	<u>\$ 12,388,111</u>	<u>\$ 48,990</u>	<u>\$ 12,437,101</u>

NOTE 9--PROPERTY TAXES

Property taxes levied to support the County are based on the assessed valuation of the prior April 1st for all taxable real property.

Under state statutes, the thirty-one Towns and Cities that comprise Hillsborough County (all independent governmental units) collect County taxes as part of local property tax assessments. As collection agent, the Towns/Cities are required to pay over to the County its share of property tax assessments. The Towns/Cities assume financial responsibility for all uncollected property taxes under state statutes.

NOTE 10--OPERATING LEASES

The County currently leases the former "House of Corrections" to the State of New Hampshire, which is using the facility as a women's prison. Rent is payable to the County on a monthly basis. In August 2017, the County extended the lease for one additional year, through June 30, 2018. The annual rent received by the County, which is annually adjusted, was \$249,772 for the year ended June 30, 2017.

Effective December 2013, the County entered into a 5-year lease with the State of New Hampshire for use of the 2nd Floor of the County Office Building for the Hillsborough County Courthouse. Rent is payable to the County on a monthly basis and terminates November 2018. The annual rent due to the County was \$178,079 for the year ended June 30, 2017.

The minimum future rental payments to be received from the State of New Hampshire for the Hillsborough County Courthouse and the Women's Prison are as follows:

<u>Year Ended</u>	
<u>June 30,</u>	
2018	\$ 180,752
2019	75,780
	<u>\$ 256,532</u>

In September 2011, the County entered into a 3-year lease with the State of New Hampshire for use of office space within the Hillsborough County Superior Court-North in Manchester, New Hampshire. In September 2014, the County and the State amended the lease terms with a new expiration of December

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

31, 2017. Rent is payable to the State of New Hampshire-Department of Administrative Services on a monthly basis. The annual rent paid by the County was \$121,800 for the year ended June 30, 2017.

The minimum future rental payments to be paid by the County for use of the Superior Court-North are as follows:

<u>June 30,</u>	
2018	<u>\$ 61,353</u>

NOTE 11--RISK MANAGEMENT

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2017, the County participated in a public entity risk pool (Trust) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years. The County currently reports all of its risk management activities in its General Fund.

The Trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2017.

Property and Liability Insurance

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, the County shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$1,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

The Trust provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 12--COMMITMENTS AND CONTINGENCIES

Encumbrances

Encumbrances at June 30, 2017 are as follows:

General government	\$ 216,623
Public safety	1,204,499
Human services	87,626
	<u>\$ 1,508,748</u>

Litigation

Legal counsel estimates that any potential claims against the County which are not covered by insurance are immaterial and would not affect the financial position of the County.

Federal Grants

The County participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

NOTE 13—IMPLEMENTATION OF FUTURE ACCOUNTING STANDARDS

The Government Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which the County is required to implement in the fiscal year ending June 30, 2018. Management believes that this pronouncement will have a potentially significant impact on the County's government-wide financial statements. The County will have to report its proportional share of the New Hampshire Retirement System's unfunded OPEB liability in the financial statements for the fiscal year beginning after June 15, 2017. Additionally, Statement No. 75 modifies the allowable methods, recognition and measurement criteria related to how the County accounts for and reports its single employer OPEB plan, currently disclosed in Note 5.

SCHEDULE 1
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 53,086,847	\$ 53,086,847	\$ 53,086,847	\$ -
Intergovernmental	1,498,975	1,498,975	1,502,597	3,622
Charges for services	6,841,851	6,841,851	6,957,592	115,741
Interest income	55,000	55,000	93,855	38,855
Miscellaneous	473,742	473,742	694,950	221,208
Total Revenues	<u>61,956,415</u>	<u>61,956,415</u>	<u>62,335,841</u>	<u>379,426</u>
Expenditures:				
Current:				
General government	9,533,714	9,533,714	8,522,944	1,010,770
Public safety	22,507,737	22,507,737	21,005,370	1,502,367
Health and welfare	32,494,721	32,494,721	32,494,721	-
Debt Service:				
Principal retirement	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total Expenditures	<u>64,536,173</u>	<u>64,536,173</u>	<u>62,023,035</u>	<u>2,513,138</u>
Excess revenues over (under) expenditures	<u>(2,579,758)</u>	<u>(2,579,758)</u>	<u>312,806</u>	<u>2,892,564</u>
Other Financing Sources (Uses):				
Transfers in	2,579,758	2,579,758	2,579,757	(1)
Transfers out	<u> </u>	<u> </u>	<u>(598,500)</u>	<u>(598,500)</u>
Total Other Financing Sources (Uses)	<u>2,579,758</u>	<u>2,579,758</u>	<u>1,981,257</u>	<u>(598,501)</u>
Net change in fund balance	-	-	2,294,063	2,294,063
Fund balance at beginning of year				
- Budgetary Basis	<u>8,084,353</u>	<u>8,084,353</u>	<u>8,084,353</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 8,084,353</u>	<u>\$ 8,084,353</u>	<u>\$ 10,378,416</u>	<u>\$ 2,294,063</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE

Schedule of Funding Progress for Other Post-Employment Benefits

For the Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2012	\$ -	\$ 10,776,700	\$ 10,776,700	0.0%	\$ 29,441,178	36.6%
7/1/2014	\$ -	\$ 7,526,428	\$ 7,526,428	0.0%	\$ 24,302,178	31.0%
7/1/2016	\$ -	\$ 5,230,422	\$ 5,230,422	0.0%	\$ 23,408,540	22.3%

See accompanying notes to the required supplementary information

SCHEDULE 3

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE

Schedule of Changes in the County's Proportionate Share of the Net Pension Liability

For the Year Ended June 30, 2017

	For the Measurement Period Ended June 30:			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
County's proportion of the net pension liability (asset)	1.0274%	0.9991%	1.0365%	1.0418%
County's proportionate share of the net pension liability (asset)	\$ 54,633,163	\$ 39,577,731	\$ 38,904,872	\$ 44,835,032
County's covered-employee payroll	\$ 25,446,701	\$ 24,379,147	\$ 24,580,252	\$ 24,296,742
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	214.70%	162.34%	158.28%	184.53%
Plan fiduciary net position as a percentage of the total pension liability	58.30%	65.47%	66.32%	59.81%

See accompanying notes to the required supplementary information

SCHEDULE 4
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of County Contributions
For the Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 3,654,318	\$ 3,673,059	\$ 3,351,702	\$ 3,362,556	\$ 2,590,370
Contributions in relation to the contractually required contribution	<u>(3,654,318)</u>	<u>(3,673,059)</u>	<u>(3,351,702)</u>	<u>(3,362,556)</u>	<u>(2,590,370)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered-employee payroll	\$ 25,496,033	\$ 25,446,701	\$ 24,379,147	\$ 24,580,252	\$ 24,296,742
Contributions as a percentage of covered-employee payroll	14.33%	14.43%	13.75%	13.68%	10.66%

See accompanying notes to the required supplementary information

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the County. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). General Fund budgetary revenues and other financing sources were adjusted for non-budgetary activity. General Fund budgetary expenditures and other financing uses were adjusted for encumbrances, non-budgetary activity, and budgetary transfers as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 64,916,545	\$ 61,454,066
Encumbrances, June 30, 2017		1,508,748
Encumbrances, June 30, 2016		(841,279)
Non-budgetary revenues	(947)	-
Budgetary transfers		500,000
Per Schedule 1	<u>\$ 64,915,598</u>	<u>\$ 62,621,535</u>

NOTE 2—BUDGETARY FUND BALANCES

The components of the budgetary fund balance for the County are as follows:

Nonspendable:	
Prepaid expenses	\$ 1,607
Restricted:	
Drug forfeiture	148,452
Unassigned	<u>10,228,357</u>
	<u>\$ 10,378,416</u>

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2017

NOTE 3—SCHEDULE OF CHANGES IN THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF COUNTY CONTRIBUTIONS

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the County is required to disclose historical information for each of the prior ten years within a schedule of changes in the County's proportionate share of the net pension liability, and schedule of County contributions. The County implemented the provisions of GASB Statement #68 during the year ended June 30, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as the information becomes available.

Changes in Assumptions

For the June 30, 2015 actuarial valuation, the New Hampshire Retirement System included changes in the valuation and economic assumptions previously used in the June 30, 2014 actuarial valuation. The investment rate of return was reduced from 7.75% to 7.25%. The price inflation was decreased from 3.0% to 2.5%. The wage inflation was decreased from 3.75% to 3.25%. The salary increases were decreased from 5.8% to 5.6%. In addition, the expectation of retired life mortality was based on RP-2000 Mortality Tables. Amounts reported in the June 30, 2015 actuarial valuation are based on the RP-2014 employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP-2015.

SCHEDULE I
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from the New Hampshire Community Development Finance Authority Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii #15-406-CDPF	14.228	\$ 500,000
Total Department of Housing and Urban Development		<u>500,000</u>
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department State Criminal Alien Assistance Program #2016-AP-BX-0461	16.606	<u>16,543</u>
Pass Through Payments from the New Hampshire Office of the Governor and Attorney General Criminal and Juvenile Justice and Mental Health Collaboration Program #2014-MO-BX-0048	16.745	<u>200,000</u>
Received directly from U.S. Treasury Department Equitable Sharing Program	16.922	<u>100,881</u>
Total Department of Justice		<u>317,424</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education Adult Education - Basic Grants to States #27008	84.002	<u>3,332</u>
Total Department of Education		<u>3,332</u>
Total Expenditures of Federal Awards		<u>\$ 820,756</u>

See notes to schedule of expenditures of federal awards

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2017

NOTE 1--BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the County of Hillsborough, New Hampshire (the County) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position or cash flows of the County.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the County's basic financial statements. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3--INDIRECT COST RATE

The County has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4--RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The recognition of expenditures of federal awards has been reported in the County's basic financial statements as intergovernmental revenues of the General Fund.

**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**

Independent Auditor's Report

To the Board of Commissioners
County of Hillsborough, New Hampshire

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the County of Hillsborough, New Hampshire, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County of Hillsborough, New Hampshire's basic financial statements, and have issued our report thereon dated March 6, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County of Hillsborough, New Hampshire's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Hillsborough, New Hampshire's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Hillsborough, New Hampshire's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 the County of Hillsborough, New Hampshire's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Vaeton Clark & Company PC

Manchester, New Hampshire
March 6, 2018

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the County Commissioners
County of Hillsborough, New Hampshire

Report on Compliance for Each Major Federal Program

We have audited the County of Hillsborough, New Hampshire's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County of Hillsborough, New Hampshire's major federal programs for the year ended June 30, 2017. The County of Hillsborough, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County of Hillsborough, New Hampshire's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Hillsborough, New Hampshire's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the County of Hillsborough, New Hampshire complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the County of Hillsborough, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County of Hillsborough, New Hampshire's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 County of Hillsborough, New Hampshire's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Vorlon Chukay & Company PC

Manchester, New Hampshire
March 6, 2018

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified – all reporting units</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____yes	<u> X </u> no
Significant deficiency(ies) identified?	_____yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____yes	<u> X </u> no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____yes	<u> X </u> no
Significant deficiency(ies) identified?	_____yes	<u> X </u> none reported

Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____yes	<u> X </u> no
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Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants - State's Program and Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B program:	\$ <u> 750,000 </u>
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Auditee qualified as low-risk auditee?	_____yes	<u> X </u> no
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Section II--Financial Statement Findings

There were no findings relating to the financial statements required to be reported by GAGAS.

Section III--Federal Award Findings and Questioned Costs

There were no findings and questioned costs as defined under 2 CFR 200.516(a).