

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

June 30, 2013

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**

Schedule of Findings and Questioned Costs

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2013

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FINANCIAL STATEMENTS
June 30, 2013**

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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, 2013, 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, 2013, 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, and the schedule of funding progress for other post-employment benefits on pages i-vi and 25-27 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.

Supplementary 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 18, 2014 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.

Vacher Clary & Company PC

Manchester, New Hampshire
March 18, 2014

**Hillsborough County
Financial Management's Discussion and Analysis
For Year Ended June 30, 2013**

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, 2013.

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 \$38,536,746 for fiscal year ended June 30, 2013.

A portion of the County's net position, (\$9,432,958 or 24.48 percent), 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 largest portion of net position, unrestricted net position, (\$29,058,375 or 75.40 percent), represents an additional component of total net position. This balance displays the financial strength of the County.

The statement following reflects the County's Net Position as of June 30, 2013.

**Hillsborough County
Statement of Net Position
June 30, 2013**

	2013	2012	2013	2012		
	Governmental	Governmental	Business-Type	Business-Type	2013 Total	2012 Total
	Activities	Activities	Activities	Activities	County	County
Assets						
Current Assets	\$ 19,073,162	\$ 18,429,524	\$20,504,086	\$ 16,961,553	\$ 39,577,248	\$ 35,391,077
Capital Assets	<u>6,666,663</u>	<u>7,512,920</u>	<u>2,766,295</u>	<u>2,694,384</u>	<u>9,432,958</u>	<u>10,207,304</u>
Total Assets	\$ 25,739,825	\$ 25,942,444	\$ 23,270,381	\$ 19,655,937	\$ 49,010,206	\$ 45,598,381
Deferred Outflows of Resources						
Liabilities						
Noncurrent Liabilities	\$ 570,945	\$ 47,713	\$ 395,231	\$ 174,129	\$ 966,176	\$ 221,842
Other Liabilities	<u>\$ 8,192,185</u>	<u>\$ 3,367,618</u>	<u>\$ 1,288,755</u>	<u>\$ 1,138,959</u>	<u>\$ 9,480,940</u>	<u>\$ 4,506,577</u>
Total Liabilities	\$ 8,763,130	\$ 3,415,331	\$ 1,683,986	\$ 1,313,088	\$ 10,447,116	\$ 4,728,419
Deferred Inflows of Resources			\$ 26,344		\$ 26,344	
Net Position						
Invested in Capital Assets	\$ 6,666,663	\$ 7,512,920	\$ 2,766,295	\$ 2,694,384	\$ 9,432,958	\$ 10,207,304
Restricted	45,413	144,921			45,413	144,921
Unrestricted	<u>\$ 10,264,619</u>	<u>\$ 14,869,272</u>	<u>\$ 18,793,756</u>	<u>\$ 15,648,465</u>	<u>\$ 29,058,375</u>	<u>\$ 30,517,737</u>
Total Net Position	\$ 16,976,695	\$ 22,527,113	\$ 21,560,051	\$ 18,342,849	\$ 38,536,746	\$ 40,869,962
Total Liabilities and Net Position	<u>\$ 25,739,825</u>	<u>\$ 25,942,444</u>	<u>\$ 23,270,381</u>	<u>\$ 19,655,937</u>	<u>\$ 49,010,206</u>	<u>\$ 45,598,381</u>

CHANGES IN NET POSITION

Total County Activities:

During FY13, Hillsborough County generated \$81,091,719 in overall revenue. This was comprised of \$52,515,638 in general revenue and \$28,576,081 in revenue from business-type activities. Departmental expenditures for the fiscal year were \$83,516,753.

Governmental Activities:

Charges for services accounted for \$6,913,999 or 13.17 percent of the \$52,515,638 in governmental activities revenue and were primarily generated from the Registry of Deeds office. In addition, there was \$830,169 in operating grants, \$57,593 in interest income, \$392,661 in rental income and \$211,796 in miscellaneous income.

The cost of governmental activities for the fiscal year ended June 30, 2013 was \$58,040,785. 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 \$7,992,612 or 13.77 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 \$29,819,063 that were used to fund Interim Nursing Care.

The Sheriff's Office expended \$4,758,857 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 \$1,704,786.

Expenditures in support of the operation of the Department of Corrections during the fiscal year equaled \$15,159,923. Offsetting revenue generated from services equaled \$1,290,543.

Budgeted invested fund earnings estimates were again decreased from prior years to reflect expectations from the current interest rate environment. The total amount generated equaled \$57,593 as compared to budget amount of \$150,000.

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 FY13 was \$28,576,081 and overall expenditures amounted to \$25,475,968.

Charges for services increased at the Nursing Home by \$146,800 over the fiscal year that ended on June 30, 2012. Overall operating expenditures for the Nursing Home decreased by \$432,899 with most departments contributing to this reduction.

Hillsborough County Changes in Net Position Actual Revenue and Expenditures June 30, 2013

	2013 Governmental Activities	2012 Governmental Activities	2013 Business-Type Activities	2012 Business-Type Activities	2013 Total Government	2012 Total Government
Revenues						
Program Revenue:						
Charges for Services	\$ 6,913,999	\$ 5,854,859	\$ 20,848,577	\$ 20,701,777	\$ 27,762,576	\$ 26,556,636
Operating Grants	830,169	749,601	-	-	830,169	749,601
Capital Grants			137,726		137,726	
General Revenues:						
County Taxes	44,109,420	44,109,421	-	-	44,109,420	44,109,421
Invested Funds	57,593	226,837	-	-	57,593	226,837
Grants and Contributions not restricted to specific programs			6,809,524	5,998,424	6,809,524	5,998,424
Rental Income	392,661	382,682	-	-	392,661	382,682
Miscellaneous	211,796	125,706	780,254	587,592	992,050	713,298
Total Revenue	<u>\$ 52,515,638</u>	<u>\$ 51,449,106</u>	<u>\$ 28,576,081</u>	<u>\$ 27,287,793</u>	<u>\$ 81,091,719</u>	<u>\$ 78,736,899</u>

Program Expenditures:

General Government	\$ 2,669,719	\$ 2,776,625	-	-	\$ 2,669,719	\$ 2,776,625
Sheriff	4,758,857	4,677,071	-	-	4,758,857	4,677,071
Corrections	15,159,923	15,444,842	-	-	15,159,923	15,444,842
Nursing Home			\$ 25,475,968	\$ 25,908,867	25,475,968	25,908,867
County Attorney	3,533,021	3,638,652	-	-	3,533,021	3,638,652
Medical Referee	72,830	72,885	-	-	72,830	72,885
Registry of Deeds	1,432,362	1,478,445	-	-	1,432,362	1,478,445
Human Services	29,819,063	30,797,610	-	-	29,819,063	30,797,610
Cooperative Extension	357,510	391,451	-	-	357,510	391,451
Intergovernmental	<u>237,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,500</u>	<u>-</u>
Total Expenses	<u>\$ 58,040,785</u>	<u>\$ 59,277,581</u>	<u>\$ 25,475,968</u>	<u>\$ 25,908,867</u>	<u>\$ 83,516,753</u>	<u>\$ 85,186,448</u>
Change in net position	(5,525,147)	(7,828,475)	3,100,113	1,378,926	(2,425,034)	(6,449,549)
Net assets 6/30/12 restated	<u>22,501,842</u>	<u>30,355,588</u>	<u>18,459,938</u>	<u>16,963,923</u>	<u>40,961,780</u>	<u>47,319,511</u>
Net assets 6/30/13	<u>\$ 16,976,695</u>	<u>\$ 22,527,113</u>	<u>\$ 21,560,051</u>	<u>\$ 18,342,849</u>	<u>\$ 38,536,746</u>	<u>\$ 40,869,962</u>

COUNTY FINANCIAL ANALYSIS**Governmental Funds:**

For the fiscal year ended June 30, 2013, the County reported a combined ending fund balance of \$10,880,977, which was a decrease of \$4,155,658 from fiscal year 2012. The General Fund is the primary operating fund for Hillsborough County. At the end of the fiscal year, the General Fund Balance was \$10,747,605. The general fund balance for the County decreased by \$4,164,968 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 twelfth 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 expenses.

Fund balance amounts totaling \$2,123,160 have been dedicated to the General Fund. The majority of this is reported as assigned and has been assigned for encumbrances.

The Unassigned Fund balance of \$8,624,445, 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, 2013 consists of the Registry of Deeds Equipment Replacement fund balance of \$133,372.

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.

Revenue: Variances between actual revenue and budgeted revenue for fiscal year 2013 reflect a net negative variance of \$383,878.

Expenditures: Budgetary expenditures for the year were \$55,555,616, which was \$738,937 less than the budget of \$56,294,553. All departments across the county contributed to this under spending and returned money at the end of the fiscal year.

Capital Assets - The County's investments in capital assets for its governmental activities amounted to \$6,666,663 (net of accumulated depreciation). In addition, the County's investments in business-type activities amounted to \$2,766,295 (net of accumulated depreciation). The following statement provides additional detail.

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

	2013	2012	2013	2012		
	Governmental	Governmental	Business-Type	Business-Type	2013 Total	2012 Total
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>County</u>	<u>County</u>
Land Improvements	\$ 27,286	\$ 40,601	\$ 55,229	\$ 80,570	\$ 82,515	\$ 121,171
Buildings and Improvements	5,491,565	6,229,643	996,454	1,152,205	6,488,019	7,381,848
Equipment	1,147,812	1,242,676	1,714,612	1,369,792	2,862,424	2,612,468
Construction in Progress				91,817		91,817
	<u>\$ 6,666,663</u>	<u>\$ 7,512,920</u>	<u>\$ 2,766,295</u>	<u>\$ 2,694,384</u>	<u>\$ 9,432,958</u>	<u>\$ 10,207,304</u>

Additional information on the County's capital assets can be found in Note 5 of the Notes to Basic Financial Statements.

In Summary: Hillsborough County has continued to practice sound fiscal management in FY13. 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 AA2, to avoid unnecessary borrowing, and to minimize fluctuations in the tax rate.

Our Fiscal-Year 2014 operating budget reflects an increase of 3.6656 percent over the Fiscal-Year 2013 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 Gregory J. Wenger, County Administrator, Hillsborough County, 329 Mast Road, Goffstown, NH 03045, telephone (603) 627-5602, or visit the County's website at www.hillsboroughcountynh.org.

EXHIBIT A
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 25,481,553	\$ 122,399	\$ 25,603,952
Investments	10,084,777		10,084,777
Accounts receivable, net	337,345	2,155,859	2,493,204
Due from other governments	428,346	896,699	1,325,045
Internal balance	(17,259,182)	17,259,182	-
Prepaid expenses	323		323
Inventory		69,947	69,947
Total Current Assets	<u>19,073,162</u>	<u>20,504,086</u>	<u>39,577,248</u>
Noncurrent Assets:			
Depreciable capital assets, net	6,666,663	2,766,295	9,432,958
Total Noncurrent Assets	<u>6,666,663</u>	<u>2,766,295</u>	<u>9,432,958</u>
Total Assets	<u>25,739,825</u>	<u>23,270,381</u>	<u>49,010,206</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	4,699,534	146,538	4,846,072
Accrued expenses	582,362	579,419	1,161,781
Due to other governments	2,910,289	562,798	3,473,087
Total Current Liabilities	<u>8,192,185</u>	<u>1,288,755</u>	<u>9,480,940</u>
Noncurrent Liabilities:			
Compensated absences payable	54,291	135,503	189,794
Other post-employment benefits payable	516,654	259,728	776,382
Total Noncurrent Liabilities	<u>570,945</u>	<u>395,231</u>	<u>966,176</u>
Total Liabilities	<u>8,763,130</u>	<u>1,683,986</u>	<u>10,447,116</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned contributions		26,344	26,344
Total Deferred Inflows of Resources	<u>-</u>	<u>26,344</u>	<u>26,344</u>
NET POSITION			
Net investment in capital assets	6,666,663	2,766,295	9,432,958
Restricted	45,413		45,413
Unrestricted	10,264,619	18,793,756	29,058,375
Total Net Position	<u>\$ 16,976,695</u>	<u>\$ 21,560,051</u>	<u>\$ 38,536,746</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, 2013

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>Capital Grants and Contributions</u>	<u>Primary Government</u>	<u>Business-Type Activities</u>	
					<u>Governmental Activities</u>		
Governmental Activities:							
General government	\$ 7,992,612	\$ 3,918,670	\$ 104,424		\$ (3,969,518)		\$ (3,969,518)
Public safety	19,991,610	2,995,329	116,883		(16,879,398)		(16,879,398)
Health and welfare	29,819,063		371,362		(29,447,701)		(29,447,701)
Intergovernmental	237,500		237,500		-		-
Total governmental activities	<u>58,040,785</u>	<u>6,913,999</u>	<u>830,169</u>	<u>\$ -</u>	<u>(50,296,617)</u>	<u>\$ -</u>	<u>(50,296,617)</u>
Business-type activities:							
Nursing Home	<u>25,475,968</u>	<u>20,848,577</u>		<u>137,726</u>		<u>(4,489,665)</u>	<u>(4,489,665)</u>
Total business-type activities	<u>25,475,968</u>	<u>20,848,577</u>		<u>137,726</u>		<u>(4,489,665)</u>	<u>(4,489,665)</u>
Total primary government	<u>\$ 83,516,753</u>	<u>\$ 27,762,576</u>	<u>\$ 830,169</u>	<u>\$ 137,726</u>	<u>(50,296,617)</u>	<u>(4,489,665)</u>	<u>(54,786,282)</u>
General revenues:							
Property taxes					44,109,420		44,109,420
Grants and contributions not restricted to specific programs						6,809,524	6,809,524
Interest and investment earnings					57,593		57,593
Miscellaneous					<u>604,457</u>	<u>780,254</u>	<u>1,384,711</u>
Total general revenues					<u>44,771,470</u>	<u>7,589,778</u>	<u>52,361,248</u>
Change in net position					<u>(5,525,147)</u>	<u>3,100,113</u>	<u>(2,425,034)</u>
Net position - beginning, as restated					<u>22,501,842</u>	<u>18,459,938</u>	<u>40,961,780</u>
Net position - ending					<u>\$ 16,976,695</u>	<u>\$ 21,560,051</u>	<u>\$ 38,536,746</u>

See accompanying notes to the basic financial statements

EXHIBIT C
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 25,481,553		\$ 25,481,553
Investments	10,084,777		10,084,777
Accounts receivable	337,345		337,345
Due from other governments	190,846	\$ 237,500	428,346
Due from other funds		133,372	133,372
Prepaid expenses	323		323
Total Assets	<u>36,094,844</u>	<u>370,872</u>	<u>36,465,716</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 36,094,844</u>	<u>\$ 370,872</u>	<u>\$ 36,465,716</u>
LIABILITIES			
Accounts payable	\$ 4,694,534		\$ 4,694,534
Accrued expenses	582,362		582,362
Due to other governments	2,672,789	\$ 237,500	2,910,289
Due to other funds	17,397,554		17,397,554
Total Liabilities	<u>25,347,239</u>	<u>237,500</u>	<u>25,584,739</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	-	-	-
FUND BALANCES			
Nonspendable	323		323
Restricted	45,413		45,413
Assigned	2,077,424	133,372	2,210,796
Unassigned	8,624,445		8,624,445
Total Fund Balances	<u>10,747,605</u>	<u>133,372</u>	<u>10,880,977</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 36,094,844</u>	<u>\$ 370,872</u>	

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 6,666,663

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:

Compensated absences payable (54,291)

Other post-employment benefits payable (516,654)

Net position of governmental activities \$ 16,976,695

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, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 44,109,420		\$ 44,109,420
Intergovernmental	592,669	\$ 237,500	830,169
Charges for services	6,769,689	144,310	6,913,999
Interest and investment income	57,593		57,593
Miscellaneous	604,457		604,457
Total Revenues	<u>52,133,828</u>	<u>381,810</u>	<u>52,515,638</u>
Expenditures:			
Current operations:			
General government	7,451,269	238,500	7,689,769
Public safety	18,926,699		18,926,699
Health and welfare	29,817,328		29,817,328
Intergovernmental		237,500	237,500
Total Expenditures	<u>56,195,296</u>	<u>476,000</u>	<u>56,671,296</u>
Excess revenues (under) expenditures	<u>(4,061,468)</u>	<u>(94,190)</u>	<u>(4,155,658)</u>
Other financing sources (uses):			
Transfers in		103,500	103,500
Transfers out	<u>(103,500)</u>		<u>(103,500)</u>
Total Other Financing Sources (Uses)	<u>(103,500)</u>	<u>103,500</u>	
Net change in fund balances	(4,164,968)	9,310	(4,155,658)
Fund balances at beginning of year, as restated	<u>14,912,573</u>	<u>124,062</u>	<u>15,036,635</u>
Fund balances at end of year	<u>\$ 10,747,605</u>	<u>\$ 133,372</u>	<u>\$ 10,880,977</u>

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, 2013

Net Change in Fund Balances--Total Governmental Funds	\$ (4,155,658)
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.	(846,257)
Some expense reported in the statement of activities, such as compensated absences and other post-employment benefits, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(523,232)</u>
Change in Net Position of Governmental Activities	<u>\$ (5,525,147)</u>

See accompanying notes to the basic financial statements

EXHIBIT E
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2013

	Nursing Home <u>Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 122,399
Accounts receivable, net	2,155,859
Due from other governments	896,699
Due from other funds	17,259,182
Inventory	69,947
Total Current Assets	<u>20,504,086</u>
Noncurrent Assets:	
Capital assets:	
Depreciable capital assets, net	<u>2,766,295</u>
Total Noncurrent Assets	<u>2,766,295</u>
Total Assets	<u>23,270,381</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	146,538
Accrued expenses	579,419
Due to other governments	562,798
Total Current Liabilities	<u>1,288,755</u>
Noncurrent Liabilities:	
Compensated absences payable	135,503
Other post-employment benefits payable	259,728
Total Noncurrent Liabilities	<u>395,231</u>
Total Liabilities	<u>1,683,986</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned contributions	26,344
Total Deferred Inflows of Resources	<u>26,344</u>
NET POSITION	
Net investment in capital assets	2,766,295
Unrestricted	18,793,756
Total Net Position	<u>\$ 21,560,051</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, 2013

	Nursing Home <u>Fund</u>
Operating revenues:	
Intergovernmental revenue	\$ 6,809,524
Charges for services	20,848,577
Miscellaneous	780,254
Total operating revenues	<u>28,438,355</u>
Operating expenses:	
Administrative	3,050,074
Maintenance and operations	978,758
Physical therapy	1,648,851
Dietary	1,979,178
Nursing	14,405,581
Laundry	434,873
Housekeeping	684,551
Physician/pharmacy	574,273
Restorative services	807,525
Social services	363,521
Barber/beauty	22,052
Depreciation	526,731
Total operating expenses	<u>25,475,968</u>
Operating income	<u>2,962,387</u>
Capital contributions	<u>137,726</u>
Change in net position	3,100,113
Total net position at beginning of year, as restated	<u>18,459,938</u>
Total net position at end of year	<u><u>\$ 21,560,051</u></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, 2013

	Nursing Home Fund
Cash flows from operating activities:	
Cash received from patient care/services	\$ 21,663,059
Cash received from Medicaid pool funds	8,527,099
Cash paid to suppliers	(10,107,456)
Cash paid to employees	(14,465,038)
Net cash provided by operating activities	<u>5,617,664</u>
Cash flows from capital and related financing activities:	
Capital contributions	137,726
Purchases of capital assets	(598,642)
Net cash (used) for capital and related financing activities	<u>(460,916)</u>
Net increase in cash and cash equivalents	5,156,748
Cash and cash equivalents at beginning of year	<u>12,224,833</u>
Cash and cash equivalents at end of year	<u><u>\$ 17,381,581</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,962,387
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	526,731
Provision for bad debts	50,000
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	(15,772)
Due from other governments	1,717,575
Inventory	(20,499)
Accounts payable	(29,609)
Accrued expenses	51,905
Due to other governments	151,239
Compensated absences	(38,626)
Other post-employment benefits payable	259,728
Unearned revenue	2,605
Net cash provided by operating activities	<u><u>\$ 5,617,664</u></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, 2013

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 276,594
Accounts receivable	<u>5,000</u>
Total Assets	<u>\$ 281,594</u>
LIABILITIES	
Due to specific individuals	<u>\$ 281,594</u>
Total Liabilities	<u>\$ 281,594</u>

See accompanying notes to the basic financial statements

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

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.

During the year ended June 30, 2013, the County implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" Under this new standard, financial statements will include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report net position instead of net assets.

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.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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 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.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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.

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 reconciliations 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 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, the recording of unearned 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 2). Revenue from

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the 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.

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

Charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Unearned Revenue:

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

3. 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, 2013, the County applied \$3,500,000 of its unappropriated 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 the following:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

	<u>Cash</u>	<u>Interfund Receivable</u>	<u>Total</u>
Proprietary Funds:			
Nursing Home Fund	<u>\$ 122,399</u>	<u>\$ 17,259,182</u>	<u>\$ 17,381,581</u>

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, 2013 are recorded net of an allowance for uncollectible receivables of \$250,000.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid items.

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 fair values as of the date received. The County maintains a capitalization threshold of \$500. The County does not possess any infrastructure or intangible assets. 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	3-30
Buildings and improvements	5-70
Vehicles and equipment	3-20

Compensated Absences

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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. The County Attorney's office previously had a separate policy with its employees which resulted in an amount that is immaterial to the financial statements.

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 entire compensated absence liability is reported on the government-wide financial statements.

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. The recorded amount is \$135,503 as of June 30, 2013.

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.

Net Position

Net position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investments in capital assets consist 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

The County has implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 established new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, 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.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

- 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, 2013, 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.

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. Significant estimates include the allowance for uncollectible receivables, other post-employment benefits payable and depreciation expense.

NOTE 2--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.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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 3--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, 2013, the County was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The County currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

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, 2013.

Property and Liability Insurance

PRIMEX provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of PRIMEX, 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.

Worker's Compensation

PRIMEX 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.

NOTE 4--DEPOSITS AND INVESTMENTS

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.

Deposits and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Statement of Net Position:	
Cash and cash equivalents	\$ 25,603,952
Investments	10,084,777
Statement of Fiduciary Net Position:	
Cash and cash equivalents	<u>276,594</u>
	<u>\$ 35,965,323</u>

Deposits and investments at June 30, 2013 consist of the following:

Cash on hand	\$ 5,950
Deposits with financial institutions	<u>35,959,373</u>
	<u>\$ 35,965,323</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, 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, \$34,914,657 was collateralized by securities held by the bank in the bank's name.

NOTE 5--CAPITAL ASSETS

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

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013
Governmental activities:				
Other capital assets:				
Land improvements	\$ 189,035			\$ 189,035
Buildings and improvements	31,440,322	\$ 16,426		31,456,748
Equipment	7,461,494	358,799	\$ (24,467)	7,795,826
Total other capital assets at historical cost	<u>39,090,851</u>	<u>375,225</u>	<u>(24,467)</u>	<u>39,441,609</u>
Less accumulated depreciation for:				
Land improvements	(148,434)	(13,315)		(161,749)
Buildings and improvements	(25,210,679)	(754,504)		(25,965,183)
Equipment	(6,218,818)	(453,663)	24,467	(6,648,014)
Total accumulated depreciation	<u>(31,577,931)</u>	<u>(1,221,482)</u>	<u>24,467</u>	<u>(32,774,946)</u>
Total other capital assets, net	7,512,920	(846,257)	-	6,666,663
Total capital assets, net	<u>\$ 7,512,920</u>	<u>\$ (846,257)</u>	<u>\$ -</u>	<u>\$ 6,666,663</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 333,513
Public safety	887,829
Health and welfare	140
Total governmental activities depreciation expense	<u>\$ 1,221,482</u>

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

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013
Business-type activities:				
Capital assets not depreciated:				
Construction in process	\$ 91,817		\$ (91,817)	
Total capital assets not being depreciated	<u>91,817</u>	<u>\$ -</u>	<u>(91,817)</u>	<u>\$ -</u>
Other capital assets:				
Land improvements	508,873			508,873
Buildings and improvements	7,984,757	35,648		8,020,405
Vehicles and equipment	4,130,426	654,811		4,785,237
Subtotal	<u>12,624,056</u>	<u>690,459</u>	<u>-</u>	<u>13,314,515</u>
Accumulated depreciation:				
Land improvements	(428,303)	(25,341)		(453,644)
Buildings and improvements	(6,832,552)	(191,399)		(7,023,951)
Vehicles and equipment	(2,760,634)	(309,991)		(3,070,625)
Total accumulated depreciation	<u>(10,021,489)</u>	<u>(526,731)</u>	<u>-</u>	<u>(10,548,220)</u>
Total other capital assets, net	2,602,567	163,728	-	2,766,295
Total capital assets, net	<u>\$ 2,694,384</u>	<u>\$ 163,728</u>	<u>\$ (91,817)</u>	<u>\$ 2,766,295</u>

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Depreciation expense was charged to the proprietary fund as follows:

Nursing Home	<u>\$ 526,731</u>
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NOTE 6--DEFINED BENEFIT PENSION PLAN

Plan Description

The County contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. 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.

Funding Policy

Covered public safety employees and general employees are required to contribute 11.55% and 7.0% of their covered salary, respectively. The County is required to contribute at an actuarially determined rate. The County's contribution rates for the year ended June 30, 2013 were 19.95% and 8.8% of covered payroll to public safety employees and general employees, respectively. The County contributes 100% of the employer cost for public safety officers and general employees of the County.

Under state law 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 contributions to the NHRS for the years ending June 30, 2013, 2012, and 2011 were \$2,910,820, \$3,057,974, and \$2,809,308, respectively, equal to the required contributions for each year.

NOTE 7--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, 2012, the actuarial valuation date, approximately 101 retirees and 535 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

During the year, the County prospectively implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

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 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, 2013 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, 2012 is as follows:

Annual Required Contributions (ARC)	\$ 1,151,560
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB Cost	1,151,560
Contributions made	(375,178)
Increase in net OPEB obligation	776,382
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 776,382</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013 is as follows:

Fiscal Year	Annual	Percentage of	Net OPEB	Covered	OPEB Cost
<u>Ending</u>	<u>OPEB Cost</u>	<u>OPEB Cost</u>	<u>Obligation</u>	<u>Payroll</u>	<u>% of Pay</u>
		<u>Contributed</u>			
6/30/2013	\$ 1,151,560	32.6%	\$ 776,382	\$ 29,441,178	3.9%

The County's net OPEB obligation as of June 30, 2013 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, 2012, the date of the most recent actuarial valuation is as follows:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Actuarial Accrued Liability (AAL)	\$ 10,776,700
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 10,776,700</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 29,441,178
UAAL as a percentage of covered payroll	36.6%

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. 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, 2012 actuarial valuation, the Projected Unit Credit 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 9.0% 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 8--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 September 2012, the County extended the lease for an additional three years. The annual rent due to the County, which is annually adjusted, was \$226,282 for the year ended June 30, 2013.

In July 2008, the County entered into a 5 year lease 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. The annual rent due to the County was \$166,380 for the year ended June 30, 2013.

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:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

Year Ended June 30,	
2014	\$ 302,283
2015	<u>237,737</u>
	<u>\$ 540,020</u>

NOTE 9--LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the County's long-term obligations for the year ended June 30, 2013 are as follows:

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013
Governmental funds:				
Compensated absences payable	\$ 47,713	\$ 46,140	\$ (39,562)	\$ 54,291
Total governmental activities	<u>\$ 47,713</u>	<u>\$ 46,140</u>	<u>\$ (39,562)</u>	<u>\$ 54,291</u>
Business-type activities:				
Compensated absences payable	\$ 174,129	\$ 2,158	\$ (40,784)	\$ 135,503
Total business-type activities	<u>\$ 174,129</u>	<u>\$ 2,158</u>	<u>\$ (40,784)</u>	<u>\$ 135,503</u>

Compensated absences will be paid from the fund where the employee's salary is paid.

NOTE 10--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, 2013 are as follows:

	Due from General Fund
Due to Nonmajor Governmental Funds	\$ 133,372
Due to Nursing Home Fund	17,259,182
Due to Fiduciary Funds	<u>5,000</u>
	<u>\$ 17,397,554</u>

Interfund transfers for the year ended June 30, 2013 consisted of a transfer of \$103,500 to the Registry of Deeds Fund from the General Fund to support current operations.

NOTE 11--RESTRICTED NET POSITION

Net position is restricted for specific purposes at June 30, 2013 are as follows:

Drug Forfeiture Funds	<u>\$ 45,413</u>
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COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 12--COMPONENTS OF FUND BALANCE

The components of the County's fund balance for its governmental funds at June 30, 2013 are as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Prepaid expenses	\$ 323		\$ 323
Restricted for:			
Drug Forfeiture	45,413		45,413
Assigned for:			
Deeds surcharge fund		\$ 133,372	133,372
Encumbrances	2,077,424		2,077,424
Unassigned	<u>8,624,445</u>		<u>8,624,445</u>
	<u>\$ 10,747,605</u>	<u>\$ 133,372</u>	<u>\$ 10,880,977</u>

NOTE 13--COMMITMENTS AND CONTINGENCIES

Encumbrances

Encumbrances at June 30, 2013 are as follows:

General Government	\$ 259,837
Public Safety	185,329
Human Services	<u>1,632,258</u>
	<u>\$ 2,077,424</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 14--RESTATEMENT OF EQUITY

Government-Wide Statements

During the year ended June 30, 2013, it was determined intergovernmental receivables of the governmental activities were overstated. It was also determined intergovernmental receivables of the business-type activities were understated. Net position of the governmental and business-type activities as of July 1, 2012 has been restated as follows:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Net position, July 1, 2012 (as previously reported)	\$ 22,527,113	\$ 18,342,849
Amount of restatement due to:		
Overstatement of intergovernmental receivables	(25,271)	
Understatement of intergovernmental receivables		117,089
Net position, July 1, 2012 - as restated	<u>\$ 22,501,842</u>	<u>\$ 18,459,938</u>

Governmental Fund Financial Statements

As noted above, during the year ended June 30, 2013, it was determined the intergovernmental receivables of the General Fund were previously overstated.

The impact of this restatement on the General Fund as of July 1, 2012 is as follows:

	General <u>Fund</u>
Fund balance, July 1, 2012 (as previously reported)	\$ 14,937,844
Amount of restatement due to:	
Overstatement of intergovernmental receivables	(25,271)
Fund balance, July 1, 2012 - as restated	<u>\$ 14,912,573</u>

Proprietary Fund Financial Statements

As noted above, during the year ended June 30, 2013, it was determined the intergovernmental receivables of the Nursing Home Fund were previously understated.

The impact of this restatement on the Nursing Home Fund as of July 1, 2012 is as follows:

	Nursing Home <u>Fund</u>
Net position, July 1, 2012 (as previously reported)	\$ 18,342,849
Amount of restatement due to:	
Understatement of intergovernmental receivables	117,089
Net position, July 1, 2012 - as restated	<u>\$ 18,459,938</u>

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 44,109,421	\$ 44,109,421	\$ 44,109,420	\$ (1)
Intergovernmental	1,476,315	1,476,315	592,669	(883,646)
Charges for services	6,263,912	6,263,912	6,769,689	505,777
Interest income	150,000	150,000	57,593	(92,407)
Miscellaneous	518,058	518,058	604,457	86,399
Total Revenues	<u>52,517,706</u>	<u>52,517,706</u>	<u>52,133,828</u>	<u>(383,878)</u>
Expenditures:				
Current:				
General government	7,994,335	7,674,863	7,294,972	379,891
Public safety	19,159,867	19,184,339	18,825,594	358,745
Health and welfare	29,435,350	29,435,350	29,435,050	300
Debt Service:				
Principal	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total Expenditures	<u>56,589,553</u>	<u>56,294,553</u>	<u>55,555,616</u>	<u>738,937</u>
Excess revenues over (under) expenditures	<u>(4,071,847)</u>	<u>(3,776,847)</u>	<u>(3,421,788)</u>	<u>355,059</u>
Other financing sources (uses):				
Transfers in	571,847	276,847		(276,847)
Transfers out			(103,500)	(103,500)
Total Other Financing Sources (Uses)	<u>571,847</u>	<u>276,847</u>	<u>(103,500)</u>	<u>(380,347)</u>
Net change in fund balance	(3,500,000)	(3,500,000)	(3,525,288)	(25,288)
Fund balance at beginning of year, as restated				
- Budgetary Basis	<u>12,195,469</u>	<u>12,195,469</u>	<u>12,195,469</u>	
Fund balance at end of year				
- Budgetary Basis	<u>\$ 8,695,469</u>	<u>\$ 8,695,469</u>	<u>\$ 8,670,181</u>	<u>\$ (25,288)</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, 2013

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability (AAL)</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
7/1/2012	\$ -	\$10,776,700	\$10,776,700	0.0%	\$ 29,441,178	36.6%

See accompanying notes to the required supplementary information

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013

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 expenditures were adjusted for encumbrances as follows:

	<u>Revenues, and Transfers</u>	<u>Expenditures and Transfers</u>
Per Exhibit D	\$ 52,133,828	\$ 56,298,796
Encumbrances, June 30, 2012		(2,717,104)
Encumbrances, June 30, 2013		<u>2,077,424</u>
Per Schedule 1	<u>\$ 52,133,828</u>	<u>\$ 55,659,116</u>

NOTE 2—BUDGETARY FUND BALANCES

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

Nonspendable:	
Prepaid expenses	\$ 323
Restricted:	
Drug forfeiture	45,413
Unassigned	<u>8,624,445</u>
	<u>\$ 8,670,181</u>

NOTE 3—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the County is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The County implemented the provisions of GASB Statement #45 during the year ended June 30, 2013. Accordingly, the funding progress has only been presented for the most recent actuarial valuation report. Additional disclosures will be made as the information becomes available.

SCHEDULE I
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
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 #11-406-CDPF	14.228	\$ 250,000
Total Department of Housing and Urban Development		<u>250,000</u>
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department		
State Criminal Alien Assistance Program	16.606	<u>24,472</u>
Pass Through Payments from the New Hampshire Office of the Governor and Attorney General		
Criminal and Juvenile Justice and Mental Health Collaboration Program #2011-MO-BX-0001	16.745	<u>111,768</u>
Received directly from U.S. Treasury Department		
Equitable Sharing Program	16.922	<u>154,574</u>
Total Department of Justice		<u>290,814</u>
DEPARTMENT OF ENERGY		
Received directly from U.S. Treasury Department		
Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Act #SC0003391	81.128	<u>227,170</u>
Total Department of Energy		<u>227,170</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education		
Adult Education - Basic Grants to States #37012	84.002	<u>2,481</u>
Total Department of Education		<u>2,481</u>
Total Expenditures of Federal Awards		<u>\$ 770,465</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, 2013

NOTE 1—GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the County of Hillsborough. The County's reporting entity is defined in Note 1 of the County's basic financial statements.

NOTE 2—BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the County's basic financial statements.

NOTE 3—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The recognition of expenditures of federal awards has been reported as intergovernmental revenues and capital contributions in the County's basic financial statements in the following funds:

Major Governmental Fund:	
General Fund	\$ 395,239
Nonmajor Governmental Funds	237,500
Major Proprietary Fund:	
Nursing Home Fund	<u>137,726</u>
	<u>\$ 770,465</u>

**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 County 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, 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, 2013, 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 18, 2014.

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. We did identify certain deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items #2013-01 and #2013-02.

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*.

County of Hillsborough's Response to Findings

County of Hillsborough's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. County of Hillsborough's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Vachon Charney & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire
March 18, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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 Circular A-133 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, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2013.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Vacha Charney & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire
March 18, 2014

**County of Hillsborough, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

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 not considered to be material weaknesses?	<u> X </u> 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 not considered to be material weaknesses?	<u> X </u> yes	_____ none reported
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ yes	<u> X </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG)

Dollar threshold used to distinguish between Type A and Type B program: \$ 300,000.

Auditee qualified as low-risk auditee?	_____ yes	<u> X </u> no
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Section II—Financial Statement Findings

The following finding relating to the internal control structure is required to be reported by GAGAS.

Finding #2013-01 – General Ledger

Criteria or specific requirement: The trial balance, as presented for the audit, contained an accounting error pertaining to a grant which was undetected until year end.

Condition: We noted that grant cash receipts were recorded in the current year as revenues, however the expenditures that were being reimbursed pertained to the prior fiscal year. This resulted in an overstatement of the current year's activity.

Context: A prior period restatement was required for the unrecorded receivable from the prior year.

Effect: Controls over the financial activities of the County are weakened. Proper grant accounting and reconciliation to the supporting documentation is essential to internal accounting control.

Cause: All grant activity and supporting documentation is not being provided to the Business Office to enable them to properly record receivables as necessary.

Recommendation: We recommend that all grant related documentation be forwarded to the Business Office on a timely basis in order to ensure the proper accounting for the grants. Accounting personnel should be reconciling the general ledger accounts applicable to the grant to the financial reports submitted by the personnel administering the grant requesting reimbursement. This will allow the accounting personnel to determine if there are any receivables that should be recorded by comparing with expenditures being charged to the grant.

Views of Responsible Officials and Planned Corrective Actions: The Commissioners' Office of Administration and Finance (hereinafter COAF) acknowledges the importance of proper and accurate grant accounting and reconciliation to the supporting documentation. The COAF will look to work with departments to develop formal reporting communications for each grant designed to keep the COAF advised of the financial reports that are filed and the reimbursements requested. We will look to develop reports that will enable the COAF to reconcile the general ledger to the financial reports.

Finding #2013-02 – Grant Accounting

Criteria or specific requirement: All of the various grant activity was recognized within several revenue accounts for the County.

Condition: During the year ended June 30, 2013, the County received numerous grant awards. These grant revenues were recorded in several general ledger accounts within the General Fund's chart of accounts. The County also received a federal award that was passed-thru to another local government. The revenue and expenditure for this grant were netted within one account in the general ledger.

Context: Additional time was necessary to summarize the recorded activity of each grant award and to determine the source of the funding.

Effect: The controls over the tracking of individually awarded grant activity are weakened due to the limited structure of the chart of accounts.

Cause: The accounting records currently do not provide for the separate accounting required for various federally funded awards.

Recommendation: We recommend that each individual grant be recorded separately within the general ledger. This will assist the finance personnel in reconciling the individual grant activity in the general ledger to the periodic requests for reimbursement. This will also assist with federal compliance audits that are required when expenditures of federal awards exceed \$500,000 within a fiscal year.

Views of Responsible Officials and Planned Corrective Actions: The Commissioners' Office of Administration and Finance (hereinafter COAF) will undertake a review of the chart of accounts and available alternative designs to determine if appropriate steps can be taken to record each individual grant separately. If appropriate steps can be undertaken the COAF will work to implement the recommended course of action.

Section III—Federal Award Findings and Questioned Costs

There were no findings and questioned costs as defined under OMB Circular A-133 .510(a).