

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE

Financial Statements

June 30, 2014

and

Independent Auditor's Report

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2014

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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, 2014, 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. 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.

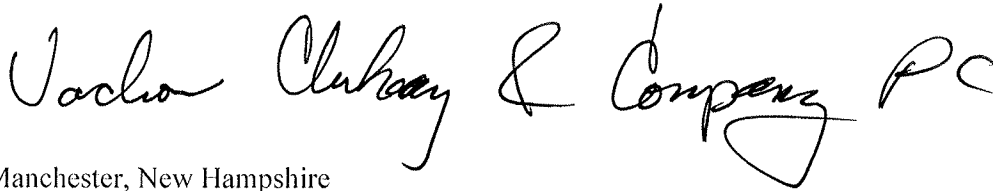
Opinions

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, 2014, 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 24-26 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.

A handwritten signature in black ink that reads "Jason Chubbey & Company PC". The signature is written in a cursive, flowing style. The "J" is large and loops around the "a". The "C" at the end is a simple, open loop.

Manchester, New Hampshire
February 12, 2015

**Hillsborough County
Financial Management's Discussion and Analysis
For Year Ended June 30, 2014**

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, 2014.

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 \$36,104,390 for fiscal year ended June 30, 2014.

A portion of the County's net position, (\$8,430,321 or 23.35 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, (\$27,623,805 or 76.51 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, 2014.

**Hillsborough County
Statement of Net Position
June 30, 2014**

	2014	2013	2014	2013	2014 Total	2013 Total
	Governmental	Governmental	Business-Type	Business-Type	County	County
	Activities	Activities	Activities	Activities		
Assets						
Current Assets	\$ 11,003,643	\$ 19,073,162	\$23,380,451	\$ 20,504,086	\$ 34,384,094	\$ 39,577,248
Capital Assets	<u>5,957,649</u>	<u>6,666,663</u>	<u>2,472,672</u>	<u>2,766,295</u>	<u>8,430,321</u>	<u>9,432,958</u>
Total Assets	\$ 16,961,292	\$ 25,739,825	\$ 25,853,123	\$ 23,270,381	\$ 42,814,415	\$ 49,010,206
Deferred Outflows of Resources						
Liabilities						
Noncurrent Liabilities	\$ 1,131,591	\$ 570,945	\$ 635,632	\$ 395,231	\$ 1,767,223	\$ 966,176
Other Liabilities	<u>3,574,011</u>	<u>8,192,185</u>	<u>1,368,791</u>	<u>1,288,755</u>	<u>4,942,802</u>	<u>9,480,940</u>
Total Liabilities	\$ 4,705,602	\$ 8,763,130	\$ 2,004,423	\$ 1,683,986	\$ 6,710,025	\$ 10,447,116
Deferred Inflows of Resources				\$ 26,344		\$ 26,344
Net Position						
Invested in Capital Assets	\$ 5,957,649	\$ 6,666,663	\$ 2,472,672	\$ 2,766,295	\$ 8,430,321	\$ 9,432,958
Restricted	50,264	45,413			50,264	45,413
Unrestricted	<u>6,247,777</u>	<u>10,264,619</u>	<u>21,376,028</u>	<u>18,793,756</u>	<u>27,623,805</u>	<u>29,058,375</u>
Total Net Position	\$ 12,255,690	\$ 16,976,695	\$ 23,848,700	\$ 21,560,051	\$ 36,104,390	\$ 38,536,746
Total Liabilities and Net Position	<u>\$ 16,961,292</u>	<u>\$ 25,739,825</u>	<u>\$ 25,853,123</u>	<u>\$ 23,270,381</u>	<u>\$ 42,814,415</u>	<u>\$ 49,010,206</u>

CHANGES IN NET POSITION

Total County Activities:

During FY14, Hillsborough County generated \$84,312,488 in overall revenue. This was comprised of \$54,352,450 in general revenue and \$29,960,038 in revenue from business-type activities. Departmental expenditures for the fiscal year were \$86,744,844.

Governmental Activities:

Charges for services accounted for \$6,721,736 or 12.37 percent of the \$54,352,450 in governmental activities revenue and were primarily generated from the Registry of Deeds office. In addition, there was \$478,039 in operating grants, \$44,585 in interest income, \$402,243 in rental income and \$492,737 in miscellaneous income.

The cost of governmental activities for the fiscal year ended June 30, 2014 was \$60,418,631. 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 \$8,197,738 or 13.57 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 \$31,310,057 that were used to fund Interim Nursing Care.

The Sheriff's Office expended \$4,999,137 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 \$2,044,113.

Expenditures in support of the operation of the Department of Corrections during the fiscal year equaled \$15,827,507. Offsetting revenue generated from services equaled \$1,470,019.

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 \$44,585 as compared to budget amount of \$75,000.

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 FY14 was \$29,960,038 and overall expenditures amounted to \$26,326,213. The Nursing Home's net position at fiscal year-end was \$23,848,700 which is an increase of \$2,288,649 over FY13.

Charges for services increased at the Nursing Home by \$936,534 over the fiscal year that ended on June 30, 2013. Overall operating expenditures for the Nursing Home increased by \$850,245.

Hillsborough County Changes in Net Position Actual Revenue and Expenditures June 30, 2014

	2014 Governmental <u>Activities</u>	2013 Governmental <u>Activities</u>	2014 Business-Type <u>Activities</u>	2013 Business-Type <u>Activities</u>	2014 Total <u>Government</u>	2013 Total <u>Government</u>
Revenues						
Program Revenue:						
Charges for Services	\$ 6,721,736	\$ 6,913,999	\$ 21,785,111	\$ 20,848,577	\$ 28,506,847	\$ 27,762,576
Operating Grants	478,039	830,169	-	-	478,039	830,169
Capital Grants				137,726		137,726
General Revenues:						
County Taxes	46,213,110	44,109,420	-	-	46,213,110	44,109,420
Invested Funds	44,585	57,593	-	-	44,585	57,593
Grants and Contributions not restricted to specific programs			7,396,062	6,809,524	7,396,062	6,809,524
Rental Income	402,243	392,661	-	-	402,243	392,661
Miscellaneous	492,737	211,796	778,865	780,254	1,271,602	992,050
Total Revenue	<u>\$ 54,352,450</u>	<u>\$ 52,515,638</u>	<u>\$ 29,960,038</u>	<u>\$ 28,576,081</u>	<u>\$ 84,312,488</u>	<u>\$ 81,091,719</u>

Program Expenditures:

General Government	\$ 2,663,859	\$ 2,669,719	-	-	\$ 2,663,859	\$ 2,669,719
Sheriff	4,999,137	4,758,857	-	-	4,999,137	4,758,857
Corrections	15,827,507	15,159,923	-	-	15,827,507	15,159,923
Nursing Home			\$ 26,326,213	\$ 25,475,968	26,326,213	25,475,968
County Attorney	3,646,044	3,533,021	-	-	3,646,044	3,533,021
Medical Referee	84,192	72,830	-	-	84,192	72,830
Registry of Deeds	1,519,810	1,432,362	-	-	1,519,810	1,432,362
Human Services	31,310,057	29,819,063	-	-	31,310,057	29,819,063
Cooperative Extension	368,025	357,510	-	-	368,025	357,510
Intergovernmental	-	237,500	-	-	-	237,500
Total Expenses	\$ 60,418,631	\$ 58,040,785	\$ 26,326,213	\$ 25,475,968	\$ 86,744,844	\$ 83,516,753
Transfers	1,345,176		(1,345,176)			
Change in net position	(4,721,005)	(5,525,147)	2,288,649	3,100,113	(2,432,356)	(2,425,034)
Net assets 6/30/13	16,976,695	22,501,842	21,560,051	18,459,938	38,536,746	40,961,780
Net assets 6/30/14	\$ 12,255,690	\$ 16,976,695	\$ 23,848,700	\$ 21,560,051	\$ 36,104,390	\$ 38,536,746

COUNTY FINANCIAL ANALYSIS

Governmental Funds:

For the fiscal year ended June 30, 2014, the County reported a combined ending fund balance of \$7,429,632, which was a decrease of \$3,451,345 from fiscal year 2013.

The General Fund is the primary operating fund for Hillsborough County. At the end of the fiscal year, the General Fund Balance was \$7,321,539. The General Fund Balance for the County decreased by \$3,426,066 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 thirteenth 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 \$1,536,859 have been dedicated to the General Fund. The majority of this is reported as assigned and have been assigned for encumbrances.

The Unassigned Fund balance of \$5,784,680, 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, 2014 consists of the Registry of Deeds Equipment Replacement fund balance of \$108,093.

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 2014 reflect a net negative variance of \$823,249.

Expenditures: Budgetary expenditures for the year were \$58,319,504, which was \$891,650 less than the budget of \$59,211,154. 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 \$5,957,649 (net of accumulated depreciation). In addition, the County's investments in business-type activities amounted to \$2,472,672 (net of accumulated depreciation). The following statement provides additional detail.

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

	2014 Governmental Activities	2013 Governmental Activities	2014 Business-Type Activities	2013 Business-Type Activities	2014 Total County	2013 Total County
Land Improvements	\$ 20,444	\$ 27,286	\$ 36,453	\$ 55,229	\$ 56,897	\$ 82,515
Buildings and Improvements	4,750,537	5,491,565	829,591	996,454	5,580,128	6,488,019
Equipment	1,186,668	1,147,812	1,582,153	1,714,612	2,768,821	2,862,424
Construction in Progress			24,475		24,475	
	<u>\$ 5,957,649</u>	<u>\$ 6,666,663</u>	<u>\$ 2,472,672</u>	<u>\$ 2,766,295</u>	<u>\$ 8,430,321</u>	<u>\$ 9,432,958</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 FY14. 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 2015 operating budget reflects an increase of 2.9231 percent over the Fiscal-Year 2014 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, 2014

	Primary Government		
	Governmental	Business-Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 15,080,525	\$ 123,316	\$ 15,203,841
Investments	15,128,646		15,128,646
Accounts receivable, net	203,544	2,338,741	2,542,285
Due from other governments	526,185	928,825	1,455,010
Internal balance	(19,935,395)	19,935,395	-
Prepaid expenses	138		138
Inventory		54,174	54,174
Total Current Assets	<u>11,003,643</u>	<u>23,380,451</u>	<u>34,384,094</u>
Noncurrent Assets:			
Non-depreciable capital assets		24,475	24,475
Depreciable capital assets, net	5,957,649	2,448,197	8,405,846
Total Noncurrent Assets	<u>5,957,649</u>	<u>2,472,672</u>	<u>8,430,321</u>
Total Assets	<u>16,961,292</u>	<u>25,853,123</u>	<u>42,814,415</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	232,082	130,124	362,206
Accrued expenses	668,107	627,151	1,295,258
Due to other governments	2,673,822	584,416	3,258,238
Unearned contributions	-	27,100	27,100
Total Current Liabilities	<u>3,574,011</u>	<u>1,368,791</u>	<u>4,942,802</u>
Noncurrent Liabilities:			
Compensated absences payable	53,495	135,276	188,771
Other post-employment benefits payable	1,078,096	500,356	1,578,452
Total Noncurrent Liabilities	<u>1,131,591</u>	<u>635,632</u>	<u>1,767,223</u>
Total Liabilities	<u>4,705,602</u>	<u>2,004,423</u>	<u>6,710,025</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	5,957,649	2,472,672	8,430,321
Restricted	50,264		50,264
Unrestricted	6,247,777	21,376,028	27,623,805
Total Net Position	<u>\$ 12,255,690</u>	<u>\$ 23,848,700</u>	<u>\$ 36,104,390</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, 2014

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>	<u>Business-Type</u>	
				<u>Governmental Activities</u>	<u>Activities</u>	
Governmental Activities:						
General government	\$ 8,197,738	\$ 3,256,447		\$ (4,941,291)		\$ (4,941,291)
Public safety	20,910,836	3,465,289	\$ 130,807	(17,314,740)		(17,314,740)
Health and welfare	31,310,057		347,232	(30,962,825)		(30,962,825)
Total governmental activities	<u>60,418,631</u>	<u>6,721,736</u>	<u>478,039</u>	<u>(53,218,856)</u>	<u>\$ -</u>	<u>(53,218,856)</u>
Business-type activities:						
Nursing Home	<u>26,326,213</u>	<u>21,785,111</u>			<u>(4,541,102)</u>	<u>(4,541,102)</u>
Total business-type activities	<u>26,326,213</u>	<u>21,785,111</u>			<u>(4,541,102)</u>	<u>(4,541,102)</u>
Total primary government	<u>\$ 86,744,844</u>	<u>\$ 28,506,847</u>	<u>\$ 478,039</u>	<u>(53,218,856)</u>	<u>(4,541,102)</u>	<u>(57,759,958)</u>
General revenues:						
Property taxes				46,213,110		46,213,110
Grants and contributions not restricted to specific programs					7,396,062	7,396,062
Interest and investment earnings				44,585		44,585
Miscellaneous				894,980	778,865	1,673,845
Transfers				<u>1,345,176</u>	<u>(1,345,176)</u>	<u>-</u>
Total general revenues and transfers				<u>48,497,851</u>	<u>6,829,751</u>	<u>55,327,602</u>
Change in net position				(4,721,005)	2,288,649	(2,432,356)
Net position - beginning				<u>16,976,695</u>	<u>21,560,051</u>	<u>38,536,746</u>
Net position - ending				<u>\$ 12,255,690</u>	<u>\$ 23,848,700</u>	<u>\$ 36,104,390</u>

See accompanying notes to the basic financial statements

EXHIBIT C
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 15,080,525		\$ 15,080,525
Investments	15,128,646		15,128,646
Accounts receivable	203,544		203,544
Due from other governments	526,185		526,185
Due from other funds		\$ 108,093	108,093
Prepaid expenses	138		138
Total Assets	<u>30,939,038</u>	<u>108,093</u>	<u>31,047,131</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 30,939,038</u>	<u>\$ 108,093</u>	<u>\$ 31,047,131</u>
LIABILITIES			
Accounts payable	\$ 227,082		\$ 227,082
Accrued expenses	668,107		668,107
Due to other governments	2,673,822		2,673,822
Due to other funds	20,048,488		20,048,488
Total Liabilities	<u>23,617,499</u>	<u>\$ -</u>	<u>23,617,499</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	138		138
Restricted	50,264		50,264
Assigned	1,486,457	108,093	1,594,550
Unassigned	5,784,680		5,784,680
Total Fund Balances	<u>7,321,539</u>	<u>108,093</u>	<u>7,429,632</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 30,939,038</u>	<u>\$ 108,093</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 5,957,649

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 (53,495)
Other post-employment benefits payable (1,078,096)

Net position of governmental activities \$ 12,255,690

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, 2014

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 46,213,110		\$ 46,213,110
Intergovernmental	478,039		478,039
Charges for services	6,612,015	\$ 109,721	6,721,736
Interest and investment income	44,585		44,585
Miscellaneous	894,980		894,980
Total Revenues	<u>54,242,729</u>	<u>109,721</u>	<u>54,352,450</u>
Expenditures:			
Current operations:			
General government	7,768,363	238,500	8,006,863
Public safety	19,833,783		19,833,783
Health and welfare	31,308,325		31,308,325
Total Expenditures	<u>58,910,471</u>	<u>238,500</u>	<u>59,148,971</u>
Excess revenues (under) expenditures	<u>(4,667,742)</u>	<u>(128,779)</u>	<u>(4,796,521)</u>
Other financing sources (uses):			
Transfers in	1,345,176	103,500	1,448,676
Transfers out	(103,500)		(103,500)
Total Other Financing Sources (Uses)	<u>1,241,676</u>	<u>103,500</u>	<u>1,345,176</u>
Net change in fund balances	(3,426,066)	(25,279)	(3,451,345)
Fund balances at beginning of year	<u>10,747,605</u>	<u>133,372</u>	<u>10,880,977</u>
Fund balances at end of year	<u>\$ 7,321,539</u>	<u>\$ 108,093</u>	<u>\$ 7,429,632</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, 2014

Net Change in Fund Balances--Total Governmental Funds	\$ (3,451,345)
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.	(709,014)
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.	(560,646)
Change in Net Position of Governmental Activities	<u>\$ (4,721,005)</u>

See accompanying notes to the basic financial statements

EXHIBIT E
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2014

	Nursing Home <u>Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 123,316
Accounts receivable, net	2,338,741
Due from other governments	928,825
Due from other funds	19,935,395
Inventory	54,174
Total Current Assets	<u>23,380,451</u>
Noncurrent Assets:	
Capital assets:	
Non-depreciable capital assets	24,475
Depreciable capital assets, net	<u>2,448,197</u>
Total Noncurrent Assets	<u>2,472,672</u>
Total Assets	<u>25,853,123</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	130,124
Accrued expenses	627,151
Due to other governments	584,416
Unearned contributions	27,100
Total Current Liabilities	<u>1,368,791</u>
Noncurrent Liabilities:	
Compensated absences payable	135,276
Other post-employment benefits payable	500,356
Total Noncurrent Liabilities	<u>635,632</u>
Total Liabilities	<u>2,004,423</u>
DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	<u>-</u>
NET POSITION	
Net investment in capital assets	2,472,672
Unrestricted	21,376,028
Total Net Position	<u>\$ 23,848,700</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, 2014

	Nursing Home <u>Fund</u>
Operating revenues:	
Intergovernmental revenue	\$ 7,396,062
Charges for services	21,785,111
Miscellaneous	<u>778,865</u>
Total operating revenues	<u>29,960,038</u>
Operating expenses:	
Administrative	3,160,607
Maintenance and operations	1,011,892
Physical therapy	1,787,664
Dietary	2,145,921
Nursing	14,724,217
Laundry	403,698
Housekeeping	753,751
Physician/pharmacy	604,449
Restorative services	816,133
Social services	365,309
Barber/beauty	49,257
Depreciation	<u>503,315</u>
Total operating expenses	<u>26,326,213</u>
Operating income	3,633,825
Transfers out	<u>(1,345,176)</u>
Change in net position	2,288,649
Total net position at beginning of year	<u>21,560,051</u>
Total net position at end of year	<u><u>\$ 23,848,700</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, 2014

	Nursing Home Fund
Cash flows from operating activities:	
Cash received from patient care/services	\$ 22,381,094
Cash received from Medicaid pool funds	7,363,936
Cash paid to suppliers	(10,863,514)
Cash paid to employees	(14,649,518)
Net cash provided by operating activities	<u>4,231,998</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	(1,345,176)
Net cash (used) for noncapital financing activities	<u>(1,345,176)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(209,692)
Net cash (used) for capital and related financing activities	<u>(209,692)</u>
Net increase in cash and cash equivalents	2,677,130
Cash and cash equivalents at beginning of year	17,381,581
Cash and cash equivalents at end of year	<u>\$ 20,058,711</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,633,825
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	503,315
Provision for bad debts	25,000
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	(207,882)
Due from other governments	(32,126)
Inventory	15,773
Accounts payable	(16,414)
Accrued expenses	47,732
Due to other governments	21,618
Unearned revenue	756
Compensated absences	(227)
Other post-employment benefits payable	240,628
Net cash provided by operating activities	<u>\$ 4,231,998</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, 2014

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 343,505
Accounts receivable	<u>5,000</u>
Total Assets	<u>\$ 348,505</u>
LIABILITIES	
Due to specific individuals	<u>\$ 348,505</u>
Total Liabilities	<u>\$ 348,505</u>

See accompanying notes to the basic financial statements

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

Basis of Presentation

The County's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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

Fund Accounting

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

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following is the County's major governmental fund:

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

2. Proprietary Funds

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

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

3. Fiduciary Funds

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

Measurement Focus

1. Government-Wide Financial Statements

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

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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 revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, 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 grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the County must provide local resources to be used for a specified purpose; and expenditure requirements in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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, 2014, the County applied \$2,800,000 of its unassigned fund balance to reduce taxes.

Cash and Cash Equivalents

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

	<u>Cash</u>	<u>Interfund Receivable</u>	<u>Total</u>
Proprietary Funds:			
Nursing Home Fund	<u>\$ 123,316</u>	<u>\$ 19,935,395</u>	<u>\$ 20,058,711</u>

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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, 2014 are recorded net of an allowance for uncollectible receivables of \$275,000.

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
Equipment	3-20

Compensated Absences

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

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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 \$135,276 as of June 30, 2014.

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 represents 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

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

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

As of June 30, 2014, 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

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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.

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, 2014, the County was a member of the and participated in a public entity risk pool (Trust) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

from the prior year and settled claims have not exceeded coverage in any of the past three years. The County currently reports all of its risk management activities in its General Fund.

The Trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2014.

Property and Liability Insurance

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, the County shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

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

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, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 15,203,841
Investments	15,128,646
Statement of Fiduciary Net Position:	
Cash and cash equivalents	343,505
	<u>\$ 30,675,992</u>

Deposits and investments at June 30, 2014 consist of the following:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Cash on hand	\$ 5,950
Deposits with financial institutions	<u>30,670,042</u>
	<u>\$ 30,675,992</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, \$24,946,454 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 activities:

	<u>Balance</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2014</u>
Governmental activities:				
Other capital assets:				
Land improvements	\$ 189,035			\$ 189,035
Buildings and improvements	31,456,748	\$ 12,342		31,469,090
Equipment	<u>7,795,826</u>	<u>468,821</u>	<u>\$ (57,743)</u>	<u>8,206,904</u>
Total other capital assets at historical cost	<u>39,441,609</u>	<u>481,163</u>	<u>(57,743)</u>	<u>39,865,029</u>
Less accumulated depreciation for:				
Land improvements	(161,749)	(6,842)		(168,591)
Buildings and improvements	(25,965,183)	(751,776)	(1,594)	(26,718,553)
Equipment	<u>(6,648,014)</u>	<u>(431,559)</u>	<u>59,337</u>	<u>(7,020,236)</u>
Total accumulated depreciation	<u>(32,774,946)</u>	<u>(1,190,177)</u>	<u>57,743</u>	<u>(33,907,380)</u>
Total other capital assets, net	<u>6,666,663</u>	<u>(709,014)</u>	<u>-</u>	<u>5,957,649</u>
Total capital assets, net	<u>\$ 6,666,663</u>	<u>\$ (709,014)</u>	<u>\$ -</u>	<u>\$ 5,957,649</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 318,734
Public safety	<u>871,443</u>
Total governmental activities depreciation expense	<u>\$ 1,190,177</u>

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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

	<u>Balance</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2014</u>
Business-type activities:				
Capital assets not depreciated:				
Construction in process		\$ 24,475		\$ 24,475
Total capital assets not being depreciated	\$ -	24,475	\$ -	24,475
Other capital assets:				
Land improvements	508,873			508,873
Buildings and improvements	8,020,405	17,836		8,038,241
Vehicles and equipment	4,785,237	167,381		4,952,618
Subtotal	13,314,515	185,217	-	13,499,732
Accumulated depreciation:				
Land improvements	(453,644)	(18,776)		(472,420)
Buildings and improvements	(7,023,951)	(184,699)		(7,208,650)
Vehicles and equipment	(3,070,625)	(299,840)		(3,370,465)
Total accumulated depreciation	(10,548,220)	(503,315)	-	(11,051,535)
Total other capital assets, net	2,766,295	(318,098)	-	2,448,197
Total capital assets, net	\$ 2,766,295	\$ (293,623)	\$ -	\$ 2,472,672

Depreciation expense was charged to the proprietary fund as follows:

Nursing Home	<u>\$ 503,315</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, 2014 were 25.30% and 10.77% 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.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The County's contributions to the NHRS for the years ending

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

June 30, 2014, 2013, and 2012 were \$3,701,687, \$2,910,820, and \$3,057,974, 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.

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, 2014 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)	\$ 1,206,044
Interest on net OPEB obligation	31,055
Adjustment to ARC	(44,904)
Annual OPEB Cost	1,192,195
Contributions made	(390,125)
Increase in net OPEB obligation	802,070
Net OPEB obligation - beginning of year	776,382
Net OPEB obligation - end of year	<u>\$ 1,578,452</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, 2014 is as follows:

Fiscal Year	Annual	Percentage of	Net OPEB
<u>Ending</u>	<u>OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2013	\$ 1,151,560	32.6%	\$ 776,382
6/30/2014	1,192,195	32.7%	1,578,452

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

The County's net OPEB obligation as of June 30, 2014 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:

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 \$231,939 for the year ended June 30, 2014.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

In June 2014, the County entered into a 5 year lease with the State of New Hampshire for use of the 2nd Floor of the County Office Building for the Hillsborough County Courthouse. Rent is payable to the County on a monthly basis, and terminates November 2018. The annual rent due to the County was \$170,304 for the year ended June 30, 2014.

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:

Year Ended June 30,	
2015	\$ 410,595
2016	175,447
2017	178,079
2018	180,752
2019	75,780
	<u>\$ 1,020,653</u>

In September 2011, the County entered into a 3 year lease with the State of New Hampshire for use of office space within the Hillsborough County Superior Court-North in Manchester, New Hampshire. In September 2014, the County and the State amended the lease terms with a new expiration of December 31, 2017. Rent is payable to the State of New Hampshire-Department of Administrative Services on a monthly basis. The annual rent paid by the County was \$116,969 for the year ended June 30, 2014.

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

Year Ended June 30,	
2015	\$ 118,227
2016	120,000
2017	121,800
2018	61,353
	<u>\$ 421,380</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, 2014 are as follows:

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014
Governmental funds:				
Compensated absences payable	\$ 54,291	\$ 137,517	\$ (138,313)	\$ 53,495
Total governmental activities	<u>\$ 54,291</u>	<u>\$ 137,517</u>	<u>\$ (138,313)</u>	<u>\$ 53,495</u>
Business-type activities:				
Compensated absences payable	\$ 135,503	\$ 405,614	\$ (405,841)	\$ 135,276
Total business-type activities	<u>\$ 135,503</u>	<u>\$ 405,614</u>	<u>\$ (405,841)</u>	<u>\$ 135,276</u>

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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, 2014 are as follows:

		Due from
		General
		Fund
Due to	Nonmajor Governmental Fund	\$ 108,093
	Nursing Home Fund	19,935,395
	Fiduciary Funds	5,000
		<u>\$ 20,048,488</u>

Interfund transfers for the year ended June 30, 2014 consisted of a transfer of \$103,500 to the Registry of Deeds Fund from the General Fund to support current operations. There was a budgetary transfer of \$1,345,176 from the Nursing Home Fund to the General Fund.

NOTE 11--RESTRICTED NET POSITION

Net position is restricted for specific purposes at June 30, 2014 are as follows:

Drug Forfeiture Funds	<u>\$ 50,264</u>
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NOTE 12--COMPONENTS OF FUND BALANCE

The components of the County's fund balance for its governmental funds at June 30, 2014 are as follows:

<u>Fund Balances</u>	<u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Nonspendable:			
Prepaid expenses	\$ 138		\$ 138
Restricted for:			
Drug Forfeiture	50,264		50,264
Assigned for:			
Deeds surcharge fund		\$ 108,093	108,093
Encumbrances	1,486,457		1,486,457
Unassigned	<u>5,784,680</u>		<u>5,784,680</u>
	<u>\$ 7,321,539</u>	<u>\$ 108,093</u>	<u>\$ 7,429,632</u>

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 13--COMMITMENTS AND CONTINGENCIES

Encumbrances

Encumbrances at June 30, 2014 are as follows:

General government	\$ 202,970
Public safety	153,166
Human services	<u>1,130,321</u>
	<u>\$ 1,486,457</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—IMPLEMENTATION OF FUTURE ACCOUNTING STANDARDS

The Government Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which the County is required to implement in the fiscal year ending June 30, 2015. Management believes that this pronouncement will have a potentially significant impact on the County's government-wide financial statements. The County will have to report its estimated proportional share of the New Hampshire Retirement System's unfunded pension liability in the financial statements for fiscal years beginning after June 15, 2014.

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 46,213,110	\$ 46,213,110	\$ 46,213,110	
Intergovernmental	1,126,318	1,126,318	478,039	\$ (648,279)
Charges for services	7,212,832	7,212,832	6,612,015	(600,817)
Interest income	75,000	75,000	44,585	(30,415)
Miscellaneous	438,718	438,718	894,980	456,262
Total Revenues	<u>55,065,978</u>	<u>55,065,978</u>	<u>54,242,729</u>	<u>(823,249)</u>
Expenditures:				
Current:				
General government	8,321,982	8,138,142	7,711,496	426,646
Public safety	20,066,776	20,259,616	19,801,620	457,996
Health and welfare	30,813,395	30,813,395	30,806,388	7,007
Debt Service:				
Principal	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total Expenditures	<u>59,202,154</u>	<u>59,211,154</u>	<u>58,319,504</u>	<u>891,650</u>
Excess revenues over (under) expenditures	<u>(4,136,176)</u>	<u>(4,145,176)</u>	<u>(4,076,775)</u>	<u>68,401</u>
Other financing sources (uses):				
Transfers in	1,336,176	1,345,176	1,345,176	
Transfers out			(103,500)	(103,500)
Total Other Financing Sources (Uses)	<u>1,336,176</u>	<u>1,345,176</u>	<u>1,241,676</u>	<u>(103,500)</u>
Net change in fund balance	(2,800,000)	(2,800,000)	(2,835,099)	(35,099)
Fund balance at beginning of year, as restated				
- Budgetary Basis	<u>8,670,181</u>	<u>8,670,181</u>	<u>8,670,181</u>	
Fund balance at end of year				
- Budgetary Basis	<u>\$ 5,870,181</u>	<u>\$ 5,870,181</u>	<u>\$ 5,835,082</u>	<u>\$ (35,099)</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, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered 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, 2014

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 expenditures were adjusted for encumbrances as follows:

	Revenues, <u>and Transfers</u>	Expenditures <u>and Transfers</u>
Per Exhibit D	\$ 55,587,905	\$ 59,013,971
Encumbrances, June 30, 2014		1,486,457
Encumbrances, June 30, 2013		<u>(2,077,424)</u>
Per Schedule 1	<u>\$ 55,587,905</u>	<u>\$ 58,423,004</u>

NOTE 2—BUDGETARY FUND BALANCES

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

Nonspendable:	
Prepaid expenses	\$ 138
Restricted:	
Drug forfeiture	50,264
Unassigned	<u>5,784,680</u>
	<u>\$ 5,835,082</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.