

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**

**Financial Statements**

**June 30, 2008**

**and**

**Independent Auditor's Report**

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2008**

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# Vachon, Clukay & Co., PC

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## INDEPENDENT AUDITOR'S REPORT

To the County Commissioners  
County of Hillsborough, New Hampshire

We have audited the accompanying basic financial statements of the governmental activities, each major fund, the business-type activities and the aggregate remaining fund information of the County of Hillsborough, New Hampshire as of June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the business-type activities and the aggregate remaining fund information of the County of Hillsborough, New Hampshire as of June 30, 2008, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Required Supplementary Information on pages i-vii and 21-22, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 combining nonmajor fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Vachon, Clukay & Co., PC*

February 26, 2009

**Hillsborough County  
Financial Management's Discussion and Analysis  
For Year Ended June 30, 2008**

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, 2008.

**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, Health and Human Services, Delegation, Cooperative Extension, Conservation District, and all Administrative Departments.

***Enterprise Fund (Business-type activities):*** The revenue and expenditures of the Hillsborough County Nursing Home are isolated in a special fund (Enterprise 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, liabilities, 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. 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 has three individual governmental funds: General, Incentive, 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 ASSETS

The Statement of Net Assets 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 liabilities. This is one way to measure the financial health of the County. Over time, increases or decreases in the net assets 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 exceeded liabilities by \$50,383,860 for fiscal year ended June 30, 2008.

A portion of the County's net assets, (\$13,155,356 or 26.11 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 remaining portion of net assets, unrestricted net assets, (\$37,228,504 or 73.89 percent), represents an additional component of total net assets. This balance displays the financial strength for the County.

The statement below reflects the County's Net Assets as of June 30, 2008

### Hillsborough County Statement of Net Assets June 30, 2008

	2008	2007	2008	2007		
	Governmental	Governmental	Business-Type	Business-Type	2008 Total	2007 Total
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>County</u>	<u>County</u>
<b>Assets</b>						
Current Assets	\$ 36,715,163	\$ 41,099,576	\$ 10,546,387	\$ 9,204,989	\$ 47,261,550	\$ 50,304,565
Capital Assets	<u>10,099,356</u>	<u>10,301,034</u>	<u>3,056,000</u>	<u>2,993,106</u>	<u>13,155,356</u>	<u>13,294,140</u>
Total Assets	<u>\$ 46,814,519</u>	<u>\$ 51,400,610</u>	<u>\$ 13,602,387</u>	<u>\$ 12,198,095</u>	<u>\$ 60,416,906</u>	<u>\$ 63,598,705</u>
<b>Liabilities</b>						
Long Term Debt	\$ 68,157	\$ 62,252	\$ 170,447	\$ 147,298	\$ 238,604	\$ 209,550
Other Liabilities	<u>8,807,753</u>	<u>11,924,765</u>	<u>986,689</u>	<u>545,679</u>	<u>9,794,442</u>	<u>12,470,444</u>
Total Liabilities	<u>\$ 8,875,910</u>	<u>\$ 11,987,017</u>	<u>\$ 1,157,136</u>	<u>\$ 692,977</u>	<u>\$ 10,033,046</u>	<u>\$ 12,679,994</u>
<b>Net Assets</b>						
Invested in Capital Assets	\$ 10,099,356	\$ 10,290,474	\$ 3,056,000	\$ 2,991,099	\$ 13,155,356	\$ 13,281,573
Unrestricted	<u>27,839,253</u>	<u>29,123,119</u>	<u>9,389,251</u>	<u>8,514,019</u>	<u>37,228,504</u>	<u>37,637,138</u>
Total Net Assets	<u>\$ 37,938,609</u>	<u>\$ 39,413,593</u>	<u>\$ 12,445,251</u>	<u>\$ 11,505,118</u>	<u>\$ 50,383,860</u>	<u>\$ 50,918,711</u>
<b>Total Liabilities and Net Assets</b>						
	<u>\$ 46,814,519</u>	<u>\$ 51,400,610</u>	<u>\$ 13,602,387</u>	<u>\$ 12,198,095</u>	<u>\$ 60,416,906</u>	<u>\$ 63,598,705</u>

## **CHANGES IN NET ASSETS**

### **Total County Activities:**

During FY08, Hillsborough County generated \$78,935,241 in overall revenue. This was comprised of \$54,927,916 in general revenue and \$24,007,325 in revenue from business-type activities. Departmental expenditures were less than budgeted for the fiscal year. Total expenditures equaled \$79,891,069.

### **Governmental Activities:**

Charges for services accounted for \$6,347,253 or 11.56 percent of the \$54,927,916 in governmental activities revenue and were primarily generated from the Registry of Deeds office. In addition, there was \$1,846,176 in interest income, \$647,133 in miscellaneous income and \$261,922 in revenue from other governments.

The cost of governmental activities for the fiscal year ended 6/30/08 was \$56,402,900. Programs that were funded included General Government, Public Safety, Corrections, County Attorney, Registry of Deeds, Human Services, Cooperative Extension and all administrative departments.

General government accounted for \$7,504,027 or 13.3 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 \$29,931,333 that were used to fund programs for Old Age Assistance, Interim Nursing Care, Board & Care of Children, and Aid to Permanently and Totally Disabled.

The Sheriff's Office expended \$4,805,607 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 \$1,521,499.

Expenditures in support of the operation of the Department of Corrections during the fiscal year equaled \$13,645,247. Offsetting revenue generated from services equaled \$521,398.

Budgeted invested fund earnings estimates were again increased from prior years in anticipation of a stable interest rate environment. The total amount generated equaled \$1,846,176 as compared to budget amount of \$2,000,000.

### **Business-type Activities:**

The Hillsborough County Nursing Home functions as a business-type activity (Enterprise Fund). Revenue is generated through the care of residents. Total revenue received by the Nursing Home in FY08 was \$24,007,325 and overall expenditures amounted to \$23,488,169.

Charges for services increased at the Nursing Home by \$1,489,021 over the fiscal year that ended on June 30, 2007. This was primarily due to a higher than anticipated Medicare, private (self-pay) and HMO census.

Overall operating expenditures for the Nursing Home increased by \$1,634,575, which was primarily due to increased employee costs, including the approval of a new collective bargaining agreement.

**Hillsborough County**  
**Changes in Net Assets**  
**Actual Revenue and Expenditures**  
**June 30, 2008**

	2008 Governmental <u>Activities</u>	2007 Governmental <u>Activities</u>	2008 Business-Type <u>Activities</u>	2007 Business-Type <u>Activities</u>	2008 Total <u>Government</u>	2007 Total <u>Government</u>
<b>Revenues</b>						
<b>Program Revenue:</b>						
Charges for Services	\$ 6,347,253	\$ 7,146,426	\$ 19,322,236	\$ 17,833,215	\$ 25,669,489	\$ 24,979,641
Operating Grants	1,425,367	1,145,589	-	-	1,425,367	1,145,589
Capital Grants			1,195		1,195	
<b>General Revenues:</b>						
County Taxes	44,400,065	43,779,760	-	-	44,400,065	43,779,760
Invested Funds	1,846,176	2,122,062	-	-	1,846,176	2,122,062
Grants and Contributions not restricted to specific programs	261,922	374,008	4,453,797	3,884,666	4,715,719	4,258,674
Rental Income	214,806	109,156	-	-	214,806	109,156
Miscellaneous	432,327	43,074	230,097	199,163	662,424	242,237
Sale of County Land		987,161				987,161
<b>Total Revenue</b>	<b>\$ 54,927,916</b>	<b>\$ 55,707,236</b>	<b>\$ 24,007,325</b>	<b>\$ 21,917,044</b>	<b>\$ 78,935,241</b>	<b>\$ 77,624,280</b>
<b>Program Expenditures:</b>						
General Government	\$ 2,330,354	\$ 2,282,626	-	-	\$ 2,330,354	\$ 2,282,626
Sheriff	4,805,607	4,289,713	-	-	4,805,607	4,289,713
Corrections	13,645,247	13,062,886	-	-	13,645,247	13,062,886
Nursing Home			\$ 23,488,169	\$ 21,853,594	23,488,169	21,853,594
County Attorney	3,647,996	3,013,192	-	-	3,647,996	3,013,192
Medical Referee	88,194	73,052	-	-	88,194	73,052
Registry of Deeds	1,525,677	1,565,816	-	-	1,525,677	1,565,816
Human Services	29,931,333	29,715,769	-	-	29,931,333	29,715,769
Cooperative Extension	428,492	421,343	-	-	428,492	421,343
<b>Total Expenses</b>	<b>\$ 56,402,900</b>	<b>\$ 54,424,397</b>	<b>\$ 23,488,169</b>	<b>\$ 21,853,594</b>	<b>\$ 79,891,069</b>	<b>\$ 76,277,991</b>
<b>Changes in net assets before transfers</b>	<b>\$ (1,474,984)</b>	<b>\$ 1,282,839</b>	<b>\$ 519,156</b>	<b>\$ 63,450</b>	<b>\$ (955,828)</b>	<b>\$ 1,346,289</b>
<b>Capital Contributions</b>		<b>(1,894,864)</b>		<b>1,894,864</b>		
<b>Change in net assets</b>	<b>(1,474,984)</b>	<b>( 612,025)</b>	<b>519,156</b>	<b>1,958,314</b>	<b>(955,828)</b>	<b>1,346,289</b>
<b>Net assets 6/30/07 – as restated</b>	<b>39,413,593</b>	<b>40,025,618</b>	<b>11,926,095</b>	<b>9,546,804</b>	<b>51,339,688</b>	<b>49,572,422</b>
<b>Net assets 6/30/08</b>	<b>\$ 37,938,609</b>	<b>\$ 39,413,593</b>	<b>\$ 12,445,251</b>	<b>\$ 11,505,118</b>	<b>\$ 50,383,860</b>	<b>\$ 50,918,711</b>



## COUNTY FINANCIAL ANALYSIS

### **Governmental Funds:**

For the fiscal year ended June 30, 2008, the County reported a combined ending fund balance of \$27,907,410, which was a decrease of \$1,277,961 from fiscal year 2007. The General Fund is the primary operating fund for Hillsborough County. At the end of the fiscal year, the General Fund Balance was \$27,690,178. The general fund balance for the County decreased by \$1,139,591 during the current fiscal year. The primary factor contributing to the decrease was lower than anticipated revenues.

One measure of financial strength is the level of cash reserves (undesignated fund balance) that is maintained by the County. Hillsborough County has maintained an undesignated fund balance that has allowed the County to manage cash flow during the year and for the eighth 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 \$6,452,511 have been dedicated to the General Fund. These amounts are reported as reserved/designated and have been designated as reserve for encumbrances.

The Unreserved Fund balance of \$21,237, 667, as indicated, is unreserved/undesignated. This balance may serve as a useful measure of the County's available resources. During FY09 the County has allocated \$6,393,980 of the balance, which will be used to stabilize the County tax rate. The remaining \$14,843,687 is undesignated.

Nonmajor Governmental Funds consist of the Incentive Fund, and the Registry of Deeds Equipment Replacement Fund. These funds are established to provide various 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 cost associated with replacing equipment. The Incentive Fund is used to record the allocation of grants received from other governments and disbursed to various non-profit and government organizations within the County. For fiscal year ending June 30, 2008, the combined fund balance of these funds totaled \$217,232. This represents a decrease of \$138,370 for fiscal year 2008. Non-major Governmental fund balance consists of the Incentive fund balance of \$31,628 and the Registry of Deeds Equipment Replacement fund balance of \$185,604.

**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 2008 reflect a net negative variance of \$1,168,501. This difference was primarily the result of lower than anticipated revenue from Registry of Deeds fees and invested fund earnings which reflect the downturn in the economy.

**Expenditures:** Budgetary expenditures for the year were \$53,887,178, which was \$6,612,611 less than the budget of \$60,499,789. All departments across the county contributed to this under spending and returned money at the end of the fiscal year. The Department of Corrections, Human Services and the Contingency budget were the primary contributors.

**Capital Assets -** The County's investments in capital assets for its governmental activities amounted to \$10,099,356 (net of accumulated depreciation). In addition, the County's investments in business-type

activities amounted to \$3,056,000 (net of accumulated depreciation). The following statement provides additional detail.

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

	2008	2007	2008	2007	2008 Total	2007 Total
	Governmental	Governmental	Business-Type	Business-Type	2008 Total	2007 Total
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>County</u>	<u>County</u>
Land Improvements	\$ 24,665	\$ 22,048	\$ 56,550	\$ 52,089	\$ 81,215	\$ 74,137
Buildings and Improvements	8,390,388	9,423,216	1,607,849	1,569,682	9,998,237	10,992,898
Equipment	1,659,434	855,770	1,390,904	1,344,670	3,050,338	2,200,440
Construction in Progress	<u>24,869</u>	<u>-</u>	<u>697</u>	<u>26,665</u>	<u>25,566</u>	<u>26,665</u>
	<u>\$ 10,099,356</u>	<u>\$ 10,301,034</u>	<u>\$ 3,056,000</u>	<u>\$ 2,993,106</u>	<u>\$ 13,155,356</u>	<u>\$ 13,294,140</u>

Additional information on the County's capital assets can be found in Note 6 of the Notes to Basic Financial Statements.

**In Summary:** Hillsborough County has continued to practice sound fiscal management in FY08. 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 2009 operating budget reflects an increase of .7 percent over the Fiscal-Year 2008 operating budget. The Fiscal-Year 2009 operating budget also includes \$6,393,980 in surplus contribution that was used to reduce the burden on taxpayers of Hillsborough County by that amount.

**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](http://www.hillsboroughcountynh.org).

EXHIBIT A  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Statement of Net Assets**  
June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 25,991,912		\$ 25,991,912
Investments	17,462,901		17,462,901
Accounts receivable, net	501,732	\$ 3,210,671	3,712,403
Internal balances	(7,280,594)	7,280,594	-
Prepaid expenses	39,212		39,212
Inventory		55,122	55,122
Total Current Assets	<u>36,715,163</u>	<u>10,546,387</u>	<u>47,261,550</u>
Noncurrent Assets:			
Non-depreciable capital assets	24,869	696	25,565
Depreciable capital assets, net	<u>10,074,487</u>	<u>3,055,304</u>	<u>13,129,791</u>
Total Noncurrent Assets	<u>10,099,356</u>	<u>3,056,000</u>	<u>13,155,356</u>
Total Assets	<u>\$ 46,814,519</u>	<u>\$ 13,602,387</u>	<u>\$ 60,416,906</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 8,196,283	\$ 527,200	\$ 8,723,483
Accrued expenses	<u>611,470</u>	<u>459,489</u>	<u>1,070,959</u>
Total Current Liabilities	<u>8,807,753</u>	<u>986,689</u>	<u>9,794,442</u>
Noncurrent Liabilities:			
Compensated absences	<u>68,157</u>	<u>170,447</u>	<u>238,604</u>
Total Noncurrent Liabilities	<u>68,157</u>	<u>170,447</u>	<u>238,604</u>
Total Liabilities	<u>8,875,910</u>	<u>1,157,136</u>	<u>10,033,046</u>
<b>NET ASSETS</b>			
Invested in capital assets	10,099,356	3,056,000	13,155,356
Unrestricted	<u>27,839,253</u>	<u>9,389,251</u>	<u>37,228,504</u>
Total Net Assets	<u>37,938,609</u>	<u>12,445,251</u>	<u>50,383,860</u>
Total Liabilities and Net Assets	<u>\$ 46,814,519</u>	<u>\$ 13,602,387</u>	<u>\$ 60,416,906</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, 2008

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:							
General government	\$ 7,767,485	\$ 4,304,356	\$ 183,349		\$ (3,279,780)		\$ (3,279,780)
Public safety	18,704,082	2,042,897	427,108		(16,234,077)		(16,234,077)
Health and welfare	29,931,333		814,910		(29,116,423)		(29,116,423)
Total governmental activities	<u>56,402,900</u>	<u>6,347,253</u>	<u>1,425,367</u>	<u>\$ -</u>	<u>(48,630,280)</u>	<u>\$ -</u>	<u>(48,630,280)</u>
Business-type activities:							
Nursing Home	<u>23,488,169</u>	<u>19,322,236</u>		<u>1,195</u>		<u>(4,164,738)</u>	<u>(4,164,738)</u>
Total business-type activities	<u>23,488,169</u>	<u>19,322,236</u>	<u>-</u>	<u>1,195</u>	<u>-</u>	<u>(4,164,738)</u>	<u>(4,164,738)</u>
Total primary government	<u>\$ 79,891,069</u>	<u>\$ 25,669,489</u>	<u>\$ 1,425,367</u>	<u>\$ 1,195</u>	<u>(48,630,280)</u>	<u>(4,164,738)</u>	<u>(52,795,018)</u>
General revenues:							
Property taxes					44,400,065		44,400,065
Grants and contributions not restricted to specific programs					261,922	4,453,797	4,715,719
Interest and investment earnings					1,846,176		1,846,176
Miscellaneous					647,133	230,097	877,230
Total general revenues and transfers					<u>47,155,296</u>	<u>4,683,894</u>	<u>51,839,190</u>
Change in net assets					(1,474,984)	519,156	(955,828)
Net assets - beginning - as restated					<u>39,413,593</u>	<u>11,926,095</u>	<u>51,339,688</u>
Net assets - ending					<u>\$ 37,938,609</u>	<u>\$ 12,445,251</u>	<u>\$ 50,383,860</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 25,991,912		\$ 25,991,912
Investments	17,462,901		17,462,901
Accounts receivable, net	501,732		501,732
Due from other funds		\$ 309,081	309,081
Prepaid expenses	39,212		39,212
Total Assets	<u>\$ 43,995,757</u>	<u>\$ 309,081</u>	<u>\$ 44,304,838</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 8,099,434	\$ 91,849	\$ 8,191,283
Accrued expenses	611,470		611,470
Due to other funds	7,594,675		7,594,675
Total Liabilities	<u>16,305,579</u>	<u>91,849</u>	<u>16,397,428</u>
<b>FUND BALANCES</b>			
Reserved for encumbrances	6,452,511	31,628	6,484,139
Unreserved, reported in:			
General fund	21,237,667		21,237,667
Special revenue funds		185,604	185,604
Total Fund Balances	<u>27,690,178</u>	<u>217,232</u>	<u>27,907,410</u>
Total Liabilities and Fund Balances	<u>\$ 43,995,757</u>	<u>\$ 309,081</u>	

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds 10,099,356

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 (68,157)

Net assets of governmental activities \$ 37,938,609

*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, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 44,400,065		\$ 44,400,065
Intergovernmental	872,379	\$ 814,910	1,687,289
Charges for services	6,207,670	139,583	6,347,253
Interest income	1,846,176		1,846,176
Miscellaneous	647,133		647,133
<b>Total Revenues</b>	<b>53,973,423</b>	<b>954,493</b>	<b>54,927,916</b>
<b>Expenditures:</b>			
<b>Current operations:</b>			
General government	7,734,025		7,734,025
Public safety	18,301,992		18,301,992
Health and welfare	29,003,497	927,863	29,931,360
Capital outlay		238,500	238,500
<b>Total Expenditures</b>	<b>55,039,514</b>	<b>1,166,363</b>	<b>56,205,877</b>
<b>Excess of revenues (under) expenditures</b>	<b>(1,066,091)</b>	<b>(211,870)</b>	<b>(1,277,961)</b>
<b>Other Financing Sources (Uses):</b>			
Operating transfers in		73,500	73,500
Operating transfers out	(73,500)		(73,500)
<b>Total other financing sources (uses)</b>	<b>(73,500)</b>	<b>73,500</b>	<b>-</b>
<b>Excess of revenues and other sources (under) expenditures and other uses</b>	<b>(1,139,591)</b>	<b>(138,370)</b>	<b>(1,277,961)</b>
<b>Fund balances at beginning of year</b>	<b>28,829,769</b>	<b>355,602</b>	<b>29,185,371</b>
<b>Fund balances at end of year</b>	<b>\$ 27,690,178</b>	<b>\$ 217,232</b>	<b>\$ 27,907,410</b>

**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, 2008

Net Change in Fund Balances--Total Governmental Funds	\$ (1,277,961)
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 exceeded capital outlays in the current period.	(201,678)
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	10,560
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(5,905)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (1,474,984)</b>

See accompanying notes to the basic financial statements

EXHIBIT E  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Statement of Net Assets**  
**Proprietary Funds**  
June 30, 2008

	Nursing Home Fund
ASSETS	
Current Assets:	
Accounts receivable, net	3,210,671
Inventory	55,122
Due from other funds	7,280,594
Total Current Assets	<u>10,546,387</u>
Noncurrent Assets:	
Non-depreciable capital assets	696
Depreciable capital assets, net	3,055,304
Total Noncurrent Assets	<u>3,056,000</u>
Total Assets	<u>\$ 13,602,387</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 527,200
Accrued expenses	459,489
Total Current Liabilities	<u>986,689</u>
Noncurrent Liabilities:	
Compensated absences	170,447
Total Noncurrent Liabilities	<u>170,447</u>
Total Liabilities	<u>1,157,136</u>
NET ASSETS	
Invested in capital assets	3,056,000
Unrestricted	9,389,251
Total Net Assets	<u>12,445,251</u>
Total Liabilities and Net Assets	<u>\$ 13,602,387</u>

*See accompanying notes to the basic financial statements*

EXHIBIT F  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Funds**  
For the Year Ended June 30, 2008

	Nursing Home <u>Fund</u>
Operating revenues:	
Intergovernmental revenue	\$ 4,453,797
Charges for services	19,322,236
Miscellaneous	<u>230,097</u>
Total operating revenues	<u>24,006,130</u>
Operating expenses:	
Administrative	3,006,834
Maintenance and operations	1,068,188
Physical therapy	979,006
Dietary	1,813,383
Nursing	13,497,789
Laundry	369,443
Housekeeping	636,214
Physician/pharmacy	572,395
Restorative services	681,367
Social services	301,848
Barber/beauty	53,537
Depreciation	410,564
Miscellaneous	<u>97,567</u>
Total operating expenses	<u>23,488,135</u>
Net income	<u>517,995</u>
Non-operating (expenses):	
Interest expense	<u>(34)</u>
Net non-operating (expenses)	<u>(34)</u>
Income before capital contributions	517,961
Capital contributions	<u>1,195</u>
Change in net assets	519,156
Total net assets at beginning of year, as restated	<u>11,926,095</u>
Total net assets at end of year	<u>\$ 12,445,251</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, 2008

	Nursing Home <u>Fund</u>
Cash flows from operating activities:	
Cash received from patient care/services	\$ 18,838,066
Cash received from Medicaid pool funds	4,453,797
Cash paid to suppliers and employees	<u>(22,846,971)</u>
Net cash provided by operating activities	<u>444,892</u>
Cash flows from capital and related financing activities:	
Capital contributions	1,195
Purchases of capital assets	(473,458)
Principal paid on capital lease payable	(2,007)
Interest paid on capital lease payable	<u>(34)</u>
Net cash (used) for capital and related financing activities	<u>(474,304)</u>
Net (decrease) in cash and cash equivalents	(29,412)
Cash and cash equivalents at beginning of year	<u>7,310,006</u>
Cash and cash equivalents at end of year	<u>\$ 7,280,594</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Net income	\$ 517,995
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	410,564
Bad debt expense	97,567
Changes in assets and liabilities:	
Accounts receivable, net	(714,267)
Inventory	(1,813)
Accounts payable	(20,129)
Accrued expenses	131,826
Compensated absences	<u>23,149</u>
Net cash provided by operating activities	<u>\$ 444,892</u>

*See accompanying notes to the basic financial statements*

EXHIBIT H  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2008

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 333,309
Due from other funds	<u>5,000</u>
Total assets	<u>\$ 338,309</u>
LIABILITIES	
Due to specific individuals	<u>\$ 338,309</u>
Total liabilities	<u>\$ 338,309</u>

*See accompanying notes to the basic financial statements*

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**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.

***Basis of Presentation***

The County's basic financial statements consist of government-wide statements, including a statement of net assets 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 assets 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 assets presents the financial condition of the governmental 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 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 fund financial statements is on major funds. Each major fund is presented in a

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

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. There are 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 fund assets and liabilities is reported as fund balance. The following is the County's major governmental fund:

The *General Fund* is the 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 assets, 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's 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. The Nursing Home also receives an operating subsidy from the General Fund on an annual basis to support current operations and fund capital acquisitions.

**3. Fiduciary Funds**

Fiduciary fund reporting is on net assets and changes in net assets. The fiduciary fund category is split into four classifications: private purpose trust funds, pension trust funds, investment trust funds and agency funds. The County's agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The County's agency fund accounts for the inmate savings, correctional commissary funds, and sheriff bond and escrow funds and court-forfeited funds and patient funds.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

***Measurement Focus***

**1. Government-Wide Financial Statements**

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

**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 and current liabilities 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. 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 deferred revenue, and in the presentation of expenses versus expenditures.

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The County has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

**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.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

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 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 (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

**2. Expenses/Expenditures**

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

***Budgetary Data***

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

State law requires balanced budgets however permits the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2008, the County applied \$6,422,950 of its unappropriated fund balance to reduce taxes.

***Encumbrance Accounting***

Encumbrance accounting, under which purchase orders and other commitments for the expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

***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:

	Interfund <u>Receivable</u>
Proprietary Funds:	
Nursing Home Fund	<u>\$ 7,280,594</u>

***Investments***

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

***Accounts Receivable***

General Fund accounts receivable at June 30, 2008 are recorded net of an allowance for uncollectible receivables of \$16,118.

Nursing Home Fund accounts receivable at June 30, 2008 are recorded net of an allowance for uncollectible receivables of \$314,809.

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond June 30, 2008 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 assets, but are not reported in the fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the date received. The County maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary capital assets 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:

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

<u>Description</u>	<u>Years</u>
Land improvements	3-30
Buildings and improvements	5-70
Furniture, equipment and vehicles	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. 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 \$170,447 as of June 30, 2008.

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of the funds. Other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets.

Net assets are 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.

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

***Fund Balance Reserves***

The County reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for



**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances.

***Interfund Activity***

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

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

***Operating Revenues and Expenses***

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

***Estimates***

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

**NOTE 2—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, 2008, 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.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

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.

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, 2008.

**NOTE 4--DEPOSITS AND INVESTMENTS**

The County has combined the cash resources of its governmental, proprietary and fiduciary 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, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and cash equivalents	\$ 25,991,912
Investments	17,462,901
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	<u>333,309</u>
	<u>\$ 43,788,122</u>

Cash and investments at June 30, 2008 consist of the following:

Cash on hand	\$ 8,250
Deposits with financial institutions	<u>43,779,872</u>
	<u>\$ 43,788,122</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.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

***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. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Of the County's deposits with financial institutions at year end, \$44,339,879 was either federally insured or 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:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not depreciated:				
Construction in progress		\$ 24,869		\$ 24,869
Total capital assets not being depreciated	\$ -	24,869	\$ -	24,869
Other capital assets:				
Land improvements	103,742	7,800		111,542
Buildings and improvements	29,798,619	17,173		29,815,792
Equipment	4,690,982	1,187,958		5,878,940
Subtotal	34,593,343	1,212,931	-	35,806,274
Less accumulated depreciation for:				
Land improvements	(81,694)	(5,183)		(86,877)
Buildings and improvements	(20,375,403)	(1,050,001)		(21,425,404)
Equipment	(3,835,212)	(384,294)		(4,219,506)
Total accumulated depreciation	(24,292,309)	(1,439,478)	-	(25,731,787)
Total other capital assets, net	10,301,034	(226,547)	-	10,074,487
Total capital assets, net	\$ 10,301,034	\$ (201,678)	\$ -	\$ 10,099,356

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 328,355
Public safety	1,111,034
Health and welfare	89
Total governmental activities depreciation expense	<u>\$ 1,439,478</u>

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not depreciated:				
Construction in progress	\$ 26,665	\$ 697	\$ (26,665)	\$ 697
Total capital assets not being depreciated	<u>26,665</u>	<u>697</u>	<u>(26,665)</u>	<u>697</u>
Other capital assets:				
Land improvements	589,550			589,550
Buildings and improvements	7,742,354	182,271		7,924,625
Vehicles and equipment	4,047,574	317,155		4,364,729
Subtotal	<u>12,379,478</u>	<u>499,426</u>	<u>-</u>	<u>12,878,904</u>
Accumulated depreciation:				
Land improvements	(524,829)	(8,171)		(533,000)
Buildings and improvements	(6,120,939)	(195,837)		(6,316,776)
Vehicles and equipment	(2,767,269)	(206,556)		(2,973,825)
Subtotal	<u>(9,413,037)</u>	<u>(410,564)</u>	<u>-</u>	<u>(9,823,601)</u>
Total other capital assets, net	<u>2,966,441</u>	<u>88,862</u>	<u>-</u>	<u>3,055,303</u>
Total capital assets, net	<u>\$ 2,993,106</u>	<u>\$ 89,559</u>	<u>\$ (26,665)</u>	<u>\$ 3,056,000</u>

Depreciation expense was charged to proprietary funds as follows:

Business-type activities:	
Nursing Home	\$ 410,564
Total business-type activities depreciation expense	<u>\$ 410,564</u>

**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 9.3% or 5.0% of their covered salary, respectively, and the County is required to contribute at an actuarially determined rate. The County's contribution rates were 11.84% and 8.74% of covered payroll for public safety employees and general employees, respectively for the year ended June 30, 2008. The County contributes 65% of the employer cost for public safety officers employed by the County and the State contributes the remaining 35% of the employer cost. The County contributes 100% of the employer cost for general employees of the County. In accordance with accounting principles generally accepted in the United

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

States of America (GASB #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$427,108 have been reported as a revenue and expenditure of the General Fund in these financial statements.

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 June 30, 2008, 2007, and 2006 were \$2,319,959, \$1,715,745, and \$1,701,879, respectively, equal to the required contributions for each year.

**NOTE 7—OPERATING LEASES**

The County currently leases the former "House of Correction" 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. The annual rent due to the County, which is annually adjusted, was \$191,625 for the year ended June 30, 2008.

**NOTE 8—LONG-TERM OBLIGATIONS**

***Changes in Long-Term Obligations***

The changes in the County's long-term obligations for the year ended June 30, 2008 are as follows:

	Balance <u>7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2008</u>
Governmental funds:				
Capital lease payable	\$ 10,560		\$ (10,560)	\$ -
Compensated absences payable	<u>62,252</u>	<u>\$ 29,096</u>	<u>(23,191)</u>	<u>68,157</u>
Total governmental activities	<u>\$ 72,812</u>	<u>\$ 29,096</u>	<u>\$ (33,751)</u>	<u>\$ 68,157</u>
Business-type activities:				
Capital lease payable	\$ 2,007		\$ (2,007)	\$ -
Compensated absences payable	<u>147,297</u>	<u>\$ 133,404</u>	<u>(110,254)</u>	<u>170,447</u>
Total business-type activities	<u>\$ 149,304</u>	<u>\$ 133,404</u>	<u>\$ (112,261)</u>	<u>\$ 170,447</u>

Payments on the capital leases are paid out of the General Fund and the Nursing Home Fund. Compensated absences will be paid from both the Nursing Home Fund and the General Fund.

**NOTE 9—INTERFUND BALANCES AND TRANSFERS**

The County has combined the cash resources of its governmental, proprietary, and fiduciary 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, 2008 are as follows:

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2008**

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund		\$ 7,594,675
Nonmajor governmental funds	\$ 309,081	
Nursing Home fund	7,280,594	
Agency fund	5,000	
Total	<u>\$ 7,594,675</u>	<u>\$ 7,594,675</u>

Interfund transfers for the year ended June 30, 2008 consisted of a transfer of \$73,500 to the Registry of Deeds Fund from the General Fund to support current operations.

**NOTE 10—RESERVED FUND BALANCE**

Fund balances have been reserved for encumbrances in the General Fund and Incentive Fund of \$6,452,511 and \$31,628, respectively. These funds are set aside to cover orders placed for goods and services that were committed prior to June 30, 2008.

**NOTE 11—RESTATEMENT OF EQUITY**

***Correction of an Error***

On a quarterly basis the Nursing Home Fund is required to file reports with the State in accordance with the Medicaid Quality Incentive Program (MQIP) and the facility quality assessment fee. The quarterly report includes information relating to the Nursing Home's share of revenues associated with the MQIP which are reimbursed by the State as well as the Nursing Home's facility quality assessment fee payable to the State.

During the year ended June 30, 2008, it was determined that the quarterly reports filed with the State for the quarter ending June 30, 2007 were not recognized in the general ledger in the proper fiscal year, resulting in an understatement of both receivables and payables. Net assets of the business-type activities and the Nursing Home Fund as of July 1, 2007 have been restated as follows:

	<u>Business-type Activities</u>	<u>Nursing Home Fund</u>
Net Assets, July 1, 2007 (as previously reported)	\$ 11,505,118	\$ 11,505,118
Amount of restatement due to:		
Understatement of receivables	752,297	752,297
Understatement of payables	<u>(331,320)</u>	<u>(331,320)</u>
Net Assets, July 1, 2007 - as restated	<u>\$ 11,926,095</u>	<u>\$ 11,926,095</u>

SCHEDULE 1  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual (Budgetary Basis) - General Fund**  
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 44,400,065	\$ 44,400,065	\$ 44,400,065	\$ -
Intergovernmental	900,000	900,000	445,271	(454,729)
Charges for services	6,739,959	6,739,959	6,207,670	(532,289)
Interest income	2,000,000	2,000,000	1,846,176	(153,824)
Miscellaneous	674,891	674,792	647,133	(27,659)
Total Revenues	<u>54,714,915</u>	<u>54,714,816</u>	<u>53,546,315</u>	<u>(1,168,501)</u>
Expenditures:				
Current:				
General government	11,092,076	11,090,624	8,412,110	2,678,514
Public safety	19,059,960	19,100,107	17,942,556	1,157,551
Health and welfare	30,347,851	30,309,057	27,532,512	2,776,545
Debt service:				
Fiscal charges	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total Expenditures	<u>60,499,888</u>	<u>60,499,789</u>	<u>53,887,178</u>	<u>6,612,611</u>
Excess revenues over (under) expenditures	<u>(5,784,973)</u>	<u>(5,784,973)</u>	<u>(340,863)</u>	<u>5,444,110</u>
Other financing uses:				
Operating transfers out	<u>(637,977)</u>	<u>(637,977)</u>	<u>(73,500)</u>	<u>(564,477)</u>
Total other financing uses	<u>(637,977)</u>	<u>(637,977)</u>	<u>(73,500)</u>	<u>(564,477)</u>
Excess revenues over (under) expenditures and other uses	<u>(6,422,950)</u>	<u>(6,422,950)</u>	<u>(414,363)</u>	<u>4,879,633</u>
Fund balances at beginning of year				
- Budgetary Basis	<u>21,652,030</u>	<u>21,652,030</u>	<u>21,652,030</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 15,229,080</u>	<u>\$ 15,229,080</u>	<u>\$ 21,237,667</u>	<u>\$ 4,879,633</u>

See accompanying notes to the required supplementary information

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
June 30, 2008

**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 and on-behalf payments for fringe benefits as follows:

	<u>Revenues, and Transfers</u>	<u>Expenditures and Transfers</u>
Per Exhibit D	\$ 53,973,423	\$ 55,113,014
Encumbrances, June 30, 2007		(7,177,739)
Encumbrances, June 30, 2008		6,452,511
On-behalf fringe benefits	<u>(427,108)</u>	<u>(427,108)</u>
Per Schedule 1	<u>\$ 53,546,315</u>	<u>\$ 53,960,678</u>



SCHEDULE A  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Special Revenue Funds**  
June 30, 2008

	Incentive Fund	Registry of Deeds Funds	Combining Totals
<b>ASSETS</b>			
Due from other funds	\$ 123,477	\$ 185,604	\$ 309,081
Total Assets	<u>\$ 123,477</u>	<u>\$ 185,604</u>	<u>\$ 309,081</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 91,849		\$ 91,849
Total Liabilities	<u>91,849</u>	<u>\$ -</u>	<u>91,849</u>
<b>FUND BALANCES</b>			
Reserved for encumbrances	31,628		31,628
Unreserved, reported in:			
Special revenue funds		185,604	185,604
Total Fund Balances	<u>31,628</u>	<u>185,604</u>	<u>217,232</u>
Total Liabilities and Fund Balances	<u>\$ 123,477</u>	<u>\$ 185,604</u>	<u>\$ 309,081</u>

SCHEDULE B

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds - All Nonmajor Special Revenue Funds

For the Year Ended June 30, 2008

	Incentive Fund	Registry of Deeds Fund	Combining Totals
Revenues:			
Intergovernmental	\$ 814,910		\$ 814,910
Charges for services		\$ 139,583	139,583
Total Revenues	<u>814,910</u>	<u>139,583</u>	<u>954,493</u>
Expenditures:			
Current operations:			
Health and welfare	927,863		927,863
Capital outlay		238,500	238,500
Total Expenditures	<u>927,863</u>	<u>238,500</u>	<u>1,166,363</u>
Excess of revenues (under) expenditures	<u>(112,953)</u>	<u>(98,917)</u>	<u>(211,870)</u>
Other financing uses:			
Operating transfers in		73,500	73,500
Total other financing uses	<u>-</u>	<u>73,500</u>	<u>73,500</u>
Excess of revenues and other sources (under) expenditures	<u>(112,953)</u>	<u>(25,417)</u>	<u>(138,370)</u>
Fund balances at beginning of year	<u>144,581</u>	<u>211,021</u>	<u>355,602</u>
Fund balances at end of year	<u>\$ 31,628</u>	<u>\$ 185,604</u>	<u>\$ 217,232</u>