

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE

Financial Statements

June 30, 2012

and

Independent Auditor's Report

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2012**

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR’S REPORT	
MANAGEMENT’S DISCUSSION AND ANALYSIS	i-vii
BASIC FINANCIAL STATEMENTS	
EXHIBITS:	
A Statement of Net Assets	1
B Statement of Activities	2
C Balance Sheet – Governmental Funds	3
D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
E Statement of Net Assets – Proprietary Funds	5
F Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	6
G Statement of Cash Flows – Proprietary Funds	7
H Statement of Fiduciary Net Assets – Fiduciary Funds	8
NOTES TO BASIC FINANCIAL STATEMENTS	9-22
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE:	
1 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund	23
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	24

INDEPENDENT AUDITOR'S REPORT

To the County Commissioners
County of Hillsborough, New Hampshire

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 (the County) as of and for the year ended June 30, 2012, 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 of Hillsborough, New Hampshire'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.

As discussed in Note 2 to the financial statements, management has not recorded a liability for other post-employment benefits in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other post-employment benefits attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net assets, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the County of Hillsborough, New Hampshire as of June 30, 2012, or the changes in financial position thereof for the year then ended.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-vii and 23-24 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

Wachon Kelley & Company PC

March 4, 2013
Manchester, New Hampshire

**Hillsborough County
Financial Management's Discussion and Analysis
For Year Ended June 30, 2012**

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, 2012.

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.

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 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 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 \$40,869,962 for fiscal year ended June 30, 2012.

A portion of the County's net assets, (\$10,207,304 or 24.98 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 assets, unrestricted net assets, (\$30,517,737 or 74.67 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, 2012.

**Hillsborough County
Statement of Net Assets
June 30, 2012**

	2012	2011	2012	2011	2012 Total	2011 Total
	Governmental	Governmental	Business-Type	Business-Type	County	County
	Activities	Activities	Activities	Activities		
Assets						
Current Assets	\$ 18,429,524	\$ 27,301,077	\$16,961,553	\$ 15,241,976	\$ 35,391,077	\$ 42,543,053
Capital Assets	<u>7,512,920</u>	<u>8,425,498</u>	<u>2,694,384</u>	<u>2,921,864</u>	<u>10,207,304</u>	<u>11,347,362</u>
Total Assets	\$ 25,942,444	\$ 35,726,575	\$ 19,655,937	\$ 18,163,840	\$ 45,598,381	\$ 53,890,415
Liabilities						
Long Term Debt	\$ 47,713	\$ 59,871	\$ 174,129	\$ 154,897	\$ 221,842	\$ 214,768
Other Liabilities	<u>\$ 3,367,618</u>	<u>\$ 5,311,116</u>	<u>\$ 1,138,959</u>	<u>\$ 1,045,020</u>	<u>\$ 4,506,577</u>	<u>\$ 6,356,136</u>
Total Liabilities	\$ 3,415,331	\$ 5,370,987	\$ 1,313,088	\$ 1,199,917	\$ 4,728,419	\$ 6,570,904
Net Assets						
Invested in Capital Assets	\$ 7,512,920	\$ 8,425,498	\$ 2,694,384	\$ 2,921,864	\$ 10,207,304	\$ 11,347,362
Restricted	144,921				144,921	
Unrestricted	<u>\$ 14,869,272</u>	<u>\$ 21,930,090</u>	<u>\$ 15,648,465</u>	<u>\$ 14,042,059</u>	<u>\$ 30,517,737</u>	<u>\$ 35,972,149</u>
Total Net Assets	\$ 22,527,113	\$ 30,355,588	\$ 18,342,849	\$ 16,963,923	\$ 40,869,962	\$ 47,319,511
Total Liabilities and Net Assets	<u>\$ 25,942,444</u>	<u>\$ 35,726,575</u>	<u>\$ 19,655,937</u>	<u>\$ 18,163,840</u>	<u>\$ 45,598,381</u>	<u>\$ 53,890,415</u>

CHANGES IN NET ASSETS

Total County Activities:

During FY12, Hillsborough County generated \$78,736,899 in overall revenue. This was comprised of \$51,449,106 in general revenue and \$27,287,793 in revenue from business-type activities. Departmental expenditures for the fiscal year were \$85,186,448.

Governmental Activities:

Charges for services accounted for \$5,854,859 or 11.38 percent of the \$51,449,106 in governmental activities revenue and were primarily generated from the Registry of Deeds office. In addition, there was \$749,601 in operating grants, \$226,837 in interest income, \$382,682 in rental income and \$125,706 in miscellaneous income.

The cost of governmental activities for the fiscal year ended June 30, 2012 was \$59,277,581. Programs that were funded included General Government, Public Safety, Corrections, County Attorney, Registry of Deeds, Cooperative Extension and all administrative departments.

General government accounted for \$7,901,535 or 13.33 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 \$30,797,610 that were used to fund Interim Nursing Care.

The Sheriff's Office expended \$4,677,071 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 \$1,682,831.

Expenditures in support of the operation of the Department of Corrections during the fiscal year equaled \$15,435,842. Offsetting revenue generated from services equaled \$617,582.

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 \$226,837 as compared to budget amount of \$300,000.

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 FY12 was \$27,287,793 and overall expenditures amounted to \$25,908,867.

Charges for services increased at the Nursing Home by \$800,239 over the fiscal year that ended on June 30, 2011. Overall operating expenditures for the Nursing Home increased by \$1,054,750 which are primarily reflected in Nursing and Rehabilitation costs.

**Hillsborough County
Changes in Net Assets
Actual Revenue and Expenditures
June 30, 2012**

	2012 Governmental <u>Activities</u>	2011 Governmental <u>Activities</u>	2012 Business-Type <u>Activities</u>	2011 Business-Type <u>Activities</u>	2012 Total <u>Government</u>	2011 Total <u>Government</u>
Revenues						
Program Revenue:						
Charges for Services	\$ 5,854,859	\$ 5,750,053	\$ 20,701,777	\$ 19,901,538	\$ 26,556,636	\$ 25,651,591
Operating Grants	749,601	7,050,399	-	-	749,601	7,050,399
Capital Grants						
General Revenues:						
County Taxes	44,109,421	44,109,838	-	-	44,109,421	44,109,838
Invested Funds	226,837	259,046	-	-	226,837	259,046
Grants and Contributions not restricted to specific programs			5,998,424	5,830,741	5,998,424	5,830,741
Rental Income	382,682	354,634	-	-	382,682	354,634
Miscellaneous	<u>125,706</u>	<u>269,438</u>	<u>587,592</u>	<u>337,026</u>	<u>713,298</u>	<u>606,464</u>
Total Revenue	<u>\$ 51,449,106</u>	<u>\$ 57,793,408</u>	<u>\$ 27,287,793</u>	<u>\$ 26,069,305</u>	<u>\$ 78,736,899</u>	<u>\$ 83,862,713</u>

Program Expenditures:

General Government	\$ 2,776,625	\$ 2,860,689	-	-	\$ 2,776,625	\$ 2,860,689
Sheriff	4,677,071	5,321,885	-	-	4,677,071	5,321,885
Corrections	15,444,842	15,526,739	-	-	15,444,842	15,526,739
Nursing Home			\$ 25,908,867	\$ 24,854,117	25,908,867	24,854,117
County Attorney	3,638,652	3,881,893	-	-	3,638,652	3,881,893
Medical Referee	72,885	59,619	-	-	72,885	59,619
Registry of Deeds	1,478,445	1,673,148	-	-	1,478,445	1,673,148
Human Services	30,797,610	29,502,157	-	-	30,797,610	29,502,157
Cooperative Extension	<u>391,451</u>	<u>437,475</u>	-	-	<u>391,451</u>	<u>437,475</u>
Total Expenses	<u>\$ 59,277,581</u>	<u>\$ 59,263,605</u>	<u>\$ 25,908,867</u>	<u>\$ 24,854,117</u>	<u>\$ 85,186,448</u>	<u>\$ 84,117,722</u>
Changes in net assets before transfers	<u>\$ (7,828,475)</u>	<u>\$ (1,470,197)</u>	<u>\$ 1,378,926</u>	<u>\$ 1,215,188</u>	<u>\$ (6,449,549)</u>	<u>\$ (255,009)</u>
Capital Contributions						
Change in net assets	<u>(7,828,475)</u>	<u>(1,470,197)</u>	<u>1,378,926</u>	<u>1,215,188</u>	<u>(6,449,549)</u>	<u>(255,009)</u>
Net assets 6/30/11	<u>30,355,588</u>	<u>31,825,785</u>	<u>16,963,923</u>	<u>15,748,735</u>	<u>47,319,511</u>	<u>47,574,520</u>
Net assets 6/30/12	<u>\$ 22,527,113</u>	<u>\$ 30,355,588</u>	<u>\$ 18,342,849</u>	<u>\$ 16,963,923</u>	<u>\$ 40,869,962</u>	<u>\$ 47,319,511</u>

COUNTY FINANCIAL ANALYSIS

Governmental Funds:

For the fiscal year ended June 30, 2012, the County reported a combined ending fund balance of \$15,061,906, which was a decrease of \$6,928,055 from fiscal year 2011. The General Fund is the primary operating fund for Hillsborough County. At the end of the fiscal year, the General Fund Balance was \$14,937,844. The general fund balance for the County decreased by \$6,918,895 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 eleventh year in a row eliminate the need to borrow in anticipation of taxes. This has saved the County thousands of dollars each year in interest expenses.

Fund balance amounts totaling \$2,717,104 have been dedicated to the General Fund. These amounts are reported as assigned and have been assigned for encumbrances.

The Unassigned Fund balance of \$12,075,819, 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, 2012 consists of the Registry of Deeds Equipment Replacement fund balance of \$124,062.

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 2012 reflect a net negative variance of \$5,076,875.

Expenditures: Budgetary expenditures for the year were \$54,351,020, which was \$4,149,201 less than the budget of \$58,500,221. 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 \$7,512,920 (net of accumulated depreciation). In addition, the County’s investments in business-type activities amounted to \$2,694,384 (net of accumulated depreciation). The following statement provides additional detail.

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

	2012 Governmental <u>Activities</u>	2011 Governmental <u>Activities</u>	2012 Business-Type <u>Activities</u>	2011 Business-Type <u>Activities</u>	2012 Total <u>County</u>	2011 Total <u>County</u>
Land Improvements	\$ 40,601	\$ 54,237	\$ 80,570	\$ 87,740	\$ 121,171	\$ 141,977
Buildings and Improvements	6,229,643	6,999,885	1,152,205	1,313,126	7,381,848	8,313,011
Equipment	1,242,676	1,273,975	1,369,792	1,520,998	2,612,468	2,794,973
Construction in Progress		97,401	91,817		91,817	97,401
	<u>\$ 7,512,920</u>	<u>\$ 8,425,498</u>	<u>\$ 2,694,384</u>	<u>\$ 2,921,864</u>	<u>\$ 10,207,304</u>	<u>\$ 11,347,362</u>

Additional information on the County’s capital assets can be found in Note 7 of the Notes to Basic Financial Statements.

In Summary: Hillsborough County has continued to practice sound fiscal management in FY12. 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 2013 operating budget reflects a decrease of 2.1089 percent over the Fiscal-Year 2012 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 Assets
June 30, 2012

	Primary Government		
	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,708,054	\$ 119,687	\$ 3,827,741
Investments	25,990,926		25,990,926
Accounts receivable, net	201,876	2,072,998	2,274,874
Due from other governments	633,814	2,614,274	3,248,088
Internal balance	(12,105,146)	12,105,146	
Inventory		49,448	49,448
Total Current Assets	<u>18,429,524</u>	<u>16,961,553</u>	<u>35,391,077</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable capital assets		91,817	91,817
Depreciable capital assets, net	7,512,920	2,602,567	10,115,487
Total Noncurrent Assets	<u>7,512,920</u>	<u>2,694,384</u>	<u>10,207,304</u>
Total Assets	<u>\$ 25,942,444</u>	<u>\$ 19,655,937</u>	<u>\$ 45,598,381</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 435,476	\$ 176,147	\$ 611,623
Accrued expenses	575,397	527,514	1,102,911
Deferred revenue		23,739	23,739
Due to other governments	2,356,745	411,559	2,768,304
Total Current Liabilities	<u>3,367,618</u>	<u>1,138,959</u>	<u>4,506,577</u>
Noncurrent Liabilities:			
Compensated absences payable	47,713	174,129	221,842
Total Noncurrent Liabilities	<u>47,713</u>	<u>174,129</u>	<u>221,842</u>
Total Liabilities	<u>3,415,331</u>	<u>1,313,088</u>	<u>4,728,419</u>
NET ASSETS			
Invested in capital assets	7,512,920	2,694,384	10,207,304
Restricted	144,921		144,921
Unrestricted	14,869,272	15,648,465	30,517,737
Total Net Assets	<u>22,527,113</u>	<u>18,342,849</u>	<u>40,869,962</u>
Total Liabilities and Net Assets	<u>\$ 25,942,444</u>	<u>\$ 19,655,937</u>	<u>\$ 45,598,381</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, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	
Governmental Activities:						
General government	\$ 8,303,173	\$ 3,554,446	\$ 295,307	\$ (4,453,420)		\$ (4,453,420)
Public safety	20,176,798	2,300,413	168,578	(17,707,807)		(17,707,807)
Health and welfare	30,797,610		285,716	(30,511,894)		(30,511,894)
Total governmental activities	<u>59,277,581</u>	<u>5,854,859</u>	<u>749,601</u>	<u>(52,673,121)</u>	\$ -	<u>(52,673,121)</u>
Business-type activities:						
Nursing Home	<u>25,908,867</u>	<u>20,701,777</u>			(5,207,090)	<u>(5,207,090)</u>
Total business-type activities	<u>25,908,867</u>	<u>20,701,777</u>			<u>(5,207,090)</u>	<u>(5,207,090)</u>
Total primary government	<u>\$ 85,186,448</u>	<u>\$ 26,556,636</u>	<u>\$ 749,601</u>	<u>(52,673,121)</u>	<u>(5,207,090)</u>	<u>(57,880,211)</u>
General revenues:						
Property taxes				44,109,421		44,109,421
Grants and contributions not restricted to specific programs					5,998,424	5,998,424
Interest and investment earnings				226,837		226,837
Miscellaneous				508,388	587,592	1,095,980
Total general revenues				<u>44,844,646</u>	<u>6,586,016</u>	<u>51,430,662</u>
Change in net assets				(7,828,475)	1,378,926	(6,449,549)
Net assets - beginning				30,355,588	16,963,923	47,319,511
Net assets - ending				<u>\$ 22,527,113</u>	<u>\$ 18,342,849</u>	<u>\$ 40,869,962</u>

See accompanying notes to the basic financial statements

EXHIBIT C
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,708,054		\$ 3,708,054
Investments	25,990,926		25,990,926
Accounts receivable, net	201,876		201,876
Due from other governments	633,814		633,814
Due from other funds		\$ 124,062	124,062
Total Assets	<u>\$ 30,534,670</u>	<u>\$ 124,062</u>	<u>\$ 30,658,732</u>
LIABILITIES			
Accounts payable	\$ 430,476		\$ 430,476
Accrued expenses	575,397		575,397
Due to other governments	2,356,745		2,356,745
Due to other funds	12,234,208		12,234,208
Total Liabilities	<u>15,596,826</u>	<u>\$ -</u>	<u>15,596,826</u>
FUND BALANCES			
Restricted	144,921		144,921
Assigned	2,717,104	124,062	2,841,166
Unassigned	12,075,819		12,075,819
Total Fund Balances	<u>14,937,844</u>	<u>124,062</u>	15,061,906
Total Liabilities and Fund Balances	<u>\$ 30,534,670</u>	<u>\$ 124,062</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 7,512,920

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 (47,713)

Net assets of governmental activities \$ 22,527,113

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, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 44,109,421		\$ 44,109,421
Intergovernmental	749,601		749,601
Charges for services	5,729,019	\$ 125,840	5,854,859
Interest and investment income	226,837		226,837
Miscellaneous	508,388		508,388
Total Revenues	<u>51,323,266</u>	<u>125,840</u>	<u>51,449,106</u>
Expenditures:			
Current operations:			
General government	7,765,718	238,500	8,004,218
Public safety	19,574,357		19,574,357
Health and welfare	30,798,586		30,798,586
Total Expenditures	<u>58,138,661</u>	<u>238,500</u>	<u>58,377,161</u>
Excess revenues (under) expenditures	<u>(6,815,395)</u>	<u>(112,660)</u>	<u>(6,928,055)</u>
Other financing sources (uses):			
Transfers in		103,500	103,500
Transfers out	(103,500)		(103,500)
Total other financing sources (uses)	<u>(103,500)</u>	<u>103,500</u>	<u></u>
Net change in fund balances	(6,918,895)	(9,160)	(6,928,055)
Fund balances at beginning of year	<u>21,856,739</u>	<u>133,222</u>	<u>21,989,961</u>
Fund balances at end of year	<u>\$ 14,937,844</u>	<u>\$ 124,062</u>	<u>\$ 15,061,906</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, 2012

Net Change in Fund Balances--Total Governmental Funds	\$(6,928,055)
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.	(912,578)
Some expense 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.	<u>12,158</u>
Change in Net Assets of Governmental Activities	<u><u>\$(7,828,475)</u></u>

See accompanying notes to the basic financial statements

EXHIBIT E
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Nursing Home <u>Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 119,687
Accounts receivable, net	2,072,998
Due from other governments	2,614,274
Due from other funds	12,105,146
Inventory	49,448
Total Current Assets	<u>16,961,553</u>
Noncurrent Assets:	
Capital assets:	
Non-depreciable capital assets	91,817
Depreciable capital assets, net	<u>2,602,567</u>
Total Noncurrent Assets	<u>2,694,384</u>
Total Assets	<u>\$ 19,655,937</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 176,147
Accrued expenses	527,514
Deferred revenue	23,739
Due to other governments	411,559
Total Current Liabilities	<u>1,138,959</u>
Noncurrent Liabilities:	
Compensated absences payable	<u>174,129</u>
Total Noncurrent Liabilities	<u>174,129</u>
Total Liabilities	<u>1,313,088</u>
NET ASSETS	
Invested in capital assets	2,694,384
Unrestricted	<u>15,648,465</u>
Total Net Assets	<u>18,342,849</u>
Total Liabilities and Net Assets	<u>\$ 19,655,937</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, 2012

	Nursing Home <u>Fund</u>
Operating revenues:	
Intergovernmental revenue	\$ 5,998,424
Charges for services	20,701,777
Miscellaneous	587,592
Total operating revenues	<u>27,287,793</u>
Operating expenses:	
Administrative	3,215,470
Maintenance and operations	1,161,571
Physical therapy	1,504,433
Dietary	2,035,451
Nursing	14,528,010
Laundry	440,588
Housekeeping	685,762
Physician/pharmacy	563,918
Restorative services	857,965
Social services	363,264
Barber/beauty	36,860
Depreciation	515,575
Total operating expenses	<u>25,908,867</u>
Operating income	<u>1,378,926</u>
Total net assets at beginning of year	<u>16,963,923</u>
Total net assets at end of year	<u>\$ 18,342,849</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, 2012

	Nursing Home Fund
Cash flows from operating activities:	
Cash received from patient care/services	\$ 21,623,358
Cash received from Medicaid pool funds	3,426,144
Cash paid to suppliers	(11,484,392)
Cash paid to employees	(13,752,109)
Net cash (used) by operating activities	<u>(186,999)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(288,095)</u>
Net cash (used) for capital and related financing activities	<u>(288,095)</u>
Net (decrease) in cash and cash equivalents	(475,094)
Cash and cash equivalents at beginning of year	<u>12,699,927</u>
Cash and cash equivalents at end of year	<u>\$ 12,224,833</u>
Reconciliation of operating income to net cash (used) by operating activities:	
Operating income	\$ 1,378,926
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	515,575
Provision for bad debts	(150,000)
Changes in assets and liabilities:	
Accounts receivable, net	483,989
Due from other governments	(2,572,280)
Inventory	43,620
Accounts payable	32,136
Accrued expenses	138,254
Due to other governments	(78,256)
Deferred revenue	1,805
Compensated absences	19,232
Net cash (used) by operating activities	<u>\$ (186,999)</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, 2012

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 312,247
Accounts receivable	<u>5,000</u>
Total assets	<u>\$ 317,247</u>
LIABILITIES	
Accounts payable	\$ 13,417
Due to specific individuals	<u>303,830</u>
Total liabilities	<u>\$ 13,417</u>

See accompanying notes to the basic financial statements

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

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 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 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, 2012

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 fund assets and liabilities 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 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 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 assets and changes in net assets. 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 and liabilities associated with the operation of the County are included on the Statement of Net Assets.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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 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 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.

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 3). 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,

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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.

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.

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>\$ 119,687</u>	<u>\$ 12,105,146</u>	<u>\$ 12,224,833</u>

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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, 2012 are recorded net of an allowance for uncollectible receivables of \$200,000.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2012 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 governmental fund financial statements.

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

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

<u>Description</u>	<u>Years</u>
Land improvements	3-30
Buildings and improvements	5-70
Vehicles and equipment	3-20

Compensated Absences

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

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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 \$174,129 as of June 30, 2012.

Accrued Liabilities and Long-Term Obligations

Except for the obligation for other post-employment benefits (see Note 2), 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 Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. 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 Policy

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

- Non-spendable Fund Balance: Amounts that are not in a spendable form or are required to be maintained intact.
- Restricted Fund Balance: Amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation.
- 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.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

- Unassigned Fund Balance: Amounts that are available for any purpose; these amounts are reported only in the General Fund.

As of June 30, 2012, the County has not adopted a fund balance policy. In instances when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications may be applied, committed resources are to be applied first, followed by assigned and unassigned.

Interfund Activity

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

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

Operating Revenues and Expenses

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

Estimates

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

NOTE 2--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Other Post-Employment Benefits

The County did not implement GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The provisions of GASB 45 were required to be implemented by the County during the year ended June 30, 2009.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 3--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 4--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, 2012, the County was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The County currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2012.

Property and Liability Insurance

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

Worker's Compensation

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

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 5--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, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and cash equivalents	\$ 3,827,741
Investments	25,990,926
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	<u>312,247</u>
	<u>\$ 30,130,914</u>

Deposits and investments at June 30, 2012 consist of the following:

Cash on hand	\$ 6,250
Deposits with financial institutions	<u>30,124,664</u>
	<u>\$ 30,130,914</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, \$28,759,028 was collateralized by securities held by the bank in the bank's name.

NOTE 6--DUE FROM OTHER GOVERNMENTS

Receivables from other governments at June 30, 2012 consist of various federal, state and local municipal fundings. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables is as follows:

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

State of New Hampshire - Bed Tax	\$ 2,614,274
State of New Hampshire - Domestic Violence Grant	13,253
State of New Hampshire - Transportation Grant	16,665
State of New Hampshire - Utility Reimbursement	23,545
State of New Hampshire - Adult Education	4,319
State of New Hampshire - Sheriff's Reimbursement	145,165
State of New Hampshire - County Credits	69,739
State of New Hampshire - Energy Grant	306,134
State of New Hampshire - Mental Health Grant	54,366
	<u>\$ 3,248,088</u>

NOTE 7--CAPITAL ASSETS

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

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012
Governmental activities:				
Capital assets not depreciated:				
Construction in process	\$ 97,401		\$ (97,401)	
Total capital assets not being depreciated	<u>97,401</u>	<u>\$ -</u>	<u>(97,401)</u>	<u>\$ -</u>
Other capital assets:				
Land improvements	189,035			189,035
Buildings and improvements	31,427,372	12,950		31,440,322
Equipment	7,016,151	465,917	(20,574)	7,461,494
Total other capital assets at historical cost	<u>38,632,558</u>	<u>478,867</u>	<u>(20,574)</u>	<u>39,090,851</u>
Less accumulated depreciation for:				
Land improvements	(134,799)	(13,635)		(148,434)
Buildings and improvements	(24,453,287)	(757,392)		(25,210,679)
Equipment	(5,716,375)	(523,017)	20,574	(6,218,818)
Total accumulated depreciation	<u>(30,304,461)</u>	<u>(1,294,044)</u>	<u>20,574</u>	<u>(31,577,931)</u>
Total other capital assets, net	<u>8,328,097</u>	<u>(815,177)</u>	<u>-</u>	<u>7,512,920</u>
Total capital assets, net	<u>\$ 8,425,498</u>	<u>\$ (815,177)</u>	<u>\$ (97,401)</u>	<u>\$ 7,512,920</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 342,133
Public safety	951,701
Health and welfare	210
Total governmental activities depreciation expense	<u>\$ 1,294,044</u>

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

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

	Balance <u>7/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2012</u>
Business-type activities:				
Capital assets not depreciated:				
Construction in process		\$ 91,817		\$ 91,817
Total capital assets not being depreciated	\$ -	<u>91,817</u>	<u>\$ -</u>	<u>91,817</u>
Other capital assets:				
Land improvements	492,039	16,834		508,873
Buildings and improvements	7,990,181	27,476	(32,900)	7,984,757
Vehicles and equipment	3,978,458	151,968		4,130,426
Subtotal	<u>12,460,678</u>	<u>196,278</u>	<u>(32,900)</u>	<u>12,624,056</u>
Accumulated depreciation:				
Land improvements	(404,298)	(24,005)		(428,303)
Buildings and improvements	(6,677,055)	(188,397)	32,900	(6,832,552)
Vehicles and equipment	<u>(2,457,461)</u>	<u>(303,173)</u>		<u>(2,760,634)</u>
Total accumulated depreciation	<u>(9,538,814)</u>	<u>(515,575)</u>	<u>32,900</u>	<u>(10,021,489)</u>
Total other capital assets, net	<u>2,921,864</u>	<u>(319,297)</u>	<u>-</u>	<u>2,602,567</u>
Total capital assets, net	<u>\$ 2,921,864</u>	<u>\$ (227,480)</u>	<u>\$ -</u>	<u>\$ 2,694,384</u>

Depreciation expense was charged to the proprietary fund as follows:

Nursing Home	<u>\$ 515,575</u>
--------------	-------------------

NOTE 8--DUE TO OTHER GOVERNMENTS

At June 30, 2012, the County had amounts due to other governments as follows:

State of New Hampshire - Deed tax	\$ 2,356,745
New Hampshire Department of Revenue Administration - Nursing Facility Quality Assessment	<u>411,559</u>
	<u>\$ 2,768,304</u>

NOTE 9--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.

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

The County's contribution rates for the year ended June 30, 2012 were 25.57% and 11.09% of covered payroll to public safety employees and general employees, respectively through July 31, 2011 and 19.95% and 8.80%, respectively, thereafter. The County contributes 100% of the employer cost for public safety officers and general employees of the County.

Under state law plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The County's contributions to the NHRS for the years ending June 30, 2012, 2011, and 2010 were \$3,057,974, \$2,809,308, and \$2,659,637, respectively, equal to the required contributions for each year.

NOTE 10--OPERATING LEASES

The County currently leases the former "House of Corrections" to the State of New Hampshire, which is using the facility as a women's prison. Rent is payable to the County on a monthly basis. The annual rent due to the County, which is annually adjusted, was \$220,763 for the year ended June 30, 2012.

In July 2008, the County entered into a 5 year lease for use of the 2nd Floor of the County Office Building for the Hillsborough County Courthouse. Rent is payable to the County on a monthly basis. The annual rent due to the County was \$161,920 for the year ended June 30, 2012.

The minimum future rental payments to be received from the Hillsborough County Courthouse are as follows:

Year Ended	
<u>June 30,</u>	
2013	\$ 166,777
2014	70,344
	<u>\$ 237,121</u>

NOTE 11--LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the County's long-term obligations for the year ended June 30, 2012 are as follows:

	<u>Balance</u> <u>7/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2012</u>
Governmental funds:				
Compensated absences payable	\$ 59,871	\$ 31,526	\$ (43,684)	\$ 47,713
Total governmental activities	<u>\$ 59,871</u>	<u>\$ 31,526</u>	<u>\$ (43,684)</u>	<u>\$ 47,713</u>
Business-type activities:				
Compensated absences payable	\$ 154,897	\$ 186,513	\$ (167,281)	\$ 174,129
Total business-type activities	<u>\$ 154,897</u>	<u>\$ 186,513</u>	<u>\$ (167,281)</u>	<u>\$ 174,129</u>

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

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 12--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, 2012 are as follows:

<u>Due to</u>	<u>Due from</u> General Fund
Other Governmental Funds	\$ 124,062
Nursing Home Fund	12,105,146
Fiduciary Funds	<u>5,000</u>
	<u>\$ 12,234,208</u>

Interfund transfers for the year ended June 30, 2012 consisted of a transfer of \$103,500 to the Registry of Deeds Fund from the General Fund to support current operations.

NOTE 13—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes at June 30, 2012 are as follows:

Drug Forfeiture Fund	<u>\$ 144,921</u>
----------------------	-------------------

NOTE 14--COMPONENTS OF FUND BALANCE

<u>Fund Balances</u>	<u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Restricted for:			
Drug Forfeiture	\$ 144,921		\$ 144,921
Assigned for:			
Deeds surcharge fund		\$ 124,062	124,062
Encumbrances	2,717,104		2,717,104
Unassigned	<u>12,075,819</u>		<u>12,075,819</u>
	<u>\$ 14,937,844</u>	<u>\$ 124,062</u>	<u>\$ 15,061,906</u>

NOTE 15--COMMITMENTS AND CONTINGENCIES

Encumbrances

Encumbrances at June 30, 2012 are as follows:

General Government	\$ 408,520
Public Safety	294,048
Human Services	<u>2,014,536</u>
	<u>\$ 2,717,104</u>

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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.

Other Contingencies

The County participates in the federally assisted Medicaid program at the County Nursing Home. This program is subject to financial and compliance audits by the grantors or their representatives. The amount, 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.

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 44,109,421	\$ 44,109,421	\$ 44,109,421	
Intergovernmental	5,628,982	5,628,982	749,601	\$ (4,879,381)
Charges for services	5,859,056	5,859,056	5,729,019	(130,037)
Interest income	300,000	300,000	226,837	(73,163)
Miscellaneous	502,682	502,682	508,388	5,706
Total Revenues	<u>56,400,141</u>	<u>56,400,141</u>	<u>51,323,266</u>	<u>(5,076,875)</u>
Expenditures:				
Current:				
General government	9,027,878	8,723,099	7,578,569	1,144,530
Public safety	19,634,542	19,908,499	19,332,833	575,666
Health and welfare	29,867,622	29,868,622	27,439,618	2,429,004
Debt Service:				
Principal	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total Expenditures	<u>58,530,043</u>	<u>58,500,221</u>	<u>54,351,020</u>	<u>4,149,201</u>
Excess revenues over (under) expenditures	<u>(2,129,902)</u>	<u>(2,100,080)</u>	<u>(3,027,754)</u>	<u>(927,674)</u>
Other financing (uses):				
Transfers in	29,902	80		(80)
Transfers out	<u>29,902</u>	<u>80</u>	<u>(103,500)</u>	<u>(103,500)</u>
Total other financing (uses)	<u>29,902</u>	<u>80</u>	<u>(103,500)</u>	<u>(103,580)</u>
Net change in fund balance	(2,100,000)	(2,100,000)	(3,131,254)	(1,031,254)
Fund balance at beginning of year				
- Budgetary Basis	<u>15,351,994</u>	<u>15,351,994</u>	<u>15,351,994</u>	
Fund balance at end of year				
- Budgetary Basis	<u>\$ 13,251,994</u>	<u>\$ 13,251,994</u>	<u>\$ 12,220,740</u>	<u>\$ (1,031,254)</u>

See accompanying notes to the required supplementary information

COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 June 30, 2012

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

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

	<u>Revenues, and Transfers</u>	<u>Expenditures and Transfers</u>
Per Exhibit D	\$ 51,323,266	\$ 58,242,161
Encumbrances, June 30, 2011		(6,504,745)
Encumbrances, June 30, 2012		<u>2,717,104</u>
Per Schedule 1	<u>\$ 51,323,266</u>	<u>\$ 54,454,520</u>

NOTE 2—BUDGETARY FUND BALANCES

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

Unassigned	<u>\$ 12,220,740</u>
------------	----------------------