

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**

**Financial Statements**

**With Schedule of Expenditures of Federal Awards**

**June 30, 2009**

**and**

**Independent Auditor's Report**

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

**Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133**

**Schedule of Findings and Questioned Costs**

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2009**

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**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2009**

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## **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, 2009, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and business-type 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 and business-type activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental and business-type 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 previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the respective financial position of the governmental and business-type activities of the County of Hillsborough, New Hampshire, as of June 30, 2009, or the respective changes in financial position and cash flows, where applicable, thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the County of Hillsborough, New Hampshire as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2010 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i-vii and 22-23, 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Jackon Clakey & Company PC*

June 29, 2010

**Hillsborough County  
Financial Management's Discussion and Analysis  
For Year Ended June 30, 2009**

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, 2009.

**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 \$48,140,010 for fiscal year ended June 30, 2009.

A portion of the County's net assets, (\$13,102,945 or 27.22 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, (\$35,037,065 or 72.78 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, 2009

### Hillsborough County Statement of Net Assets June 30, 2009

	2009	2008	2009	2008		
	Governmental	Governmental	Business-Type	Business-Type	2009 Total	2008 Total
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>County</u>	<u>County</u>
<b>Assets</b>						
Current Assets	\$ 32,476,826	\$ 36,715,163	\$ 12,383,582	\$ 10,546,387	\$ 44,860,408	\$ 47,261,550
Capital Assets	<u>10,010,513</u>	<u>10,099,356</u>	<u>3,092,432</u>	<u>3,056,000</u>	<u>13,102,945</u>	<u>13,155,356</u>
Total Assets	<u>\$ 42,487,339</u>	<u>\$ 46,814,519</u>	<u>\$ 15,476,014</u>	<u>\$ 13,602,387</u>	<u>\$ 57,963,353</u>	<u>\$ 60,416,906</u>
<b>Liabilities</b>						
Long Term Debt	\$ 76,396	\$ 68,157	\$ 164,061	\$ 170,447	\$ 240,457	\$ 238,604
Other Liabilities	<u>8,405,176</u>	<u>8,807,753</u>	<u>1,177,710</u>	<u>986,689</u>	<u>9,582,886</u>	<u>9,794,442</u>
Total Liabilities	<u>\$ 8,481,572</u>	<u>\$ 8,875,910</u>	<u>\$ 1,341,771</u>	<u>\$ 1,157,136</u>	<u>\$ 9,823,343</u>	<u>\$ 10,033,046</u>
<b>Net Assets</b>						
Invested in Capital Assets	\$ 10,010,513	\$ 10,099,356	\$ 3,092,432	\$ 3,056,000	\$ 13,102,945	\$ 13,155,356
Unrestricted	<u>23,995,254</u>	<u>27,839,253</u>	<u>11,041,811</u>	<u>9,389,251</u>	<u>35,037,065</u>	<u>37,228,504</u>
Total Net Assets	<u>\$ 34,005,767</u>	<u>\$ 37,938,609</u>	<u>\$ 14,134,243</u>	<u>\$ 12,445,251</u>	<u>\$ 48,140,010</u>	<u>\$ 50,383,860</u>
Total Liabilities and Net Assets	<u>\$ 42,487,339</u>	<u>\$ 46,814,519</u>	<u>\$ 15,476,014</u>	<u>\$ 13,602,387</u>	<u>\$ 57,963,363</u>	<u>\$ 60,416,906</u>



## **CHANGES IN NET ASSETS**

### **Total County Activities:**

During FY09, Hillsborough County generated \$82,720,879 in overall revenue. This was comprised of \$57,821,610 in general revenue and \$24,899,269 in revenue from business-type activities. Departmental expenditures were less than budgeted for the fiscal year. Total expenditures equaled \$84,964,729.

### **Governmental Activities:**

Charges for services accounted for \$5,208,665 or 9.01 percent of the \$57,821,610 in governmental activities revenue and were primarily generated from the Registry of Deeds office. In addition, there was \$794,280 in interest income, \$1,041,675 in miscellaneous income and \$3,387,724 in revenue from other governments.

The cost of governmental activities for the fiscal year ended 6/30/09 was \$61,754,452. 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 \$8,299,680 or 13.44 percent of overall expenditures of the County, which include expenditures of all the administrative departments and the Office of the County Attorney.

The Human Services Department represented expenditures of \$32,737,578 that were used to fund Interim Nursing Care.

The Sheriff's Office expended \$5,203,367 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 \$1,236,915.

Expenditures in support of the operation of the Department of Corrections during the fiscal year equaled \$14,996,516. Offsetting revenue generated from services equaled \$498,128.

Budgeted invested fund earnings estimates were decreased from prior years to reflect expectations from the current interest rate environment. The total amount generated equaled \$794,280 as compared to budget amount of \$1,100,000.

### **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 FY09 was \$24,899,269 and overall expenditures amounted to \$23,210,277.

Charges for services increased at the Nursing Home by \$712,255 over the fiscal year that ended on June 30, 2009. This was primarily due to higher than anticipated Medicare and private (self-pay) census days.

Overall operating expenditures for the Nursing Home decreased by \$277,892, which was reflected in Administration costs and lower than anticipated employee costs in the Nursing Department.

**Hillsborough County  
Changes in Net Assets  
Actual Revenue and Expenditures  
June 30, 2009**

	2009 Governmental Activities	2008 Governmental Activities	2009 Business-Type Activities	2008 Business-Type Activities	2009 Total Government	2008 Total Government
<b>Revenues</b>						
<b>Program Revenue:</b>						
Charges for Services	\$ 5,208,665	\$ 6,347,253	\$ 20,034,491	\$ 19,322,236	\$ 25,243,156	\$ 25,669,489
Operating Grants	1,756,219	1,425,367	-	-	1,756,219	1,425,367
Capital Grants				1,195		1,195
<b>General Revenues:</b>						
County Taxes	45,633,047	44,400,065	-	-	45,633,047	44,400,065
Invested Funds	794,280	1,846,176	-	-	794,280	1,846,176
Grants and Contributions not restricted to specific programs	3,387,724	261,922	4,598,486	4,453,797	7,986,210	4,715,719
Rental Income	292,500	214,806	-	-	292,500	214,806
Miscellaneous	749,175	432,327	266,292	230,097	1,015,467	662,424
<b>Total Revenue</b>	<u>\$ 57,821,610</u>	<u>\$ 54,927,916</u>	<u>\$ 24,899,269</u>	<u>\$ 24,007,325</u>	<u>\$ 82,720,879</u>	<u>\$ 78,935,241</u>
<b>Program Expenditures:</b>						
General Government	\$ 2,626,992	\$ 2,330,354	-	-	\$ 2,626,992	\$ 2,330,354
Sheriff	5,203,367	4,805,607	-	-	5,203,367	4,805,607
Corrections	14,996,516	13,645,247	-	-	14,996,516	13,645,247
Nursing Home			\$ 23,210,277	\$ 23,488,169	23,210,277	23,488,169
County Attorney	4,155,041	3,647,996	-	-	4,155,041	3,647,996
Medical Referee	64,969	88,194	-	-	64,969	88,194
Registry of Deeds	1,517,647	1,525,677	-	-	1,517,647	1,525,677
Human Services	32,737,578	29,931,333	-	-	32,737,578	29,931,333
Cooperative Extension	452,342	428,492	-	-	452,342	428,492
<b>Total Expenses</b>	<u>\$ 61,754,452</u>	<u>\$ 56,402,900</u>	<u>\$ 23,210,277</u>	<u>\$ 23,488,169</u>	<u>\$ 84,964,729</u>	<u>\$ 79,891,069</u>
<b>Changes in net assets before transfers</b>	<u>\$ (3,932,842)</u>	<u>\$ (1,474,984)</u>	<u>\$ 1,688,992</u>	<u>\$ 519,156</u>	<u>\$ ( 2,243,850)</u>	<u>\$ (955,828)</u>
<b>Capital Contributions</b>						
Change in net assets	(3,932,842)	(1,474,984)	1,688,992	519,156	( 2,243,850)	(955,828)
Net assets 6/30/08	37,938,609	39,413,593	12,445,251	11,926,095	50,383,860	51,339,688
<b>Net assets 6/30/09</b>	<u>\$ 34,005,767</u>	<u>\$ 37,938,609</u>	<u>\$ 14,134,243</u>	<u>\$ 12,445,251</u>	<u>\$ 48,140,010</u>	<u>\$ 50,383,860</u>

## COUNTY FINANCIAL ANALYSIS

### **Governmental Funds:**

For the fiscal year ended June 30, 2009, the County reported a combined ending fund balance of \$24,071,650, which was a decrease of \$3,835,760 from fiscal year 2008. The General Fund is the primary operating fund for Hillsborough County. At the end of the fiscal year, the General Fund Balance was \$23,871,772. The general fund balance for the County decreased by \$3,818,406 during the current fiscal year. The primary factor contributing to the decrease was budgeted use of surplus.

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 ninth 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 \$6,874,937 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 \$16,996,835, as indicated, is unreserved/undesignated. This balance may serve as a useful measure of the County's available resources. During FY10 the County has allocated \$6,526,853 of the balance, which will be used to stabilize the County tax rate. The remaining \$10,469,982 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, 2009, the combined fund balance of these funds totaled \$199,878. This represents a decrease of \$17,354 for fiscal year 2009. Non-major Governmental fund balance consists of the Incentive fund balance of \$22,592 and the Registry of Deeds Equipment Replacement fund balance of \$177,286.

**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 2009 reflect a net positive variance of \$1,840,242. This difference was primarily the result of additional federal stimulus funds.

**Expenditures:** Budgetary expenditures for the year were \$58,855,183, which was \$1,406,437 less than the budget of \$60,261,620. 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 \$10,010,513 (net of accumulated depreciation). In addition, the County's investments in business-type activities amounted to \$3,092,432 (net of accumulated depreciation). The following statement provides additional detail.

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

	2009	2008	2009	2008	2009 Total	2008 Total
	Governmental	Governmental	Business-Type	Business-Type	County	County
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>		
Land Improvements	\$ 84,701	\$ 24,665	\$ 48,378	\$ 56,550	\$ 133,079	\$ 81,215
Buildings and Improvements	8,285,645	8,390,388	1,476,077	1,607,849	9,894,801	9,998,237
Equipment	1,640,167	1,659,434	1,567,977	1,390,904	3,208,144	3,050,338
Construction in Progress		24,869		697		25,566
	<u>\$ 10,010,513</u>	<u>\$ 10,099,356</u>	<u>\$ 3,092,432</u>	<u>\$ 3,056,000</u>	<u>\$ 12,102,945</u>	<u>\$ 13,155,356</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 FY09. 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 2010 operating budget reflects an increase of 1.856 percent over the Fiscal-Year 2009 operating budget. The Fiscal-Year 2010 operating budget also includes \$6,526,853 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, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 24,397,147	\$ 16,803	\$ 24,413,950
Investments	14,299,249		14,299,249
Accounts receivable, net	194,722	2,847,588	3,042,310
Due from other governments	1,936,881	1,117,272	3,054,153
Internal balances	(8,351,201)	8,351,201	-
Prepaid expenses	28		28
Inventory		50,718	50,718
Total Current Assets	<u>32,476,826</u>	<u>12,383,582</u>	<u>44,860,408</u>
Noncurrent Assets:			
Depreciable capital assets, net	10,010,513	3,092,432	13,102,945
Total Noncurrent Assets	<u>10,010,513</u>	<u>3,092,432</u>	<u>13,102,945</u>
Total Assets	<u>\$ 42,487,339</u>	<u>\$ 15,476,014</u>	<u>\$ 57,963,353</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 7,707,586	\$ 464,182	\$ 8,171,768
Accrued expenses	697,590	318,318	1,015,908
Due to other governments		378,407	378,407
Deferred revenue		16,803	16,803
Total Current Liabilities	<u>8,405,176</u>	<u>1,177,710</u>	<u>9,582,886</u>
Noncurrent Liabilities:			
Compensated absences	76,396	164,061	240,457
Total Noncurrent Liabilities	<u>76,396</u>	<u>164,061</u>	<u>240,457</u>
Total Liabilities	<u>8,481,572</u>	<u>1,341,771</u>	<u>9,823,343</u>
<b>NET ASSETS</b>			
Invested in capital assets	10,010,513	3,092,432	13,102,945
Unrestricted	23,995,254	11,041,811	35,037,065
Total Net Assets	<u>34,005,767</u>	<u>14,134,243</u>	<u>48,140,010</u>
Total Liabilities and Net Assets	<u>\$ 42,487,339</u>	<u>\$ 15,476,014</u>	<u>\$ 57,963,353</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, 2009

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	<u>Expenses</u>	Charges for <u>Services</u>	Operating Grants and <u>Contributions</u>	<u>Primary Government</u>		<u>Total</u>
				<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:						
General government	\$ 8,752,021	\$ 3,633,450	\$ 445,951	\$ (4,672,620)		\$ (4,672,620)
Public safety	20,264,853	1,575,215	464,244	(18,225,394)		(18,225,394)
Health and welfare	32,737,578		846,024	(31,891,554)		(31,891,554)
Total governmental activities	<u>61,754,452</u>	<u>5,208,665</u>	<u>1,756,219</u>	<u>(54,789,568)</u>	<u>\$ -</u>	<u>(54,789,568)</u>
Business-type activities:						
Nursing Home	<u>23,210,277</u>	<u>20,034,491</u>			<u>(3,175,786)</u>	<u>(3,175,786)</u>
Total business-type activities	<u>23,210,277</u>	<u>20,034,491</u>	<u>-</u>	<u>-</u>	<u>(3,175,786)</u>	<u>(3,175,786)</u>
Total primary government	<u>\$ 84,964,729</u>	<u>\$ 25,243,156</u>	<u>\$ 1,756,219</u>	<u>(54,789,568)</u>	<u>(3,175,786)</u>	<u>(57,965,354)</u>
General revenues:						
Property taxes				45,633,047		45,633,047
Grants and contributions not restricted to specific programs				3,387,724	4,598,486	7,986,210
Interest and investment earnings				794,280		794,280
Miscellaneous				<u>1,041,675</u>	<u>266,292</u>	<u>1,307,967</u>
Total general revenues				<u>50,856,726</u>	<u>4,864,778</u>	<u>55,721,504</u>
Change in net assets				(3,932,842)	1,688,992	(2,243,850)
Net assets - beginning				<u>37,938,609</u>	<u>12,445,251</u>	<u>50,383,860</u>
Net assets - ending				<u>\$ 34,005,767</u>	<u>\$ 14,134,243</u>	<u>\$ 48,140,010</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE  
Balance Sheet  
Governmental Funds  
June 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 24,397,147		\$ 24,397,147
Investments	14,299,249		14,299,249
Accounts receivable, net	194,722		194,722
Due from other governments	1,936,881		1,936,881
Due from other funds		\$ 272,500	272,500
Prepaid expenses	28		28
Total Assets	<u>\$ 40,828,027</u>	<u>\$ 272,500</u>	<u>\$ 41,100,527</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 7,629,964	\$ 72,622	\$ 7,702,586
Accrued expenses	697,590		697,590
Due to other funds	8,628,701		8,628,701
Total Liabilities	<u>16,956,255</u>	<u>72,622</u>	<u>17,028,877</u>
<b>FUND BALANCES</b>			
Reserved for encumbrances	6,874,937		6,874,937
Unreserved, reported in:			
General fund	16,996,835		16,996,835
Special revenue funds		199,878	199,878
Total Fund Balances	<u>23,871,772</u>	<u>199,878</u>	24,071,650
Total Liabilities and Fund Balances	<u>\$ 40,828,027</u>	<u>\$ 272,500</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 10,010,513

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 (76,396)

Net assets of governmental activities \$ 34,005,767

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, 2009

**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, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds	
<b>Revenues:</b>				
Taxes	\$ 45,633,047		\$ 45,633,047	
Intergovernmental	4,297,919	\$ 846,024	5,143,943	
Charges for services	5,084,983	123,682	5,208,665	
Interest income	794,280		794,280	
Miscellaneous	1,041,675		1,041,675	
Total Revenues	<u>56,851,904</u>	<u>969,706</u>	<u>57,821,610</u>	\$ (3,835,760)
<b>Expenditures:</b>				
Current operations:				
General government	9,194,486		9,194,486	
Public safety	19,485,758		19,485,758	
Health and welfare	31,883,566	855,060	32,738,626	
Capital outlay		238,500	238,500	
Total Expenditures	<u>60,563,810</u>	<u>1,093,560</u>	<u>61,657,370</u>	(88,843)
Excess of revenues (under)				
expenditures	<u>(3,711,906)</u>	<u>(123,854)</u>	<u>(3,835,760)</u>	<u>(8,239)</u>
Other Financing Sources (Uses):				
Transfers in		106,500	106,500	
Transfers out	<u>(106,500)</u>		<u>(106,500)</u>	
Total other financing sources (uses)	<u>(106,500)</u>	<u>106,500</u>	<u>-</u>	
Net change in fund balances	<u>(3,818,406)</u>	<u>(17,354)</u>	<u>(3,835,760)</u>	
Fund balances at beginning of year	<u>27,690,178</u>	<u>217,232</u>	<u>27,907,410</u>	
Fund balances at end of year	<u>\$ 23,871,772</u>	<u>\$ 199,878</u>	<u>\$ 24,071,650</u>	<u>\$ (3,932,842)</u>

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.

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.

Change in Net Assets of Governmental Activities

See accompanying notes to the basic financial statements



EXHIBIT E  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Statement of Net Assets**  
**Proprietary Funds**  
June 30, 2009

	Nursing Home <u>Fund</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 16,803
Accounts receivable, net	2,847,588
Due from other governments	1,117,272
Due from other funds	8,351,201
Inventory	50,718
Total Current Assets	<u>12,383,582</u>
Noncurrent Assets:	
Depreciable capital assets, net	<u>3,092,432</u>
Total Noncurrent Assets	<u>3,092,432</u>
Total Assets	<u><u>\$ 15,476,014</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 464,182
Accrued expenses	318,318
Due to other governments	378,407
Deferred revenue	16,803
Total Current Liabilities	<u>1,177,710</u>
Noncurrent Liabilities:	
Compensated absences	<u>164,061</u>
Total Noncurrent Liabilities	<u>164,061</u>
Total Liabilities	<u>1,341,771</u>
<b>NET ASSETS</b>	
Invested in capital assets	3,092,432
Unrestricted	<u>11,041,811</u>
Total Net Assets	<u>14,134,243</u>
Total Liabilities and Net Assets	<u><u>\$ 15,476,014</u></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, 2009

	Nursing Home <u>Fund</u>
Operating revenues:	
Intergovernmental revenue	\$ 4,598,486
Charges for services	20,034,491
Miscellaneous	<u>266,292</u>
Total operating revenues	<u>24,899,269</u>
Operating expenses:	
Administrative	2,966,711
Maintenance and operations	1,175,486
Physical therapy	1,000,084
Dietary	1,856,000
Nursing	13,043,270
Laundry	389,053
Housekeeping	629,792
Physician/pharmacy	634,789
Restorative services	699,467
Social services	335,324
Barber/beauty	58,301
Depreciation	<u>422,000</u>
Total operating expenses	<u>23,210,277</u>
Operating income	<u>1,688,992</u>
Change in net assets	1,688,992
Total net assets at beginning of year	<u>12,445,251</u>
Total net assets at end of year	<u><u>\$ 14,134,243</u></u>

*See accompanying notes to the basic financial statements*

EXHIBIT G  
COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2009

	Nursing Home Fund
Cash flows from operating activities:	
Cash received from patient care/services	\$ 19,811,569
Cash received from Medicaid pool funds	4,333,511
Cash paid to suppliers	(8,842,310)
Cash paid to employees	<u>(13,756,928)</u>
Net cash provided by operating activities	<u>1,545,842</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(458,432)</u>
Net cash (used) for capital and related financing activities	<u>(458,432)</u>
Net increase in cash and cash equivalents	1,087,410
Cash and cash equivalents at beginning of year	<u>7,280,594</u>
Cash and cash equivalents at end of year	<u>\$ 8,368,004</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,688,992
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	422,000
Provision for bad debts	(41,752)
Changes in assets and liabilities:	
Accounts receivable, net	404,835
Due from other governments	(1,117,272)
Inventory	4,404
Accounts payable	(63,018)
Accrued expenses	(141,171)
Due to other governments	378,407
Deferred revenue	16,803
Compensated absences	<u>(6,386)</u>
Net cash provided by operating activities	<u>\$ 1,545,842</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, 2009

	Agency Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 274,075
Due from other funds	<u>5,000</u>
Total assets	<u>\$ 279,075</u>
<b>LIABILITIES</b>	
Due to specific individuals	<u>\$ 279,075</u>
Total liabilities	<u>\$ 279,075</u>

*See accompanying notes to the basic financial statements*

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2009**

**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

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

statements are designed to present financial information of the County at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

***Fund Accounting***

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

**1. Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental 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. 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 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.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

***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 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.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

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, 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 but permits the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2009, the County applied \$6,323,980 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, 2009**

***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>\$ 16,803</u>	<u>\$ 8,351,201</u>	<u>\$ 8,368,004</u>

***Investments***

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

***Accounts Receivable***

General Fund accounts receivable at June 30, 2009 are recorded net of an allowance for uncollectible receivables of \$13,979.

Nursing Home Fund accounts receivable at June 30, 2009 are recorded net of an allowance for uncollectible receivables of \$273,056.

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond June 30, 2009 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 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. 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.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

All reported capital assets except for 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 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 \$164,061 as of June 30, 2009.

***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, 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 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 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.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

***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.

**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.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

**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, 2009, 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, 2009.

***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 City shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000.

***Worker's Compensation***

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

**NOTE 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, 2009 are classified in the accompanying financial statements as follows:

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

Statement of Net Assets:	
Cash and cash equivalents	\$ 24,413,950
Investments	14,299,249
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	<u>274,075</u>
	<u>\$ 38,987,274</u>

Deposits and investments at June 30, 2009 consist of the following:

Cash on hand	\$ 8,250
Deposits with financial institutions	<u>38,979,024</u>
	<u>\$ 38,987,274</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, \$38,266,576 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, 2009 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:

State of New Hampshire - District Court Bailiff Reimbursement	\$ 98,115
State of New Hampshire - Escheated funds	114,683
State of New Hampshire - Registry of deeds fees	3,692
State of New Hampshire - Department of Education	28,797
Town of Scarborough, Maine	14,619
State of New Hampshire - Miscellaneous grants	207,392
State of New Hampshire - Bed tax	812,427
State of New Hampshire - ARRA Funds	<u>1,774,428</u>
	<u>\$ 3,054,153</u>

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

**NOTE 7--CAPITAL ASSETS**

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

	<u>Balance</u> <u>7/1/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2009</u>
Governmental activities:				
Capital assets not depreciated:				
Construction in progress	\$ 24,869		\$ (24,869)	\$ -
Total capital assets not being depreciated	<u>24,869</u>	<u>\$ -</u>	<u>(24,869)</u>	<u>-</u>
Other capital assets:				
Land improvements	111,542	74,686		186,228
Buildings and improvements	29,813,265	979,685		30,792,950
Equipment	<u>5,881,408</u>	<u>492,818</u>		<u>6,374,226</u>
Subtotal	<u>35,806,215</u>	<u>1,547,189</u>	<u>-</u>	<u>37,353,404</u>
Less accumulated depreciation for:				
Land improvements	(86,877)	(14,650)		(101,527)
Buildings and improvements	(21,424,499)	(1,082,806)		(22,507,305)
Equipment	<u>(4,220,352)</u>	<u>(513,707)</u>		<u>(4,734,059)</u>
Total accumulated depreciation	<u>(25,731,728)</u>	<u>(1,611,163)</u>	<u>-</u>	<u>(27,342,891)</u>
Total other capital assets, net	<u>10,074,487</u>	<u>(63,974)</u>	<u>-</u>	<u>10,010,513</u>
Total capital assets, net	<u>\$ 10,099,356</u>	<u>\$ (63,974)</u>	<u>\$ (24,869)</u>	<u>\$ 10,010,513</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 398,782
Public safety	<u>1,212,381</u>
Total governmental activities depreciation expense	<u>\$ 1,611,163</u>

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

	<u>Balance</u> <u>7/1/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2009</u>
Business-type activities:				
Capital assets not depreciated:				
Construction in progress	\$ 696		\$ (696)	\$ -
Total capital assets not being depreciated	<u>696</u>	<u>\$ -</u>	<u>(696)</u>	<u>-</u>
Other capital assets:				
Land improvements	589,550			589,550
Buildings and improvements	7,924,626	47,260		7,971,886
Vehicles and equipment	<u>4,364,729</u>	<u>411,868</u>		<u>4,776,597</u>
Subtotal	<u>12,878,905</u>	<u>459,128</u>	<u>-</u>	<u>13,338,033</u>

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

Accumulated depreciation:

Land improvements	(533,000)	(8,172)		(541,172)
Buildings and improvements	(6,316,776)	(179,033)		(6,495,809)
Vehicles and equipment	(2,973,825)	(234,795)		(3,208,620)
Subtotal	(9,823,601)	(422,000)	-	(10,245,601)
Total other capital assets, net	3,055,304	37,128	-	3,092,432
Total capital assets, net	<u>\$ 3,056,000</u>	<u>\$ 37,128</u>	<u>\$ (696)</u>	<u>\$ 3,092,432</u>

Depreciation expense was charged to the proprietary fund as follows:

Nursing Home	<u>\$ 422,000</u>
--------------	-------------------

**NOTE 8--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% and 5.0% of their covered salary, respectively. 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, 2009. 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 States of America (GASB #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$464,244 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, 2009, 2008, and 2007 were \$2,412,994, \$2,319,959 and \$1,715,745, respectively, equal to the required contributions for each year.

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

**NOTE 9--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 \$205,000 for the year ended June 30, 2009.

During the year ended June 30, 2009 the County entered into a 5 year lease for use of the 2<sup>nd</sup> 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 \$87,500 for the year ended June 30, 2009.

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

Year Ended June 30,	
2010	\$ 152,625
2011	156,817
2012	161,522
2013	166,368
2014	70,344
	<u>\$ 707,676</u>

**NOTE 10--LONG-TERM OBLIGATIONS**

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

The changes in the County's long-term obligations for the year ended June 30, 2009 are as follows:

	Balance <u>7/1/2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2009</u>
Governmental funds:				
Compensated absences payable	\$ 68,157	\$ 33,169	\$ (24,930)	\$ 76,396
Total governmental activities	<u>\$ 68,157</u>	<u>\$ 33,169</u>	<u>\$ (24,930)</u>	<u>\$ 76,396</u>
Business-type activities:				
Compensated absences payable	\$ 170,447	\$ 99,527	\$ (105,913)	\$ 164,061
Total business-type activities	<u>\$ 170,447</u>	<u>\$ 99,527</u>	<u>\$ (105,913)</u>	<u>\$ 164,061</u>

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

**NOTE 11--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, 2009 are as follows:



**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2009**

		Due from
		General
		Fund
Due to	Nonmajor Governmental Funds	\$ 272,500
	Nursing Home Fund	8,351,201
	Fiduciary Funds	5,000
		<u>\$ 8,628,701</u>

Interfund transfers for the year ended June 30, 2009 consisted of a transfer of \$106,500 to the Registry of Deeds Fund, a Nonmajor Governmental Fund, from the General Fund to support current operations.

**NOTE 12--RESERVED FUND BALANCE**

Fund balances have been reserved for encumbrances in the General Fund of \$6,874,937. These funds are set aside to cover orders placed for goods and services that were committed prior to June 30, 2009.

**NOTE 13--COMMITMENTS AND CONTINGENCIES**

***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 Balances**  
**Budget and Actual (Budgetary Basis) - General Fund**  
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Taxes	\$ 45,633,047	\$ 45,633,047	\$ 45,633,047	\$ -
Intergovernmental	756,866	756,866	3,833,675	3,076,809
Charges for services	6,425,004	6,425,004	5,084,983	(1,340,021)
Interest income	1,100,000	1,100,000	794,280	(305,720)
Miscellaneous	632,501	632,501	1,041,675	409,174
Total Revenues	<u>54,547,418</u>	<u>54,547,418</u>	<u>56,387,660</u>	<u>1,840,242</u>
Expenditures:				
Current:				
General government	9,572,448	8,944,002	8,363,057	580,945
Public safety	19,062,409	19,760,855	18,973,576	787,279
Health and welfare	31,556,762	31,556,762	31,518,550	38,212
Debt service:				
Fiscal charges	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total Expenditures	<u>60,191,620</u>	<u>60,261,620</u>	<u>58,855,183</u>	<u>1,406,437</u>
Excess revenues over (under) expenditures	<u>(5,644,202)</u>	<u>(5,714,202)</u>	<u>(2,467,523)</u>	<u>3,246,679</u>
Other financing sources (uses):				
Transfers in	-	70,000	-	70,000
Transfers out	<u>(679,778)</u>	<u>(679,778)</u>	<u>(106,500)</u>	<u>(573,278)</u>
Total other financing sources (uses)	<u>(679,778)</u>	<u>(609,778)</u>	<u>(106,500)</u>	<u>(503,278)</u>
Net change in fund balance	(6,323,980)	(6,323,980)	(2,574,023)	3,749,957
Fund balances at beginning of year				
- Budgetary Basis, as restated	<u>19,570,858</u>	<u>19,570,858</u>	<u>19,570,858</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 13,246,878</u>	<u>\$ 13,246,878</u>	<u>\$ 16,996,835</u>	<u>\$ 3,749,957</u>

See accompanying notes to the required supplementary information

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
June 30, 2009

**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	\$ 56,851,904	\$ 60,670,310
Encumbrances, June 30, 2008		(8,119,320)
Encumbrances, June 30, 2009		6,874,937
On-behalf fringe benefits	<u>(464,244)</u>	<u>(464,244)</u>
Per Schedule 1	<u>\$ 56,387,660</u>	<u>\$ 58,961,683</u>

**NOTE 2—BUDGETARY FUND BALANCES**

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

Unreserved:	
Designated for future years' expenditures:	
Establish Capital Reserve Fund	\$ 350,000
Undesignated	<u>16,646,835</u>
	<u>\$ 16,996,835</u>

**NOTE 3—RESTATEMENT OF BUDGETARY FUND BALANCE**

Due to additional encumbrances at June 30, 2008 that were incorrectly reported on the financial statements, the budgetary fund balance as of July 1, 2008 has been restated as follows:

Fund balance, budgetary basis - July 1, 2008 (as previously reported)	\$ 21,237,667
Amount of restatement due to:	
Additional encumbrances outstanding	<u>(1,666,809)</u>
Fund balance, budgetary basis - July 1, 2008 - as restated	<u>\$ 19,570,858</u>

SCHEDULE I  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards**  
For the Year Ended June 30, 2009

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
<b>EXECUTIVE OFFICE OF THE PRESIDENT</b>		
Pass Through Payments from Office of National Drug Control Policy Passed Through the Town of Scarborough, Maine High Intensity Drug Trafficking Area Program Award #I8PNEP501Z	07.I8PNEP501Z	\$ 45,763
<b>Total Executive Office of the President</b>		<u>45,763</u>
<b>DEPARTMENT OF JUSTICE</b>		
Pass Through Payments from the New Hampshire Office of the Governor and Attorney General Prisoner Reentry Initiative Demonstration (Offender Reentry) #2007RE01	16.202	445,951
		<u>445,951</u>
Violence Against Women Formula Grants - Recovery #2009W061	16.588	34,405
		<u>34,405</u>
Residential Substance Abuse Treatment for State Prisoners #2009RS07	16.593	4,586
		<u>4,586</u>
Community Prosecution and Project Safe Neighborhoods #2005PS10	16.609	11,763
#2006PG13		8,300
#2007PS10		13,983
#2007PG10		27,690
#2008PS10		36,157
		<u>97,893</u>
<b>Total Department of Justice</b>		<u>582,835</u>
<b>DEPARTMENT OF EDUCATION</b>		
Pass Through Payments from New Hampshire Department of Education Adult Education - State Grant Program #97013	84.002	22,555
<b>Total Department of Education</b>		<u>22,555</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 651,153</u>

See notes to schedule of expenditures of federal awards

**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
June 30, 2009

**NOTE 1—GENERAL**

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

**NOTE 2—BASIS OF ACCOUNTING**

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

**NOTE 3—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

The recognition of expenditures of federal awards has been reported in the General Fund as intergovernmental revenues totaling \$651,153.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the County Commissioners  
County of Hillsborough, New Hampshire

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of Hillsborough as of and for the year ended June 30, 2009, and have issued our report thereon dated June 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the County of Hillsborough's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Hillsborough's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Hillsborough's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Hillsborough's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vachon Clukey & Company PC

June 29, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the County Commissioners  
County of Hillsborough, New Hampshire

Compliance

We have audited the compliance of the County of Hillsborough with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The County of Hillsborough's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Hillsborough's management. Our responsibility is to express an opinion on the County of Hillsborough's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Hillsborough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County of Hillsborough's compliance with those requirements.

In our opinion, the County of Hillsborough complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the County of Hillsborough is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Hillsborough's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County of Hillsborough's internal control over compliance.



A control deficiency in a County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Uacha Cluhay & Company PC*

June 29, 2010

**County of Hillsborough, New Hampshire  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2009**

**Section I—Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:

adverse

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_yes        X   no

Significant deficiency(ies) identified

not considered to be material weaknesses?

\_\_\_\_\_yes        X   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_yes        X   no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified?

\_\_\_\_\_yes        X   no

Significant deficiency(ies) identified

not considered to be material weaknesses?

\_\_\_\_\_yes        X   no

Type of auditor's report issued on compliance  
for major programs:

unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section .510(a)?

\_\_\_\_\_yes        X   no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

16.202

Prisoner Reentry Initiative Demonstration (Offender Reentry)

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

Auditee qualified as low-risk auditee?

\_\_\_\_\_yes        X   no

## **Section II—Financial Statement Findings**

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

## **Section III—Federal Award Findings and Questioned Costs**

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

SCHEDULE A  
**COUNTY OF HILLSBOROUGH, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Special Revenue Funds**  
June 30, 2009

	Incentive Fund	Registry of Deeds Fund	Combining Totals
<b>ASSETS</b>			
Due from other funds	\$ 95,214	\$ 177,286	\$ 272,500
Total Assets	<u>\$ 95,214</u>	<u>\$ 177,286</u>	<u>\$ 272,500</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 72,622		\$ 72,622
Total Liabilities	<u>72,622</u>	<u>\$ -</u>	<u>72,622</u>
<b>FUND BALANCES</b>			
Unreserved, reported in:			
Special revenue funds	22,592	177,286	199,878
Total Fund Balances	<u>22,592</u>	<u>177,286</u>	<u>199,878</u>
Total Liabilities and Fund Balances	<u>\$ 95,214</u>	<u>\$ 177,286</u>	<u>\$ 272,500</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, 2009

	Incentive <u>Fund</u>	Registry of Deeds <u>Fund</u>	Combining <u>Totals</u>
Revenues:			
Intergovernmental	\$ 846,024		\$ 846,024
Charges for services		\$ 123,682	123,682
Total Revenues	<u>846,024</u>	<u>123,682</u>	<u>969,706</u>
Expenditures:			
Current operations:			
Health and welfare	855,060		855,060
Capital outlay		238,500	238,500
Total Expenditures	<u>855,060</u>	<u>238,500</u>	<u>1,093,560</u>
Excess of revenues (under) expenditures	<u>(9,036)</u>	<u>(114,818)</u>	<u>(123,854)</u>
Other financing sources:			
Transfers in		106,500	106,500
Total other financing sources	<u>-</u>	<u>106,500</u>	<u>106,500</u>
Net change in fund balances	(9,036)	(8,318)	(17,354)
Fund balances at beginning of year	<u>31,628</u>	<u>185,604</u>	<u>217,232</u>
Fund balances at end of year	<u>\$ 22,592</u>	<u>\$ 177,286</u>	<u>\$ 199,878</u>