

COUNTY OF CHESHIRE, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

December 31, 2013

and

Independent Auditor's Report

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

**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance**

Schedule of Findings and Questioned Costs

COUNTY OF CHESHIRE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2013

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FINANCIAL STATEMENTS
December 31, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
County of Cheshire, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Cheshire, New Hampshire (the County) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Governmental Activities

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 position, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on Governmental Activities” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the County of Cheshire, New Hampshire, as of December 31, 2013, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the County of Cheshire, New Hampshire, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages i-ix and 27-28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Cheshire, New Hampshire’s basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2014 on our consideration of the County of Cheshire, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Cheshire, New Hampshire's internal control over financial reporting and compliance.

Nachon Clukay & Company PC

Manchester, New Hampshire

May 6, 2014

CHESHIRE COUNTY, NEW HAMPSHIRE MANAGEMENT'S DISCUSSION & ANALYSIS

The discussion and analysis of Cheshire County's financial performance provides an overview of the County's financial activities for the year ended December 31, 2013. The intent of this discussion and analysis is to look at the County's financial performance as a whole.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 are as follows:

- The County's net position for year-end was \$25,146,897 an increase of \$3,513,973 which represents a 16.24% increase over 2012 from \$21,632,924.
- At the end of the current year, the County's governmental funds reported a combined ending fund balance of \$8,502,063 an increase of \$1,556,410 from the prior year balance of \$6,945,653. Of this amount, \$4,330,252 is available for spending (unassigned).
- At the end of the current year, unassigned fund balance for the General Fund was \$4,330,252, which represents a 36.39% increase from the prior year balance of \$3,174,897. The increase is partially due to favorable results for actual expenditures when compared to actual revenues. Additionally, previously assigned fund balance was added back by the Delegation in a budget amendment due to the receipt of ProShare funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the County as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The County's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The statement of net position presents information on all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the balance reported as net position. The statement of activities presents information showing how the County's net position changed during the current year. These statements are prepared using the accrual basis of accounting similar to the accounting method used by private sector companies. This basis of accounting takes into

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

consideration all of the current year's revenues and expenses, regardless of when the cash is received or paid.

The change in net position is important because it tells the reader whether, for the County as a whole, the financial position of the County has improved or diminished. However, in evaluating the overall position of the County, non-financial information such as changes in the County's tax base and the condition of the County's capital assets will also need to be evaluated.

In the statement of net position and the statement of activities, the County is presented as one activity:

- **Governmental Activities**—All of the County's programs and services are reported here, including General Government, Public Safety, Human Services/Medicaid Expenses, Assisted Living Facility, Conservation and Economic Development as well as The County Nursing Home. These services are funded primarily by taxes and intergovernmental revenues, including federal and state grants and other shared revenues. The Nursing Home does generate a substantial amount of revenue in charges for services but does require funding by taxes as well.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain controls over resources that have been segregated for specific activities or objects. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The funds of Cheshire County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Fund financial statements provide detailed information about the County's major funds. Based on the restriction on the use of moneys, the County has established many funds that account for the multitude of services provided to our residents. In 2013, the County has determined the General Fund and the ARRA Fund to be major governmental funds.

GOVERNMENTAL FUNDS—Governmental funds are used to account for essentially the same functions reported as governmental activities on the government wide financial statements. Most of the County's basic services are reported in these funds that focus on how money flows into and out of the funds and the year-end balances available for spending. These funds are reported on the modified accrual basis of accounting that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services being provided, along with the financial resources available.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government wide financial statements. By doing so, readers may better understand the long-term effect of the government's short term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains a multitude of individual governmental funds. Information is presented separately on the governmental fund balance sheet and on the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds, identified earlier as the General Fund and the ARRA FMAP Fund. Data from the other governmental funds, which includes

**CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS**

Hemenway Fund, Deeds Surcharge, Sheriff's Forfeiture Fund and Grant Funds are combined into a single, aggregated presentation.

PROPRIETARY FUNDS—The County has one proprietary fund. The County uses an internal service fund for its self-funded Health and Dental Insurance account.

FIDUCIARY FUNDS—Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the County's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds. The County's agency funds account for the Sheriff's Escrow, Registry of Deeds, Nursing Home Resident Funds and the Jail Inmate funds.

NOTES TO THE FINANCIAL STATEMENTS—The notes provide additional information that is essential to gaining a full understanding of the data provided on the government-wide and fund financial statements.

OTHER INFORMATION—In addition to the basic financial statements and accompanying notes, this report presents the General Funds actual revenues and expenditures as compared to the legally adopted budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

County assets exceeded liabilities and deferred inflows of resources by \$25,146,897 as of December 31, 2013. This is an increase in net position, of \$3,513,973 from 2012.

Cheshire County, New Hampshire Net Position
As of December 31, 2013 and December 31, 2012

	Governmental Activities	
	2013	2012
Current and Other Assets	\$ 13,672,922	\$ 12,430,068
Direct Financing Lease A/R	1,082,640	1,255,540
Note Receivable	750,000	0
Capital Assets, Net	41,961,475	43,260,611
Total Assets	57,467,037	56,946,219
Current Liabilities	5,613,049	6,166,731
Non current Liabilities	26,286,877	28,841,096
Total Liabilities	\$ 31,899,926	\$ 35,007,827
Deferred Inflows of Resources		
Unearned Revenue	\$ 420,214	\$ 305,468
Net Position		
Net Investment in Capital Assets	14,602,119	12,314,265
Restricted	1,752,365	1,991,577
Unrestricted	8,792,413	7,327,082
Total Net Position	\$ 25,146,897	\$ 21,632,924

Total net position is presented in three categories: net investment in capital assets, restricted and unrestricted.

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

The largest portion of the County's net position is related to capital assets (e.g., land and improvements, buildings and building improvements, machinery and equipment, vehicles, and infrastructure). The figure presented (\$14,602,119) is net of any related debt incurred to acquire those assets and represents 58.07% of total net position. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the County's net position (\$1,752,365 or 6.97%) represents resources that are subject to restrictions on how they can be used. For Cheshire County, those restrictions include those related to limitations imposed by statutes governed by the State of New Hampshire and unexpended proceeds from bonds, grants, and restricted donations.

The remaining portion (\$8,792,413 or 34.96%) represents the part that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements (unrestricted).

The next statement provided shows the changes in the net position for 2012 and 2013.

Cheshire County, Changes in Net Position		
	Governmental Activities	
	2013	2012
Revenues:		
Program Revenues		
Charges for Services	\$ 12,131,515	\$ 11,078,723
Operating Grants and Contributions	4,847,357	5,642,631
Capital Grants and Contributions	<u>417,240</u>	<u>156,806</u>
Total Program Revenues	<u>17,396,112</u>	<u>16,878,160</u>
General Revenues		
Property Taxes	23,122,637	23,135,680
Interest and Investment	2,392	9,787
Other	<u>1,363,415</u>	<u>650,111</u>
Total General Revenue	<u>24,488,444</u>	<u>23,795,578</u>
Total Revenues	41,884,556	40,673,738
Expenses:		
General Government	4,720,807	4,609,979
Public Safety	8,401,131	7,836,635
Human Services	8,167,647	7,781,158
Conservation	61,192	197,489
Economic Development	435,710	1,012,862
Interest and fiscal charges	1,329,804	1,430,868
Cheshire County Nursing Home	<u>15,254,292</u>	<u>14,721,140</u>
Total Expenses	<u>38,370,583</u>	<u>37,590,131</u>
Increase (Decrease) in Net Position	<u>\$ 3,513,973</u>	<u>\$ 3,083,607</u>
Net position – beginning	<u>\$ 21,632,924</u>	<u>\$ 18,549,317</u>
Net position – ending	<u>\$ 25,146,897</u>	<u>\$ 21,632,924</u>

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Governmental Activities

Charges to users of governmental services made up \$12,131,515 or 28.96% of total government revenues and include such services as provided by the Nursing Home, Sheriff's Department, Department of Corrections, Court House Leases, Registry of Deeds, and Assisted Living Apartments. Additionally, the County receives revenue from operating grants and other contributions. In 2013, this totaled \$4,847,357 or 11.57% of total government revenue. Operating grants are used to fund expenses associated with programs such as the Domestic Violence Prosecutor, the Victim Witness Program and the Regional Prosecutor Program, Drug Court. Other contributions included in the amount are grants for Public Health initiatives and Enforcing Underage Drinking programs as well as Pro Share Funds to support Maplewood Nursing Home.

Property tax revenues are the County's largest revenue, accounting for \$23,122,637 or 55.21% of total government revenues. As noted previously, the County is able to recover some of its expenses through user charges, however, a great deal of County operations do not have revenue sources sufficient or available to meet their expenses and as a result are funded by Property Taxes.

One of the largest expenses funded through the assessment of taxes is associated with the obligation towards the Human Service Medicaid Expenses. This area is responsible for paying the County's share of funding for those Cheshire County residents needing Medicaid assistance. As of July 1, 2008, the County took on 100% of the non-federal share for residents in Long Term Care Facilities and for County residents receiving their care at home (Choices for Independence). As a result, the State of New Hampshire took over 100% of the non federal share of the other programs which included Board and Care of Children, Old Age Assistance, Aide to the Permanently and Totally Disabled and Provider Services. As the cost of these programs outweigh the cost of the LTC and Home Care programs, there was a "Hold Harmless" provision included in the statute that protected the Counties from being exposed to additional expenditures above normal inflationary rates for State Fiscal Years 2009 and 2010. After SFY 2010, the legislature establishes caps to determine the maximum liability exposure for these expenses on a biennial basis. The amount of 2013 County Taxes attributable to the State passthrough for these Medicaid State Programs was \$6,629,268 or 28.67% of County Taxes.

Although the Nursing Home is able to recover most its expenses through user charges, the Nursing does require a substantial subsidy from property taxes.

As a government owned nursing home, the census of Medicaid residents is much higher than private nursing home levels. As of December 31, 2013, approximately 76% of the nursing home census consisted of residents needing Medicaid assistance in order to pay for their care. Based on the 2013 Medicaid cost report for Maplewood, the per diem rate was calculated to be \$324.83, however, the actual paid per diem as of December 31, 2013 was \$154.51 or \$170.32 per day short of 2013 costs. The supplemental payment provided an additional reimbursement averaging \$46.64 with the Proportionate Share Funds providing additional reimbursement of \$65.72 per day. These additional payments still leave the allowable per diem rate short by approximately \$57.96 per day.

As of January 1, 2014, the Medicaid rate for Cheshire County increased by \$11.24 per day to a daily rate of \$165.75.

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

The analysis for governmental activities indicates the total cost as well as the net cost of services. The net cost of services identifies the cost of those supported by tax assessments and unrestricted revenues that are not directly related to specific charges for services or grants and contributions that would offset those services.

**Cheshire County, Governmental Activities
For Year Ending December 31, 2013 and December 31, 2012**

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
General Government	\$ 4,720,807	\$ 4,609,979	3,796,241	3,511,690
Public Safety	8,401,131	7,836,635	6,626,360	5,909,214
Human Services	8,167,647	7,781,158	7,244,985	6,966,549
Conservation	61,192	197,489	61,192	197,489
Economic Development	435,710	1,012,862	(8,500)	0
Nursing Home	15,254,292	14,721,140	1,924,389	2,676,405
Interest Expense	<u>1,329,804</u>	<u>1,430,868</u>	<u>1,329,804</u>	<u>1,430,868</u>
Total Expenses	<u>\$ 38,370,583</u>	<u>\$ 37,590,131</u>	<u>\$ 20,974,471</u>	<u>\$ 20,692,215</u>

Financial Analysis of County Funds

Cheshire County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

During the year ended December 31, 2011, the County implemented GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. Under Statement 54, the County has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned and Unassigned. One major example of the effects caused by the implementation of GASB 54 is that the various Capital Reserve Fund balances are now reported as part of the General Fund.

As of December 31, 2013, the County's governmental funds reported a combined ending fund balance of \$8,502,063 an increase of \$1,556,410 in comparison with the prior year. Approximately 50.93% of this total (\$4,330,252) represents unassigned fund balance. The increase is partially due to favorable results for actual expenditures when compared to actual revenues. Additionally, committed fund balance was added by the Delegation in a budget amendment due to the receipt of ProShare funds. In addition, as a note to the reader, in 2012 the Nursing Home was combined with the General Fund in order to provide a more clear presentation of the County's overall fund balance.

The amount of the County's unassigned fund balance is in line with our objective of retaining a recommended level of between 8% and 11% of the County's annual budget.

A complete description of the above mentioned classifications and a more detailed breakdown may be found on page 25 of the Notes to the Basic Financial Statements.

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Budgetary Highlights

By State statute, the County Convention must adopt its annual budget within 90 days after the beginning of the County's fiscal year. Therefore, any new purchases or proposed changes to the budget are not executed until the budget is adopted. On March 18, 2013, the County Convention adopted the 2013 budget. As adopted, the bottom line was down 2.06% (\$846,253) for a total budget of \$40,216,650 and taxes to be raised were .06% lower than 2012 (\$13,043) for total taxes to be raised of \$23,122,637.

Areas that contributed to the decrease included the following:

- Reduction in budgeted census levels at Maplewood Nursing Home allowed for a reduction in overall expenses of approximately \$380,000. This allowed for reduced staffing levels to coincide with the lower census. Employees did not lose jobs in order to accomplish the reduction in staffing as a reduction in FTE's was achieved through vacancies that already existed. In addition, areas such dietary meals were reduced accordingly.
- As there was no new debt for 2013, debt expense decreased by \$407,125.

On August 12, 2013 there was a budget amendment brought before the County Delegation amending the budget by \$203,545. This amendment was brought forward based on the receipt of ProShare Funds.

As a result of the supplemental budget, the total budget increased to \$40,420,195 still down by 1.57% (\$642,708) over the 2012 budget. This amendment did not have an impact on the original amount of taxes to be raised.

Capital Assets and Debt Administration

Capital Assets—The County's investment in capital assets for governmental as of December 31, 2013, was \$41,961,475 (net of accumulated depreciation). This investment in capital assets includes land and improvements, water and waste water systems, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, and construction in progress.

Major Capital projects and or equipment that were finalized in 2013 include \$151,000 for roof repair at Maplewood Nursing Home. A new generator at the Water Treatment Plant for \$36,000. Paving of the lot formally occupied by the demolished Latchis Theater for \$36,000. \$41,000 to upgrade Maplewood for wireless computer access. \$192,000 for a Repeater Project for Sheriff Dispatch and the purchase of a Mobile Command Unit for \$271,000. Of the listed projects, \$481,000 were acquired through the award of grant funds.

Note 7 – Detailed Notes of Capital Assets provides additional information about capital asset activity during 2013.

Long-Term Debt—At December 31, 2013, the County had total general obligation bonded debt and notes payable outstanding of \$28,296,734. Of this amount, \$1,040,000 is for the Jaffrey District Court House and is reimbursed by the State of New Hampshire by way of a lease agreement. The annual payment schedule for the lease corresponds with the bond schedule principal and interest payments. Other outstanding debt includes bonds for the study of the new County Jail, which had a balance remaining of \$200,000 at year-end. Bonds for the construction of the County Correctional

**CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS**

Facility had a balance outstanding at year-end for \$25,900,000 and the Geothermal Heating and Cooling System Bond for the County Correctional Facility had an outstanding balance at year-end of \$900,000. Additionally, the Water Treatment Upgrade Project that was funded by the State of New Hampshire Revolving Loan Fund had a balance of \$167,857. The County also utilized the State Revolving Loan Fund to upgrade its Waste Water Treatment Plan having an outstanding balance at the end of 2013 in the amount of \$88,877.

The County's long term bonded debt decreased by payments made of \$2,219,556 during 2013.

The current outstanding debt for Cheshire County is as follows:

**Cheshire County, Outstanding Debt
December 31, 2013**

	Governmental Activities	Years Remaining
Jail Expansion Study	\$ 200,000	8
Jaffrey District Court House	1,040,000	8
Jail Construction	25,900,000	14
Jail Geothermal System	900,000	11
Water Treatment Upgrade	167,857	2
Waste Water Trmnt Upgrade	<u>88,877</u>	3
Total Outstanding Debt	<u>\$ 28,296,734</u>	

In 2005, the first lease payment associated with the Energy Efficiency Project was due. Total principal for this project was \$1,070,543 and was spread out over a twelve (12) year period. The ninth principal payment was made on May 30, 2013 for \$95,000. The remaining principal due for this project as of December 31, 2013 is \$242,543.

In 2012 Moody's reaffirmed the Aa2 general obligation rating but did assign a negative outlook due to their concerns over the pressures of the Nursing Home receivables to the General Fund. In response to these concerns, Cheshire County combined the Nursing Home operations within the General Fund so that adjusting entries that may indicate the nursing home actually is due funds to the General Fund no longer accumulate.

Economic Factors

- The Cheshire County unemployment rate for December 2013 was 4.5%, which compares favorably to the State's rate of 4.8 %, the New England rate of 6.5% and the national rate of 6.53 %.
- Most recent equalized assessed valuations of property used for appropriating Cheshire County's 2013 taxes were \$6,746,907,739. This is a decrease over the prior year assessed valuations of 3.56% or \$249,407,197.
- There were no outstanding tax payments due from any Cheshire County Town as of December 31, 2013.

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Requests for Information

This financial report is designed to provide a general overview of the county's finances for all those with an interest in the governments' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Sheryl A. Trombly, Finance Director, 33 West Street, Keene, NH 03431.

EXHIBIT A
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Net Position
December 31, 2013

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 10,898,755
Investments	102,964
Accounts receivable, net	1,422,671
Due from other governments	800,031
Prepaid expenses	208,369
Current portion of direct financing lease receivable	<u>178,230</u>
Total Current Assets	<u>13,611,020</u>
Noncurrent Assets:	
Restricted cash	61,902
Direct financing lease receivable	1,082,640
Note receivable	750,000
Capital assets:	
Non-depreciable capital assets	1,105,354
Depreciable capital assets, net	<u>40,856,121</u>
Total Noncurrent Assets	<u>43,856,017</u>
Total Assets	<u>57,467,037</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	1,075,333
Accrued expenses	1,314,702
Due to other governments	889,665
Current portion of bonds payable	2,115,793
Current portion of note payable	114,556
Current portion of capital lease payable	<u>103,000</u>
Total Current Liabilities	<u>5,613,049</u>
Noncurrent Liabilities:	
Bonds payable	26,005,156
Note payable	142,178
Capital lease payable	<u>139,543</u>
Total Noncurrent Liabilities	<u>26,286,877</u>
Total Liabilities	<u>31,899,926</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned grant revenue	26,039
Unearned other revenue	173,305
Unearned direct financing lease revenue	<u>220,870</u>
Total Deferred Inflows of Resources	<u>420,214</u>
NET POSITION	
Net investment in capital assets	14,602,119
Restricted	1,752,365
Unrestricted	<u>8,792,413</u>
Total Net Position	<u>\$ 25,146,897</u>

See accompanying notes to the basic financial statements

EXHIBIT B
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Activities
For the Year Ended December 31, 2013

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 4,720,807	\$ 575,354	\$ 349,212		\$ (3,796,241)
Public safety	8,401,131	1,132,846	224,685	\$ 417,240	(6,626,360)
Human services	8,167,647	508,539	414,123		(7,244,985)
Conservation	61,192				(61,192)
Economic development	435,710		444,210		8,500
Nursing home	15,254,292	9,914,776	3,415,127		(1,924,389)
Interest and fiscal charges	1,329,804				(1,329,804)
Total governmental activities	<u>\$ 38,370,583</u>	<u>\$ 12,131,515</u>	<u>\$ 4,847,357</u>	<u>\$ 417,240</u>	<u>(20,974,471)</u>
		General revenues:			
		Property taxes			23,122,637
		Interest and investment earnings			2,392
		Miscellaneous			615,775
		Special item - Sale of capital asset			747,640
		Total general revenues and special item			<u>24,488,444</u>
		Change in net position			3,513,973
		Net position - beginning, as restated			<u>21,632,924</u>
		Net position - ending			<u>\$ 25,146,897</u>

See accompanying notes to the basic financial statements

EXHIBIT C
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2013

	General Fund	ARRA Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 7,330,664	\$ 1,525,871	\$ 161,820	\$ 9,018,355
Investments	49,131		53,833	102,964
Accounts receivable, net	1,421,036		1,635	1,422,671
Due from other governments	750,613		49,418	800,031
Due from other funds	4,705			4,705
Prepaid expenses	208,369			208,369
Total Assets	<u>9,764,518</u>	<u>1,525,871</u>	<u>266,706</u>	<u>11,557,095</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 9,764,518</u>	<u>\$ 1,525,871</u>	<u>\$ 266,706</u>	<u>\$ 11,557,095</u>
LIABILITIES				
Accounts payable	\$ 912,054		\$ 49,418	\$ 961,472
Accrued expenses	1,002,701			1,002,701
Due to other governments	889,665			889,665
Due to other funds	130		1,720	1,850
Total Liabilities	<u>2,804,550</u>	<u>\$ -</u>	<u>51,138</u>	<u>2,855,688</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned grant revenue			26,039	26,039
Unearned revenue	173,305			173,305
Total Deferred Inflows of Resources	<u>173,305</u>	<u>-</u>	<u>26,039</u>	<u>199,344</u>
FUND BALANCES				
Nonspendable	208,369			208,369
Restricted	52,750	1,525,871	173,744	1,752,365
Committed	262,227			262,227
Assigned	1,933,065		15,785	1,948,850
Unassigned	4,330,252			4,330,252
Total Fund Balances	<u>6,786,663</u>	<u>1,525,871</u>	<u>189,529</u>	<u>8,502,063</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 9,764,518</u>	<u>\$ 1,525,871</u>	<u>\$ 266,706</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 41,961,475

Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds. 2,010,870

Internal Service Funds are used by the County to charge the costs of health and dental insurance. This amount represents the amount due from the Business-type Activities at year end. 1,825,586

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:

Unearned revenue related to long-term receivable (220,870)
Bonds payable (28,120,949)
Notes payable (256,734)
Capital lease payable (242,543)
Accrued interest on long-term obligations (312,001)

Net position of governmental activities \$ 25,146,897

EXHIBIT D
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General Fund	ARRA Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 23,122,637			\$ 23,122,637
Intergovernmental	4,814,307		\$ 450,290	5,264,597
Charges for services	12,107,561		23,954	12,131,515
Interest and investment income	1,561	\$ 392	43	1,996
Miscellaneous	<u>728,055</u>		<u>17,720</u>	<u>745,775</u>
Total Revenues	<u>40,774,121</u>	<u>392</u>	<u>492,007</u>	<u>41,266,520</u>
Expenditures:				
Current operations:				
General government	4,604,025		38,225	4,642,250
Public safety	6,874,610		306	6,874,916
Human services	8,077,425			8,077,425
Conservation	63,187			63,187
Economic development			435,710	435,710
Nursing home	14,956,671			14,956,671
Capital outlay	978,598			978,598
Debt service:				
Principal retirement	2,314,556			2,314,556
Interest and fiscal charges	<u>1,366,797</u>			<u>1,366,797</u>
Total Expenditures	<u>39,235,869</u>	<u>-</u>	<u>474,241</u>	<u>39,710,110</u>
Excess revenues (under) expenditures	<u>1,538,252</u>	<u>392</u>	<u>17,766</u>	<u>1,556,410</u>
Other financing sources (uses):				
Transfers in	246,142			246,142
Transfers out		(233,848)	(12,294)	(246,142)
Total other financing sources (uses)	<u>246,142</u>	<u>(233,848)</u>	<u>(12,294)</u>	<u>-</u>
Net change in fund balances	1,784,394	(233,456)	5,472	1,556,410
Fund balances at beginning of year, as restated	<u>5,002,269</u>	<u>1,759,327</u>	<u>184,057</u>	<u>6,945,653</u>
Fund balances at end of year	<u>\$ 6,786,663</u>	<u>\$ 1,525,871</u>	<u>\$ 189,529</u>	<u>\$ 8,502,063</u>

COUNTY OF CHESHIRE, 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 December 31, 2013	
Net Change in Fund Balances--Total Governmental Funds	\$ 1,556,410
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.	(1,287,068)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	(9,708)
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are amortized in the statement of activities over the life of the related debt.	11,564
Repayment of principal on bonds and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,314,556
Revenue received from the State of New Hampshire and reported in the lease receivable in the statement of net position.	(130,000)
The Internal Service Fund is used by the County to charge the costs of dental and health insurance to individual funds. The net cost of the Internal Service Fund is reported in Governmental Activities.	285,150
Proceeds from note receivable issuances for the sale of capital assets are recognized as revenues in the statement of activities in the year of receipt of the note. The fund financial statements recognize revenue to the extent funds are received. This is the amount of note receivable issuance reduced by the net book value of capital assets sold.	747,640
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	<u>25,429</u>
Change in Net Position of Governmental Activities	<u>\$ 3,513,973</u>

EXHIBIT E
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
December 31, 2013

	Internal Service Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,880,400
Total Current Assets	<u>1,880,400</u>
Noncurrent Assets:	
Restricted cash	<u>61,902</u>
Total Noncurrent Assets	<u>61,902</u>
Total Assets	<u>1,942,302</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	113,731
Due to other funds	<u>2,985</u>
Total Current Liabilities	<u>116,716</u>
DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	<u>-</u>
NET POSITION	
Unrestricted	<u>1,825,586</u>
Total Net Position	<u>\$ 1,825,586</u>

See accompanying notes to the basic financial statements

EXHIBIT F
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2013

	Internal Service Fund
Operating revenues:	
Charges for services	\$ 3,316,301
Total operating revenues	<u>3,316,301</u>
Operating expenses:	
Administrative	<u>3,031,547</u>
Total operating expenses	<u>3,031,547</u>
Operating income	<u>284,754</u>
Non-operating revenues:	
Interest revenue	<u>396</u>
Net non-operating revenues	<u>396</u>
Change in net position	285,150
Total net position at beginning of year	<u>1,540,436</u>
Total net position at end of year	<u>\$ 1,825,586</u>

See accompanying notes to the basic financial statements

EXHIBIT G
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	Internal Service Fund
Cash flows from operating activities:	
Cash received for interfund services provided	\$ 3,316,301
Cash paid to suppliers	<u>(3,051,613)</u>
Net cash provided by operating activities	<u>264,688</u>
Cash flows from investing activities:	
Investment income	<u>396</u>
Net cash provided by investing activities	<u>396</u>
Net increase in cash and cash equivalents	265,084
Cash and cash equivalents at beginning of year	<u>1,674,233</u>
Cash and cash equivalents at end of year	<u>\$ 1,939,317</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 284,754
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts payable	<u>(20,066)</u>
Net cash provided by operating activities	<u>\$ 264,688</u>

See accompanying notes to the basic financial statements

EXHIBIT H
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 530,693
Due from other funds	<u>130</u>
Total Assets	<u>\$ 530,823</u>
LIABILITIES	
Accounts payable	\$ 62,276
Due to others	112,772
Due to other governments	<u>355,775</u>
Total Liabilities	<u>\$ 530,823</u>

See accompanying notes to the basic financial statements

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Cheshire, 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 Cheshire, New Hampshire (the County) was established in 1769 under the laws of the State of New Hampshire. The County boundaries include twenty-three New Hampshire municipalities located in southwestern New Hampshire. The County operates under the Commissioner/Delegation form of government and provides services as authorized by state statutes.

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

Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid duplicating revenues and expenses.

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

2. Fund Financial Statements

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

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 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 deferred outflows of resources, and liabilities and deferred inflows of resources is reported as fund balance. The following are the County's major governmental funds:

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.

The *ARRA Fund* is used to account for the temporary increase in Federal Medical Assistance Percentages (FMAP) of 6.2%.

2. Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The following is the County's proprietary fund:

The County is self-insured for its health and dental insurance. The activity associated with this self-insurance program is accounted in the *Internal Service Fund*.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The County maintains one type of fiduciary fund: agency funds. The County's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The County's agency funds account for Sheriff's escrow and court-forfeited funds, Register of Deeds, Nursing Home resident funds, and the jail canteen/recreation fund.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Measurement Focus

1. Government-Wide Financial Statements

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

2. Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

1. Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current 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 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 year for which the taxes are levied (see Note 3). Revenue from grants,

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

entitlements and donations are recognized in the 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 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 year end: property taxes, charges for services and interest on investments.

Miscellaneous revenues 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.

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:

Statement of Net Position - Proprietary Funds:	
Cash and cash equivalents	\$ 1,880,400
Due to other funds	(2,985)
Restricted cash	<u>61,902</u>
	<u>\$ 1,939,317</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.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Accounts Receivable

General Fund accounts receivable at December 31, 2013 are recorded net of an allowance for uncollectible receivables of \$302,654.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2013 are recorded as prepaid items.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net position, but are not reported in the governmental fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair values as of the date received. The County maintains a capitalization threshold of \$5,000 for its governmental activities, except for its nursing home. The capitalization threshold of the nursing home is \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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	10-30
	Water system	30
	Wastewater system	30
	Buildings and improvements	5-50
	Vehicles and equipment	5-25

Compensated Absences

Employees earn vacation and sick leave as they provide services. Provision is made in the annual budget for vacation and sick leave. Vacation may be accrued to one and one-half times an employee's annual earned vacation. Any unused vacation beyond this amount will be forfeited. Accrued/unused vacation has been included as a liability in these financial statements.

Employees may accumulate sick leave days up to ten days per year, cumulative to a maximum of sixty days. Any unused sick leave days in excess of sixty days are to be paid to the employee at the end of the year at a rate of one-half day for each excess day that has been accrued. No payment for unused sick leave is made upon termination.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Bond Premium

Bond premiums are amortized as a component of interest expense over the life of the related bond using the effective interest rate method. Bonds payable are reported in the accompanying financial statements gross of any applicable unamortized bond premium. The balance of the unamortized bond premium as of December 31, 2013 is \$80,949.

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 Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

Fund Balance Policy

GASB Statement 54 established new fund balance classifications and changed the definition of governmental fund types. Under Statement 54, the County has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- Nonspendable Fund Balance: Amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact.
- Restricted Fund Balance: Amounts that can only be spent for the specific purposes stipulated by external resource providers (such as grantors) or the enabling legislation (federal or state law). Restrictions may be changed or lifted only with the consent of the resource providers or the enabling legislation.
- Committed Fund Balance: Amounts that can be used only for the specific purposes determined by a formal action of the County's highest level of decision making authority (annual meeting of the County Delegation). Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

commitment is made. The amount subject to the constraint may be determined in the subsequent period.

- Assigned Fund Balance: Amounts that the County intends to use for a specific purpose. For all governmental funds other than the General Fund, any remaining positive amounts are to be classified as “assigned”. The Board of Commissioners expressly delegates this authority to the County Administrator. Items that would fall under this type of fund balance classification would be encumbrances.
- Unassigned Fund Balance: Amounts that are not obligated or specifically designated and are available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit fund balance of another fund is also classified as unassigned.

Spending Prioritizations

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.

Minimum Level of Unassigned Fund Balance

In accordance with the County’s fund balance policy, the recommended minimum unassigned fund balance in its General Fund should equal 8% of the annual total budgeted appropriations. The recommended target balance is to maintain an unassigned fund balance between 8% and 11% of the annual total budgeted appropriations. Any amount of the unassigned fund balance in excess of the minimum balance may be appropriated by the Commissioners to offset property taxes as part of the budget approval process with the Delegation to set tax rates for the calendar year.

The Board of Commissioners may recommend to the Delegation through a budget amendment to appropriate funds from the unassigned fund balance even if such use decreases the unassigned fund balance below the recommended minimum balance in the event of emergency purposes or to alleviate unanticipated short-term budgetary problems, such as revenue shortfalls.

Interfund Activity

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. Operating expenses 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.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

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 December 31, 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 twenty-three Towns/City that comprise Cheshire County (all independent governmental units) collect County taxes as part of local property tax assessments. As collection agent, the Towns/City are required to pay over to the County its share of property tax assessments. The Towns/City 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 December 31, 2013, the County participated in public entity risk pools (Trusts) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit the Trusts 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 Trusts foresee 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 December 31, 2013.

Property and Liability Insurance

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, the County shares in

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self-Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

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

NOTE 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 December 31, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 10,898,755
Investments	102,964
Restricted cash	61,902
Statement of Fiduciary Net Position:	
Cash and cash equivalents	530,693
	<u>\$ 11,594,314</u>

Deposits and investments at December 31, 2013 consist of the following:

Cash on hand	\$ 7,280
Deposits with financial institutions	11,484,070
Investments	102,964
	<u>\$ 11,594,314</u>

The County's investment policy states that any excess funds which are not immediately needed for the purpose of expenditure may only be invested in certificates of deposit, overnight repurchase agreements, U.S. Government securities – Treasury bills, the New Hampshire Public Deposit Investment Pool and others as approved by the County Commissioners and the County Executive Committee.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The County does not have an investment policy regarding credit risk for its governmental funds as of December 31, 2013.

The County's investment in the NHPDIP (State investment pool) is unrated.

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, \$4,634,891 was collateralized by securities held by the bank in the bank's name and \$7,006,254 was uninsured and uncollateralized. The County changed financial institutions during the year ended December 31, 2013, and the collateralization for the main operating account was inadvertently overlooked by the financial institution. Subsequent to year end, the omission was identified and all deposits in excess of the FDIC insurance limits are collateralized.

Investment in NHPDIP

The County is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

Investments in the NHPDIP are not investment securities and, as such, are not categorized by risk. The County's exposure to derivatives is indirect through its participation in the NHPDIP. The County's proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares.

NOTE 6—NOTE RECEIVABLE

During January 2013, the County sold a parcel of land in exchange for a note receivable in the amount of \$750,000. The terms of the note call for the note to accrue no interest for the first seven years from the date of issuance. After the first seven years, interest is accrued on the outstanding balance at the simple interest rate of 1% per annum. Payment on the outstanding principal and interest balance of the note is due at the earlier event of transfer of property to an entity not controlled by the purchaser or January 18, 2038. At December 31, 2013 the balance of \$750,000 is deemed collectible in full by management.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

NOTE 7—CAPITAL ASSETS

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

	Balance <u>1/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2013</u>
Capital assets not depreciated:				
Land	\$ 1,059,770		\$ (2,360)	\$ 1,057,410
Construction in process	<u>321,751</u>	\$ 47,944	<u>(321,751)</u>	<u>47,944</u>
Total capital assets not being depreciated	<u>1,381,521</u>	<u>47,944</u>	<u>(324,111)</u>	<u>1,105,354</u>
Other capital assets:				
Land improvements	648,327	37,086		685,413
Buildings and improvements	55,722,979	188,702		55,911,681
Water system	1,464,537	36,145		1,500,682
Waste water system	921,198			921,198
Vehicles and equipment	<u>4,130,239</u>	<u>827,218</u>	<u>(41,582)</u>	<u>4,915,875</u>
Total other capital assets at historical cost	<u>62,887,280</u>	<u>1,089,151</u>	<u>(41,582)</u>	<u>63,934,849</u>
Less accumulated depreciation for:				
Land improvements	(476,637)	(13,822)		(490,459)
Buildings and improvements	(16,578,937)	(1,728,138)		(18,307,075)
Water system	(878,697)	(58,014)		(936,711)
Waste water system	(388,672)	(33,383)		(422,055)
Vehicles and equipment	<u>(2,685,247)</u>	<u>(269,055)</u>	<u>31,874</u>	<u>(2,922,428)</u>
Total accumulated depreciation	<u>(21,008,190)</u>	<u>(2,102,412)</u>	<u>31,874</u>	<u>(23,078,728)</u>
Total other capital assets, net	<u>41,879,090</u>	<u>(1,013,261)</u>	<u>(9,708)</u>	<u>40,856,121</u>
Total capital assets, net	<u>\$ 43,260,611</u>	<u>\$ (965,317)</u>	<u>\$ (333,819)</u>	<u>\$ 41,961,475</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 95,442
Public safety	1,458,419
Human services	98,880
Nursing home	<u>449,671</u>
Total	<u>\$ 2,102,412</u>

The balance of the assets acquired through capital leases as of December 31, 2013 is as follows:

Buildings and improvements	\$ 1,070,541
Less accumulated depreciation for:	
Buildings and improvements	<u>(475,692)</u>
Total	<u>\$ 594,849</u>

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

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 are required to contribute 11.55% of their covered salary, whereas general employees are required to contribute 7.0% of their covered salary. The County is required to contribute at an actuarially determined rate. The County's contribution rates for the covered payroll of public safety employees and general employees were 19.95% and 8.8%, respectively through June 30, 2013 and 25.3% and 10.77%, respectively, thereafter. The County contributes 100% of the employer cost for public safety officers and general employees of the County.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The County's contributions to the NHRS for the years ending December 31, 2013, 2012, and 2011 were \$1,539,616, \$1,319,668, and \$1,282,788, respectively, equal to the required contributions for each year.

NOTE 9—SHORT-TERM OBLIGATIONS

The County issues tax anticipation notes during the year. These borrowings are to assist in the payment of operating expenses during the year and are guaranteed to be repaid from the tax revenue received in December from the Towns/City within the County.

The changes in short-term debt obligations for the year ended December 31, 2013 are as follows:

Balance - January 1, 2013	\$ -
Additions	17,900,000
Reductions	<u>(17,900,000)</u>
Balance - December 31, 2013	<u>\$ -</u>

NOTE 10—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the County's long-term obligations for the year ended December 31, 2013 are as follows:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

	Balance 1/1/2013	Additions	Reductions	Balance 12/31/2013	Due Within One Year
Bonds payable	\$ 30,145,000		\$ (2,105,000)	\$ 28,040,000	\$ 2,105,000
Unamortized bond premium	92,513		(11,564)	80,949	10,793
Total bonds payable	30,237,513	\$ -	(2,116,564)	28,120,949	2,115,793
Note payable	371,290		(114,556)	256,734	114,556
Capital leases payable	337,543		(95,000)	242,543	103,000
Total governmental activities	<u>\$ 30,946,346</u>	<u>\$ -</u>	<u>\$ (2,326,120)</u>	<u>\$ 28,620,226</u>	<u>\$ 2,333,349</u>

Payments on the general obligation bonds, notes payable and capital leases of the governmental activities are paid out of the General Fund.

General Obligation Bonds

Bonds payable at December 31, 2013 are comprised of the following individual issues:

\$37,000,000 Correctional Facility Bonds due in annual installments of \$1,850,000 through October 2027; interest at 4.25%	\$ 25,900,000
\$2,600,000 Jaffrey District Courthouse Bonds due in annual installments of \$130,000 through October 2021; interest at 3.875% - 4.85%	1,040,000
\$1,300,000 Correctional Facility Geothermal Project Bonds due in annual installments of \$100,000 through August 2020 and \$50,000 through August 2024; interest at 2.00% - 4.00%	900,000
\$500,000 Correctional Facility Design Bonds due in annual installments of \$25,000 through October 2021; interest at 3.875% - 4.85%	200,000
Add: Unamortized bond premium	80,949
	<u>\$ 28,120,949</u>

Debt service requirements to retire general obligation bonds for governmental activities at December 31, 2013 are as follows:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Year Ending December 31,	Principal	Interest	Totals
2014	\$ 2,105,000	\$ 1,187,880	\$ 3,292,880
2015	2,105,000	1,100,013	3,205,013
2016	2,105,000	1,011,740	3,116,740
2017	2,105,000	923,063	3,028,063
2018	2,105,000	834,230	2,939,230
2019-2023	10,065,000	2,841,295	12,906,295
2024-2027	<u>7,450,000</u>	<u>788,250</u>	<u>8,238,250</u>
	28,040,000	8,686,471	36,726,471
Add: Unamortized bond premium	<u>80,949</u>	<u>-</u>	<u>80,949</u>
	<u>\$ 28,120,949</u>	<u>\$ 8,686,471</u>	<u>\$ 36,807,420</u>

As included on the Statement of Activities (Exhibit B), interest expense for the year ended December 31, 2013 was \$1,241,164 on general obligation debt for governmental activities.

Notes Payable

Notes payable at December 31, 2013 are comprised of the following individual issues:

\$416,404 Water Project Upgrade Note due in annual installments of \$84,930 through July 2014 and \$82,927 through July 2015; interest at .895%	\$ 167,857
\$292,735 Wastewater Project Upgrade Note due in annual installments of \$29,626 through June 2016; interest at 0.97%. A total of \$146,367 was forgiven at the time of the initial payment	<u>88,877</u>
	<u>\$ 256,734</u>

Debt service requirements to retire the notes payable for governmental activities at December 31, 2013 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2014	\$ 114,556	\$ 2,364	\$ 116,920
2015	112,553	1,317	113,870
2016	<u>29,625</u>	<u>287</u>	<u>29,912</u>
	<u>\$ 256,734</u>	<u>\$ 3,968</u>	<u>\$ 260,702</u>

As included on the Statement of Activities (Exhibit B), interest expense for the year ended December 31, 2013 was \$2,884 on the note payable for governmental activities.

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of building improvements. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Capital leases payable at December 31, 2013 is comprised of the following individual issue:

Building improvements, due in varying annual installments through May 2016; interest at 4.67%	<u>\$ 242,543</u>
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Debt service requirements to retire capital lease obligations for governmental activities at December 31, 2013 are as follows:

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 103,000	\$ 11,327	\$ 114,327
2015	112,000	6,517	118,517
2016	27,543	1,286	28,829
	<u>\$ 242,543</u>	<u>\$ 19,130</u>	<u>\$ 261,673</u>

Direct Financing Lease Receivable

The County has entered into a direct financing lease agreement with the State of New Hampshire for a term of 20 years following construction of the Jaffrey District Court building. The semi-annual payments the County will receive are equal to the annual interest and principal payments on the bond. The State will occupy the District Court building and incur all direct costs associated with the building for the entire period. The County has agreed to sell the District Court building to the State for a purchase price of \$1 at the end of the lease. Future minimum lease payments to be received have been recognized in the governmental activities and are as follows:

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 130,000	\$ 48,230	\$ 178,230
2015	130,000	42,575	172,575
2016	130,000	36,790	166,790
2017	130,000	30,875	160,875
2018	130,000	24,830	154,830
2019-2021	390,000	37,570	427,570
	<u>\$ 1,040,000</u>	<u>\$ 220,870</u>	<u>\$ 1,260,870</u>

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 December 31, 2013 are as follows:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

	Due from			Totals
	General Fund	Nonmajor Governmental Funds	Internal Service Fund	
Due to General Fund		\$ 1,720	\$ 2,985	\$ 4,705
Fiduciary Funds	\$ 130			130
	<u>\$ 130</u>	<u>\$ 1,720</u>	<u>\$ 2,985</u>	<u>\$ 4,835</u>

During the year, several interfund transactions occurred between funds. The ARRA Fund transferred \$233,848 to the General Fund to acquire capital assets. Funds transferred from the Nonmajor Governmental Funds of \$12,294 to the General Fund represent administrative costs associated with a grant award and the elimination of an interfund balance.

NOTE 12—SELF INSURANCE

The County established a Health and Dental Insurance Fund (an internal service fund) to account for and finance its self-insurance program. Under this program, the Health and Dental Insurance Fund provides coverage for up to a maximum of \$75,000 annually for each individual plan participant. The County purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss.

All funds of the County participate in the program and make payments to the Health and Dental Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The claims liability reported in the fund at year end is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information is available prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount for the past five years are as follows:

Year Ending <u>December 31,</u>	Beginning of Year <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claims <u>Paid</u>	End of Year <u>Liability</u>
2009	\$ 143,383	\$ 2,065,974	\$(2,098,137)	\$ 111,220
2010	111,220	2,719,547	(2,717,938)	112,829
2011	112,829	2,483,553	(2,494,922)	101,460
2012	101,460	2,871,784	(2,839,447)	133,797
2013	133,797	3,031,547	(3,051,613)	113,731

NOTE 13—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

ARRA Medicaid funds	\$ 1,525,871
Donations	106,583
Correctional facility project	117,677
Miscellaneous grant funds	2,234
	<u>\$ 1,752,365</u>

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

NOTE 14—COMPONENTS OF FUND BALANCE

The County's fund balance components are comprised as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>ARRA Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Prepaid expenses	\$ 208,369			\$ 208,369
Restricted for:				
ARRA Medicaid funds		\$ 1,525,871		1,525,871
Donations	52,750		\$ 53,833	106,583
Correctional facility project			117,677	117,677
Miscellaneous grant funds			2,234	2,234
Committed for:				
Capital Reserves	262,227			262,227
Assigned for:				
Deeds surcharge			15,785	15,785
Reduction of 2014 tax rate	1,653,516			1,653,516
Encumbrances	39,121			39,121
Carryforward appropriations	240,428			240,428
Unassigned	<u>4,330,252</u>			<u>4,330,252</u>
	<u>\$ 6,786,663</u>	<u>\$ 1,525,871</u>	<u>\$ 189,529</u>	<u>\$ 8,502,063</u>

NOTE 15—COMMITMENTS AND CONTINGENCIES

Litigation

County officials estimate 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.

Federal Grants

The County participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

NOTE 16—RESTATEMENT OF EQUITY

During the year ended December 31, 2013, it was determined unearned grant revenue of the Nonmajor Governmental Funds was understated at December 31, 2012.

Government-Wide Statements

Net Position of the governmental activities as of January 1, 2013 has been restated as follows:

	Governmental <u>Activities</u>
Net Position - January 1 (as previously reported)	\$ 21,652,680
Amount of restatement due to:	
Understatement of unearned grant revenue	<u>(19,756)</u>
Net Position - January 1, as restated	<u>\$ 21,632,924</u>

Governmental Funds

The impact of the restatement on the Governmental Funds is as follows:

	Nonmajor Governmental <u>Funds</u>
Fund Balance - January 1 (as previously reported)	\$ 203,813
Amount of restatement due to:	
Understatement of unearned grant revenue	<u>(19,756)</u>
Fund Balance - January 1, as restated	<u>\$ 184,057</u>

NOTE 17—SUBSEQUENT EVENT

During April 2014, the County issued a \$12,600,000 tax anticipation note with an interest rate of .223792%. This tax anticipation note matures on December 30, 2014.

SCHEDULE 1
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 23,122,637	\$ 23,122,637	\$ 23,122,637	\$ -
Intergovernmental	3,603,181	4,993,895	4,814,307	(179,588)
Charges for services	11,924,590	11,924,590	12,107,561	182,971
Interest income	5,000	5,000	1,463	(3,537)
Miscellaneous	755,162	755,162	721,661	(33,501)
Total Revenues	<u>39,410,570</u>	<u>40,801,284</u>	<u>40,767,629</u>	<u>(33,655)</u>
Expenditures:				
Current:				
General government	4,755,141	4,707,541	4,576,963	130,578
Public safety	7,192,528	7,192,528	6,878,296	314,232
Human services	8,462,773	8,598,168	8,077,425	520,743
Conservation	50,989	50,989	51,095	(106)
Nursing home	15,488,726	15,537,126	14,969,108	568,018
Capital outlay	1,455,187	1,056,715	895,948	160,767
Debt Service:				
Principal retirement	2,314,556	2,314,556	2,314,556	-
Interest and fiscal charges	1,419,190	1,419,190	1,366,797	52,393
Total Expenditures	<u>41,139,090</u>	<u>40,876,813</u>	<u>39,130,188</u>	<u>1,746,625</u>
Excess revenues over (under) expenditures	<u>(1,728,520)</u>	<u>(75,529)</u>	<u>1,637,441</u>	<u>1,712,970</u>
Other financing sources:				
Transfers in	557,747	298,700	256,732	(41,968)
Total other financing sources	<u>557,747</u>	<u>298,700</u>	<u>256,732</u>	<u>(41,968)</u>
Net change in fund balance	(1,170,773)	223,171	1,894,173	1,671,002
Fund balance at beginning of year				
- Budgetary Basis	<u>4,217,786</u>	<u>4,217,786</u>	<u>4,217,786</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 3,047,013</u>	<u>\$ 4,440,957</u>	<u>\$ 6,111,959</u>	<u>\$ 1,671,002</u>

See accompanying notes to the required supplementary information

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2013

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

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

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 41,020,263	\$ 39,235,869
Encumbrances, December 31, 2013		39,121
Encumbrances, December 31, 2012		(123,677)
Non-budgetary revenues and expenditures	(6,492)	(21,125)
Budgetary transfers	10,590	
Per Schedule 1	<u>\$ 41,024,361</u>	<u>\$ 39,130,188</u>

Budgetary information in these financial statements has been presented only for the General Fund as there is no adopted budget for the ARRA Fund.

NOTE 2—BUDGETARY FUND BALANCE

The components of the budgetary fund balance for the General Fund at December 31, 2013 are as follows:

Nonspendable:	
Prepaid expenses	\$ 208,369
Assigned for:	
Reduction of 2014 tax rate	1,653,516
Carryforward appropriations	240,428
Unassigned	<u>4,009,646</u>
	<u>\$ 6,111,959</u>

NOTE 3—RECLASSIFICATION

The fund balance components in the prior year’s financial statements have been reclassified to conform with the current year’s presentation.

SCHEDULE 1
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
DEPARTMENT OF AGRICULTURE		
Received directly from U.S. Treasury Department Farmer's Market and Local Food Promotion Program #12-25-G-1601-NH	10.168	\$ 24,523
Total Department of Agriculture		<u>24,523</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from Community Development Finance Authority Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii #11-403-CDHS #11-403-CDED #10-403-CDPF	14.228	207,210 14,000 <u>223,000</u>
Total Department of Housing and Urban Development		<u>444,210</u>
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department Drug Court Discretionary Grant Program #2013-DC-BX-0048	16.585	<u>16,533</u>
Pass Through Payments from the New Hampshire Department of Justice Violence Against Women Formula Grants - Recovery Act #2012-WF-AX-0004	16.588	<u>30,000</u>
Residential Substance Abuse Treatment for State Prisoners #2012RS10	16.593	<u>10,520</u>
Received Directly From U.S. Treasury Department Bulletproof Vest Partnership Program	16.607	<u>1,981</u>
Pass Through Payments from the New Hampshire Department of Justice Enforcing Underage Drinking Laws Program #2012CD29 #2011CD29	16.727	6,228 4,842 <u>11,070</u>
Received Directly From U.S. Treasury Department Edward Byrne Memorial Justice Assistance Grant Program #2011-DJ-BX-3101 #2012-DJ-BX-0628	16.738	4,411 <u>11,953</u> <u>16,364</u>
Equitable Sharing Program	16.922	<u>305</u>
Total Department of Justice		<u>86,773</u>

See notes to schedule of expenditures of federal awards

SCHEDULE 1
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from the New Hampshire Department of Transportation Enhanced Mobility of Seniors and Individuals with Disabilities #NH-65-X002	20.513	<u>112,373</u>
State and Community Highway Safety #315-14A-030 #315-13A-069	20.600	245 <u>1,483</u> <u>1,728</u>
Total Department of Transportation		<u>114,101</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass Through Payments from the Town of New Ipswich, New Hampshire Medical Reserve Corps Small Grant Program #1MRCSG101005-01	93.008	<u>1,723</u>
Pass Through Payments from the National Association of County and City Health Officials Medical Reserve Corps Small Grant Program #5MRC13-1587 #5MRCSG101005-02	93.008	2,992 <u>60</u> <u>3,052</u>
Pass Through Payments from the New Hampshire Department of Health and Human Services Public Health Emergency Preparedness	93.069	<u>93,135</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance #1H79T11024980-01 #SAMHSA	93.243	79,801 <u>2,174</u> <u>81,975</u>
Pass Through Payments from the Community Health Institute National Bioterrorism Hospital Preparedness Program #2013-03	93.889	<u>6,000</u>
Pass Through Payments from the New Hampshire Bureau of Drug and Alcohol Services Block Grants for Prevention and Treatment of Substance Abuse #95846502	93.959	<u>70,015</u>
Total Department of Health and Human Services		<u>255,900</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from the New Hampshire Department of Safety Emergency Management Performance Grants	97.042	<u>18,073</u>
Homeland Security Grant Program	97.067	<u>400,290</u>
Total Department of Homeland Security		<u>418,363</u>
Total Expenditures of Federal Awards		<u>\$ 1,343,870</u>

See notes to schedule of expenditures of federal awards

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2013

NOTE 1—GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the County of Cheshire. 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 County's basic financial statements as intergovernmental revenues in the governmental funds as follows:

Major Governmental Fund:	
General Fund	\$ 893,580
Nonmajor Governmental Funds	<u>450,290</u>
	<u>\$ 1,343,870</u>

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

Independent Auditor's Report

To the Board of Commissioners
County of Cheshire, New Hampshire

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Cheshire, New Hampshire, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County of Cheshire, New Hampshire's basic financial statements, and have issued our report thereon dated May 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County of Cheshire, New Hampshire's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Cheshire, New Hampshire's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Cheshire, New Hampshire's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nachon Clukay & Company PC

Manchester, New Hampshire
May 6, 2014

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

Independent Auditor's Report

To the Board of Commissioners
County of Cheshire, New Hampshire

Report on Compliance for Each Major Federal Program

We have audited the County of Cheshire, New Hampshire's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of Cheshire, New Hampshire's major federal programs for the year ended December 31, 2013. The County of Cheshire, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County of Cheshire, New Hampshire's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Cheshire, New Hampshire's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County of Cheshire, New Hampshire's compliance.

Opinion on Each Major Federal Program

In our opinion, the County of Cheshire, New Hampshire complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the County of Cheshire, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County of Cheshire, New Hampshire's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County of Cheshire, New Hampshire's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vachon Clukay & Company PC

Manchester, New Hampshire
May 6, 2014

**County of Cheshire, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013**

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Adverse – Governmental activities
Unmodified –All other opinion units

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 none reported

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

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
14.228	Community Development Block Grants / State’s Program and Non-Entitlement Grants in Hawaii
97.067	Homeland Security Grant Program

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).