

COUNTY OF CHESHIRE, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
December 31, 2016
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
Required by the Uniform Guidance**

Schedule of Findings and Questioned Costs

COUNTY OF CHESHIRE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2016

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FINANCIAL STATEMENTS
December 31, 2016**

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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, 2016, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Cheshire, New Hampshire, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress for other post-employment benefits, schedule of changes in the County's proportionate share of the net pension liability, and the schedule of County contributions on pages i-ix and 32-37 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 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 April 20, 2017 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.

Vachon Clukay & Company PC

Manchester, New Hampshire
April 20, 2017

**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, 2016. 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 2016 are as follows:

- The County's net position for year-end was \$8,441,731 an increase of \$382,088 which represents a 4.74% increase over 2015 from \$8,059,643.
- At the end of the current year, the County's governmental funds reported a combined ending fund balance of \$9,239,684 an increase of \$651,820 from the prior year balance of \$8,587,864. Of this amount, \$6,042,626 is available for spending (unassigned).
- At the end of the current year, unassigned fund balance for the General Fund was \$6,042,626, which represents a 14.71% increase from the prior year balance of \$5,267,682.

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

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

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 2016, the County has determined the General Fund to be the only major governmental fund.

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. Data from the other governmental funds, which includes Hemenway Fund, Deeds Surcharge, Sheriff's Forfeiture Fund and Civil Processing, CDBG Fund, ARRA Fund and Grant Funds are combined into a single, aggregated presentation.

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

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, Nursing Home Activity 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 Fund's actual revenues and expenditures as compared to the legally adopted budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The table below provides a summary of the County's net position for the year ended December 31, 2016 compared with 2015.

County assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,441,731 as of December 31, 2016. This is an increase in net position, of \$382,088 from 2015.

Cheshire County, New Hampshire Net Position
As of December 31, 2016 and December 31, 2015

	Governmental Activities	
	2016	2015
Current and Other Assets	\$ 14,537,156	\$ 13,958,354
Direct Financing Lease A/R	582,400	743,275
Note Receivable	750,000	750,000
Capital Assets, Net	39,166,398	40,065,830
Total Assets	\$ 55,035,954	\$ 55,517,459
Deferred Outflows of Resources		
Loss on debt refunding	1,159,742	1,329,483
Attributed to Net Pension Liab	6,356,949	1,565,226
Total Deferred Outflows	\$ 7,516,691	\$ 2,894,709
Current Liabilities	5,718,001	6,109,280
Non current Liabilities	47,843,702	43,147,616
Total Liabilities	\$ 53,561,703	\$ 49,256,896
Deferred Inflows of Resources		
Unearned Revenue	\$ 93,275	\$ 130,065
Net Pension Liability	455,936	965,564
Total Deferred Inflows	\$ 549,211	\$ 1,095,629

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

Cheshire County, New Hampshire Net Position
As of December 31, 2016 and December 31, 2015

	Governmental Activities	
	2016	2015
Net Position		
Net Investment in Capital Assets	16,912,693	15,412,947
Restricted	237,041	291,588
Unrestricted (deficit)	<u>(8,708,003)</u>	<u>(7,644,892)</u>
Total Net Position	<u>\$ 8,441,731</u>	<u>\$ 8,059,643</u>

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

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 (\$16,912,693) is net of any related debt incurred to acquire those assets. 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 (\$237,041) 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 (-\$8,708,003) resulted in a decrease of \$1,063,111 over 2015 of (-\$7,644,892).

The next statement provided shows the changes in the net position for 2015 and 2016.

Cheshire County, Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues		
Charges for Services	\$ 13,376,019	\$ 13,185,628
Operating Grants and Contributions	5,849,601	5,288,070
Capital Grants and Contributions	<u>412,890</u>	<u>10,685</u>
Total Program Revenues	<u>19,638,510</u>	<u>18,484,383</u>
General Revenues		
Property Taxes	23,898,375	23,432,396
Interest and Investment	18,171	15,892
Other	<u>251,466</u>	<u>313,214</u>
Total General Revenue	<u>24,168,012</u>	<u>23,761,502</u>
Total Revenues	<u>43,806,522</u>	<u>42,245,885</u>

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Expenses:		
General Government	5,429,912	5,028,560
Public Safety	9,805,573	9,187,537
Human Services	9,962,429	9,229,007
Conservation	61,846	55,757
Economic Development	403,492	46,534
Interest and fiscal charges	797,733	1,228,388
Cheshire County Nursing Home	<u>16,963,449</u>	<u>16,517,853</u>
Total Expenses	<u>43,424,434</u>	<u>41,293,636</u>
Increase (Decrease) in Net Position	<u>\$ 382,088</u>	<u>\$ 952,249</u>
Net position – beginning	<u>\$ 8,059,643</u>	<u>\$ 7,107,394</u>
Net position – ending	<u>\$ 8,441,731</u>	<u>\$ 8,059,643</u>

Governmental Activities

Charges to users of governmental services made up \$13,376,019 or 30.53% 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 2016, this totaled \$5,849,601 or 13.35% 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. In addition, the County received substantial grants to outfit and construct a new County Dispatch Center.

Property tax revenues are the County's largest revenue, accounting for \$23,898,375 or 54.55% 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 2016 County Taxes attributable to the State pass through for these Medicaid State Programs was \$7,146,873 or 29.91% 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.

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

As a government owned nursing home, the census of Medicaid residents is much higher than private nursing home levels. As of December 31, 2016, approximately 77% of the nursing home census consisted of residents needing Medicaid assistance in order to pay for their care. Based on the 2016 Medicaid cost report for Maplewood, the per diem rate was calculated to be \$360.07, however, the actual paid per diem as of December 31, 2016 was \$162.77 or \$197.30 per day short of 2016 costs. The supplemental payment provided an additional reimbursement averaging \$52.12 with the Proportionate Share Funds providing additional reimbursement of \$45.93 per day. These additional payments still leave the allowable per diem rate short by approximately \$99.25 per day.

As of January 1, 2017, the Medicaid rate for Maplewood Nursing Home County decreased slightly by \$.05 per day to a daily rate of \$162.72.

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, 2016 and December 31, 2015**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
General Government	\$ 5,429,912	\$ 5,028,560	\$ 4,582,497	\$ 4,111,199
Public Safety	9,805,573	9,187,537	6,686,692	6,894,609
Human Services	9,962,429	9,229,007	7,783,840	7,624,003
Conservation	61,846	55,757	61,846	55,757
Economic Development	403,492	46,534	0	0
Nursing Home	16,963,449	16,517,853	3,873,316	2,895,297
Interest Expense	797,733	1,228,388	797,733	1,228,388
Total Expenses	\$ 43,424,434	\$ 41,293,636	\$ 23,785,924	\$ 22,809,253

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.

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

As of December 31, 2016, the County's governmental funds reported a combined ending fund balance of \$9,239,684, an increase of \$651,820 in comparison with the prior year. Approximately 65.40% of this total, \$6,042,626, represents unassigned fund balance, an increase of \$774,944 over 2015 or 13.76% of the County's annual budget.

The amount of the County's unassigned fund balance is in line with our objective of retaining a recommended level of between 11% and 15% of the County's annual budget.

A complete description of the above mentioned classifications and a more detailed breakdown may be found on page 29 of the Notes to the Basic Financial Statements.

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 14, 2016, the County Convention adopted the 2016 budget. As adopted, the bottom line was up 1.16%, \$501,446 for a total budget of \$43,630,505 with taxes to be raised up by 1.99%, \$465,979 over 2015 for total taxes to be raised of \$23,898,375.

On August 22, 2016, a budget amendment was brought before the County Delegation amending the budget for the receipt of non-budgeted ProShare funds of \$1,298,484. This amended the bottom line budget by authorizing to spend \$273,550 on additional capital projects with \$1,024,934 specifically set aside in fund balance to offset taxes to be raised in 2017.

As a result of the supplemental budget, the total budget increased to \$43,904,055. This amendment did not have an impact on the original amount of taxes to be raised.

At the end of 2016, revenues attributed to Charges for Services came in over projections by \$535,475. The areas that had the major impact on this overage was the net of Federal Inmate revenues exceeding projections by \$915,746 and Nursing Home revenues falling short by \$467,699.

The Department of Corrections Federal Inmate revenues came in over as the original budget accounted for 27 inmates however the actual resulted in an average of 51 Federal Inmates for the year.

As for Nursing Home revenues, a census of 134 was budgeted for 2016 with an average census achieved of 127.

Expenses for the public safety also came in under budget by approximately \$200,000. This is attributed mainly to the Department of Corrections in areas such as utilities as well as food costs savings that have been realized with a change in the management of the dietary services.

Furthermore, the expenses for the nursing home came in under by just over \$1,000,000 of budgeted appropriations. The nursing home administration, with the support of the nursing home departments worked hard to manage expenses with the realization of the lower census by modifying staffing needs when appropriate. Therefore, the census shortfall was managed by expenses coming under with nearly every department being well within or well under budget.

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Capital Assets and Debt Administration

Capital Assets—The County's investment in capital assets for governmental activities as of December 31, 2016, was \$39,166,398 (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 2016 include approximately \$600,000 in the construction and equipping of a new Sheriff Dispatch Center. Nearly all of the equipment installed in the new dispatch center was made possible with grants from Homeland Security and Emergency Planning grants, \$415,000 on equipment and building improvements at Maplewood Nursing Home and \$43,000 to purchase a new vehicle for the Sheriff's Department.

Note 6 – Detailed Notes of Capital Assets provides additional information about capital asset activity during 2016.

Long-Term Debt—At December 31, 2016, the County had total general obligation bonded debt and notes payable outstanding of \$20,650,000. Of this amount, \$650,000 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 \$125,000 at year-end. Bonds for the construction of the County Correctional Facility were refinanced in 2016 and as a result had a balance outstanding of \$19,275,000 and the Geothermal Heating and Cooling System Bond for the County Correctional Facility had an outstanding balance at year-end of \$600,000.

The County's long term bonded debt decreased by \$2,134,626 during 2016.

The current outstanding debt for Cheshire County is as follows:

**Cheshire County, Outstanding Debt
December 31, 2016**

	Governmental Activities	Years Remaining
Jail Expansion Study	\$ 125,000	5
Jaffrey District Court House	650,000	5
Jail Construction	19,275,000	11
Jail Geothermal System	<u>600,000</u>	8
Total Outstanding Debt	<u>\$ 20,650,000</u>	

In 2015, the County refinanced the 2007 Jail Bonds that have a call date of October 2017. The County was able to refinance at a rate of 2.122385%. Due to the refinancing, the County will recognize savings over the remaining life of the loan in the amount of \$1,469,000. Moody's affirmed a rating of Aa2 on the County's outstanding debt.

Additionally, in a separate rating review, on March 19, 2015, Moody's reaffirmed the Aa2 general obligation rating.

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

In May 2017, the Delegation will be presented with a vote asking them to authorize bonds in order to construct a new addition as well as renovate the existing structure of the Cheshire County Maplewood Nursing Home in Westmoreland.

Economic Factors

- The Cheshire County unemployment rate for December 2016 was 2.4%, which compares favorably to the State's rate of 2.6 % (seasonally adjusted), the New England rate of 4.7% and the national rate of 4.7 %.
- Most recent equalized assessed valuations of property used for appropriating Cheshire County's 2016 taxes were \$6,794,170,166. This is a decrease over the prior year assessed valuations of .60% or \$40,972,801.
- There were no outstanding tax payments due from any Cheshire County Town as of December 31, 2016.

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, 12 Court Street, Keene, NH 03431.

EXHIBIT A
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Net Position
December 31, 2016

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 11,879,142
Investments	151,865
Accounts receivable, net	948,934
Due from other governments	1,220,894
Prepaid expenses	106,592
Current portion of direct financing lease receivable	<u>160,875</u>
Total Current Assets	<u>14,468,302</u>
Noncurrent Assets:	
Restricted cash	68,854
Direct financing lease receivable	582,400
Note receivable	750,000
Capital assets:	
Non-depreciable capital assets	1,186,148
Depreciable capital assets, net	<u>37,980,250</u>
Total Noncurrent Assets	<u>40,567,652</u>
Total Assets	<u>55,035,954</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on debt refunding	1,159,742
Deferred outflows of resources attributable to net pension liability	<u>6,356,949</u>
Total Deferred Outflows of Resources	<u>7,516,691</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	1,100,220
Accrued expenses	1,476,169
Due to other governments	845,334
Advances from grantors	28,803
Unearned revenue	162,475
Current portion of bonds payable	<u>2,105,000</u>
Total Current Liabilities	<u>5,718,001</u>
Noncurrent Liabilities:	
Bonds payable	20,798,705
Other post-employment benefits obligation	609,717
Net pension liability	<u>26,435,280</u>
Total Noncurrent Liabilities	<u>47,843,702</u>
Total Liabilities	<u>53,561,703</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned direct financing lease revenue	93,275
Deferred inflows of resources attributable to net pension liability	<u>455,936</u>
Total Deferred Inflows of Resources	<u>549,211</u>
NET POSITION	
Net investment in capital assets	16,912,693
Restricted	237,041
Unrestricted (deficit)	<u>(8,708,003)</u>
Total Net Position	<u>\$ 8,441,731</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, 2016

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>	<u>Governmental Activities</u>
Governmental Activities:					
General government	\$ 5,429,912	\$ 574,055	\$ 273,360		\$ (4,582,497)
Public safety	9,805,573	2,364,242	341,749	\$ 412,890	(6,686,692)
Human services	9,962,429	642,877	1,535,712		(7,783,840)
Conservation	61,846				(61,846)
Economic development	403,492		403,492		-
Nursing home	16,963,449	9,794,845	3,295,288		(3,873,316)
Interest and fiscal charges	797,733				(797,733)
Total governmental activities	<u>\$ 43,424,434</u>	<u>\$ 13,376,019</u>	<u>\$ 5,849,601</u>	<u>\$ 412,890</u>	<u>(23,785,924)</u>
		General revenues:			
		Property taxes			23,898,375
		Interest and investment earnings			18,171
		Miscellaneous			251,466
		Total general revenues			<u>24,168,012</u>
		Change in net position			382,088
		Net position - beginning			<u>8,059,643</u>
		Net position - ending			<u>\$ 8,441,731</u>

See accompanying notes to the basic financial statements

EXHIBIT C
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2016

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 9,786,785	\$ 285,426	\$ 10,072,211
Investments	41,353	110,512	151,865
Accounts receivable, net	939,759	9,175	948,934
Due from other governments	1,220,894		1,220,894
Due from other funds	5,462		5,462
Prepaid expenses	<u>106,592</u>		<u>106,592</u>
Total Assets	<u>12,100,845</u>	<u>405,113</u>	<u>12,505,958</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 12,100,845</u>	<u>\$ 405,113</u>	<u>\$ 12,505,958</u>
LIABILITIES			
Accounts payable	\$ 884,841	\$ 68,947	\$ 953,788
Accrued expenses	1,257,070		1,257,070
Due to other governments	845,334		845,334
Advances from grantors		28,803	28,803
Unearned revenue	162,475		162,475
Due to other funds	<u>13,342</u>	<u>5,462</u>	<u>18,804</u>
Total Liabilities	<u>3,163,062</u>	<u>103,212</u>	<u>3,266,274</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	106,592		106,592
Restricted	46,271	190,770	237,041
Committed	354,355		354,355
Assigned	2,387,939	111,131	2,499,070
Unassigned	<u>6,042,626</u>		<u>6,042,626</u>
Total Fund Balances	<u>8,937,783</u>	<u>301,901</u>	<u>9,239,684</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 12,100,845</u>	<u>\$ 405,113</u>	<u>\$ 12,505,958</u>

See accompanying notes to the basic financial statements

EXHIBIT C-1
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2016

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 9,239,684
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.	39,166,398
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds. Long-term assets at year end consist of:	
Direct financing lease receivable	743,275
Notes receivable	750,000
Losses on debt refundings are recognized on an accrual basis in the statement of net position, not the modified accrual basis.	1,159,742
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 Proprietary Fund at year end.	1,742,695
Deferred outflows of resources and deferred inflows of resources that do not require or provide the use of current financial resources are not reported within the funds:	
Deferred outflows of resources attributable to net pension liability	6,356,949
Deferred inflows of resources attributable to net pension liability	(455,936)
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	(93,275)
Bonds payable	(22,903,705)
Accrued interest on long-term obligations	(219,099)
Other post-employment benefits obligation	(609,717)
Net pension liability	<u>(26,435,280)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ 8,441,731</u>

See accompanying notes to the basic financial statements

EXHIBIT D
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 23,898,375		\$ 23,898,375
Intergovernmental	5,357,084	\$ 905,407	6,262,491
Charges for services	13,276,494	76,172	13,352,666
Interest and investment income	13,717	869	14,586
Miscellaneous	381,466	23,353	404,819
Total Revenues	<u>42,927,136</u>	<u>1,005,801</u>	<u>43,932,937</u>
Expenditures:			
Current operations:			
General government	5,124,781	16,061	5,140,842
Public safety	7,499,534	39,613	7,539,147
Human services	9,326,694	479,246	9,805,940
Conservation	56,161		56,161
Economic development		403,492	403,492
Nursing home	15,963,014		15,963,014
Capital outlay	1,194,395	7,866	1,202,261
Debt service:			
Principal retirement	2,162,169		2,162,169
Interest and fiscal charges	1,008,091		1,008,091
Total Expenditures	<u>42,334,839</u>	<u>946,278</u>	<u>43,281,117</u>
Excess revenues over expenditures	<u>592,297</u>	<u>59,523</u>	<u>651,820</u>
Other financing sources (uses):			
Transfers in	92,296		92,296
Transfers out		(92,296)	(92,296)
Total other financing sources (uses)	<u>92,296</u>	<u>(92,296)</u>	<u>-</u>
Net change in fund balances	684,593	(32,773)	651,820
Fund balances at beginning of year	<u>8,253,190</u>	<u>334,674</u>	<u>8,587,864</u>
Fund balances at end of year	<u>\$ 8,937,783</u>	<u>\$ 301,901</u>	<u>\$ 9,239,684</u>

See accompanying notes to the basic financial statements

EXHIBIT D-1
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, 2016

Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ 651,820
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.	(899,410)
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 on the disposal of capital assets reduced by the actual proceeds received from the disposal.	(22)
Governmental funds report the effect of bond issuance premiums and losses on debt refundings when the debt is first issued, whereas these amounts are amortized in the statement of activities over the life of the related debt. Amortization recognized in the current year is as follows:	
Amortization of bond issuance premium	367,009
Amortization of loss on debt refunding	(169,741)
Repayment of principal on bonds, notes and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,162,169
Revenue received from the State of New Hampshire and reported in the governmental funds is reported as a reduction of the direct financing lease receivable in the statement of net position.	(130,000)
The Internal Service Fund is used by the County to charge the costs of health and dental insurance to individual funds. The net cost of the Internal Service Fund is reported in Governmental Activities.	(113,092)
In the statement of activities, interest is accrued on outstanding bonds payable, whereas in governmental funds, an interest expenditure is reported when due.	13,090
Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense reflects the change in the net pension liability and related deferred outflows and inflows of resources, and do not require the use of current financial resources. This is the amount by which pension contributions exceeded pension expense in the current period.	(1,295,016)
Some expenses reported in the statement of activities, such as other post-employment benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	<u>(204,719)</u>
Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ 382,088</u>

See accompanying notes to the basic financial statements

EXHIBIT E
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
December 31, 2016

	Internal Service Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,806,931
Due from other funds	<u>12,655</u>
Total Current Assets	<u>1,819,586</u>
Noncurrent Assets:	
Restricted cash	<u>68,854</u>
Total Noncurrent Assets	<u>68,854</u>
Total Assets	<u>1,888,440</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	<u>145,745</u>
Total Current Liabilities	<u>145,745</u>
DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	<u>-</u>
NET POSITION	
Unrestricted	<u>1,742,695</u>
Total Net Position	<u>\$ 1,742,695</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, 2016

	Internal Service Fund
Operating revenues:	
Charges for services	\$ 3,506,127
Total operating revenues	<u>3,506,127</u>
Operating expenses:	
Administrative	<u>3,622,804</u>
Total operating expenses	<u>3,622,804</u>
Operating loss	<u>(116,677)</u>
Non-operating revenues:	
Interest revenue	<u>3,585</u>
Net non-operating revenues	<u>3,585</u>
Change in net position	(113,092)
Total net position at beginning of year	<u>1,855,787</u>
Total net position at end of year	<u>\$ 1,742,695</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, 2016

	Internal Service Fund
Cash flows from operating activities:	
Cash received for interfund services provided	\$ 3,506,127
Cash paid to suppliers	<u>(3,693,612)</u>
Net cash used for operating activities	<u>(187,485)</u>
Cash flows from investing activities:	
Investment income	<u>3,585</u>
Net cash provided by investing activities	<u>3,585</u>
Net decrease in cash and cash equivalents	(183,900)
Cash and cash equivalents at beginning of year	<u>2,072,340</u>
Cash and cash equivalents at end of year	<u>\$ 1,888,440</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (116,677)
Changes in assets and liabilities:	
Accounts payable	<u>(70,808)</u>
Net cash used for operating activities	<u>\$ (187,485)</u>
Cash and cash equivalents at end of year consist of the following:	
Cash and cash equivalents	\$ 1,806,931
Due from other funds	12,655
Restricted cash	<u>68,854</u>
	<u>\$ 1,888,440</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, 2016

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 434,264
Accounts receivable	7,170
Due from other funds	<u>687</u>
Total Assets	<u>\$ 442,121</u>
LIABILITIES	
Accounts payable	\$ 63,535
Due to others	84,588
Due to other governments	<u>293,998</u>
Total Liabilities	<u>\$ 442,121</u>

See accompanying notes to the basic financial statements

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2016

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, 2016

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 is the County's major governmental fund:

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

2. Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The 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 inmate funds.

Measurement Focus

1. Government-Wide Financial Statements

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

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 this fund is 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 12). Revenue from grants, 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.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

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.

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.

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:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

	<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

Loss on Debt Refunding

Debt refundings that result in a difference between the reacquisition price of old debt and the net carrying value of the old debt have been reported in the accompanying financial statements as a loss on debt refunding. Losses on debt refundings are amortized as a component of interest expense over the remaining life of the related debt.

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.

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.

Accrued Liabilities and Long-Term Obligations

All payables and accrued liabilities are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of the funds.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire Retirement System (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

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

Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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 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 can be

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

used, committed resources should be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum Level of Unassigned Fund Balance

In accordance with the County's fund balance policy, additional operating flexibility is important given the variable nature of the nursing home operations. Recommended levels represent target ranges provided that the total budget for the County exceeds \$43,000,000. The recommended minimum unassigned fund balance in the County's General Fund should equal 11% of the annual total budgeted appropriations. The recommended target balance is to maintain an unassigned fund balance between 11% and 15% of the annual total budgeted appropriations. As a general rule, any unassigned fund balance in excess of 15% of the total budgeted appropriations is unnecessary and 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.

Estimates

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

NOTE 2—DEPOSITS AND INVESTMENTS

Deposits and investments as of December 31, 2016 are classified in the accompanying financial statements as follows:

**COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016**

Statement of Net Position:	
Cash and cash equivalents	\$ 11,879,142
Investments	151,865
Restricted cash	68,854
Statement of Fiduciary Net Position:	
Cash and cash equivalents	<u>434,264</u>
	<u>\$ 12,534,125</u>

Deposits and investments at December 31, 2016 consist of the following:

Cash on hand	\$ 2,895
Deposits with financial institutions	12,379,365
Investments	<u>151,865</u>
	<u>\$ 12,534,125</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.

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’s investment policy addresses credit risk by limiting investments to the safety types of securities and diversifying the investment portfolio. The County limits its investments to certificates of deposit, overnight repurchase agreements, U.S. Government securities – Treasury bills, and the New Hampshire Public Deposit Investment Pool (NHPDIP). The County’s investment in the NHPDIP is rated AAA.

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, \$12,616,975 was collateralized by securities held by the bank in the bank’s name and \$0- was uninsured and uncollateralized.

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

administered by a public body of state, local and banking officials. Financial statements for the NHPDIP can be accessed through the NHPDIP's website at www.NHPDIP.com.

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 3—ACCOUNTS RECEIVABLE

General Fund accounts receivable at December 31, 2016 are recorded net of an allowance for uncollectible receivables of \$57,934.

NOTE 4—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:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 130,000	\$ 30,875	\$ 160,875
2018	130,000	24,830	154,830
2019	130,000	18,720	148,720
2020	130,000	12,545	142,545
2021	130,000	6,305	136,305
	<u>\$ 650,000</u>	<u>\$ 93,275</u>	<u>\$ 743,275</u>

NOTE 5—NOTES 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, 2016, the balance of \$750,000 is deemed collectible in full by management.

During 2015, the County was awarded a Community Development Block Grant, the purpose of which was to sub-grant the funds to a subrecipient for the acquisition and construction costs associated with an affordable senior housing development. As part of the grant agreement, the County shall subgrant the funds in exchange for a note receivable in the amount of \$472,500. The terms of the note dated January 2016 include a principal balance of \$472,500 with 0% annual interest to be repaid in a balloon payment at the end of forty years. Additionally, the note is secured by a mortgage lien on the borrower's property and certain covenants that require 100% of the households residing in the property to be low and moderate income households. As of December 31, 2016, the County does not intend to collect on this

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

balance and believes that payment in the event of default by the subrecipient is unlikely. Accordingly, the County has recorded an allowance for uncollectible accounts in the governmental activities for the entire \$472,500.

NOTE 6—CAPITAL ASSETS

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

	Balance <u>1/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2016</u>
Capital assets not depreciated:				
Land	\$ 1,057,410			\$ 1,057,410
Construction in process		\$ 128,738		128,738
Total capital assets not being depreciated	<u>1,057,410</u>	<u>128,738</u>	<u>\$ -</u>	<u>1,186,148</u>
Other capital assets:				
Land improvements	806,296			806,296
Buildings and improvements	57,593,701	473,797		58,067,498
Water system	1,533,671	23,063		1,556,734
Waste water system	921,717	20,594		942,311
Vehicles and equipment	<u>5,576,037</u>	<u>687,966</u>	<u>(40,354)</u>	<u>6,223,649</u>
Total other capital assets at historical cost	<u>66,431,422</u>	<u>1,205,420</u>	<u>(40,354)</u>	<u>67,596,488</u>
Less accumulated depreciation for:				
Land improvements	(523,417)	(20,968)		(544,385)
Buildings and improvements	(21,886,409)	(1,810,389)		(23,696,798)
Water system	(1,054,633)	(63,627)		(1,118,260)
Waste water system	(486,496)	(34,962)		(521,458)
Vehicles and equipment	<u>(3,472,047)</u>	<u>(303,622)</u>	<u>40,332</u>	<u>(3,735,337)</u>
Total accumulated depreciation	<u>(27,423,002)</u>	<u>(2,233,568)</u>	<u>40,332</u>	<u>(29,616,238)</u>
Total other capital assets, net	<u>39,008,420</u>	<u>(1,028,148)</u>	<u>(22)</u>	<u>37,980,250</u>
Total capital assets, net	<u>\$ 40,065,830</u>	<u>\$ (899,410)</u>	<u>\$ (22)</u>	<u>\$ 39,166,398</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 85,908
Public safety	1,557,861
Human services	103,748
Nursing home	<u>486,051</u>
Total	<u>\$ 2,233,568</u>

NOTE 7—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, 2016 are as follows:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2016

	Due from		Totals
	General Fund	Nonmajor Governmental Funds	
General Fund		\$ 5,462	\$ 5,462
Internal Service Fund	\$ 12,655		12,655
Fiduciary Funds	687		687
	<u>\$ 13,342</u>	<u>\$ 5,462</u>	<u>\$ 18,804</u>

During the year, several interfund transactions occurred between funds. The various transfers were made in accordance with budgetary authorizations. Funds transferred from the Nonmajor Governmental Funds to the General Fund consists of \$69,627 to acquire capital assets and \$22,669 in grant awards expended in the General Fund.

NOTE 8—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, 2016 are as follows:

Balance - January 1, 2016	\$ -
Additions	16,500,000
Reductions	(16,500,000)
Balance - December 31, 2016	<u>\$ -</u>

NOTE 9—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the County's long-term obligations for the year ended December 31, 2016 are as follows:

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Due Within One Year
Bonds payable	\$ 22,755,000		\$ (2,105,000)	\$ 20,650,000	\$ 2,105,000
Unamortized bond premiums	2,620,714		(367,009)	2,253,705	
Total bonds payable	25,375,714	\$ -	(2,472,009)	22,903,705	2,105,000
Note payable	29,626		(29,626)	-	-
Capital lease payable	27,543		(27,543)	-	-
Total governmental activities	<u>\$ 25,432,883</u>	<u>\$ -</u>	<u>\$ (2,529,178)</u>	<u>\$ 22,903,705</u>	<u>\$ 2,105,000</u>

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

General Obligation Bonds

Bonds payable at December 31, 2016 are comprised of the following individual issues:

	Original Issue Amount	Interest Rate	Final Maturity Date	Balance at 12/31/16
2015 Refunding bond issue	\$ 17,425,000	3.0-5.0%	October 2027	\$ 17,425,000
2007 Series bond issue	37,000,000	4.25%	October 2017	1,850,000
2001 Series bond issue	2,600,000	3.875-4.85%	October 2021	650,000
2009 Series bond issue	1,300,000	2.0-4.0%	August 2024	600,000
2001 Series bond issue	500,000	3.875-4.85%	October 2021	125,000
	<u>\$ 58,825,000</u>			20,650,000
		<i>Add: Unamortized bond premiums</i>		<u>2,253,705</u>
				<u>\$ 22,903,705</u>

Debt service requirements to retire general obligation bonds for governmental activities at December 31, 2016 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2017	\$ 2,105,000	\$ 867,764	\$ 2,972,764
2018	2,030,000	778,930	2,808,930
2019	2,005,000	715,145	2,720,145
2020	1,975,000	651,783	2,626,783
2021-2025	9,075,000	1,855,142	10,930,142
2026-2027	3,460,000	207,400	3,667,400
	<u>20,650,000</u>	5,076,164	25,726,164
<i>Add: Unamortized bond premiums</i>	2,253,705	-	2,253,705
	<u>\$ 22,903,705</u>	<u>\$ 5,076,164</u>	<u>\$ 27,979,869</u>

NOTE 10—DEFINED BENEFIT PENSION PLAN

Plan Description

The County contributes to the New Hampshire Retirement System (NHRS), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The New Hampshire Retirement System is a public employee retirement system that administers a single cost-sharing multiple-employer defined benefit pension plan. 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.

**COUNTY OF CHESHIRE, NEW HAMPSHIRE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2016**

Substantially all full-time state and local employees, public school teachers, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members.

Benefits Provided

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members vested by January 1, 2012, who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have not attained status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by ¼ of 1%. For Group II members who commenced service prior to July 1, 2011, who have not attained vested status prior to January 1, 2012, benefits are calculated depending on age and years of creditable service as follows:

<u>Years of Creditable Service as of January 1, 2012</u>	<u>Minimum Age</u>	<u>Minimum Service</u>	<u>Benefit Multiplier</u>
At least 3 but less than 10 years	46	21	2.4%
At least 6 but less than 8 years	47	22	2.3%
At least 4 but less than 6 years	48	23	2.2%
Less than 4 years	49	24	2.1%

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Funding Policy

Covered police officers 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 pension contribution rates for the covered payroll of police officers and general employees were 22.54% and 10.86%, respectively. The County contributes 100% of the employer cost for police officers and general employees of the County. The County also contributed

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

3.84% and 0.31% to the NHRS for a medical subsidy for police officers and general employees, respectively during the year ended December 31, 2016.

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 year ending December 31, 2016 were \$1,747,963.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the County reported a liability of \$26,435,280 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2015. The County's proportion of the net pension liability was based on actual contributions by the County during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2016, the County's proportion was approximately 0.4971 percent, which was a decrease of 0.0037 percentage points from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the County recognized pension expense of \$3,042,995. At December 31, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 73,463	\$ 333,812
Changes of assumptions	3,253,343	
Net difference between projected and actual earnings on pension plan investments	1,653,927	
Changes in proportion and differences between County contributions and proportionate share of contributions	446,020	122,124
County contributions subsequent to the measurement date	<u>930,196</u>	
Total	<u>\$ 6,356,949</u>	<u>\$ 455,936</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as an increase to unrestricted net position in the amount of \$5,901,013. The County reported \$930,196 as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement periods as follows:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

Year Ending <u>June 30,</u>	
2017	\$ 1,039,006
2018	1,039,006
2019	1,592,777
2020	1,241,046
2021	<u>58,982</u>
	<u>\$ 4,970,817</u>

Actuarial Assumptions

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2015, using the following actuarial assumptions:

Inflation	2.5 percent
Wage inflation	3.25 percent
Salary increases	5.6 percent, average, including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study. Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2015 pursuant to an experience study of the period July 1, 2010 – June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of weighted average long-term expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 2.5%)</u>
Fixed income	25%	(0.25)-1.71%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.75-6.25%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.75%
Opportunistic	<u>5%</u>	3.68%
Total	<u>100%</u>	

**COUNTY OF CHESHIRE, NEW HAMPSHIRE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2016**

Discount Rate

The discount rate used to measure the collective pension liability was 7.25%, a decrease of .50% from the June 30, 2015 measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer contributions are projected based on the expected payroll of current members only. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

	1% Decrease <u>(6.25%)</u>	Current Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
County's proportionate share of the net pension liability	\$ 33,967,534	\$ 26,435,280	\$ 20,188,469

NOTE 11—OTHER POST-EMPLOYMENT BENEFITS

The County provides post-employment medical benefits to its eligible retirees and their spouses in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the County's contractual agreements. The benefits are provided through the County's self-funded insurance plan administered by Cigna.

If hired before July 1, 2011, employees other than police are required to reach age 50 with 10 years of creditable service, age 60 regardless of years of creditable service, or age plus years of creditable service equals 70 with a minimum of 10 years creditable service. Police officers hired prior to July 1, 2011 are required to reach age 45 with 20 years of creditable service, or age 60 regardless of years of creditable service. If hired on or after July 1, 2011, employees other than police are required to reach age 65 regardless of years of creditable service, or age 60 with at least 30 years of creditable service. Police officers hired on or after July 1, 2011 are required to reach age 52.5 with 25 years of creditable service, or age 60 regardless of years of creditable service.

Retirees and their covered spouses are required to pay the full cost of the health care premiums for elected coverage. This valuation does not account for the cost of benefits to retirees or their spouses after age 65. Surviving spouses continue to receive medical coverage after the death of the eligible retired employee as long as they pay the required premiums. As of January 1, 2016, the actuarial valuation date, participants

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

of the postretirement plan that meet eligibility requirements are comprised of 0 retirees and 281 active employees with 0 currently eligible to retire. The plan does not issue a separate financial report.

Annual OPEB Costs

The County's 2016 annual OPEB expense for its plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period not to exceed thirty years. The County's annual OPEB cost for the year ending December 31, 2016 including the amount actually contributed to the plan, and the change in the County's net OPEB obligation based on an actuarial valuation as of January 1, 2016 is as follows:

Annual required contributions	\$ 211,485
Interest on net OPEB obligations	16,200
Adjustment to ARC	<u>(22,966)</u>
Annual OPEB cost	204,719
Contributions made	<u>-</u>
Increase in net OPEB obligation	204,719
Net OPEB obligation - beginning of year	<u>404,998</u>
Net OPEB obligation - end of year	<u><u>\$ 609,717</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ending December 31, 2016, 2015 and 2014 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2016	\$ 204,719	0.00%	\$ 609,717
12/31/2015	\$ 230,834	9.23%	\$ 404,998
12/31/2014	\$ 221,945	11.93%	\$ 195,471

The County's net OPEB obligation as of December 31, 2016 is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

The funded status of the plan as of January 1, 2016, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 1,536,115
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 1,536,115</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 12,314,669
UAAL as a percentage of covered payroll	12.50%

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Actuarial Methods and Assumptions for OPEB

Projections of benefits for financial reporting purposes are based on the plan as understood by the County and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and plan members to that point. The cost methods and assumptions used include the techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016 actuarial valuation, the Projected Unit Credit cost method was used. The actuarial value of assets was not determined as the County has not advance funded its obligation. The County employs the “pay-as-you-go” cash basis to fund the plan. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the County’s own investments calculated based on the funded level of the plan at the valuation date. The initial annual healthcare cost used for the year ended December 31, 2016 was 2.52%. It was assumed that health care costs would increase to 9.0% in 2017 and be reduced by .50% decrements to an ultimate rate of 5.0% after eight years. The amounts in the OPEB valuation represent a closed group and do not reflect new entrants after the valuation date, January 1, 2016.

NOTE 12—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 13—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

ARRA Medicaid funds	\$ 61,853
Donations	156,810
Correctional facility project	18,300
Miscellaneous grant funds	78
	<u>\$ 237,041</u>

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

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>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Prepaid expenses	\$ 106,592		\$ 106,592
Restricted for:			
ARRA Medicaid funds		\$ 61,853	61,853
Donations	46,271	110,512	156,783
Correctional facility project		18,300	18,300
Miscellaneous grant funds		105	105
Committed for:			
Capital Reserves	354,355		354,355
Assigned for:			
Deeds surcharge		31,455	31,455
Jail canteen		79,217	79,217
Sheriff civil processing		459	459
Reduction of 2017 tax rate	2,024,934		2,024,934
Encumbrances	69,771		69,771
Carryforward appropriations	293,234		293,234
Unassigned	<u>6,042,626</u>		<u>6,042,626</u>
	<u>\$ 8,937,783</u>	<u>\$ 301,901</u>	<u>\$ 9,239,684</u>

NOTE 15—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 \$100,000 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:

<u>Year Ending December 31,</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Year Liability</u>
2012	\$ 101,460	\$ 2,871,784	\$ (2,839,447)	\$ 133,797
2013	133,797	3,031,547	(3,051,613)	113,731
2014	113,731	3,215,441	(3,153,779)	175,393
2015	175,393	3,528,342	(3,511,332)	192,403
2016	192,403	3,622,804	(3,669,462)	145,745

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE 16—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, 2016, the County participated in a public entity risk pool (Trust) 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 Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2016.

Property and Liability Insurance

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

Worker's Compensation

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

NOTE 17—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.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

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.

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 23,898,375	\$ 23,898,375	\$ 23,898,375	\$ -
Intergovernmental	4,245,155	5,543,639	5,357,084	(186,555)
Charges for services	12,741,019	12,741,019	13,276,494	535,475
Interest income	10,000	10,000	13,141	3,141
Miscellaneous	557,102	557,102	380,556	(176,546)
Total Revenues	<u>41,451,651</u>	<u>42,750,135</u>	<u>42,925,650</u>	<u>175,515</u>
Expenditures:				
Current:				
General government	5,261,461	5,203,182	5,143,939	59,243
Public safety	7,750,955	7,750,955	7,512,274	238,681
Human services	9,486,889	9,486,889	9,326,694	160,195
Conservation	55,766	55,766	56,161	(395)
Nursing home	16,893,813	16,926,935	15,892,752	1,034,183
Capital outlay	1,454,504	1,298,858	1,218,095	80,763
Debt Service:				
Principal retirement	2,162,169	2,162,169	2,162,169	-
Interest and fiscal charges	979,590	979,590	1,008,091	(28,501)
Total Expenditures	<u>44,045,147</u>	<u>43,864,344</u>	<u>42,320,175</u>	<u>1,544,169</u>
Excess revenues over (under) expenditures	<u>(2,593,496)</u>	<u>(1,114,209)</u>	<u>605,475</u>	<u>1,719,684</u>
Other financing sources (uses):				
Transfers in	206,483	145,364	194,304	48,940
Transfers out	-	(100,000)	(100,000)	-
Total other financing sources (uses)	<u>206,483</u>	<u>45,364</u>	<u>94,304</u>	<u>48,940</u>
Net change in fund balance	(2,387,013)	(1,068,845)	699,779	1,768,624
Fund balance at beginning of year				
- Budgetary Basis	<u>7,767,607</u>	<u>7,767,607</u>	<u>7,767,607</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 5,380,594</u>	<u>\$ 6,698,762</u>	<u>\$ 8,467,386</u>	<u>\$ 1,768,624</u>

See accompanying notes to the required supplementary information

SCHEDULE 2
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Funding Progress for Other Post-Employment Benefits
For the Year Ended December 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2014	\$ -	\$ 1,476,980	\$ 1,476,980	0.0%	\$ 11,675,671	12.7%
1/1/2015	\$ -	\$ 1,633,520	\$ 1,633,520	0.0%	\$ 11,990,914	13.6%
1/1/2016	\$ -	\$ 1,536,115	\$ 1,536,115	0.0%	\$ 12,314,669	12.5%

See accompanying notes to the required supplementary information

SCHEDULE 3

COUNTY OF CHESHIRE, NEW HAMPSHIRE

Schedule of Changes in the County's Proportionate Share of the Net Pension Liability

For the Year Ended December 31, 2016

	For the Measurement Period Ended June 30:			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
County's proportion of the net pension liability (asset)	0.4971%	0.5008%	0.4948%	0.4805%
County's proportionate share of the net pension liability (asset)	\$ 26,435,280	\$ 19,838,913	\$ 18,572,891	\$ 20,679,050
County's covered-employee payroll	\$ 13,076,619	\$ 12,813,558	\$ 12,278,583	\$ 11,655,643
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	202.16%	154.83%	151.26%	177.42%
Plan fiduciary net position as a percentage of the total pension liability	58.30%	65.47%	66.32%	59.81%

See accompanying notes to the required supplementary information

SCHEDULE 4
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of County Contributions
For the Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,747,963	\$ 1,799,764	\$ 1,651,749	\$ 1,397,108
Contributions in relation to the contractually required contribution	<u>(1,747,963)</u>	<u>(1,799,764)</u>	<u>(1,651,749)</u>	<u>(1,397,108)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered-employee payroll	\$ 13,386,007	\$ 13,386,007	\$ 12,607,567	\$ 11,944,974
Contributions as a percentage of covered-employee payroll	13.06%	13.45%	13.10%	11.70%

See accompanying notes to the required supplementary information

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016

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	\$ 43,019,432	\$ 42,334,839
Encumbrances, December 31, 2016		69,771
Encumbrances, December 31, 2015		(82,074)
Non-budgetary revenues and expenditures	(1,486)	(2,361)
Budgetary transfers	102,008	100,000
Per Schedule 1	<u>\$ 43,119,954</u>	<u>\$ 42,420,175</u>

NOTE 2—BUDGETARY FUND BALANCE

The components of the budgetary fund balance for the General Fund at December 31, 2016 are as follows:

Nonspendable:	
Prepaid expenses	\$ 106,592
Assigned for:	
Reduction of 2017 tax rate	2,024,934
Carryforward appropriations	293,234
Unassigned	<u>6,042,626</u>
	<u>\$ 8,467,386</u>

NOTE 3—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the County is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The County implemented the provisions of GASB Statement #45 during the year ended December 31, 2014. Accordingly, the funding progress has been presented for the three most recent actuarial valuation reports.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
December 31, 2016

NOTE 4—SCHEDULE OF CHANGES IN THE TOWN’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF TOWN CONTRIBUTIONS

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the County is required to disclose historical information for each of the prior ten years within a schedule of changes in the County’s proportionate share of the net pension liability, and schedule of County contributions. The County implemented the provisions of GASB Statement #68 during the year ended December 31, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as additional information becomes available.

NOTE 5—CHANGES IN ACTUARIAL ASSUMPTIONS

For the measurement period ending June 30, 2016, the New Hampshire Retirement System’s actuarial valuation included changes in the valuation and economic assumptions used in previous measurement periods. The investment rate of return was reduced from 7.75% to 7.25%. The price inflation was decreased from 3.0% to 2.5%. The wage inflation was decreased from 3.75% to 3.25%. The salary increases were decreased from 5.8% to 5.6%. In addition, the expectation of retired life mortality was previously based on the RP-2000 Mortality Tables projected to 2020 with Scale AA. Amounts reported in the June 30, 2016 measurement period are based on the RP-2014 employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP-2015.

SCHEDULE I
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures	Expenditures to Subrecipients
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass Through Payments from Community Development Finance Authority</i>			
Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	14.228		
#14-403-CDED		\$ 6,592	
#14-403-CDHS		484,047	\$ 472,500
#15-403-CDMC		341,250	322,500
#16-403-CDMC		<u>62,500</u>	<u>62,500</u>
Total Department of Housing and Urban Development		<u>894,389</u>	<u>857,500</u>
DEPARTMENT OF JUSTICE			
<i>Pass Through Payments from the New Hampshire Department of Justice</i>			
Crime Victim Assistance	16.575		
#2014-VA-GX-0031		20,000	
#2017VOC013		<u>29,667</u>	
		<u>49,667</u>	<u>-</u>
<i>Received Directly from U.S. Treasury Department</i>			
Drug Court Discretionary Grant Program	16.585		
#2013-DC-BX-0048		<u>92,395</u>	
<i>Pass Through Payments from the New Hampshire Department of Justice</i>			
Violence Against Women Formula Grants - Recovery Act	16.588		
#2014-WF-AX-0047		<u>30,000</u>	
<i>Received Directly From U.S. Treasury Department</i>			
Bulletproof Vest Partnership Program	16.607		
#2015BUBX15078715		122	
#2016BUBX16083323		<u>1,651</u>	
		<u>1,773</u>	<u>-</u>
<i>Pass Through Payments from the City of Keene, New Hampshire</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		
#2015-DJ-BX-0347		12,893	6,731
#2016-DJ-BX-0680		<u>4,194</u>	
		<u>17,087</u>	<u>6,731</u>
Total Department of Justice		<u>190,922</u>	<u>6,731</u>

See notes to schedule of expenditures of federal awards

SCHEDULE I
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2016

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	<u>Expenditures</u>	<u>Expenditures to Subrecipients</u>
DEPARTMENT OF TRANSPORTATION			
<i>Pass Through Payments from the New Hampshire Department of Transportation</i>			
Enhanced Mobility of Seniors and Individuals with Disabilities #NH-65-X004	20.513	88,182	83,773
State and Community Highway Safety #315-16B-080 #315-75A-070	20.600	1,993 235 2,228	-
Total Department of Transportation		90,410	83,773
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Pass Through Payments from the Town of New Ipswich, New Hampshire</i>			
Medical Reserve Corps Small Grant Program #1MRCSG101005-01	93.008	1,895	1,796
<i>Pass Through Payments from the National Association of County and City Health Officials</i>			
Medical Reserve Corps Small Grant Program #MRC 14-1587 #MRC 16-1587	93.008	415 3,318 3,733	377 3,016 3,393
<i>Pass Through Payments from JSI, Inc.</i>			
Medical Reserve Corps Small Grant Program #MRC JSI 15	93.008	5,390	4,622
Total Medical Reserve Corps Small Grant Program		11,018	9,811
<i>Pass Through Payments from the New Hampshire Department of Health and Human Services</i>			
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements #U90TP000535	93.074	66,111	63,106
<i>Received Directly From U.S. Treasury Department</i>			
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) #1U79SM061620-01 #1H79SM063408-01	93.104	142,735 36,168 178,903	-

See notes to schedule of expenditures of federal awards

SCHEDULE I
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2016

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures	Expenditures to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)			
<i>Pass Through Payments from the New Hampshire Department of Health and Human Services</i>			
State Rural Hospital Flexibility Program #CHAP-H54RH00022	93.241	23,277	21,161
<i>Received Directly From U.S. Treasury Department</i>			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance #5H79T1024980-01 #1034077	93.243	205,899 138,201 344,100	66,395 66,395
<i>Received Directly From U.S. Treasury Department</i>			
Drug-Free Communities Support Program Grants #1H79SP021475-01	93.276	31,503	27,039
<i>Pass Through Payments from JSI, Inc.</i>			
National State Based Tobacco Control Programs #1U58DP006010-01	93.305	2,000	1,818
<i>Pass Through Payments from the New Hampshire Department of Health and Human Services</i>			
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF) #B01OT009037	93.758	14,087	13,447
<i>Pass Through Payments from the New Hampshire Bureau of Drug and Alcohol Services</i>			
Block Grants for Prevention and Treatment of Substance Abuse #T1010035-14	93.959	172,136	164,311
<i>Pass Through Payments from the New Hampshire Public Health Association</i>			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1,500	1,500
Total Block Grants for Prevention and Treatment of Substance Abuse		173,636	165,811
Total Department of Health and Human Services		844,635	368,588
DEPARTMENT OF HOMELAND SECURITY			
<i>Pass Through Payments from the New Hampshire Department of Safety</i>			
Emergency Management Performance Grants #EMW-2015-EP-00067	97.042	99,776	

See notes to schedule of expenditures of federal awards

SCHEDULE I
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2016

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number _____	Federal Catalogue Number	<u>Expenditures</u>	Expenditures to <u>Subrecipients</u>
DEPARTMENT OF HOMELAND SECURITY (CONTINUED)			
<i>Pass Through Payments from the New Hampshire Department of Safety</i>			
Homeland Security Grant Program #EMW2015SS00040S01	97.067	<u>313,114</u>	_____
Total Department of Homeland Security		<u>412,890</u>	_____ -
Total Expenditures of Federal Awards		<u>\$ 2,433,246</u>	<u>\$ 1,316,592</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, 2016

NOTE 1—BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all federal financial assistance programs of the County of Cheshire, New Hampshire. The County of Cheshire, New Hampshire’s reporting entity is defined in Note 1 of the County’s basic financial statements.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County of Cheshire, New Hampshire, it is not intended to and does not present the financial position, changes in net position or cash flows of the County of Cheshire, New Hampshire.

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. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3—INDIRECT COST RATE

The County has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4—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	\$ 1,527,839
Nonmajor Governmental Funds	<u>905,407</u>
	<u>\$ 2,433,246</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, 2016, 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 April 20, 2017.

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.

A handwritten signature in black ink that reads "Vachon Clutay & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire
April 20, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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 Compliance Supplement* that could have a direct and material effect on the County of Cheshire, New Hampshire's major federal program for the year ended December 31, 2016. The County of Cheshire, New Hampshire's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County of Cheshire, New Hampshire's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 its major federal program for the year ended December 31, 2016.

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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Manchester, New Hampshire
April 20, 2017

**County of Cheshire, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended December 31, 2016**

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unmodified- all reporting units</u>	
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:	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____yes	___X___ no
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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

Dollar threshold used to distinguish between Type A and Type B program: \$ 750,000 .

Auditee qualified as low-risk auditee?	___X___ yes	_____ no
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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 required to be reported under 2 CFR 200.516(a).