
**COUNTY OF CHESHIRE,
NEW HAMPSHIRE**

**FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITORS'
REPORT THEREON)**

**FOR THE YEAR ENDED
DECEMBER 31, 2008**

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PROFESSIONAL ASSOCIATION

Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

Board of County Commissioners

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Cheshire, New Hampshire, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the index. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management has not adopted GASB Statement #45 (Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions) for the reporting of post-employment health insurance benefits. This arises because, as required by New Hampshire RSA's (Note VH), the health insurance benefit for retirees is included with the health insurance benefit for current employees when the health insurance company determines the amount of the overall health insurance premium, resulting in a subsidy for the health insurance benefits of retirees. Management has elected to not compute or record an amount for this subsidized benefit, which is contrary to accounting principles generally accepted in the United States of America. The amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities and business-type activities is not reasonably determinable and is NOT presumed to be material as only one retiree was using the health insurance in 2008.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Cheshire, New Hampshire as of December 31, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 13 and 46 through 49 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management

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regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Mason + Rich, P.A.

MASON + RICH PROFESSIONAL ASSOCIATION
Certified Public Accountants

May 14, 2009

**COUNTY MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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, 2008. 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 2008 are as follows:

- The County's total net assets increased by \$3,876,935 which represents a 51.93% increase from 2007.
- At the end of the current year, the County's governmental funds reported a combined ending fund balance of \$24,207,405, a decrease of \$13,662,152 from the prior year. Of this amount, \$24,008,329 is available for spending (unreserved fund balance).
- At the end of the current year, unreserved fund balance for the General Fund was \$3,057,542, which represents an 84.91% increase from the prior year and represents 15.66% of total General Fund expenditures.

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 ASSETS AND STATEMENT OF ACTIVITIES

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. The statement of activities presents information showing how the County's net assets 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.

(Continued on next page)

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

The change in net assets 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 assets and the statement of activities, the County is divided into two kinds of activities:

- **Governmental Activities**—Most of the County's programs and services are reported here, including General Government, Public Safety, Human Services, and the Cheshire County Farm. These services are funded primarily by taxes and intergovernmental revenues, including federal and state grants and other shared revenues.
- **Business-Type Activities**—These services are provided on a charge for goods or services basis to recover all or most of the cost of the services provided. The County's Nursing Home is reported here.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control 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 2008, the County has determined the General Fund and the House of Corrections Construction fund to be major governmental funds.

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

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

(Continued on next page)

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

The County maintains a multitude of individual governmental funds. Information is presented separately on the governmental fund balance sheet and on the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds, identified earlier as the General Fund and the House of Corrections Construction Fund. Data from the other governmental funds, which include County Extension Service, Incentive Fund, Heman Chase Fund, Nursing Home Contribution Fund, Wellington Fund, Deeds Surcharge, Nursing Home Activities, Jail Canteen and the Capital Reserve Funds are combined into a single, aggregated presentation.

PROPRIETARY FUNDS—The County has one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements. The County uses enterprise funds to account for the Nursing Home and Internal Service Health and Dental Insurance Fund.

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.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

County assets exceeded liabilities by \$11,342,060 (\$8,656,461 in governmental activities and \$2,685,599 in business-type activities) as of December 31, 2008. This is an increase in net assets of \$3,876,935 from 2007.

**Cheshire County, New Hampshire Net Assets
as of December 31, 2008 and December 31, 2007**

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and Other Assets | \$ 28,548,791 | \$ 40,016,314 | \$ 375,326 | \$ (45,448) | \$ 28,924,117 | \$ 39,970,866 |
| Direct Financing Lease A/R | 2,231,840 | 2,441,498 | - | - | 2,231,840 | 2,441,498 |
| Capital Assets, Net | <u>21,675,704</u> | <u>7,153,719</u> | <u>4,301,789</u> | <u>4,575,252</u> | <u>25,977,493</u> | <u>11,728,971</u> |
| Total Assets | <u>52,456,335</u> | <u>49,611,531</u> | <u>4,677,115</u> | <u>4,529,804</u> | <u>57,133,450</u> | <u>54,141,335</u> |
| Other Liabilities | 7,656,358 | 5,751,689 | 1,031,209 | 1,439,668 | 8,687,566 | 7,191,357 |
| Long-Term Liabilities | <u>36,143,516</u> | <u>38,332,185</u> | <u>960,307</u> | <u>1,152,665</u> | <u>37,103,824</u> | <u>39,484,850</u> |
| Total Liabilities | <u>\$ 43,799,874</u> | <u>\$ 44,083,874</u> | <u>\$ 1,991,516</u> | <u>\$ 2,592,333</u> | <u>\$ 45,791,390</u> | <u>\$ 46,676,207</u> |

(Continued on next page)

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Cheshire County, New Hampshire Net Assets
as of December 31, 2008 and December 31, 2007

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------|-------------------------|---------------------|--------------------------|---------------------|----------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net Assets: | | | | | | |
| Invested in Capital Assets, | | | | | | |
| Net of | | | | | | |
| Related Debt | \$ 7,190,977 | \$ 2,179,255 | \$ 3,360,101 | \$ 3,449,644 | \$ 10,551,078 | \$ 5,628,899 |
| Restricted | 733,504 | 728,199 | - | - | 733,504 | 728,199 |
| Unrestricted | 731,980 | 2,620,203 | (674,502) | (1,512,173) | 57,478 | 1,108,030 |
| Total Net Assets | <u>\$ 8,656,461</u> | <u>\$ 5,527,657</u> | <u>\$ 2,685,599</u> | <u>\$ 1,937,471</u> | <u>\$ 11,342,060</u> | <u>\$ 7,465,128</u> |

Total net assets are presented in three categories: capital assets, restricted and unrestricted.

The largest portion of the County's net assets are related to capital assets (e.g., land and improvements, buildings and building improvements, machinery and equipment, vehicles, and infrastructure). The figure presented (\$10,551,078) is net of any related debt incurred to acquire those assets and represents 93.03% of total net 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 assets (\$733,504 or 6.47%) 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, capital reserves and expendable trust funds.

The remaining portion (\$57,478 or .506%) represents the part of net assets of Cheshire County that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements (unrestricted). As you will note, the unrestricted assets of the County business-type activities have a negative balance. Specifically, the business type activity for Cheshire County is the County owned Maplewood Nursing Home. Although the objective of the County is that the Nursing Home is self sustaining, Maplewood as well as other County run nursing homes throughout the State of New Hampshire face deficits due to Medicaid reimbursement rates being lower than the actual cost to run the homes. The 2008 negative balance has decreased by \$837,671 from 2007.

(Continued on next page)

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

The next statement provided shows the changes in net assets for 2007 and 2008.

Cheshire County, Changes in Net Assets

| | Governmental Activities | | Business Type Activities | | Total | |
|--|-------------------------|-----------------------|--------------------------|-------------------|---------------------|-----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 2,162,841 | \$ 2,233,629 | \$ 9,449,583 | \$ 9,547,375 | \$ 11,612,424 | \$ 11,781,004 |
| Operating Grants and Contributions | 790,926 | 655,867 | 1,972,833 | 1,823,930 | 2,763,759 | 2,479,797 |
| Capital Grants and Contributions | - | - | - | - | - | - |
| Total Program Revenues | <u>2,953,767</u> | <u>2,889,496</u> | <u>11,422,416</u> | <u>11,371,305</u> | <u>14,376,183</u> | <u>14,260,801</u> |
| General Revenues | | | | | | |
| Property Taxes | 19,654,594 | 14,591,325 | - | - | 19,654,594 | 14,591,325 |
| Gain(Loss) on Disposal of Capital Assets | - | - | (9,270) | - | (9,270) | - |
| Capital Contributions | - | - | - | 93,650 | - | 93,650 |
| Interest and Investment | 1,830,661 | 242,979 | 5,455 | 11,847 | 1,836,116 | 254,826 |
| Other | 71,244 | 80,327 | 12,851 | 31,652 | 84,095 | 111,979 |
| Total General Revenue | <u>21,556,499</u> | <u>14,914,631</u> | <u>9,036</u> | <u>137,149</u> | <u>21,565,535</u> | <u>15,051,780</u> |
| Total Revenues | <u>24,510,266</u> | <u>17,804,127</u> | <u>11,431,452</u> | <u>11,508,454</u> | <u>35,941,718</u> | <u>29,312,581</u> |
| Transfers | (3,239,126) | (2,417,418) | 3,239,126 | 2,417,418 | - | - |
| Total Revenues and Transfers | <u>21,271,140</u> | <u>15,386,709</u> | <u>14,670,578</u> | <u>13,925,872</u> | <u>35,941,718</u> | <u>29,312,581</u> |
| Expenses: | | | | | | |
| General Government | 5,010,970 | 5,281,047 | - | - | 5,010,970 | 5,281,047 |
| Public Safety | 4,874,436 | 4,311,780 | - | - | 4,874,436 | 4,311,780 |
| Human Services | 6,140,446 | 6,507,017 | - | - | 6,140,446 | 6,507,017 |
| Farm | 393,079 | 350,235 | - | - | 393,079 | 350,235 |
| Interest on Long Term Debt | 1,723,404 | 682,792 | - | - | 1,723,404 | 682,792 |
| Cheshire County Nursing Home | - | - | 13,922,448 | 13,932,101 | 13,922,448 | 13,932,101 |
| Total Expenses | <u>18,142,335</u> | <u>17,132,871</u> | <u>13,922,448</u> | <u>13,932,101</u> | <u>32,064,783</u> | <u>31,064,972</u> |
| Increase (Decrease) in Net Assets | <u>\$ 3,128,805</u> | <u>\$ (1,746,162)</u> | <u>\$ 748,130</u> | <u>\$ (6,229)</u> | <u>\$ 3,876,935</u> | <u>\$ (1,752,391)</u> |

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CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Governmental Activities

Charges to users of governmental services made up \$2,162,841 or 8.8% of total government revenues and include such services as provided by the Sheriff's Department, Department of Corrections, Court House Leases, Cheshire County Farm, Registry of Deeds, and Assisted Living Apartments. Additionally, the County receives revenue from operating grants and other contributions. In 2008, this totaled \$790,926 or 3.22% of total government revenue. Operating grants are used to fund expenses associated with programs such as the Domestic Violence Prosecutor, the Victim Witness Program, Regional Prosecutor Program and services relating to Human Services. Other contributions included in the amount are reimbursements from the State for the lease of the Jaffrey District Court House. This reimbursement is received as a direct offset to the annual long-term debt bond schedule.

Property tax revenues are the County's largest revenue, accounting for \$19,654,594 or 80.19% 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.

The single largest expense funded through the assessment of taxes is associated with the obligation towards Human Services. 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 (HCBC). As a result, the State of New Hampshire took over 100% of the non federal share of the other programs which include Board and Care of Children, Old Age Assistance, Aide to the Permanently and Totally Disabled and Provider Services. As the cost of Long Term Care and HCBC outweigh the cost of the programs the State took over, 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 2010, the caps and any additional Hold Harmless provisions will be established by the legislature on a biennial basis.

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 services 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.

(Continued on next page)

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

**Cheshire County, Governmental Activities
For Year Ending December 31, 2008 and December 31, 2007**

| | Total Cost of Services | | Net Cost of Services | |
|--------------------|------------------------|----------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| General Government | \$ 5,010,970 | \$ 5,281,047 | \$ 3,443,425 | \$ 3,797,949 |
| Public Safety | 4,874,436 | 4,311,780 | 4,170,863 | 3,567,342 |
| Human Services | 6,140,446 | 6,507,017 | 5,857,528 | 6,256,772 |
| Farm | 393,079 | 350,235 | 73,006 | 23,215 |
| Interest Expense | 1,723,404 | 682,792 | 1,643,746 | 598,097 |
| Total Expenses | <u>\$ 18,142,335</u> | <u>\$ 17,132,871</u> | <u>\$ 15,188,568</u> | <u>\$ 14,243,375</u> |

Business-Type Activities

Charges for services provided funding for 67.87% of total program expenses with the additional 14.17% coming from operating grants and contributions and 23.27% (\$3,239,126) subsidized by the General Fund.

Although the Nursing Home should be self sustaining, high census levels of Medicaid residents largely contribute to its operating deficit. In 2007, the Nursing Home required the General Fund to subsidize the operations by 17.4% or \$2,417,418. In 2008, the subsidy increased 23.27% or \$3,239,126, an increase of \$821,708. The increase in subsidy is due to lower census levels in 2008 over 2007. Census levels for 2008 were down overall by 1,531 bed days. However, Medicaid bed days were actually up by 1,221 with the higher reimbursable bed days such as Skilled Care and the Behavioral Unit census down by 2,867. One of the main factors that had an impact on the 2008 Skilled Nursing Care system was the inability to hire therapist's which are a necessary component in providing skilled care. By the end of 2008, the County was successful in hiring a Speech Therapist and a compliment of part time and contracted Physical Therapist's that has allowed the nursing home to enhance skilled admissions.

Financial Analysis of County Funds

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

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the year.

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CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

As of December 31, 2008, the County's governmental funds reported a combined ending fund balance of \$24,207,405, a decrease of \$13,662,151 in comparison with the prior year. Approximately 99.18% of this total (\$24,008,329) represents unreserved fund balance, with 12.63% being the General Fund, 84.02% unspent proceeds for the House of Corrections Construction Project and 2.52% for the other combined governmental funds, which include County Extension Service, Incentive Fund, Heman Chase Fund, Nursing Home Contribution Fund, Wellington Fund, Deeds Surcharge and the Capital Reserve Funds. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year (\$199,076).

The General Fund is the primary operating fund of the County. At the end of 2008, unreserved fund balance was \$3,057,542, while total fund balance was \$3,175,939. Cheshire County objective is to maintain an unreserved fund balance between 5% and 10 % of the County's total budget.

Cheshire County's General Fund balance increased by \$1,295,395 during 2008. The key factor for this increase was the interest earned on the Correctional Facility Bond proceeds. Additionally due to the new funding structure between the State and the County for residents needing Medicaid assistance in Long Term Care Facilities, a liability that had been maintained on the County books was eliminated as the new system no longer recognizes the dates of service as the basis for billing.

Enterprise Funds

The enterprise fund (Maplewood Nursing Home) focuses on the changes to net assets, much as it might be for a private-sector business.

The unrestricted net assets of Maplewood Nursing Home at December 31, 2008 were at deficit levels of (\$1,543,564). The unrestricted net asset deficit increased by \$42,447 over the 2007 level of (\$1,501,117). Although the Nursing Home Supplemental payment helps to narrow the difference between the Medicaid rate and our actual per diem rate, deficit levels still continue as the Medicaid rate combined with the Bed Tax falls short of covering the cost of patient care.

As a government owned nursing home, the census of Medicaid residents tends to be much higher than private nursing home levels. As of December 31, 2008, approximately 78% of the nursing home census consisted of residents needing Medicaid assistance in order to pay for their care. Based on the 2008 Medicaid cost report for Maplewood, the allowable per diem rate was calculated to be \$263.59. However, the actual paid per diem as of December 31, 2008 was \$145.45 or \$118.14 per day short of allowable 2008 costs. The supplemental payment provided additional reimbursement averaging \$43.02 per day with the Proportionate Share Funds providing additional reimbursement of \$16.92 per day. These additional payments still leave the allowable per diem rate short by approximately \$58.20 per day. In order to minimize the need to subsidize Maplewood Nursing Home, the department's work very hard to keep their operational budgets as close to level as possible. However, because nearly 50% of the expenses at the Nursing Home are within the payroll and benefit lines, the overall cost to run the Nursing Home inevitably continues to increase the need for financial support from the General Fund thus contributing to the deficit levels of unrestricted net assets.

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CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Budgetary Highlights

By State statute, the County Convention must adopt its annual budget within 90 days after the beginning of the County's fiscal year. Therefore, any new purchases or proposed changes to the budget are not executed until the budget is adopted. On March 24, 2008, the County Convention adopted the 2008 budget. As adopted, the bottom line was up 16.11% (\$4,682,446) and taxes to be raised were 34.7% higher than 2007 (\$5,063,269) for total taxes to be raised of \$19,654,594.

Areas that contributed to the increase included the following:

- First year payment of the new Jail bond of \$3,492,389.
- Merit and a 2.30 % cost of living adjustment to employee wages accounted for approximately \$628,270 in increased costs for payroll and benefits.
- New positions at the Correctional Facility added approximately \$157,000 in new payroll and benefit costs.
- Reduction by eliminating the use of any fund balance or Capital Reserve savings in the 2008 budget in order to preserve current levels for both funds caused a decrease in revenues of \$1,194,987 from 2007.

In 2008 there was a supplemental budget brought before the delegation and approved. On August 18, 2008, the County budget was amended by \$91,338 in order to convert the nursing home laundry machines to Ozone, to adjust the Regional Prosecutor's budget so that additional Cheshire County towns could enter the program, and lastly to move donated funds to a special account in order to establish a scholarship fund to recruit therapists.

As a result of the supplemental budget, the total budget increased to \$35,995,580 up 16.41% (\$4,773,784) over the 2007 budget.

Capital Assets and Debt Administration

Capital Assets—The County's investment in capital assets for governmental and business-type activities as of December 31, 2008, was \$25,977,493 (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 was completed or purchased include \$14,574,323 in additional construction in progress for the new Correctional Facility, \$60,900 to convert the Nursing Home laundry to Ozone, and \$78,800 to purchase 3 Sheriff vehicles.

Note IV (C) – Detailed Notes on All Funds (Capital Assets) provides additional information about capital asset activity during 2008.

(Continued on next page)

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Long-Term Debt—At December 31, 2008, the County had total general obligation bonded debt outstanding of \$40,724,648. Of this amount, \$1,690,000 is for the Jaffrey District Court House and is to be 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 construction of a twenty (20) apartment Assisted Living Unit and the expansion of the Nursing Home's therapy departments with debt remaining as of December 31, 2008 of \$1,240,000. Bonds for the study of a new County Jail had a balance remaining of \$325,000 at year-end. The first payment of the 20 year bond for Construction of the new County correctional facility was made in 2008. The outstanding balance at year-end for this debt was \$35,150,000. Additionally, \$13,146 for the Water Treatment Upgrade Project is being funded by the use of State of New Hampshire Revolving Loan Funds. When this is completed, the County will borrow from this fund approximately \$745,000 for this project. The County's long term bonded debt decreased by \$2,421,000 during 2008 and increased by \$ 8,499 (debt issued).

The current outstanding debt for Cheshire County is as follows:

| Cheshire County, Outstanding Debt | | | |
|--|------------------------------------|-------------------------------------|----------------------|
| December 31, 2008 | | | |
| | Governmental Activities | Business-type Activities | Total |
| Nursing Home Expansion | \$ 830,800 | \$ 409,200 | \$ 1,240,000 |
| Jail Expansion Study | 325,000 | - | 325,000 |
| Jaffrey District Court House | 1,690,000 | - | 1,690,000 |
| Jail Construction | 35,150,000 | - | 35,150,000 |
| Water Treatment Upgrade | 13,146 | - | 13,146 |
| Total Outstanding Debt | <u>\$ 38,008,946</u> | <u>\$ 409,200</u> | <u>\$ 38,418,146</u> |

On September 22, 2008, the Delegation authorized to raise and appropriate \$1,800,000 to finance the design, construction and equipping of a ground source heat pump system at the new County correctional facility and to replenish the overall project contingency fund related to the construction of the new facility. Timing for the bonding of this aspect of the project is currently happening.

In 2005, the first lease payment associated with the Energy Efficiency Project was due. Total principal for this project is \$1,070,543 and will be paid over a twelve (12) year period. The fourth principal payment was made on May 30, 2008 for \$106,000. The remaining principal due for this project as of December 31, 2008 is \$691,543.

On March 23, 2009 the Delegation voted to raise and appropriate \$450,000 to finance the design, construction and equipping of the County Waste Water Treatment Plant. The County is in need of upgrading this treatment plant and learned that this project could be eligible for ½ funding from the New Hampshire Economic Stimulus Recovery Funds. The County has learned that this project ranked #14 and is eligible for funding. Plans are underway in 2009 in order to meet the deadlines associated with accepting these funds.

(Continued on next page)

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Moody's has assigned an underlying rating of A1 to the outstanding general obligation debt of the County. In order to maintain this rating, the County will continue to pay close attention to the fund balance levels.

In addition to the bonded debt, the County's long-term obligations include \$423,135 in compensated absences. These compensated absences are an accumulation of unused accrued vacation and holiday time at December 31, 2008.

Economic Factors

- The Cheshire County unemployment rate for December 2008 was 3.9%, which compares favorably to the State's rate of 4.3 %, the New England rate of 6.5% and the national rate of 5.8 %. The County rate has increased slightly over December 2007 at which time was 3.2 %.
- Most recent equalized assessed valuations of property used for appropriating Cheshire County's 2008 taxes were \$7,552,922,415. This is a slight decrease over the prior year assessed valuations of 1.08% or \$83,588,165.
- There was one outstanding tax payment due from a Cheshire County Town as of December 31, 2008. Payment was received by January 9, 2009. No Cheshire County Town or the City of Keene has ever defaulted in their payment of taxes.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

| | Governmental Activities | Business- type Activities | Total |
|--|----------------------------|---------------------------------|----------------------|
| ASSETS | | | |
| Cash and Equivalents | \$ 1,079,841 | \$ 1,032,610 | \$ 2,112,451 |
| Temporary Investments | 353,532 | - | 353,532 |
| Accounts Receivable | 153,554 | 1,636,345 | 1,789,899 |
| Due from Other Governments | 495,326 | 385,978 | 881,304 |
| Internal Balances | 2,770,553 | (2,770,553) | - |
| Inventories | - | 90,618 | 90,618 |
| Deposits and Prepaids | 12,711 | 328 | 13,039 |
| Restricted Assets: Cash and Temporary Investments | 23,683,274 | - | 23,683,274 |
| Direct Financing Lease Receivable | 2,231,840 | - | 2,231,840 |
| Capital Assets: | | | |
| Land and Improvements | 984,559 | 565,334 | 1,549,893 |
| Water System | 315,855 | 772,121 | 1,087,976 |
| Wastewater System | 166,232 | 431,411 | 597,643 |
| Buildings and Improvements | 10,763,363 | 7,078,988 | 17,842,351 |
| Furniture, Equipment and Vehicles | 1,345,324 | 2,105,212 | 3,450,536 |
| Construction in Progress | 16,436,081 | - | 16,436,081 |
| Less Accumulated Depreciation | (8,335,710) | (6,651,277) | (14,986,987) |
| Total Capital Assets, Net of Depreciation | 21,675,704 | 4,301,789 | 25,977,493 |
| TOTAL ASSETS | \$ 52,456,335 | \$ 4,677,115 | \$ 57,133,450 |
| LIABILITIES | | | |
| Accounts Payable | \$ 215,989 | \$ 412,142 | \$ 628,131 |
| Contract Payable | 1,352,918 | - | 1,352,918 |
| Retainage Payable | 1,159,882 | - | 1,159,882 |
| Accrued Liabilities | 687,915 | 283,323 | 971,238 |
| Due to Other Governments | 1,250,574 | 145,664 | 1,396,238 |
| Deferred Revenue | 750,159 | - | 750,159 |
| Non-current Liabilities: | | | |
| Portion Due or Payable Within One Year: | | | |
| Bonds and Notes Payable | 2,212,700 | 102,300 | 2,315,000 |
| Capital Lease Obligations | 26,220 | 87,780 | 114,000 |
| Portion Due or Payable After One Year: | | | |
| Bonds and Notes Payable | 35,796,246 | 306,900 | 36,103,146 |
| Capital Lease Obligations | 132,835 | 444,708 | 577,543 |
| Compensated Absences | 214,436 | 208,699 | 423,135 |
| Total Liabilities | 43,799,874 | 1,991,516 | 45,791,390 |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | 7,190,977 | 3,360,101 | 10,551,078 |
| Restricted for: | | | |
| Juvenile Incentive | 341,667 | - | 341,667 |
| Deeds Surcharge | 116,651 | - | 116,651 |
| Capital Reserves | 246,352 | - | 246,352 |
| Other Purposes: | | | |
| Expendable | 28,834 | - | 28,834 |
| Unrestricted (Deficit) | 731,980 | (674,502) | 57,478 |
| Total Net Assets | \$ 8,656,461 | \$ 2,685,599 | \$ 11,342,060 |

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Program Revenues | | | Net (Expense) Revenue and Change in Net Assets | | | |
|--|------------------|-------------------------|--|---|----------------------------|-----------------------------|----------------|
| | Expenses | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Functions/Programs | | | | | | | |
| General Government | \$ 5,010,970 | \$ 1,182,534 | \$ 385,011 | \$ - | \$ (3,443,425) | \$ - | \$ (3,443,425) |
| Public Safety | 4,874,436 | 660,234 | 43,339 | - | (4,170,863) | - | (4,170,863) |
| Human Services | 6,140,446 | - | 282,918 | - | (5,857,528) | - | (5,857,528) |
| Farm | 393,079 | 320,073 | - | - | (73,006) | - | (73,006) |
| Interest on Long-term Debt | 1,723,404 | - | 79,658 | - | (1,643,746) | - | (1,643,746) |
| Total Governmental Activities | 18,142,335 | 2,162,841 | 790,926 | - | (15,188,568) | - | (15,188,568) |
| Business-type Activities | | | | | | | |
| Cheshire County Nursing Home | 13,922,448 | 9,449,583 | 1,972,833 | - | - | (2,500,032) | (2,500,032) |
| Total Business-type Activities | 13,922,448 | 9,449,583 | 1,972,833 | - | - | (2,500,032) | (2,500,032) |
| Total | \$ 32,064,783 | \$ 11,612,424 | \$ 2,763,759 | \$ - | (15,188,568) | (2,500,032) | (17,688,600) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| County Tax Assessment | | | | | 19,654,594 | - | 19,654,594 |
| Payment in Lieu of Taxes | | | | | - | - | - |
| Grants and Contributions Not Restricted to Specific Purposes | | | | | - | - | - |
| Interest and Investment Earnings | | | | | 1,830,661 | 5,455 | 1,836,116 |
| Miscellaneous | | | | | 70,911 | 12,851 | 83,762 |
| Gain (Loss) on Disposal of Capital Assets | | | | | 333 | (9,270) | (8,937) |
| Capital Contributions | | | | | - | - | - |
| Transfers | | | | | (3,239,126) | 3,239,126 | - |
| Total General Revenues, Special Items and Transfers | | | | | 18,317,373 | 3,248,162 | 21,565,535 |
| Change in Net Assets | | | | | 3,128,805 | 748,130 | 3,876,935 |
| Net Assets, Beginning of Year | | | | | 5,527,656 | 1,937,469 | 7,465,125 |
| Net Assets, End of Year | | | | | \$ 8,656,461 | \$ 2,685,599 | \$ 11,342,060 |

The Accompanying Notes are an Integral Part of This Financial Statement - Page 15 -

COUNTY OF CHESHIRE, NEW HAMPSHIRE
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

| | Major Funds | | | Total Governmental Funds |
|--|---------------------|---|--------------------------------|--------------------------------|
| | General Fund | House of Corrections Construction | Other Governmental Funds | |
| ASSETS | | | | |
| Cash and Equivalents | \$ 690,945 | \$ - | \$ 388,896 | \$ 1,079,841 |
| Temporary Investments | 953 | - | 352,579 | 353,532 |
| Accounts Receivable | 151,831 | - | 1,723 | 153,554 |
| Due From Other Funds | 3,633,195 | - | - | 3,633,195 |
| Due From Other Governments | 377,113 | - | 118,213 | 495,326 |
| Inventories | - | - | - | - |
| Deposits and Prepaids | 12,711 | - | - | 12,711 |
| Restricted Assets: Cash and Temporary Investments | - | 23,683,274 | - | 23,683,274 |
| TOTAL ASSETS | \$ 4,866,748 | \$ 23,683,274 | \$ 861,411 | \$ 29,411,433 |
| LIABILITIES AND FUND BALANCE | | | | |
| Liabilities | | | | |
| Accounts Payable | \$ 170,537 | \$ 30,208 | \$ 15,244 | \$ 215,989 |
| Contracts Payable | - | 1,352,918 | - | 1,352,918 |
| Retainage Payable | - | 1,159,882 | - | 1,159,882 |
| Accrued Liabilities | 215,833 | - | - | 215,833 |
| Due to Other Funds | - | 800,004 | 154,963 | 954,967 |
| Due to Other Governments | 1,250,574 | - | - | 1,250,574 |
| Deferred Revenues | 53,865 | - | - | 53,865 |
| Total Liabilities | 1,690,809 | 3,343,012 | 170,207 | 5,204,028 |
| Fund Balances | | | | |
| Reserved for Encumbrances | 105,686 | - | 80,679 | 186,365 |
| Reserved for Prepaids | 12,711 | - | - | 12,711 |
| Unreserved, Reported in: | | | | |
| General Fund | 3,057,542 | - | - | 3,057,542 |
| Nonmajor Special Revenue Funds | - | - | 452,604 | 452,604 |
| Major Capital Projects Funds | - | 20,340,262 | - | 20,340,262 |
| Nonmajor Capital Projects Funds | - | - | 157,921 | 157,921 |
| Total Fund Balances | 3,175,939 | 20,340,262 | 691,204 | 24,207,405 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 4,866,748 | \$ 23,683,274 | \$ 861,411 | \$ 29,411,433 |

(Continued)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET
ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008

Total Governmental Fund Balances (Previous Page) \$ 24,207,405

*Amounts Reported for Governmental Activities in the Statement
of Net Assets Are Different Because of the Following Items:*

Capital Assets Used in Governmental Activities Are NOT
Financial Resources and Therefore Are Not Reported in
the Funds. 21,675,704

Other Long-term Assets Are NOT Available to Pay
for Current-period Expenditures and Therefore Are
Saved in the Funds. 2,231,840

Internal Service Funds Are Used by the County to Charge the
Costs of Health and Dental Insurance; the Assets and Liabilities
of the Internal Service Fund Are Included in Business-Type Activities.
This Amount Represents the Amount Due to the Business-Type
Activities at Year End. 92,322

Bond Premium Revenues Are Recognized in the Year Received on Governmental
Funds (Statement 4) Whereas in the Statement of Net Assets They Are Amortized
Over the Life of the Bond Issue. (154,453)

Long-term Deferred Revenues Related to Long-term Receivables
Are NOT Recognized on Statement 3. (541,840)

Long-term Liabilities, Including Bonds Payable and
Unmatured Compensated Absences, Are NOT Due and Payable
in the Current Period and Therefore Are NOT Reported in the Funds. (38,854,517)

Net Assets of Governmental Activities - Statement 1 \$ 8,656,461

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Major Funds | | | Totals Governmental Funds |
|--|---------------------|---|--------------------------------|---------------------------------|
| | General Fund | House of Corrections Construction | Other Governmental Funds | |
| Revenues | | | | |
| Taxes | \$ 19,654,594 | \$ - | \$ - | \$ 19,654,594 |
| Intergovernmental | 475,236 | - | 318,438 | 793,674 |
| Charges for Services | 1,685,335 | - | 24,320 | 1,709,655 |
| Interest | 1,825,351 | - | 5,310 | 1,830,661 |
| Other | 628,981 | - | 27,950 | 656,931 |
| Total Revenues | <u>24,269,497</u> | <u>-</u> | <u>376,018</u> | <u>24,645,515</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 4,143,269 | - | 549,987 | 4,693,256 |
| Public Safety | 4,566,654 | - | - | 4,566,654 |
| Farm | 333,758 | - | - | 333,758 |
| Human Services | 5,900,183 | - | - | 5,900,183 |
| Capital Outlay | 220,364 | 14,910,647 | 96,930 | 15,227,941 |
| Debt Service | 4,355,248 | - | - | 4,355,248 |
| Total Expenditures | <u>19,519,476</u> | <u>14,910,647</u> | <u>646,917</u> | <u>35,077,040</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>4,750,021</u> | <u>(14,910,647)</u> | <u>(270,899)</u> | <u>(10,431,525)</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds of Long-term Debt | - | - | 8,499 | 8,499 |
| Operating Transfers In | 1,175 | - | 216,675 | 217,850 |
| Operating Transfers (Out) | (3,455,801) | - | (1,175) | (3,456,976) |
| Total Other Financing Sources (Uses) | <u>(3,454,626)</u> | <u>-</u> | <u>223,999</u> | <u>(3,230,627)</u> |
| Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources (Uses) | <u>1,295,395</u> | <u>(14,910,647)</u> | <u>(46,900)</u> | <u>(13,662,152)</u> |
| Fund Balances, Beginning of Year | <u>1,880,544</u> | <u>35,250,909</u> | <u>738,104</u> | <u>37,869,557</u> |
| Fund Balances, End of Year | <u>\$ 3,175,939</u> | <u>\$ 20,340,262</u> | <u>\$ 691,204</u> | <u>\$ 24,207,405</u> |

(Continued)

The Accompanying Notes are an Integral Part of This Financial Statement

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COUNTY OF CHESHIRE, NEW HAMPSHIRE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

| | |
|--|---------------------|
| <i>Net Change in Fund Balances - Total Governmental Funds (Previous Page)</i> | \$ (13,662,152) |
| Governmental Funds Report Capital Outlays During the Year as Expenditures on Statement 4. However, on the Statement of Activities (Statement 2) the Cost of Those Capital Items Has Been Capitalized and the Cost is Then Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense. This is the Amount by Which Capital Outlay Expenditures Exceeded Depreciation Expense for the Current Fiscal Year. | 14,526,864 |
| Repayment of Bond and Capital Lease Principal is an Expenditure in the Governmental Funds (Statement 4), But the Repayment Reduces Long-term Liabilities in the Statement of Net Assets (Statement 2). Also, Bond Proceeds Are Recognized as an Other Financing Source on Statement 4 But Are Recorded as a Long-term Liability in Statement of Net Assets (Statement 2). This is the Amount of the Repayments and Bond or Capital Lease Proceeds That Have Been Charged to Long-Term Liabilities. | 2,237,080 |
| Accrued Interest on the Governmental Funds is Reported as Expenditure When Paid, While Interest Due at Year End is Recognized as a Liability and an Expense on the Statement of Net Assets (Statement 2). This is the Net Amount by Which Accrued Interest Expense Exceeded Interest Expense for the Current Fiscal Year | 65,908 |
| Estimated Compensated Absences Payable Are Recognized When Payable on Statement 4 But Are Accrued and Expensed at Year End on Statement 2. | (42,306) |
| Revenues Reported in the Statement of Activities That do NOT Provide Current Financial Resources are NOT Reported as Current Year's Revenues in the Funds Statement. | 79,658 |
| Revenues Received From the State of New Hampshire and Reported on the Funds Statements are Reported as Receipts Against the Direct Financing Lease Receivable on Statement 2. | (209,658) |
| Internal Service Fund is Used by The County to Charge the Costs of Dental and Health Insurance to Individual Funds. The Net Cost of the Internal Service Fund is Reported in Governmental Activities | 138,661 |
| Bond Premium Revenues Are Recognized in the Year Received on Governmental Funds (Statement 4) Whereas in the Statement of Net Assets They Are Amortized Over the Life of the Bond Issue. | (5,583) |
| Previous Year's Accounts Payable on the Governmental Funds That are Paid in the Funds (Statement 4) are Reported as Expenditures on the Funds. | - |
| In the Statement of Activities (Statement 2), Only the Loss on the Disposal of Capital Assets is Reported, Whereas in the Governmental Funds (Statement 4) There is No Use of Financial Resources. As a Result, the Change in Net Assets Differs From the Change in Fund Balance by the Net Book Value of the Disposed Capital Assets. | 333 |
| <i>Change in Net Assets of Governmental Activities (Statement 2)</i> | <u>\$ 3,128,805</u> |

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

| | Business- type Activities | Governmental Activities |
|---|---------------------------------------|-----------------------------|
| | Cheshire County Nursing Home | Internal Service Fund |
| ASSETS | | |
| Current Assets | | |
| Cash and Equivalents | \$ 200 | \$ 1,032,410 |
| Accounts Receivable - Services | 1,636,345 | - |
| Due From Other Funds | 66,012 | 72,360 |
| Due From Other Governments | 385,978 | - |
| Inventories | 90,618 | - |
| Deposits | - | - |
| Prepaid Expenses | 328 | - |
| Total Current Assets | <u>2,179,481</u> | <u>1,104,770</u> |
| Capital Assets: | | |
| Land and Improvements | 565,334 | - |
| Water System | 772,121 | - |
| Wastewater System | 431,411 | - |
| Buildings and Improvements | 7,078,988 | - |
| Vehicles | 152,518 | - |
| Furniture and Equipment | 1,952,694 | - |
| Construction in Progress | - | - |
| Less Accumulated Depreciation | (6,651,277) | - |
| Total Capital Assets, Net of Depreciation | <u>4,301,789</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 6,481,270</u> | <u>\$ 1,104,770</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | \$ 268,759 | \$ 143,383 |
| Accrued Liabilities | 283,323 | - |
| Due To Other Funds | 2,816,600 | - |
| Due to Other Governments | 145,664 | - |
| Deferred Revenues | - | - |
| Current Portion of Long-term Debt: | | |
| Obligations Under Capital Lease | 87,780 | - |
| Bonds Payable | 102,300 | - |
| Total Current Liabilities | <u>\$ 3,704,426</u> | <u>\$ 143,383</u> |

(Continued)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

| | Business- type Activities | Governmental Activities |
|---|---------------------------------------|-----------------------------|
| | Cheshire County Nursing Home | Internal Service Fund |
| Noncurrent Liabilities: | | |
| Obligations Under Capital Lease | \$ 444,708 | \$ - |
| Bonds Payable | 306,900 | - |
| Compensated Absences | 208,699 | - |
| Total Noncurrent Liabilities | 960,307 | - |
| Total Liabilities | 4,664,733 | 143,383 |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 3,360,101 | - |
| Unrestricted (Deficit) | (1,543,564) | 961,387 |
| Total Net Assets | 1,816,537 | 961,387 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 6,481,270 | \$ 1,104,770 |

Reconciliation to Government-wide Statement of Net Assets (Statement 1):

| | |
|---|--------------|
| Total Net Assets Business-type Activities Above | \$ 1,816,537 |
| Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Business-type Activities | 869,062 |
| Total Net Assets Business-type Activities, Statement 1 | \$ 2,685,599 |

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Business- type Activities <u>Cheshire County Nursing Home</u> | Governmental Activities <u>Internal Service Fund</u> |
|---|--|--|
| <i>Operating Revenues</i> | | |
| Intergovernmental | \$ 1,438,841 | \$ - |
| Charges for Services: | | |
| Medicaid | 4,882,581 | - |
| Private | 2,144,250 | - |
| Atypical Unit | 1,151,201 | - |
| Medicare A and B (PT, OT, Speech and Other), Respite Care, Nurse Practitioner and Adult Day Care | 729,459 | - |
| Other User Charges | - | 2,900,543 |
| Total Charges for Services | <u>8,907,491</u> | <u>2,900,543</u> |
| Miscellaneous: | | |
| Meals | 542,092 | - |
| Medicaid Proportional Share | 533,992 | - |
| Other | 12,851 | - |
| Total Miscellaneous | <u>1,088,935</u> | <u>-</u> |
| <i>Total Operating Revenues</i> | <u>11,435,267</u> | <u>2,900,543</u> |
| <i>Operating Expenses</i> | | |
| General Operating Expenses: | | |
| Administration | 2,530,457 | 1,887,218 |
| Quality Improvement | 70,411 | - |
| Finance | 273,774 | - |
| Computer Operations | 163,646 | - |
| Dietary | 1,424,383 | - |
| Nursing | 5,865,542 | - |
| Atypical Unit | 1,072,865 | - |
| Facilities | 1,023,383 | - |
| Waste Water Treatment Plant | 18,659 | - |
| Water Treatment Plant | 22,631 | - |
| Laundry and Linens | 694,812 | - |
| Housekeeping | 4,014 | - |
| Activities | 278,472 | - |
| Social Services | 166,788 | - |
| Occupational Therapy | 156,853 | - |
| Physical Therapy and Speech Therapy | 316,165 | - |
| Other Services for Residents | 224,045 | - |
| Capital Outlay - Minor Equipment | 659 | - |
| Depreciation | 431,932 | - |
| <i>Total Operating Expenses</i> | <u>14,739,491</u> | <u>1,887,218</u> |
| Operating Income (Loss) | <u>(3,304,224)</u> | <u>1,013,325</u> |

(Continued)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Business- type Activities | Governmental Activities |
|--|---------------------------------------|-----------------------------|
| | Cheshire County Nursing Home | Internal Service Fund |
| <i>Non-Operating Revenues (Expenses)</i> | | |
| Interest Expense | \$ (50,459) | \$ - |
| Gain (Loss) on Disposition of Equipment | (9,270) | - |
| Interest Revenue | - | 5,455 |
| Bad Debt Recovery (Expense) | (7,162) | - |
| <i>Net Non-Operating Revenues (Expenses)</i> | (66,891) | 5,455 |
| Income (Loss) Before Contributions and Transfers | (3,371,115) | 1,018,780 |
| <i>Contributions and Transfers In (Out)</i> | | |
| Capital Contributions | - | - |
| Transfers In | 3,239,126 | - |
| Transfers (Out) | - | - |
| <i>Total Contributions and Transfers In (Out)</i> | 3,239,126 | - |
| Change in Net Assets | (131,989) | 1,018,780 |
| Total Net Assets, Beginning of Year, Restated | 1,948,526 | (57,393) |
| Total Net Assets, End of Year | \$ 1,816,537 | \$ 961,387 |

Reconciliation to Government-wide Statement of Activities (Statement 2):

| | |
|---|-------------------|
| Change in Net Assets Business-type Activities, Above | \$ (131,989) |
| Adjustments to Reflect the Consolidation of Internal Service Fund Activity Related to Business-type Activities | 880,119 |
| Change in Net Assets Business-type Activities, Statement 2 | \$ 748,130 |

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Business- type Activities | Governmental Activities |
|---|---------------------------------------|-----------------------------|
| | Cheshire County Nursing Home | Internal Service Fund |
| <i>Cash Flows from Operating Activities</i> | | |
| Cash Received From Services | \$ 9,696,264 | \$ - |
| Cash Received from Other Governments | 1,415,599 | - |
| Cash Received for Interfund Services Provided | - | 2,900,543 |
| Cash Paid to Suppliers | (7,426,171) | (1,876,527) |
| Cash Paid to Employees | (6,989,171) | - |
| Other Expenses | (224,045) | - |
| <i>Net Cash Provided (Used) by Operating Activities</i> | <u>(3,527,524)</u> | <u>1,024,016</u> |
| <i>Cash Flows From Noncapital Financing Activities</i> | | |
| Transfers From Other Funds | 3,999,245 | - |
| Loans From/(to) Other Funds | (66,012) | (72,360) |
| <i>Net Cash Provided (Used) for Capital and Related Financing Activities</i> | <u>3,933,233</u> | <u>(72,360)</u> |
| <i>Cash Flows From Capital and Related Financing Activities</i> | | |
| Principal Paid on Bonds | (102,300) | - |
| Principal Paid on Capital Lease | (81,620) | - |
| Interest Paid on Bonds and Capital Lease | (54,049) | - |
| Acquisition of Improvements and Equipment | (167,740) | - |
| <i>Net Cash Provided (Used) for Capital and Related Financing Activities</i> | <u>(405,709)</u> | <u>-</u> |
| <i>Cash Flows From Investing Activities</i> | | |
| Interest Earnings on Investments | - | 5,455 |
| <i>Net Cash Provided (Used) From Investing Activities</i> | <u>-</u> | <u>5,455</u> |
| Increase (Decrease) in Cash and Cash Equivalents | - | 957,111 |
| Cash and Cash Equivalents at Beginning of Year | <u>200</u> | <u>75,299</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 200</u> | <u>\$ 1,032,410</u> |
| <i>Noncash Transactions</i> | | |
| Additions to Capital Assets from Contributions | <u>\$ -</u> | <u>\$ -</u> |
| Capital Assets Retired During the Year | <u>\$ (28,019)</u> | <u>\$ -</u> |

(Continued)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Business- type Activities Cheshire County Nursing Home | Governmental Activities Internal Service Fund |
|--|--|---|
| <i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i> | | |
| Operating Income (Loss) | \$ (3,304,224) | \$ 1,013,325 |
| <i>Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities</i> | | |
| Depreciation | 431,932 | - |
| Other Operating Expenses | (7,162) | - |
| Change in Operating Assets and Liabilities: | | |
| (Increase) Decrease in Operating Assets: | | |
| Accounts Receivable | (183,137) | - |
| Inventories | (13,608) | - |
| Deposits and Prepaids | 4,553 | - |
| Due From Other Funds | - | - |
| Due From Other Governments | (23,242) | - |
| Increase (Decrease) in Operating Liabilities: | | |
| Accounts Payable | (340,211) | 19,329 |
| Due to Other Funds | - | (8,638) |
| Accrued Liabilities | 43,418 | - |
| Due to Other Governments | (16,540) | - |
| Deferred Revenues | (117,025) | - |
| Compensated Absences | (2,278) | - |
| <i>Total Adjustments</i> | <i>(223,300)</i> | <i>10,691</i> |
| <i>Net Cash Provided (Used) by Operating Activities</i> | <i>\$ (3,527,524)</i> | <i>\$ 1,024,016</i> |

COUNTY OF CHESHIRE, NEW HAMPSHIRE
 STATEMENT OF ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 DECEMBER 31, 2008

| | Agency Funds | | | | | | |
|--|---------------------------|-------------------|-------------------------------|----------------------------|-------------------------------|---------------|------------------------------------|
| | Sheriff's Escrow and Fees | Register of Deeds | Nursing Home Residents' Funds | Nursing Home Activity Fund | Jail Canteen/ Recreation Fund | Hemenway Fund | Community Development Block Grants |
| ASSETS | | | | | | | |
| Cash | \$ 7,112 | \$ 300,359 | \$ 51,334 | \$ 3,258 | \$ 43,810 | \$ - | \$ 12,258 |
| Temporary Investments | - | - | - | - | - | - | - |
| Accounts Receivable | - | 2,593 | 415 | - | - | - | - |
| Due From Other Governments | - | - | - | - | - | - | - |
| TOTAL ASSETS | <u>\$ 7,112</u> | <u>\$ 302,952</u> | <u>\$ 51,749</u> | <u>\$ 3,258</u> | <u>\$ 43,810</u> | <u>\$ -</u> | <u>\$ 12,258</u> |
| LIABILITIES | | | | | | | |
| Accounts Payable | \$ 6,468 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,258 |
| Due to Other Governments | - | 302,952 | - | - | - | - | - |
| Due to Specific Individuals and/or Groups: | | | | | | | |
| To Judiciary Participants | 644 | - | - | - | - | - | - |
| To Inmates | - | - | - | - | 43,810 | - | - |
| To Nursing Home Residents/Activities | - | - | 51,749 | 3,258 | - | - | - |
| TOTAL LIABILITIES | <u>\$ 7,112</u> | <u>\$ 302,952</u> | <u>\$ 51,749</u> | <u>\$ 3,258</u> | <u>\$ 43,810</u> | <u>\$ -</u> | <u>\$ 12,258</u> |

The Accompanying Notes are an Integral Part of This Financial Statement

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

I | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Cheshire County is a “body corporate” under the authority of the New Hampshire Revised Statute Annotated (RSA) 23:1. The elected County Commissioners are responsible for the day to day operation of the County. The Commissioners present a recommended budget to the County Convention for approval annually. Either the budget approved by the Convention or, if the Convention does not approve the budget timely, the Commissioners’ original budget as submitted for approval, becomes effective for the year.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. County taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. County tax assessments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

County tax assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

General Fund – This is the County’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The House of Corrections Construction fund is used to account for the construction and equipping of a new House of Corrections as approved by the County Delegation to be funded by a \$37,000,000 bond issue.

Non-Major Governmental Fund Types:

Special Revenue Funds – accounts for specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes. Non-major special revenue funds include the Extension Service, Juvenile Placement, Heman Chase, Nursing Home Donations, Wellington and Deeds Surcharge Fund.

Capital Projects Funds – account for financial resources segregated for the acquisition or construction of major capital facilities. Non-major capital projects funds include the various Capital Reserve Funds.

The County reports the following major proprietary funds:

County Nursing Home – This fund accounts for the activities of the Cheshire County Nursing Home. The fund accounts for the operation and maintenance of the Nursing Home, which provides intermediate and skilled nursing care to the elderly residents of the County. The Home is funded through a combination of Medicaid and Medicare funds from the Federal Government, the State and the County as well as from the private resources of the residents of the Home.

Additionally, the County reports the following fund types:

Fiduciary funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations or other governments. The fiduciary funds of the County are agency funds (Sheriff’s Escrow and Fees, Register of Deeds, Nursing Home Residents’ Fund, Jail Canteen/Recreation Fund, Hemenway Fund and Community Development Block Grants). Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. Fiduciary funds are NOT included in the government-wide financial statements.

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the County Nursing Home function and various other functions of the County. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Nursing Home are charges to residents for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. DEPOSITS AND INVESTMENTS

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The County Treasurer is authorized by State statutes and with the approval of the Commissioners to invest excess funds "in obligations of the U.S. Government, in participation units in the public deposit investment pool established pursuant to RSA 383:22, in savings bank deposits of banks incorporated under the laws of the State of New Hampshire or in certificates of deposits and repurchase agreements of banks incorporated under the laws or in the State of New Hampshire or in banks recognized by the State Treasurer".

The County participates in the New Hampshire Public Deposit Investment Pool established in accordance with RSA 383:22-24. Total funds on deposit with the Pool at year-end were \$26,579 and are reported as temporary investments on the General Fund (\$953) and other governmental funds (\$25,626). At this time, the Pool's investments are limited to "short-term U.S. Treasury and U.S. Government Agency obligations, State of New Hampshire and New Hampshire municipal obligations, certificates of deposit from A1/P1-rated banks, money market mutual funds (maximum of 20% of portfolio), overnight to 30-day repurchase agreements (no limit, but collateral level at 102% in U.S. Treasury and Government Agency instruments delivered to Custodian) and reverse overnight repurchase agreements with primary dealers or dealer banks."

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COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

The Pool is operated under contract with a private investment advisor, approved by the State Bank Commissioner and the advisory committee created under RSA 383:24. The Pool is a 2a7-like pool, which means that it is not registered with the Securities Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Cost and market value of the Pool's investments are the same.

2. RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

The Department of Revenue Administration, based upon data reported on the assessment of properties by the cities and towns in the County, annually sets the County tax assessment for each community within the County. Based upon the assessments from the Department of Revenue Administration, the County Treasurer issues a warrant to the cities and towns in the County for them to assess, collect and pay to the County the County tax assessment. The tax is due annually by December seventeenth with interest at ten percent chargeable on any unpaid amounts.

3. INVENTORIES AND PREPAID ITEMS

All inventories are valued at cost using the first-in/ first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year for governmental activities. For business-type activities (County Nursing Home) the County uses a threshold of \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

Property, plant, and equipment of the County is depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|----------------------------|-------|
| Buildings and Improvements | 5-40 |
| Vehicles | 5-15 |
| Equipment | 4-25 |

5. COMPENSATED ABSENCES

It is the County's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation may be accrued to one and one-half times the employee's maximum. Any vacation accrued beyond this amount will be forfeited.

Employees are allowed to take a given holiday on or after the holiday. Annual accrued holiday time must be taken within sixty days of the new calendar year. Consequently, the County accrues accumulated unpaid vacation pay and recognizes the expense in the period the pay is earned.

Sick leave accumulates at the rate of up to ten days per year and may be accumulated to a maximum of sixty days.

Under the current sick leave policy, upon accumulation of sixty days sick leave, all sick leave days over sixty days are paid to the employee at the end of the year, at the rate of one-half day per day accumulated. Employees may not carry over such compensation to subsequent years nor are they eligible to be paid for any unused sick leave time should they terminate their employment.

All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

7. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets (net of accumulated depreciation) reduced by the outstanding balances of any debt used for the acquisition, construction or improvement of those capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provision on enabling legislation or through external restrictions imposed by creditors, grantors or law or regulations of other governments. The County reports the following restricted net asset categories:

Juvenile Incentive – Under New Hampshire RSA (Revised Statutes Annotated) 170-G:4 XVI the State’s Division for Children and Youth Services shall distribute funds to cities, towns and counties to “develop and maintain prevention programs, court diversion programs and alternative dispositions for juveniles other than placements outside of the home.”

Deeds Surcharge – Under New Hampshire RSA 478:17-j, the Register of Deeds, with approval of the County Convention may impose a \$2 surcharge which may “only be used for the purchase, rental or repair of equipment” and which “shall be a separate nonlapsing account, and the moneys in the account shall not be available for use as general revenue of the county.”

Capital Reserves – Under New Hampshire RSA 35:1, the County may raise and appropriate funds for the “construction, reconstruction or acquisition of a specific capital improvement, or the acquisition of a specific item or specific items of equipment.” Such funds that have been appropriated by the County Convention are reported as restricted net assets at year end.

II | RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds."

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

The details of this difference are as follows:

| | |
|---|------------------------|
| Bonds Payable | \$ (38,008,946) |
| Add: Accrued Interest Payable on Bonds and Capital Leases at Fiscal Year End | (472,080) |
| Capital Leases Payable | (159,055) |
| Compensated Absences | <u>(214,436)</u> |
| Net Adjustments to Reduce Fund Balance – Total Governmental Funds to Arrive at Net Assets – Governmental Activities | <u>\$ (38,854,517)</u> |

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, on the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

| | |
|--|----------------------|
| Capital Outlay | \$ 15,018,135 |
| Depreciation Expense | <u>(491,271)</u> |
| Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities | <u>\$ 14,526,864</u> |

Another element of that reconciliation states “repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Also bond proceeds are recognized as an other financing source on Statement 4 but are recorded as a long-term liability in Statement of Net Assets.”

The details of this difference are as follows:

| | |
|--|---------------------|
| <i>Debt Issued or Incurred:</i> | |
| Capital Lease Financing | \$ - |
| Issuance of General Obligation Bonds | - |
| <i>Principal Repayments:</i> | |
| General Obligation Debt | 2,212,700 |
| Payment on Capital Lease | <u>24,380</u> |
| Net Adjustment to Decrease Net Changes in Fund Balances – Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities | <u>\$ 2,237,080</u> |

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

III | STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. The County observes the following procedures in establishing the budgetary data reflected in the financial statements:

1. The County Commissioners deliver or mail to each member of the County Convention and to the chairman of the Board of Selectmen in each Town and the Mayor of each City within the County and to the Secretary of State prior to December 1 annually their itemized budget recommendations together with a statement of actual expenditures and income for at least nine months of the preceding fiscal year.
2. Within ten to twenty days after the mailing of the budget, a public hearing is held on the budget estimates as submitted by the Commissioners.
3. Twenty-eight days must elapse after the mailing of the estimated operating budget before the County Convention may vote on the appropriations for the ensuing budget period.
4. The County Convention must adopt its annual budget no later than March 31.
5. The final form of the County Budget is filed with the Secretary of State's office and the Commissioner of Revenue Administration no later than 30 days after the adopting of the budget.
6. The Commissioners are authorized to transfer budget amounts from department to department. However, any revisions that alter the total expenditures of any fund must be approved by the Executive Committee of the delegation.
7. Except for the payment of judgments rendered against the County, expenditures cannot exceed the total appropriations which the County Convention has voted.
8. The Commissioners may apply to the County Convention for a supplemental appropriation to be made subsequent to the adoption of the annual County budget. The budget reflected in the financial statements includes one supplemental appropriation approved by the delegation.
9. Formal budgetary integration is employed as a management control device during the year for the General Fund special Revenue Fund (Extension Service) and Proprietary Fund (County Nursing Home). The County legally adopts only one budget for the funds.
10. Budget appropriations lapse at year-end except for any outstanding encumbrances or approved appropriation carryovers.
11. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgets for the Proprietary Fund are adopted on a basis, which is not consistent with GAAP. The budget for the Proprietary Fund is prepared on the modified accrual basis while GAAP requires the full accrual basis.

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

IV | DETAILED NOTES ON ALL FUNDS

A. Deposits and Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the County's deposits was \$26,541,762. At year end, \$26,278,659 of the County's bank balance of \$26,810,928 was exposed to custodial credit risk as follows:

| | |
|--|----------------------|
| Uninsured-collateral segregated at the Federal Reserve Bank of Boston and/or New York and identified as being pledged to the County on the bank's books. | \$ 26,248,725 |
| Uninsured and Uncollateralized | <u>29,934</u> |
| Total | <u>\$ 26,278,659</u> |

For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

B. Receivables

Receivables as of year-end for the County's individual major funds, non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General | Other Funds | Total |
|---------------------------------------|-------------------|-------------------|-------------------|
| <i>Receivables:</i> | | | |
| County Taxes | \$ - | \$ - | \$ - |
| Accounts | 151,831 | 1,723 | 153,554 |
| Intergovernmental | <u>377,113</u> | <u>118,213</u> | <u>495,326</u> |
| Gross Receivables | 528,944 | 119,936 | 648,880 |
| Less: Allowance for Uncollectibles | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Total Receivables | <u>\$ 528,944</u> | <u>\$ 119,936</u> | <u>\$ 648,880</u> |

Revenues of the County Nursing Home are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

| | |
|-----------------------------------|---------------------|
| Receivables, Gross | \$ 1,636,345 |
| Due From Other Governments, Gross | 385,978 |
| Uncollectibles | <u>-</u> |
| Net Total Receivables | <u>\$ 2,022,323</u> |

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

C. Capital Assets

Capital asset activity for the year ended was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|-------------------|----------------------------|
| <i>Governmental Activities:</i> | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 619,156 | \$ 365,403 | \$ - | \$ 984,559 |
| Construction in Progress | <u>1,861,758</u> | <u>14,574,323</u> | <u>-</u> | <u>16,436,081</u> |
| Total Capital Assets, Not Being Depreciated | <u>2,480,914</u> | <u>14,939,726</u> | <u>-</u> | <u>17,420,640</u> |
| Capital Assets, Being Depreciated: | | | | |
| Land Improvements | - | - | - | - |
| Water System | 315,855 | - | - | 315,855 |
| Wastewater System | 166,232 | - | - | 166,232 |
| Buildings and Improvements | 10,763,363 | - | - | 10,763,363 |
| Equipment and Vehicles | <u>1,287,543</u> | <u>78,780</u> | <u>(20,999)</u> | <u>1,345,324</u> |
| Total Capital Assets Being Depreciated | <u>12,532,993</u> | <u>78,780</u> | <u>(20,999)</u> | <u>12,590,774</u> |
| Less: Accumulated Depreciation for: | | | | |
| Land Improvements | - | - | - | - |
| Water System | (164,068) | (10,528) | - | (174,596) |
| Wastewater System | (65,494) | (5,541) | - | (71,035) |
| Buildings and Improvements | (7,001,021) | (340,971) | - | (7,341,992) |
| Equipment and Vehicles | <u>(629,605)</u> | <u>(134,231)</u> | <u>15,749</u> | <u>(748,087)</u> |
| Total Accumulated Depreciation | <u>(7,860,188)</u> | <u>(491,271)</u> | <u>15,749</u> | <u>(8,335,710)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>4,672,805</u> | <u>(412,491)</u> | <u>(5,250)</u> | <u>4,225,064</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 7,153,719</u> | <u>\$ 1,527,235</u> | <u>\$ (5,250)</u> | <u>\$21,675,704</u> |

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|---------------------|-------------------|---------------------|
| <i>Business-type activities:</i> | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 75,211 | \$ - | \$ - | \$ 75,211 |
| Construction in Progress | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Capital Assets, Not Being Depreciated | <u>75,211</u> | <u>-</u> | <u>-</u> | <u>75,211</u> |
| Capital Assets, Being Depreciated: | | | | |
| Land Improvements | 490,123 | - | - | 490,123 |
| Water System | 768,261 | 3,860 | - | 772,121 |
| Wastewater System | 431,412 | - | - | 431,412 |
| Buildings and Improvements | 7,078,988 | - | - | 7,078,988 |
| Equipment and Vehicles | <u>1,969,352</u> | <u>163,879</u> | <u>(28,019)</u> | <u>2,105,212</u> |
| Total Capital Assets, Being Depreciated | <u>10,738,136</u> | <u>167,739</u> | <u>(28,019)</u> | <u>10,877,856</u> |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | (398,241) | (23,093) | - | (421,334) |
| Water System | (475,925) | (31,674) | - | (507,599) |
| Wastewater System | (177,030) | (15,936) | - | (192,966) |
| Buildings and Improvements | (3,912,584) | (236,097) | - | (4,148,681) |
| Equipment and Vehicles | <u>(1,274,315)</u> | <u>(125,132)</u> | <u>-</u> | <u>(1,380,697)</u> |
| Total Accumulated Depreciation | <u>(6,238,095)</u> | <u>(431,932)</u> | <u>18,750</u> | <u>(6,651,277)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>4,500,041</u> | <u>(264,193)</u> | <u>(9,269)</u> | <u>4,226,579</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 4,575,252</u> | <u>\$ (264,193)</u> | <u>\$ (9,269)</u> | <u>\$ 4,301,790</u> |

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

| | |
|--|-------------------|
| General Government | \$ 163,252 |
| Public Safety (Sheriff and Corrections) | 270,909 |
| Human Services | - |
| Farm | <u>57,110</u> |
| Total Depreciation Expense – Governmental Activities | <u>\$ 491,271</u> |

Business-Type Activities:

| | |
|---|-------------------|
| Cheshire County Nursing Home | <u>\$ 431,932</u> |
| Total Depreciation Expense – Business-Type Activities | <u>\$ 431,932</u> |

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances at year end is as follows:

Due to/from Other Funds:

| Receivable Fund: | Payable Fund | Amount |
|------------------------------|-----------------------------------|---------------------|
| General | Nonmajor Governmental Funds | \$ 88,951 |
| General | Cheshire County Nursing Home | 2,816,6000 |
| General | House of Corrections Construction | 800,004 |
| Cheshire County Nursing Home | Nonmajor Governmental Funds | <u>66,012</u> |
| | Total | <u>\$ 3,771,567</u> |

Interfund Transfers:

| | Transfer In | | | Total |
|------------------------------|-----------------|-----------------------|------------------------------|--------------------|
| | General | Nonmajor Governmental | Cheshire County Nursing Home | |
| Transfer Out: | | | | |
| General | \$ - | \$ 216,675 | \$ 3,239,126 | \$ 3,455,801 |
| Nonmajor Governmental Funds | 1,175 | - | - | 1,175 |
| Cheshire County Nursing Home | - | - | - | - |
| Totals | <u>\$ 1,175</u> | <u>\$ 216,675</u> | <u>\$ 3,239,126</u> | <u>\$3,456,976</u> |

E. Leases

Capital Leases

The County's General Fund has entered into an agreement for the leases of farm equipment and also various energy improvements. These lease agreements qualify as capital leases for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

| | Governmental Activities | Business-type Activities |
|--------------------------------|-------------------------|--------------------------|
| <i>Asset:</i> | | |
| Vehicles | \$ - | \$ - |
| Energy Improvements | 246,225 | 824,318 |
| Less: Accumulated Depreciation | <u>(43,089)</u> | <u>(144,256)</u> |
| Total | <u>\$ 203,136</u> | <u>\$ 680,062</u> |

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

The future minimum lease obligations and the net present value of these minimum lease payments as of year end were as follows:

| Year Ending December 31, | Governmental Activities | Business-type Activities |
|---|----------------------------|-----------------------------|
| 2009 | \$ 33,648 | \$ 112,647 |
| 2010 | 22,993 | 76,978 |
| 2011 | 23,819 | 79,743 |
| 2012 | 24,570 | 82,256 |
| 2013 | 25,476 | 85,288 |
| 2014-2016 | 60,185 | 201,488 |
| Total Minimum Lease Payment | 190,691 | 638,400 |
| Less: Amount Representing Interest | (31,636) | (105,912) |
| Present Value of Minimum Lease Payments | \$ 159,055 | \$ 532,488 |

Operating Leases

The County does have operating leases for computer equipment and also for office space. The computer leases require the County to enter into maintenance agreements for the computer equipment and maintain the equipment in good working order, repair and maintenance. Future minimum annual rental payments are as follows:

| Year Ending December 31, | Governmental Activities |
|-----------------------------|----------------------------|
| 2009 | \$ 146,765 |
| 2010 | 48,256 |
| 2011 | 11,356 |
| Total | \$ 206,377 |

Operating lease expenditures totaled \$152,652 for the year and are reported under General Governmental expenditures.

F. Long-Term Debt

General Obligation Bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

| Governmental Activities | Amount |
|--|----------------------|
| \$4,400,000-1997 Assisted Living /Nursing Home Improvements Bonds, Due in Annual Installments of \$325,000 to \$310,000 Through August 2012; Interest at 4.50% to 5.10% | \$ 830,800 |
| \$2,600,000 – 2001 Jaffrey District Court Bonds, Due in Annual Installments of \$130,000 Through October 2021; Interest at 3.875% to 4.85%. | 1,690,000 |
| \$37,000,000 – 2007 Correctional Facility Bonds, Due in Annual Installments of \$1,850,000 Through October 2027; Interest at 4.25%. | 35,150,000 |
| \$745,000-2007 State of New Hampshire Drinking Water Revolving Fund Loan-Payments to Begin on the First Anniversary of the Completion Date of the Project-Principal to be Paid Within Ten Years From the Date of the Bond-Interest to be the Lesser of 2.095% or the Adjusted Market Rate Less 1%. | 13,146 |
| \$500,000 – 2001 Correctional Facility Design Bonds, Due in Annual Installments of \$25,000 Through October 2021; Interest at 3.875% to 4.85%. | <u>325,000</u> |
| Total Governmental | <u>\$ 38,008,946</u> |
| | |
| Business-type Activities | Amount |
| \$4,223,000 – 1975 Nursing Home Bonds, Due in Annual Installments of \$150,000 to \$100,000 Through November 2005; Interest at 7.20%. | \$ - |
| \$4,400,000 – 1997 Assisted Living/Nursing Home Improvements Bonds, Due in Annual Installments of \$325,000 to \$310,000 Through August 2012; Interest at 4.50% to 5.10%. | <u>409,200</u> |
| Total Business Type | <u>409,200</u> |
| Total Bonds and Note Payable | <u>\$ 38,418,146</u> |

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending December 31, | Governmental Activities | | Business-Type Activities | |
|-----------------------------|-------------------------|----------------------|--------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2009 | \$ 2,212,700 | \$ 1,624,385 | \$ 102,300 | \$ 20,460 |
| 2010 | 2,212,700 | 1,529,383 | 102,300 | 15,447 |
| 2011 | 2,212,700 | 1,434,173 | 102,300 | 10,332 |
| 2012 | 2,212,700 | 1,338,963 | 102,300 | 5,217 |
| 2013 | 2,005,000 | 1,243,390 | - | - |
| 2014-2018 | 10,025,000 | 4,936,050 | - | - |
| 2019-2023 | 9,715,000 | 2,796,670 | - | - |
| 2024-2027 | <u>7,400,000</u> | <u>786,250</u> | <u>-</u> | <u>-</u> |
| **Total | <u>\$ 37,995,800</u> | <u>\$ 15,689,264</u> | <u>\$ 409,200</u> | <u>\$ 51,456</u> |

**** - Does Not Include the State Revolving Loan – No Final Payment Schedule Yet.**

Changes in Long-Term Liabilities

Long-term liability activity for the year ended was as follows:

| | Beginning Balances | Additions | Reductions | Ending Balances | Due Within One Year |
|--|-----------------------|------------------|-----------------------|----------------------|------------------------|
| <i>Governmental Activities:</i> | | | | | |
| General Obligation Bonds | \$ 40,213,148 | \$ 8,499 | \$ (2,212,700) | \$ 38,008,946 | \$ 2,212,700 |
| Capital Leases | 183,435 | - | (24,380) | 159,055 | 26,220 |
| Compensated Absences | <u>172,310</u> | <u>42,126</u> | <u>-</u> | <u>214,436</u> | <u>-</u> |
| Governmental Activity Long-Term Liabilities | <u>\$ 40,568,893</u> | <u>\$ 50,625</u> | <u>\$ (2,237,080)</u> | <u>\$ 38,382,437</u> | <u>2,238,920</u> |
| <i>Business-Type Activities:</i> | | | | | |
| General Obligation Bonds | \$ 511,500 | \$ - | \$ (102,300) | \$ 409,200 | \$102,300 |
| Capital Leases | 614,108 | - | (81,620) | 532,488 | 87,780 |
| Compensated Absences | <u>194,534</u> | <u>14,165</u> | <u>-</u> | <u>208,699</u> | <u>-</u> |
| Business-Type Activity Long-Term Liabilities | <u>\$ 1,320,142</u> | <u>\$ 14,165</u> | <u>\$ (183,920)</u> | <u>\$ 1,150,387</u> | <u>\$ 190,080</u> |

The County issues tax anticipation notes annually in advance of the payment of the County tax assessments in November and December by the various towns and cities in the County. These notes are necessary to meet the cash flow needs during the fiscal year, which include the County's normal operating budget. Short-term debt activity for the year was as follows:

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

| | Beginning Balance | Issued | Redeemed | Ending Balance |
|---------------------------------------|------------------------------|----------------------|----------------------|---------------------------|
| County Tax Anticipation Notes Payable | \$ <u> -</u> | \$ <u>19,820,906</u> | \$ <u>19,820,906</u> | \$ <u> -</u> |

V | OTHER INFORMATION

A. Risk Management

The County is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The County, along with numerous other municipalities in the State, is a member of two public entity risk pools in the State currently operating as a common risk management and insurance program for which all political subdivision in the State of New Hampshire are eligible to participate. The pools provide coverage for workers' compensation, unemployment and property liability insurance. As a member of the property liability and workers' compensation pools, the County shares in contributing to the cost of and receiving benefits from a self-insured pooled risk management program. Contributions paid for the fiscal year totaled \$357,687 for property liability, workers compensation and unemployment coverage, with no unpaid contributions at year-end.

The pool agreement permits the pool to make additional assessments to members should there be deficiency in pool assets to meet its liabilities. At this time, the pool foresees no likelihood of an additional assessment for past years.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. The County participates in a federally assisted contract for services with the Department of Health and Human Services Medicaid (Title XIX) - through the New Hampshire Department of Health and Human Services and also receives CDBG grant funds from the New Hampshire Office of State Planning as well as grant funds from the New Hampshire Office of the Attorney General.

The contract and the grants are subject to program compliance audits by the grantors or their representatives. The audits of the contract and the grants for or including the fiscal year have not yet been reviewed by the grantor. Accordingly, the County's compliance with applicable contract requirements will be established at some future date after the grantor's review. The amount if any, of expenditures which may be disallowed by the contracting agencies cannot be determined at this time although the County expects such amounts if any, to be immaterial.

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

C. Employee Pension Plan

PLAN DESCRIPTION - Substantially all County employees participate in the State of New Hampshire Retirement System (the System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All County full-time employees are eligible to participate in the System. The System is divided into two employee groups: Group I which includes all employees except fire fighters and police officers and Group II which is for fire fighters and police officers (including County Sheriff's Departments). The New Hampshire Retirement System issues annually a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the New Hampshire Retirement System, 4 Chenell Drive, Concord, NH.

GROUP I EMPLOYEES - who retire at or after age 60 but before age 65 are entitled to retirement benefits equal to 1.667% of the average of their three highest paid years of compensation, multiplied by their years of service. At age 65 the benefit is recalculated at 1.50% of AFC multiplied by their years of service credit. Earlier retirement allowances at reduced rates are available after age 50 with 10 years of service. Benefits fully vest upon reaching 10 years of service or attaining age 60.

GROUP II EMPLOYEES - who attain age 45 with 20 years or more of service are entitled to retirement benefits equal to 2.5% of the average of their three highest paid years of service, multiplied by their years of service, not to exceed 40. Benefits vest ratably beginning after 10 years of service.

The System also provides death and disability benefits. Cost-of-living increases have been periodically granted to retirees by the State Legislature.

FUNDING POLICY - The System is funded by contributions from both the employees and employers. Group I employees are required by State statute to contribute 5.0 percent of gross earnings. Group II employees are required to contribute 9.3 percent of their gross earnings. The employer must, under the same statute, contribute monthly at an actuarially determined rate. The current rates are 8.74% regular employees, 11.84% for police officers of covered payroll. The contribution requirement for the year was \$1,539,480, which consisted of \$950,504 from the County and \$588,976 from employees. The County's contributions to the System for the years ended December 31, 2007 and 2006 were \$795,066 and \$632,343, respectively, which were equal to the amount required under State statute to be contributed for each year.

(Continued on next page)

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

D. Commitment – Direct Financing Lease and Contracts

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 to be 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 \$1.00 at the end of the lease. Future minimum lease payments to be received are as follows at year end:

| Year Ended December 31, | Amount |
|------------------------------------|---------------------|
| 2009 | \$ 204,620 |
| 2010 | 199,420 |
| 2011 | 194,210 |
| 2012 | 189,020 |
| 2013 | 183,690 |
| Thereafter | <u>1,260,880</u> |
| Total | <u>\$ 2,231,840</u> |

E. Internal Service Health and Dental Fund – Self Insurance

During the year 2000, 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 \$60,000 annually for each individual plan participant. The County purchases commercial insurance for claims in excess of coverage provided by the fund and for all others risks of loss.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO THE FINANCIAL STATEMENTS

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 Funds claims liability amount were:

| Year Ended December 31, | Beginning of Year Liability | Current Years Claims and Changes in Estimates | Claims Payments | Balance at Year End |
|----------------------------|--------------------------------|--|--------------------|------------------------|
| 2004 | \$ 150,888 | \$ 2,241,420 | \$ (2,215,032) | \$ 177,276 |
| 2005 | 177,276 | 2,224,211 | (2,225,898) | 175,589 |
| 2006 | 175,589 | 1,730,047 | (1,756,227) | 149,409 |
| 2007 | 149,409 | 1,797,670 | (1,823,025) | 124,054 |
| 2008 | \$ 124,054 | \$ 1,328,138 | \$ (1,308,809) | \$ 143,383 |

F. Construction Commitments

The County has certain commitments at year end for architectural, engineering and construction manager services related to the House of Corrections construction project (total of \$20,340,262 of fund balance available at year end) and the Water System Improvements project.

| Project | Spend to Date | Remaining Commitment |
|---|----------------------|-------------------------|
| Jail Construction | \$ 13,363,854 | \$ 19,309,601 |
| Construction Administration/ Engineering | 1,685,836 | 239,437 |
| Water System Improvements | 102,108 | 44,892 |
| Total | <u>\$ 15,151,798</u> | <u>\$ 19,593,930</u> |

G. GASB #45 and Post-employment Benefits

GASB # 45 addresses the reporting of post-employment benefits other than pensions. This includes the healthcare costs that arise from the implicit rate subsidy when current and retired employees are rated together by the insurance provider to determine the health insurance premium cost. New Hampshire RSA 100-A:50 requires that the insurance premiums be rated together (“retired employees shall be deemed to be part of the same group of active employees.....for purposes of determining medical insurance premiums”). This results in the blended insurance rate that is an increased cost for current employees and a lower cost for retired employees, even if the retiree pays 100% of their health insurance premium. The amount of this implicit subsidy has not been computed or recognized as a liability or an expense on Statements 1 or 2. In addition, at year end there was only one individual retiree who was on the health insurance program and any potential implicit subsidy was considered to be immaterial.

REQUIRED SUPPLEMENTAL INFORMATION

COUNTY OF CHESHIRE, NEW HAMPSHIRE
 ACTUAL REVENUES AND EXPENDITURES COMPARED TO LEGALLY ADOPTED BUDGET
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2008

| | Original Adopted Budget | Prior Year's Encumbrances | Supplemental Budgets | Budget Transfers | Final Adopted Budget | Actual | Variance From Final Budget |
|--|-------------------------------|------------------------------|-------------------------|---------------------|----------------------------|----------------------|----------------------------------|
| REVENUES | \$ 19,654,594 | \$ - | \$ - | \$ - | \$ 19,654,594 | \$ 19,654,594 | \$ - |
| Taxes | | | | | | | |
| Intergovernmental | | | | | | | |
| Alternative Sentencing Metal Health Center | - | - | - | - | - | - | - |
| Federal Grants | 671,212 | - | - | - | 671,212 | 124,668 | (546,544) |
| Victim Witness Grant | 25,000 | - | - | - | 25,000 | 25,000 | - |
| Miscellaneous Non-Federal Grants | - | - | - | - | - | 7,731 | 7,731 |
| Domestic Violence Prosecutor Grant | 30,000 | - | - | - | 30,000 | 30,000 | - |
| Regional Prosecutor - Towns' Reimbursements | 117,153 | - | 36,338 | - | 153,491 | 137,314 | (16,177) |
| Bailiff Reimbursement | 95,000 | - | - | - | 95,000 | 110,112 | 15,112 |
| Drug Rebates | 17,000 | - | - | - | 17,000 | 11,114 | (5,886) |
| Human Services Board and Care Reimbursement | - | - | - | - | - | 29,297 | 29,297 |
| Total Intergovernmental | 955,365 | - | 36,338 | - | 991,703 | 475,236 | (516,467) |
| Charges for Services | | | | | | | |
| Register of Deeds | 750,000 | - | - | - | 750,000 | 598,935 | (151,065) |
| Sheriff's Department Fees | 50,500 | - | - | - | 50,500 | 54,368 | 3,868 |
| Sheriff's Department Travel | 32,000 | - | - | - | 32,000 | 32,754 | 754 |
| Sheriff's Department Other | 16,800 | - | - | - | 16,800 | 21,221 | 4,421 |
| Sheriff's Department Deputy Reimbursement | 25,000 | - | - | - | 25,000 | 18,523 | (6,477) |
| House of Corrections | 86,500 | - | - | - | 86,500 | 91,618 | 5,118 |
| County Farm | 328,924 | - | - | - | 328,924 | 321,029 | (7,895) |
| Assisted Living and Transportation Aid | 544,680 | - | - | - | 544,680 | 546,887 | 2,207 |
| Total Charges for Services | 1,834,404 | - | - | - | 1,834,404 | 1,683,335 | (149,069) |
| Interest | | | | | | | |
| Interest | 1,159,000 | - | - | - | 1,159,000 | 1,825,351 | 666,351 |
| Total Interest | 1,159,000 | - | - | - | 1,159,000 | 1,825,351 | 666,351 |
| Other | | | | | | | |
| Rental of Property | 8,991 | - | - | - | 8,991 | 8,991 | - |
| Unified and Jaffrey Court Leases | 601,434 | - | - | - | 601,434 | 601,434 | - |
| Workers Compensation Insurance Dividend | - | - | - | - | - | - | - |
| Unemployment Comp Insurance Dividend | - | - | - | - | - | - | - |
| County Attorney | 750 | - | - | - | 750 | 3,401 | 2,651 |
| Premium on Bond Issue | - | - | - | - | - | - | - |
| Miscellaneous | 5,000 | - | 25,000 | - | 30,000 | 15,155 | (14,845) |
| Total Other | 616,175 | - | 25,000 | - | 641,175 | 628,981 | (12,194) |
| Fund Balance Used for Prior Year's Encumbrances | - | 148,548 | - | - | 148,548 | - | (148,548) |
| Appropriated From Fund Balance | - | - | - | - | - | - | - |
| Fund Balance Used to Reduce the Tax Rate | - | - | - | - | - | - | - |
| Total Revenues | \$ 24,219,538 | \$ 148,548 | \$ 61,338 | \$ - | \$ 24,429,424 | \$ 24,269,497 | \$ (159,927) |

GAAP is the budgetary basis used in the preparation of this schedule. (Continued)
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COUNTY OF CHESHIRE, NEW HAMPSHIRE
ACTUAL REVENUES AND EXPENDITURES COMPARED TO LEGALLY ADOPTED BUDGET
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Original Adopted Budget | Prior Year's Encumbrances | Supplemental Budgets | Budget Transfers | Final Adopted Budget | Actual | Variance From Final Budget |
|--|-------------------------------|------------------------------|-------------------------|---------------------|----------------------------|------------------|----------------------------------|
| EXPENDITURES | | | | | | | |
| General Government: | | | | | | | |
| Commissioners' Office | \$ 284,298 | \$ - | \$ - | \$ - | \$ 284,298 | \$ 241,716 | \$ 42,582 |
| Treasurer | 8,545 | - | - | - | 8,545 | 10,476 | (1,931) |
| County Delegation | 12,096 | - | - | - | 12,096 | 7,478 | 4,618 |
| County Attorney | 585,972 | - | 36,338 | - | 622,310 | 633,300 | (10,990) |
| Prosecutor's Grant | 80,792 | - | - | - | 80,792 | 80,757 | 35 |
| Regional Prosecutor | 255,286 | - | - | - | 255,286 | 236,469 | 18,817 |
| Finance | 411,481 | - | - | (275,692) | 135,789 | 132,867 | 2,922 |
| Victim Witness Grant | 69,225 | - | - | - | 69,225 | 65,211 | 4,014 |
| Computer Operations | 261,911 | - | - | (175,480) | 86,431 | 81,280 | 5,151 |
| Register of Deeds | 474,605 | - | - | - | 474,605 | 453,518 | 21,087 |
| Medical Referee | 11,000 | - | - | - | 11,000 | 12,548 | (1,548) |
| Human Resources | 141,572 | - | - | - | 141,572 | 138,642 | 2,930 |
| Personnel Administration | 836,595 | - | - | - | 836,595 | 812,646 | 23,949 |
| Maintenance of Facilities | 651,004 | - | - | (47,858) | 603,146 | 585,422 | 17,724 |
| Assisted Living | 478,800 | - | - | - | 478,800 | 483,789 | (4,989) |
| Safety | 131,441 | - | - | - | 131,441 | 128,023 | 3,418 |
| Conservation District | 39,127 | - | - | - | 39,127 | 39,127 | - |
| Contingency | - | - | - | - | - | - | - |
| Total General Government | 4,733,750 | - | 36,338 | (499,030) | 4,271,058 | 4,143,269 | 127,789 |
| Public Safety: | | | | | | | |
| Sheriff's Department and Dispatch | 1,323,121 | 19,688 | - | - | 1,342,809 | 1,272,758 | 70,051 |
| House of Corrections | 2,733,472 | 1,539 | - | - | 2,735,011 | 2,736,062 | (1,051) |
| Fire Mutual Aid | 557,834 | - | - | - | 557,834 | 557,834 | - |
| Total Public Safety | 4,614,427 | 21,227 | - | - | 4,635,654 | 4,566,654 | 69,000 |
| County Farm | | | | | | | |
| County Farm | 308,052 | - | - | - | 308,052 | 333,758 | (25,706) |
| Human Services: | | | | | | | |
| Human Services | 5,888,564 | 51,602 | - | - | 5,940,166 | 5,353,665 | 586,501 |
| HCS Community Care | 98,752 | - | - | - | 98,752 | 98,752 | - |
| Monadnock Center for Violence Prevention | 8,000 | - | - | - | 8,000 | 8,000 | - |
| Monadnock Substance Abuse Center | 5,750 | - | - | - | 5,750 | 5,750 | - |
| Keene Community Kitchen, Inc. | 6,000 | - | - | - | 6,000 | 6,000 | - |
| Monadnock Family Services | 79,757 | - | - | - | 79,757 | 79,757 | - |
| Acting Out | 2,000 | - | - | - | 2,000 | 2,000 | - |
| Monadnock Development Services | 35,000 | - | - | - | 35,000 | 35,000 | - |
| Alternative Sentencing Program | 355,260 | - | - | - | 355,260 | 311,259 | 44,001 |
| Total Human Services | 6,479,083 | 51,602 | \$ - | \$ - | 6,530,685 | 5,900,183 | \$ 630,502 |

GAAP is the budgetary basis used in the preparation of this schedule.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
ACTUAL REVENUES AND EXPENDITURES COMPARED TO LEGALLY ADOPTED BUDGET
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Budget | Prior Year's Encumbrances | Supplemental Budgets | Budget Transfers | Final Adopted Budget | Actual | Variance From Final Budget |
|---|-------------------|---------------------------|----------------------|------------------|----------------------|-------------------|----------------------------|
| Capital Outlay | | | | | | | |
| Downtown Campus | \$ - | \$ 7,481 | \$ - | \$ - | \$ 7,481 | \$ - | \$ 7,481 |
| Lathis Roof | - | 12,734 | - | - | 12,734 | - | 12,734 |
| Computer/Telephone Equipment | 116,618 | 34,522 | - | - | 151,140 | 117,481 | 33,659 |
| Sheriff Equipment | 510,131 | 8,225 | - | - | 518,356 | 81,592 | 436,764 |
| Courthouse Improvements/Sprinklers | 47,000 | 10,273 | - | - | 57,273 | 2,454 | 54,819 |
| Administration Building | 1,500 | - | - | - | 1,500 | 4,514 | (3,014) |
| Wastewater Treatment Plant | 600 | - | - | - | 600 | - | 600 |
| Water Treatment Plant | 6,500 | - | - | - | 6,500 | 2,256 | 4,244 |
| Wastewater Treatment Plant Equipment | 2,500 | 1,638 | - | - | 4,138 | 1,932 | 2,206 |
| House of Corrections Improvements | 800 | 846 | - | - | 1,646 | 1,741 | (95) |
| House of Corrections Equipment | 8,200 | - | - | - | 8,200 | 6,986 | 1,214 |
| Alternative Sentencing Program Equipment | 1,800 | - | - | - | 1,800 | - | 1,800 |
| Farm Improvements | 21,800 | - | - | - | 21,800 | 1,408 | 20,392 |
| Farm Equipment | - | - | - | - | - | - | - |
| Total Capital Outlay | 717,449 | 75,719 | - | - | 793,168 | 220,364 | 572,804 |
| Debt Service | | | | | | | |
| Principal on Long-Term Debt and Capital Lease | 2,237,080 | - | - | - | 2,237,080 | 2,237,080 | - |
| Interest: | | | | | | | |
| Long-Term Debt | 1,797,442 | - | - | - | 1,797,442 | 1,797,441 | 1 |
| Tax Anticipation Notes | 319,000 | - | - | - | 319,000 | 320,727 | (1,727) |
| Total Interest | 2,116,442 | - | - | - | 2,116,442 | 2,118,168 | (1,726) |
| TOTAL EXPENDITURES | 21,206,283 | 148,548 | 36,338 | (499,030) | 20,892,139 | 19,519,476 | 1,372,663 |
| Excess (Deficiency) of Revenues Over Expenditures | 3,013,255 | - | 25,000 | 499,030 | 3,537,285 | 4,750,021 | 1,212,736 |
| <i>Proceeds of Long-Term Debt</i> | - | - | - | - | - | - | - |
| Operating Transfers In | | | | | | | |
| Special Revenue Funds: | | | | | | | |
| From Extension Service | - | - | - | - | - | 1,175 | 1,175 |
| Total Special Revenue Funds | - | - | - | - | - | 1,175 | 1,175 |
| Capital Projects Funds: | | | | | | | |
| From Capital Reserves | - | - | - | - | - | - | - |
| From Jail Capital Project Fund | - | - | - | - | - | - | - |
| Total Capital Projects Funds | - | - | - | - | - | - | - |
| Proprietary Funds: | | | | | | | |
| Internal Service Fund | - | - | - | - | - | - | - |
| Total Operating Transfers In | - | - | - | - | - | 1,175 | 1,175 |
| | | | | | | | (Continued) |

GAAP is the budgetary basis used in the preparation of this schedule.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
ACTUAL REVENUES AND EXPENDITURES COMPARED TO LEGALLY ADOPTED BUDGET
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Budget | Prior Year's Encumbrances | Supplemental Budgets | Budget Transfers | Final Adopted Budget | Actual | Variance From Final Budget |
|---|---------------------|------------------------------|-------------------------|---------------------|----------------------------|---------------------|----------------------------------|
| Operating Transfers (Out) | | | | | | | |
| Special Revenue Funds: | | | | | | | |
| To County Extension Service | \$ (217,875) | - | \$ - | \$ - | \$ (217,875) | \$ (216,675) | \$ 1,200 |
| To Therapy Scholarship Fund | - | - | (25,000) | - | (25,000) | - | 25,000 |
| To Deeds Surcharge | - | - | - | - | - | - | - |
| Total Special Revenue Funds | <u>(217,875)</u> | <u>-</u> | <u>(25,000)</u> | <u>-</u> | <u>(242,875)</u> | <u>(216,675)</u> | <u>26,200</u> |
| Capital Projects Funds: | | | | | | | |
| To Capital Reserves | - | - | - | - | - | - | - |
| Total Capital Projects Funds | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Enterprise Funds: | | | | | | | |
| To Nursing Home | (2,795,380) | - | - | (499,030) | (3,294,410) | (3,239,126) | 55,284 |
| Total Operating Transfers (Out) | <u>(3,013,255)</u> | <u>-</u> | <u>(25,000)</u> | <u>(499,030)</u> | <u>(3,537,285)</u> | <u>(3,455,801)</u> | <u>81,484</u> |
| Total Other Financing Sources (Uses) | <u>(3,013,255)</u> | <u>-</u> | <u>(25,000)</u> | <u>(499,030)</u> | <u>(3,537,285)</u> | <u>(3,454,626)</u> | <u>82,659</u> |
| Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources (Uses) | - | - | - | - | - | 1,295,395 | 1,295,395 |
| Fund Balances, Beginning of Year | 1,880,544 | - | - | - | 1,880,544 | 1,880,544 | - |
| Fund Balances, End of Year | <u>\$ 1,880,544</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,880,544</u> | <u>\$ 3,175,939</u> | <u>\$ 1,295,395</u> |