

COUNTY OF CHESHIRE, NEW HAMPSHIRE

Financial Statements

With Schedule of Expenditures of Federal Awards

December 31, 2011

and

Independent Auditor's Report

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

**Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program
and on Internal Controls over Compliance in Accordance
With OMB Circular A-133**

Schedule of Findings and Questioned Costs

COUNTY OF CHESHIRE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2011

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**COUNTY OF CHESHIRE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
County of Cheshire, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Cheshire, New Hampshire (the County) as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Cheshire, New Hampshire's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the respective financial position of the governmental and business-type activities of the County of Cheshire, New Hampshire, as of December 31, 2011, or the respective changes in financial position and cash flows, where applicable, thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the County of Cheshire, New Hampshire as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2012 on our consideration of the County of Cheshire, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-ix and 31-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Cheshire, New Hampshire's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Jachon Clukay & Company PC

May 29, 2012

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, 2011. 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 2011 are as follows:

- The County's total net assets were \$18,549,317 an increase of \$3,651,496, which represents a 24.51% increase over 2010 from \$14,897,821 (as restated).
- At the end of the current year, the County's governmental funds reported a combined ending fund balance of \$7,345,718 an increase of \$2,040,831 from the prior year balance of \$5,304,887 (as restated). Of this amount, \$4,210,508 is available for spending (unassigned).
- At the end of the current year, unassigned fund balance for the General Fund was \$4,210,508, which represents a 29.23% increase from the prior year balance of \$3,258,171.

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.

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/Medicaid Expenses, 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 controls over resources that have been segregated for specific activities or objects. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The funds of Cheshire County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Fund financial statements provide detailed information about the County's major funds. Based on the restriction on the use of moneys, the County has established many funds that account for the multitude of services provided to our residents. In 2011, the County has determined the General Fund and the ARRA Fund to be major governmental funds.

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

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

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

CHESHIRE COUNTY, NEW HAMPSHIRE MANAGEMENT'S DISCUSSION & ANALYSIS

County Extension Service, Incentive Fund, Heman Chase Fund, Deeds Surcharge, JAG Grant Fund and the Capital Reserve Funds are combined into a single, aggregated presentation.

PROPRIETARY FUNDS—The County has two types of proprietary funds. 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, Wellington Fund, Nursing Home Contribution Fund and Baronoski Fund. An internal service fund is used for its self-funded Health and Dental Insurance account.

FIDUCIARY FUNDS—Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the County's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

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 \$18,549,317 (\$15,769,263 in governmental activities and \$2,780,054 in business-type activities) as of December 31, 2011. This is an increase in net assets, as restated, of \$3,651,496 from 2010.

Cheshire County, New Hampshire Net Assets as of December 31, 2011 and December 31, 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 10,856,299	\$ 7,600,618	675,631	\$ 237,664	\$ 11,531,930	\$ 7,838,282
Direct Financing Lease A/R	1,444,560	1,827,800	-	-	1,444,560	1,827,800
Capital Assets, Net	<u>39,909,915</u>	<u>41,158,709</u>	<u>4,534,137</u>	<u>4,725,588</u>	<u>44,444,052</u>	<u>45,884,297</u>
Total Assets	<u>52,210,774</u>	<u>50,587,127</u>	<u>5,209,768</u>	<u>4,963,252</u>	<u>57,420,542</u>	<u>55,550,379</u>
Other Liabilities	5,851,803	5,254,410	1,624,284	1,225,449	7,476,087	6,479,859
Long-Term Liabilities	<u>30,589,708</u>	<u>32,896,594</u>	<u>805,430</u>	<u>1,276,105</u>	<u>31,395,138</u>	<u>34,172,699</u>
Total Liabilities	<u>\$ 36,441,511</u>	<u>\$ 38,151,004</u>	<u>\$ 2,429,714</u>	<u>\$ 2,501,554</u>	<u>\$ 38,871,225</u>	<u>\$ 40,652,558</u>
Net Assets:						
Invested in Capital Assets,						
Net of						
Related Debt	\$ 7,249,722	7,564,069	\$ 3,474,487	\$ 3,498,075	\$ 10,724,209	\$ 11,062,144
Restricted	2,293,455	2,426,346	72,054	-	2,365,509	2,426,346
Unrestricted	<u>6,226,086</u>	<u>2,445,708</u>	<u>(766,487)</u>	<u>(1,036,377)</u>	<u>5,459,599</u>	<u>1,409,331</u>
Total Net Assets	<u>\$ 15,769,263</u>	<u>\$ 12,436,123</u>	<u>\$ 2,780,054</u>	<u>\$ 2,461,698</u>	<u>\$ 18,549,317</u>	<u>\$ 14,897,821</u>

CHESHIRE COUNTY, NEW HAMPSHIRE MANAGEMENT'S DISCUSSION & ANALYSIS

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 (\$10,724,209) is net of any related debt incurred to acquire those assets and represents 57.81% 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 (\$2,365,509 or 12.75%) represents resources that are subject to restrictions on how they can be used. For Cheshire County, those restrictions include those related to limitations imposed by statutes governed by the State of New Hampshire and unexpended proceeds from bonds, grants, and restricted donations.

The remaining portion (\$5,459,599 or 29.43%) 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 2011 negative balance decreased by \$307,773 to a balance of (\$766,487) from the 2010 level of (\$1,074,260).

The next statement provided shows the changes in net assets for 2010 and 2011.

***Note 2011 restatements for GASB 54 are only reflected in the 2011 Current year figures.**

Cheshire County, Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues						
Charges for Services	\$ 2,785,986	\$ 2,417,585	\$ 9,342,984	\$ 9,232,054	\$ 12,128,970	\$ 11,649,639
Operating Grants and Contributions	2,564,977	795,431	1,761,603	2,438,001	4,326,580	3,233,432
Capital Grants and Contributions	-	-	25,296	-	25,296	-
Total Program Revenues	<u>5,350,963</u>	<u>3,213,016</u>	<u>11,129,883</u>	<u>11,670,655</u>	<u>16,480,846</u>	<u>14,883,071</u>
General Revenues						
Property Taxes	23,861,006	22,452,755	-	-	23,861,006	22,452,755
Gain(Loss) on Disposal of Capital Assets	-	-	-	460	-	460
Grants and Contributions	-	1,473,670	-	-	-	1,473,670
Interest and Investment	6,064	28,730	636	3,518	6,700	32,248
Other	<u>547,744</u>	<u>210,843</u>	<u>956,959</u>	<u>14,489</u>	<u>1,504,703</u>	<u>225,332</u>
Total General Revenue	<u>24,414,814</u>	<u>24,165,998</u>	<u>957,595</u>	<u>18,467</u>	<u>25,372,409</u>	<u>24,184,465</u>

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

Total Revenues	29,765,777	27,379,014	12,087,478	11,688,522	41,853,255	39,067,536
Transfers	<u>(2,832,842)</u>	<u>(2,820,623)</u>	<u>2,832,842</u>	<u>2,820,623</u>	<u>-</u>	<u>-</u>
Total Revenues and Transfers	<u>26,932,935</u>	<u>24,558,391</u>	<u>14,920,320</u>	<u>14,509,145</u>	<u>41,853,255</u>	<u>39,067,523</u>
Expenses:						
General Government	4,441,778	4,623,596	-	-	4,441,778	4,623,596
Public Safety	8,456,957	7,188,903	-	-	8,456,957	7,188,903
Human Services	8,177,116	8,025,814	-	-	8,177,116	8,025,814
Conservation	246,099	429,391	-	-	246,099	429,391
Economic Development	507,527	39,280	-	-	507,527	39,280
Farm	268,960	429,374	-	-	268,960	429,374
Interest on Long Term Debt	1,501,358	1,537,171	-	-	1,501,358	1,537,171
Cheshire County Nursing Home	<u>-</u>	<u>-</u>	<u>14,601,964</u>	<u>14,811,158</u>	<u>14,601,964</u>	<u>14,811,158</u>
Total Expenses	<u>23,599,795</u>	<u>22,273,529</u>	<u>14,601,964</u>	<u>14,811,158</u>	<u>38,201,759</u>	<u>37,084,687</u>
Increase (Decrease) in Net Assets as restated	<u>\$ 3,333,140</u>	<u>\$ 2,284,862</u>	<u>\$ 318,356</u>	<u>(302,013)</u>	<u>\$ 3,651,496</u>	<u>\$ 1,982,849</u>

Governmental Activities

Charges to users of governmental services made up \$2,785,986 or 9.4% 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 2011, this totaled \$2,564,977 or 8.62% of total government revenue. Operating grants are used to fund expenses associated with programs such as the Domestic Violence Prosecutor, the Victim Witness Program and the Regional Prosecutor Program. Other contributions included in the amount are grants for Public Health initiatives and Enforcing Underage Drinking programs.

Property tax revenues are the County's largest revenue, accounting for \$23,861,006 or 80.16% of total government revenues. As noted previously, the County is able to recover some of its expenses through user charges, however, a great deal of County operations do not have revenue sources sufficient or available to meet their expenses and as a result are funded by Property Taxes.

One of the largest expenses funded through the assessment of taxes is associated with the obligation towards the Human Service Medicaid Expenses. This area is responsible for paying the County's share of funding for those Cheshire County residents needing Medicaid assistance. As of July 1, 2008, the County took on 100% of the non-federal share for residents in Long Term Care Facilities and for County residents receiving their care at home (Choices for Independence). As a result, the State of New Hampshire took over 100% of the non federal share of the other programs which included Board and Care of Children, Old Age Assistance, Aide to the Permanently and Totally Disabled and Provider Services. As the cost of these programs outweigh the cost of the LTC and Home Care programs, there was a "Hold Harmless" provision included in the statute that protected the Counties from being exposed to additional expenditures above normal inflationary rates for State Fiscal Years 2009 and 2010. After SFY 2010, the legislature establishes caps to determine the maximum liability exposure for these expenses on a biennial basis. The amount of 2011 County

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

Taxes attributable to the State passthrough for these Medicaid State Programs was \$6,787,408 or 28.45% of County Taxes.

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

**Cheshire County, Governmental Activities
For Year Ending December 31, 2011 and December 31, 2010**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
General Government	\$ 4,441,778	\$ 5,831,545	3,348,351	4,005,067
Public Safety	8,456,957	7,188,903	6,991,817	6,119,273
Human Services	8,177,116	7,286,536	6,407,103	7,286,536
Farm	268,960	429,374	(244,856)	181,886
Conservation	246,099	-	246,099	-
Economic Development	507,527	-	(1,040)	-
Interest Expense	<u>1,501,358</u>	<u>1,537,171</u>	<u>1,501,358</u>	<u>1,467,751</u>
Total Expenses	<u>\$ 23,599,795</u>	<u>\$ 22,273,529</u>	<u>\$ 18,248,832</u>	<u>\$ 19,060,513</u>

Business-Type Activities

Charges for services provided funding for 63.98% of total program expenses with the additional 12.24% coming from operating grants and contributions and 19.40% (\$2,832,842) 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 2010, the Nursing Home required the General Fund to subsidize the operations by 18.22% or \$2,820,623. In 2011, the subsidy remained nearly the same increasing only slightly to 19.40% or \$2,832,842, an increase of \$12,219.

Financial Analysis of County Funds

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

Governmental Funds

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

CHESHIRE COUNTY, NEW HAMPSHIRE MANAGEMENT'S DISCUSSION & ANALYSIS

As of December 31, 2011, the County's governmental funds reported a combined ending fund balance of \$7,345,718, an increase of \$2,040,831 in comparison with the prior year, as restated. Approximately 57.32% of this total (\$4,210,508) represents unassigned fund balance. The increase is partially due to favorable results for actual expenditures when compared to actual revenues. Additionally, \$483,164 of the committed fund balance was added by the Delegation in a budget amendment due to the receipt of ProShare funds. This addition to fund balance was committed to offset 2012 taxes to be raised.

Complete descriptions of the above mentioned classifications and a more detailed breakdown may be found on page 15 of the Notes to the Basic Financial Statements.

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, 2011 were at deficit levels of (\$1,804,252). The unrestricted net asset deficit increased by \$5,790 over the 2010 level of (\$1,798,462). 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, 2011, approximately 84% of the nursing home census consisted of residents needing Medicaid assistance in order to pay for their care. Based on the 2011 Medicaid cost report for Maplewood, the per diem rate was calculated to be \$290.76, however, the actual paid per diem as of December 31, 2011 was \$154.78 or \$135.98 per day short of 2011 costs. The supplemental payment provided additional reimbursement averaging \$42.23 per day with the Proportionate Share Funds providing additional reimbursement of \$26.06 per day. These additional payments still leave the allowable per diem rate short by approximately \$67.69 per day.

As of January 1, 2012 the Medicaid rate for Cheshire County decreased by \$10.04 per day to a daily rate of \$144.74.

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 21, 2011, the County Convention adopted the 2011 budget. As adopted, the bottom line was up .46% (\$187,956) and taxes to be raised were 6.51% higher than 2010 (\$1,462,113) for total taxes to be raised of \$23,914,868.

Areas that contributed to the increase included the following:

- Nursing Home revenue projections decreasing by \$552,044.
- Projected revenue decreases in NH Quality Assessment return of \$323,335 due to the phase out of Enhanced ARRA FMAP funds.
- An increase in expenses of \$438,352 for contributions towards Medicaid Assistance for Nursing Home and Home Based Care (HCBC).
- Increase in Health Insurance contributions of \$221,222

CHESHIRE COUNTY, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION & ANALYSIS

On April 24, 2011, there was a budget amendment of \$750,000 bringing the total approved budget to \$41,982,995. This \$750,000 increase in appropriations was made in order to accommodate an overnight loan to Monadnock Economic Development to reflect a land transaction whereas the County will sell .58 acres of land in order for them to construct a new courthouse.

On July 25, 2011 011 there was another supplemental budget brought before the County Delegation amending the budget by another \$299,557. This amendment was brought forward based on the receipt of ProShare Funds, receipt of grant funds as well as to seek authorization to expend excess revenues realized as a result of equipment auctioned during the closing of the County Dairy Farm. As a result of the supplemental budget, the total budget increased to \$42,282,552 up 3.02% (\$1,237,513) over the 2010 budget. The amendment decreased taxes to be raised by \$53,862 adjusting taxes to \$23,861,006 up 6.27% (\$1,408,251) from 2010.

Capital Assets and Debt Administration

Capital Assets—The County's investment in capital assets for governmental and business-type activities as of December 31, 2011, was \$44,444,052 (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 accomplished in 2011 include \$294,496 for the completion of the Waste Water Treatment Plant Upgrade, \$24,000 to replace 2 condensers at Maplewood Nursing Home and \$15,000 each for mechanical lifts and tub lifts for the Nursing Home.

Note 7 – Detailed Notes of Capital Assets provides additional information about capital asset activity during 2011.

Long-Term Debt—At December 31, 2011, the County had total general obligation bonded debt and notes payable outstanding of \$33,190,452. Of this amount, \$1,300,000 is for the Jaffrey District Court House and is reimbursed by the State of New Hampshire by way of a lease agreement. The annual payment schedule for the lease corresponds with the bond schedule principal and interest payments. Other outstanding debt includes 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, 2011 of \$310,000. Bonds for the study of a new County Jail had a balance remaining of \$250,000 at year-end. The bonds for the construction of the County Correctional Facility had a balance outstanding at year-end for \$29,600,000. The County made its second payment on a 15 year bond for the Geothermal Heating and Cooling System Bond for the new County correctional facility in 2011 leaving an outstanding balance at year end of \$1,100,000. Additionally, \$416,404 was the final total for the Water Treatment Upgrade Project which was funded by the use of State of New Hampshire Revolving Loan Funds. Repayment of this loan started in 2011 with a term of 5 years. At the end of 2011 the balance remaining was \$337,717. The County also utilized the State Revolving Loan Fund to upgrade its Waste Water Treatment Plant. This project was completed in 2011 for a total cost of \$294,496, which includes accrued interest of \$1,761. ½ of this will be forgiven at the time of the first principal payment in 2012.

The County's long term bonded debt decreased by payments made of \$2,493,687 during 2011 and increased by \$74,724 (new debt issued) for a net decrease of \$2,418,963.

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

The current outstanding debt for Cheshire County is as follows:

Cheshire County, Outstanding Debt December 31, 2011			
	Governmental Activities	Business-type Activities	Total
Nursing Home Expansion	\$ 207,700	\$ 102,300	\$ 310,000
Jail Expansion Study	250,000	-	250,000
Jaffrey District Court House	1,300,000	-	1,300,000
Jail Construction	29,600,000	-	29,600,000
Jail Geothermal System	1,100,000	-	1,100,000
Water Treatment Upgrade	-	337,717	337,717
Waste Water Trmnt Upgrade	-	292,735	292,735
Total Outstanding Debt	<u>\$ 32,457,700</u>	<u>\$ 734,513</u>	<u>\$ 33,190,452</u>

In 2005, the first lease payment associated with the Energy Efficiency Project was due. Total principal for this project was \$1,070,543 and was spread out a twelve (12) year period. The seventh principal payment was made on May 30, 2011 for \$80,000. The remaining principal due for this project as of December 31, 2011 is \$424,543.

Moody's has assigned an underlying rating of A1 to the outstanding general obligation debt of the County.

Economic Factors

- The Cheshire County unemployment rate for December 2011 was 4.5%, which compares favorably to the State's rate of 4.9 %, the New England rate of 6.9% and the national rate of 8.3 %. The County rate decreased over December 2010 at which time was 5.3 %.
- Most recent equalized assessed valuations of property used for appropriating Cheshire County's 2011 taxes were \$7,232,407,496. This is a decrease over the prior year assessed valuations of .53% or \$38,279,680.
- There were no outstanding tax payments due from any Cheshire County Town as of December 31, 2011.

Requests for Information

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

EXHIBIT A
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 6,272,046	\$ 1,535,602	\$ 7,807,648
Investments	32,378	25,300	57,678
Accounts receivable, net	148,117	2,440,896	2,589,013
Due from other governments	195,382	394,999	590,381
Internal balance	3,924,745	(3,924,745)	-
Prepaid expenses	94,611	8,125	102,736
Inventory		95,905	95,905
Current portion of direct financing lease receivable	189,020		189,020
Total Current Assets	<u>10,856,299</u>	<u>576,082</u>	<u>11,432,381</u>
Noncurrent Assets:			
Restricted cash		99,549	99,549
Direct financing lease receivable	1,444,560		1,444,560
Capital assets:			
Non-depreciable capital assets	1,046,822	75,211	1,122,033
Depreciable capital assets, net	<u>38,863,093</u>	<u>4,458,926</u>	<u>43,322,019</u>
Total Noncurrent Assets	<u>41,354,475</u>	<u>4,633,686</u>	<u>45,988,161</u>
Total Assets	<u>\$ 52,210,774</u>	<u>\$ 5,209,768</u>	<u>\$ 57,420,542</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 571,404	\$ 404,889	\$ 976,293
Accrued expenses	1,075,386	597,133	1,672,519
Deferred revenue	50,148	220,623	270,771
Due to other governments	1,750,800	147,419	1,898,219
Current portion of deferred revenue on long-term receivable	59,020		59,020
Current portion of deferred bond premium	12,335		12,335
Current portion of bonds payable	2,312,700	102,300	2,415,000
Current portion of note payable		84,930	84,930
Current portion of capital lease payable	20,010	66,990	87,000
Total Current Liabilities	<u>5,851,803</u>	<u>1,624,284</u>	<u>7,476,087</u>
Noncurrent Liabilities:			
Deferred revenue on long-term receivable	274,560		274,560
Deferred bond premium	92,513		92,513
Bonds payable	30,145,000		30,145,000
Note payable		252,787	252,787
Capital lease payable	77,635	259,908	337,543
Other long-term obligations		292,735	292,735
Total Noncurrent Liabilities	<u>30,589,708</u>	<u>805,430</u>	<u>31,395,138</u>
Total Liabilities	<u>36,441,511</u>	<u>2,429,714</u>	<u>38,871,225</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,249,722	3,474,487	10,724,209
Restricted	2,293,455	72,054	2,365,509
Unrestricted (deficit)	<u>6,226,086</u>	<u>(766,487)</u>	<u>5,459,599</u>
Total Net Assets	<u>15,769,263</u>	<u>2,780,054</u>	<u>18,549,317</u>
Total Liabilities and Net Assets	<u>\$ 52,210,774</u>	<u>\$ 5,209,768</u>	<u>\$ 57,420,542</u>

See accompanying notes to the basic financial statements

EXHIBIT B
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:							
General government	\$ 4,441,778	\$ 486,771	\$ 606,656		\$ (3,348,351)		\$ (3,348,351)
Public safety	8,456,957	1,181,148	283,992		(6,991,817)		(6,991,817)
Farm	268,960	513,816			244,856		244,856
Human services	8,177,116	604,251	1,165,762		(6,407,103)		(6,407,103)
Conservation	246,099				(246,099)		(246,099)
Economic development	507,527		508,567		1,040		1,040
Interest and fiscal charges	<u>1,501,358</u>				<u>(1,501,358)</u>		<u>(1,501,358)</u>
Total governmental activities	<u>23,599,795</u>	<u>2,785,986</u>	<u>2,564,977</u>	<u>\$ -</u>	<u>(18,248,832)</u>	<u>\$ -</u>	<u>(18,248,832)</u>
Business-type Activities:							
Nursing Home	14,601,964	9,342,984	1,761,603	25,296		(3,472,081)	(3,472,081)
Total business-type activities	<u>14,601,964</u>	<u>9,342,984</u>	<u>1,761,603</u>	<u>25,296</u>	<u>-</u>	<u>(3,472,081)</u>	<u>(3,472,081)</u>
Total primary government	<u>\$ 38,201,759</u>	<u>\$ 12,128,970</u>	<u>\$ 4,326,580</u>	<u>\$ 25,296</u>	<u>(18,248,832)</u>	<u>(3,472,081)</u>	<u>(21,720,913)</u>
General revenues:							
Property taxes					23,861,006		23,861,006
Interest and investment earnings					6,064	636	6,700
Miscellaneous					547,744	956,959	1,504,703
Transfers					<u>(2,832,842)</u>	<u>2,832,842</u>	<u>-</u>
Total general revenues and transfers					<u>21,581,972</u>	<u>3,790,437</u>	<u>25,372,409</u>
Change in net assets					3,333,140	318,356	3,651,496
Net assets - beginning, as restated					<u>12,436,123</u>	<u>2,461,698</u>	<u>14,897,821</u>
Net assets - ending					<u>\$ 15,769,263</u>	<u>\$ 2,780,054</u>	<u>\$ 18,549,317</u>

See accompanying notes to the basic financial statements

EXHIBIT C
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2011

	General Fund	ARRA Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 4,177,522	\$ 1,838,138	\$ 256,386	\$ 6,272,046
Investments	1,441		30,937	32,378
Accounts receivable	102,563		45,554	148,117
Due from other governments	195,207		175	195,382
Due from other funds	3,723,909	233,681	40,674	3,998,264
Prepaid expenses	94,611			94,611
Total Assets	<u>\$ 8,295,253</u>	<u>\$ 2,071,819</u>	<u>\$ 373,726</u>	<u>\$ 10,740,798</u>
LIABILITIES				
Accounts payable	\$ 422,890		\$ 128,766	\$ 551,656
Accrued expenses	719,968			719,968
Deferred revenue	50,148			50,148
Due to other governments	1,750,800			1,750,800
Due to other funds	302,542		19,966	322,508
Total Liabilities	<u>3,246,348</u>	<u>\$ -</u>	<u>148,732</u>	<u>3,395,080</u>
FUND BALANCES				
Nonspendable	94,611			94,611
Restricted	12,644	2,071,819	208,992	2,293,455
Committed	692,226			692,226
Assigned	38,916		16,002	54,918
Unassigned	4,210,508			4,210,508
Total Fund Balances	<u>5,048,905</u>	<u>2,071,819</u>	<u>224,994</u>	<u>7,345,718</u>
Total Liabilities and Fund Balances	<u>\$ 8,295,253</u>	<u>\$ 2,071,819</u>	<u>\$ 373,726</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 39,909,915

Other long-term assets are not available to pay for current period expenditures and therefore are saved in the funds. 1,633,580

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 from the Business-type Activities at year end. 229,241

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:

Deferred revenue related to long-term receivable (333,580)
Deferred bond premium (104,848)
Bonds payable (32,457,700)
Capital lease payable (97,645)
Accrued interest on long-term obligations (355,418)

Net assets of governmental activities \$ 15,769,263

See accompanying notes to the basic financial statements

EXHIBIT D
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General Fund	ARRA Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 23,861,006			\$ 23,861,006
Intergovernmental	1,213,357	\$ 613,518	\$ 738,102	2,564,977
Charges for services	2,764,712		21,274	2,785,986
Interest and investment income	4,544	1,118	402	6,064
Miscellaneous	701,987		95,549	797,536
Total Revenues	<u>28,545,606</u>	<u>614,636</u>	<u>855,327</u>	<u>30,015,569</u>
Expenditures:				
Current operations:				
General government	4,382,815		36,239	4,419,054
Public safety	7,142,362		32,472	7,174,834
Farm	194,302			194,302
Human services	8,094,543			8,094,543
Conservation	249,857			249,857
Economic development			507,527	507,527
Capital outlay	81,196		483,962	565,158
Debt service:				
Principal retirement	2,331,100			2,331,100
Interest and fiscal charges	1,605,521			1,605,521
Total Expenditures	<u>24,081,696</u>	<u>-</u>	<u>1,060,200</u>	<u>25,141,896</u>
Excess revenues (under) expenditures	<u>4,463,910</u>	<u>614,636</u>	<u>(204,873)</u>	<u>4,873,673</u>
Other financing sources (uses):				
Transfers in	350,547			350,547
Transfers out	(2,709,924)		(473,465)	(3,183,389)
Total other financing sources (uses)	<u>(2,359,377)</u>	<u>-</u>	<u>(473,465)</u>	<u>(2,832,842)</u>
Net change in fund balances	2,104,533	614,636	(678,338)	2,040,831
Fund balances at beginning of year, as restated	<u>2,944,372</u>	<u>1,457,183</u>	<u>903,332</u>	<u>5,304,887</u>
Fund balances at end of year	<u>\$ 5,048,905</u>	<u>\$ 2,071,819</u>	<u>\$ 224,994</u>	<u>\$ 7,345,718</u>

COUNTY OF CHESHIRE, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2011

Net Change in Fund Balances--Total Governmental Funds	\$ 2,040,831
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(1,129,003)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the gain of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	(119,792)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	64,220
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	33,347
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,312,700
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	18,400
Revenue received from the State of New Hampshire and reported in the governmental funds are reported as a reduction of the direct financing lease receivable in the statement of net assets.	(194,220)
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.	235,841
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	70,816
Change in Net Assets of Governmental Activities	<u>\$ 3,333,140</u>

See accompanying notes to the basic financial statements

EXHIBIT E
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Business-type Activities	
	Nursing Home Fund	Internal Service Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 275,124	\$ 1,260,478
Investments	25,300	
Accounts receivable, net	2,437,515	
Due from other governments	394,999	
Due from other funds	3,381	8,439
Prepaid expenses	8,125	
Inventory	95,905	
Total Current Assets	<u>3,240,349</u>	<u>1,268,917</u>
Noncurrent Assets:		
Restricted cash		99,549
Capital assets:		
Non-depreciable capital assets	75,211	
Depreciable capital assets, net	<u>4,458,926</u>	
Total Noncurrent Assets	<u>4,534,137</u>	<u>99,549</u>
Total Assets	<u>\$ 7,774,486</u>	<u>\$ 1,368,466</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 303,429	\$ 101,460
Accrued expenses	597,133	
Deferred revenue	220,623	
Due to other governments	147,419	
Due to other funds	3,703,943	
Current portion of bonds payable	102,300	
Current portion of note payable	84,930	
Current portion of capital lease payable	<u>66,990</u>	
Total Current Liabilities	<u>5,226,767</u>	<u>101,460</u>
Noncurrent Liabilities:		
Note payable	252,787	
Capital lease payable	259,908	
Other long-term obligations	<u>292,735</u>	
Total Noncurrent Liabilities	<u>805,430</u>	<u>-</u>
Total Liabilities	<u>6,032,197</u>	<u>101,460</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,474,487	
Restricted	72,054	
Unrestricted (deficit)	<u>(1,804,252)</u>	<u>1,267,006</u>
Total Net Assets	<u>1,742,289</u>	<u>1,267,006</u>
Total Liabilities and Net Assets	<u>\$ 7,774,486</u>	<u>\$ 1,368,466</u>
Reconciliation to government-wide statement of net assets:		
Net assets of the Nursing Home Fund per above	\$ 1,742,289	
Adjustment to reflect the consolidation of Internal Service		
Fund activities related to Business-type Activities	<u>1,037,765</u>	
Net assets of Business-type Activities	<u>\$ 2,780,054</u>	

See accompanying notes to the basic financial statements

EXHIBIT F
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Business-type Activities	
	Nursing Home Fund	Internal Service Fund
Operating revenues:		
Intergovernmental revenue	\$ 1,761,603	
Charges for services	9,342,984	\$ 3,032,436
Miscellaneous	956,959	
Total operating revenues	<u>12,061,546</u>	<u>3,032,436</u>
Operating expenses:		
Administrative	2,703,841	2,483,553
Quality improvement	94,685	
Dietary	1,377,973	
Nursing	5,795,697	
Atypical unit	1,212,780	
Facilities	1,131,260	
Wastewater treatment plant	24,192	
Water treatment plant	19,046	
Environmental services	656,270	
Activities	264,380	
Social services	229,636	
Occupational therapy	196,457	
Physical therapy	399,151	
Speech therapy	81,255	
Other services for residents	225,669	
Depreciation	469,441	
Total operating expenses	<u>14,881,733</u>	<u>2,483,553</u>
Operating income (loss)	<u>(2,820,187)</u>	<u>548,883</u>
Non-operating revenues (expenses):		
Interest revenue	115	521
Interest expense	<u>(33,273)</u>	
Net non-operating revenues (expenses)	<u>(33,158)</u>	<u>521</u>
Income (loss) before capital contributions and transfers	(2,853,345)	549,404
Capital contributions	25,296	
Transfers in	<u>2,832,842</u>	
Change in net assets	4,793	549,404
Total net assets at beginning of year, as restated	<u>1,737,496</u>	<u>717,602</u>
Total net assets at end of year	<u>\$ 1,742,289</u>	<u>\$ 1,267,006</u>
Reconciliation to Government-Wide Statement of Net Assets (Exhibit B):		
Change in net assets of the Nursing Home Fund per above	\$ 4,793	
Adjustment to reflect the consolidation of Internal Service Fund activity related to Business-type Activities	<u>313,563</u>	
Change in net assets business-type activities, Exhibit B	<u>\$ 318,356</u>	

See accompanying notes to the basic financial statements

EXHIBIT G
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Business-type Activities	
	Nursing Home Fund	Internal Service Fund
Cash flows from operating activities:		
Cash received from services	\$ 12,120,167	
Cash received (paid) for interfund services provided	(1,729,476)	\$ 3,032,436
Cash paid to suppliers	(5,027,658)	(2,494,922)
Cash paid to employees	(7,650,858)	
Net cash provided (used) by operating activities	<u>(2,287,825)</u>	<u>537,514</u>
Cash flows from noncapital financing activities:		
Transfers from other funds	2,832,842	
Net cash provided by noncapital financing activities	<u>2,832,842</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Proceeds from other long-term obligations	21,795	
Principal paid on bonds payable	(102,300)	
Principal paid on note payable	(78,687)	
Principal paid on capital lease payable	(61,600)	
Interest paid on long-term debt	(35,319)	
Purchases of capital assets	(274,981)	
Net cash used for capital and related financing activities	<u>(531,092)</u>	<u>-</u>
Cash flows from investing activities:		
Investment income	115	521
Purchase of investments	(19)	
Net cash provided by investing activities	<u>96</u>	<u>521</u>
Net increase in cash and cash equivalents	14,021	538,035
Cash and cash equivalents (deficiency) at beginning of year	(3,439,459)	830,431
Cash and cash equivalents (deficiency) at end of year	<u>\$ (3,425,438)</u>	<u>\$ 1,368,466</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (2,820,187)	\$ 548,883
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	469,441	
Changes in assets and liabilities:		
Accounts receivable, net	(103,685)	
Due from other governments	57,000	
Prepaid expenses	(6,901)	
Inventory	7,069	
Accounts payable	(38,676)	(11,369)
Accrued expenses	2,020	
Deferred revenue	105,306	
Due to other governments	1,577	
Compensated absences	39,211	
Net cash provided (used) by operating activities	<u>\$ (2,287,825)</u>	<u>\$ 537,514</u>
Supplemental disclosure of non-cash transactions:		
Capital asset additions included in year end liabilities	<u>\$ 22,287</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

EXHIBIT H
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 404,779
Due from other funds	<u>19,748</u>
Total assets	<u><u>\$ 424,527</u></u>
LIABILITIES	
Accounts payable	\$ 43,951
Due to others	126,958
Due to other governments	250,237
Due to other funds	<u>3,381</u>
Total liabilities	<u><u>\$ 424,527</u></u>

See accompanying notes to the basic financial statements

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Cheshire, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

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

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

Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

2. Fund Financial Statements

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

Fund Accounting

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

1. Governmental Funds

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

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

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

2. Proprietary Funds

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

The *Nursing Home Fund* accounts for all revenues and expenses pertaining to the County's Nursing Home facility operations. The Nursing Home Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

3. Fiduciary Funds

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

Measurement Focus

1. Government-Wide Financial Statements

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

2. Fund Financial Statements

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

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

Basis of Accounting

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

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The County has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

1. Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the County, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 3). Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the County must provide local resources to be used for a specified purpose; and expenditure requirements in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes and interest on investments.

Charges for services and miscellaneous revenues (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

Budgetary Data

The County's budget represents functional appropriations as authorized by the County Delegation. The County Delegation may transfer funds between operating categories as they deem necessary. The County adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

Encumbrance Accounting

Encumbrance accounting, under which purchase orders and other commitments for the expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental funds. Encumbrances outstanding at year end

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

Cash and Cash Equivalents

The County pools its cash resources for the governmental and proprietary funds. Cash applicable to a particular fund is reflected as an interfund balance. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

	Nursing <u>Home Fund</u>	Internal <u>Service Fund</u>
Statement of Net Assets - Proprietary Funds:		
Cash and cash equivalents	\$ 275,124	\$ 1,260,478
Due from other funds	3,381	8,439
Due to other funds	(3,703,943)	
Restricted cash		99,549
	<u><u>\$(3,425,438)</u></u>	<u><u>\$ 1,368,466</u></u>

Investments

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

Accounts Receivable

Nursing Home Fund accounts receivable at December 31, 2011 are recorded net of an allowance for uncollectible receivables of \$136,483.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2011 are recorded as prepaid items.

Inventory

The County accounts for inventories under the consumption method on a first-in, first out basis. Inventories are recorded at cost.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the date received. The County maintains a capitalization threshold of \$5,000 for its governmental activities and \$500 for its business-type activities. The County does not possess any intangible assets. Improvements

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets of the business-type activities is also capitalized.

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

<u>Description</u>	<u>Years</u>
Land improvements	10-30
Water system	30
Wastewater system	30
Buildings and improvements	5-40
Vehicles and equipment	5-25

Compensated Absences

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

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

Deferred Bond Premium

The issuance of general obligation bonds resulted in a difference between the bond proceeds and the actual principal to be repaid. This difference, reported in the accompanying financial statements as a deferred bond premium, is being amortized as a component of interest expense over the remaining life of the debt. The balance of the deferred bond premium in the Governmental Funds as of December 31, 2011 is \$104,848.

Accrued Liabilities and Long-Term Obligations

Except for the obligation for other post-employment benefits (see Note 2), all payables and accrued liabilities are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of the funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

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

Fund Balance Policy

During the year ended December 31, 2011, the County implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 established new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, the County has segregated fund balance into five classifications; Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- Nonspendable Fund Balance: Amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact.
- Restricted Fund Balance: Amounts that can only be spent for the specific purposes stipulated by external resource providers (such as grantors) or the enabling legislation (federal or state law). Restrictions may be changed or lifted only with the consent of the resource providers or the enabling legislation.
- Committed Fund Balance: Amounts that can be used only for the specific purposes determined by a formal action of the County's highest level of decision making authority (annual meeting of the County Delegation). Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
- Assigned Fund Balance: Amounts that the County *intends* to use for a specific purpose. For all governmental funds other than the General Fund, any remaining positive amounts are to be classified as "assigned". The Board of Commissioners expressly delegates this authority to the County Administrator. Items that would fall under this type of fund balance classification would be encumbrances.
- Unassigned Fund Balance: Amounts that are not obligated or specifically designated and are available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit fund balance of another fund is also classified as unassigned.

In instances when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications may be applied, committed resources are to be applied first, followed by assigned and unassigned.

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

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

Interfund Activity

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

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

Operating Revenues and Expenses

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

Estimates

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

NOTE 2--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Other Post-Employment Benefits

The County did not implement GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The provisions of GASB 45 were required to be implemented by the County during the year ended December 31, 2009.

NOTE 3--PROPERTY TAXES

Property taxes levied to support the County are based on the assessed valuation of the prior April 1st for all taxable real property.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Under state statutes, the twenty-three Towns/City that comprise Cheshire County (all independent governmental units) collect County taxes as part of local property tax assessments. As collection agent, the Towns/City are required to pay over to the County its share of property tax assessments. The Towns/City assume financial responsibility for all uncollected property taxes under state statutes.

NOTE 4--RISK MANAGEMENT

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, the County was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The County currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2011.

Property and Liability Insurance

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

Worker's Compensation

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

NOTE 5--DEPOSITS AND INVESTMENTS

The County has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance.

Deposits and investments as of December 31, 2011 are classified in the accompanying financial statements as follows:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Statement of Net Assets:	
Cash and cash equivalents	\$ 7,807,648
Investments	57,678
Restricted cash	99,549
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	404,779
	<u>\$ 8,369,654</u>

Deposits and investments at December 31, 2011 consist of the following:

Cash on hand	\$ 1,400
Deposits with financial institutions	8,310,576
Investments	57,678
	<u>\$ 8,369,654</u>

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the County's deposits may not be returned to it. Currently, the County does not have an investment policy for assurance against custodial credit risk; however, the County has an agreement with the bank to collateralize deposits in excess of the FDIC insurance limits.

Of the County's deposits with financial institutions at year end, \$8,144,272 was collateralized by securities held by the bank in the bank's name.

Investment in NHPDIP

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

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

NOTE 6--DUE FROM OTHER GOVERNMENTS

Receivables from other governments at December 31, 2011 consist of various federal, state and local municipal fundings. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables is as follows:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

U.S. Marshall Service - federal inmates	\$ 76,860
Rockingham County - federal inmates	13,455
Department of Justice - Public safety grants	33,101
Department of Health and Human Services - public health grants	27,525
State of New Hampshire - District Court bailiff reimbursement	24,754
State of New Hampshire - Medicaid reimbursements	342,070
State Revolving Loan proceeds	52,929
Miscellaneous grants and reimbursements	19,687
	<u>\$ 590,381</u>

NOTE 7--CAPITAL ASSETS

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

	(as restated) Balance 1/1/2011	Additions	Reductions	Balance 12/31/2011
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 984,559			\$ 984,559
Construction in process		\$ 62,263		62,263
Total capital assets not being depreciated	<u>984,559</u>	<u>62,263</u>	<u>\$ -</u>	<u>1,046,822</u>
Other capital assets:				
Buildings and improvements	47,859,311	450,856		48,310,167
Equipment	1,783,819		(534,605)	1,249,214
Total other capital assets at historical cost	<u>49,643,130</u>	<u>450,856</u>	<u>(534,605)</u>	<u>49,559,381</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,505,738)	(1,492,514)		(9,998,252)
Equipment	(963,241)	(149,608)	414,813	(698,036)
Total accumulated depreciation	<u>(9,468,979)</u>	<u>(1,642,122)</u>	<u>414,813</u>	<u>(10,696,288)</u>
Total other capital assets, net	<u>40,174,151</u>	<u>(1,191,266)</u>	<u>(119,792)</u>	<u>38,863,093</u>
Total capital assets, net	<u>\$ 41,158,710</u>	<u>\$ (1,129,003)</u>	<u>\$ (119,792)</u>	<u>\$ 39,909,915</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 47,327
Public safety	1,450,846
Farm	45,069
Human services	98,880
Total governmental activities depreciation expense	<u>\$ 1,642,122</u>

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

	(as restated) Balance 1/1/2011	Additions	Reductions	Balance 12/31/2011
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 75,211			\$ 75,211
Total capital assets not being depreciated	<u>75,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>75,211</u>
Other capital assets:				
Land improvements	499,271			499,271
Buildings and improvements	7,120,660	146,293		7,266,953
Water system	1,461,974	2,563		1,464,537
Waste water system	919,309	1,889		921,198
Vehicles and equipment	<u>2,465,182</u>	<u>202,851</u>	<u>(22,599)</u>	<u>2,645,434</u>
Total other capital assets at historical cost	<u>12,466,396</u>	<u>353,596</u>	<u>(22,599)</u>	<u>12,797,393</u>
Less accumulated depreciation for:				
Land improvements	(457,317)	(10,512)		(467,829)
Buildings and improvements	(4,620,172)	(237,066)		(4,857,238)
Water system	(771,786)	(49,975)		(821,761)
Waste water system	(325,765)	(29,356)		(355,121)
Vehicles and equipment	<u>(1,640,979)</u>	<u>(218,138)</u>	<u>22,599</u>	<u>(1,836,518)</u>
Total accumulated depreciation	<u>(7,816,019)</u>	<u>(545,047)</u>	<u>22,599</u>	<u>(8,338,467)</u>
Total other capital assets, net	<u>4,650,377</u>	<u>(191,451)</u>	<u>-</u>	<u>4,458,926</u>
Total capital assets, net	<u>\$ 4,725,588</u>	<u>\$ (191,451)</u>	<u>\$ -</u>	<u>\$ 4,534,137</u>

Depreciation expense was charged to the proprietary fund as follows:

Nursing Home	\$ 469,441
Total business-type activities depreciation expense	<u>\$ 469,441</u>

A reconciliation of total additions to accumulated depreciation to the depreciation expense charged to the Nursing Home is as follows:

Total additions to depreciation	\$ 545,047
Less accumulated depreciation on assets transferred from governmental activities to business-type activities	<u>(75,606)</u>
Depreciation expense in the Nursing Home Fund	<u>\$ 469,441</u>

The balance of the assets acquired through capital leases as of December 31, 2011 is as follows:

	Governmental Activities	Business-type Activities
Buildings and improvements	\$ 246,225	\$ 824,318
Less accumulated depreciation for:		
Buildings and improvements	<u>(80,023)</u>	<u>(267,903)</u>
Total	<u>\$ 166,202</u>	<u>\$ 556,415</u>

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

NOTE 8--DUE TO OTHER GOVERNMENTS

At December 31, 2011, the County had amounts due to other governments as follows:

State of New Hampshire - Department of Health and Human Services	\$ 1,725,705
City of Keene	18,778
New Hampshire Department of Revenue Administration - Nursing Facility Quality Assessment	147,419
Miscellaneous intergovernmental payables	6,317
	<u>\$ 1,898,219</u>

NOTE 9--DEFINED BENEFIT PENSION PLAN

Plan Description

The County contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Funding Policy

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas general employees are required to contribute 5.0% of their covered salary, through June 30, 2011, and 11.55% and 7%, respectively, thereafter. The County is required to contribute at an actuarially determined rate. The County's contribution rates for the covered payroll of public safety employees and general employees were 14.63% and 9.16%, respectively through June 30, 2011, 25.57% and 11.09% respectively in July 2011, and 19.95% and 8.8%, respectively, thereafter. The County contributes 75% of the employer cost for public safety officers employed by the County, and the State contributes the remaining 25% of the employer cost, through June 30, 2011 and the County contributes 100% thereafter. The County contributes 100% of the employer cost for general employees of the County. In accordance with accounting principles generally accepted in the United States of America (GASB #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$63,908 have been reported as a revenue and expenditure of the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The County's contributions to the NHRS for the years ending December 31, 2011, 2010, and 2009 were \$1,282,788, \$1,165,676, and \$1,061,650, respectively, equal to the required contributions for each year.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

NOTE 10--SHORT-TERM OBLIGATIONS

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

The changes in short-term debt obligations for the year ended December 31, 2011 are as follows:

Balance - January 1, 2011	\$ -
Additions	22,000,000
Reductions	<u>(22,000,000)</u>
Balance - December 31, 2011	<u>\$ -</u>

NOTE 11--LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the County's long-term obligations for the year ended December 31, 2011 are as follows:

	(as restated) Balance 1/1/11	Additions	Reductions	Balance 12/31/11	Due Within One Year
Governmental activities:					
Bonds payable	\$ 34,770,400		\$ (2,312,700)	\$ 32,457,700	\$ 2,312,700
Capital leases payable	<u>116,045</u>		<u>(18,400)</u>	<u>97,645</u>	<u>20,010</u>
Total governmental activities	<u>\$ 34,886,445</u>	<u>\$ -</u>	<u>\$ (2,331,100)</u>	<u>\$ 32,555,345</u>	<u>\$ 2,332,710</u>

	(as restated) Balance 1/1/11	Additions	Reductions	Balance 12/31/11	Due Within One Year
Business-type activities:					
Bonds payable	\$ 204,600		\$ (102,300)	\$ 102,300	\$ 102,300
Note payable		\$ 416,404	(78,687)	337,717	84,930
Capital leases payable	388,498		(61,600)	326,898	66,990
Other long-term obligations	<u>634,415</u>	<u>74,724</u>	<u>(416,404)</u>	<u>292,735</u>	<u>-</u>
Total business-type activities	<u>\$ 1,227,513</u>	<u>\$ 491,128</u>	<u>\$ (658,991)</u>	<u>\$ 1,059,650</u>	<u>\$ 254,220</u>

Payments on the general obligation bonds and capital leases of the governmental activities are paid out of the General Fund. Payments on the bonds payable, note payable, capital leases payable, and other long-term obligations of the business-type activities are paid out of the Nursing Home Fund.

General Obligation Bonds

Bonds payable at December 31, 2011 are comprised of the following individual issues:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Governmental Activities:

\$37,000,000 Correctional Facility Bonds due in annual installments of \$1,850,000 through October 2027; interest at 4.25%	\$ 29,600,000
\$2,600,000 Jaffrey District Courthouse Bonds due in annual installments of \$130,000 through October 2021; interest at 3.875% - 4.85%	1,300,000
\$1,300,000 Correctional Facility Geothermal Project Bonds due in annual installments of \$100,000 through August 2020 and \$50,000 through August 2024; interest at 2.00% - 4.00%	1,100,000
\$500,000 Correctional Facility Design Bonds due in annual installments of \$25,000 through October 2021; interest at 3.875% - 4.85%	250,000
\$4,400,000 Assisted Living/Nursing Home Improvement Bonds due in annual installment of \$207,700 through August 2012; interest at 4.50% - 5.10%	207,700
	<u>\$ 32,457,700</u>

Business-type Activities:

\$4,400,000 Assisted Living/Nursing Home Improvement Bonds due in annual installment of \$102,300 through August 2012; interest at 4.50% - 5.10%	\$ 102,300
	<u>\$ 102,300</u>

Debt service requirements to retire general obligation bonds for governmental activities at December 31, 2011 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 2,312,700	\$ 1,372,588	\$ 3,685,288
2013	2,105,000	1,275,015	3,380,015
2014	2,105,000	1,187,880	3,292,880
2015	2,105,000	1,100,013	3,205,013
2016	2,105,000	1,011,740	3,116,740
2017-2021	10,475,000	3,723,712	14,198,712
2022-2026	9,400,000	1,584,500	10,984,500
2027	1,850,000	78,625	1,928,625
	<u>\$ 32,457,700</u>	<u>\$11,334,073</u>	<u>\$ 43,791,773</u>

As included on the Statement of Activities (Exhibit B), interest expense for the year ended December 31, 2011 was \$1,396,296 on general obligation debt for governmental activities.

Debt service requirements to retire general obligation bonds for business-type activities at December 31, 2011 are as follows:

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Year Ending December 31,	Principal	Interest	Totals
2012	<u>\$ 102,300</u>	<u>\$ 5,217</u>	<u>\$ 107,517</u>

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2011 was \$8,458 on general obligation debt for business-type activities.

Note Payable

The note payable for business-type activities at December 31, 2011 is comprised of the following individual issue:

\$416,404 Water Project Upgrade Note due in annual installments of \$84,930 through July 2014 and \$82,927 through July 2015; interest at .895%	<u>\$ 337,717</u>
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Debt service requirements to retire the note payable for business-type activities at December 31, 2011 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2012	\$ 84,930	\$ 3,023	\$ 87,953
2013	84,930	2,262	87,192
2014	84,930	1,502	86,432
2015	82,927	742	83,669
	<u>\$ 337,717</u>	<u>\$ 7,529</u>	<u>\$ 345,246</u>

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2011 was \$8,368 on the note payable for the business-type activities.

Capital Lease Obligations

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

Capital leases payable at December 31, 2011 is comprised of the following individual issue:

	Governmental Activities	Business-type Activities
Building improvements, due in varying annual installments through May 2016; interest at 4.67%	<u>\$ 97,645</u>	<u>\$ 326,898</u>

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Debt service requirements to retire capital lease obligations for governmental activities at December 31, 2011 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 20,010	\$ 4,560	\$ 24,570
2013	21,850	3,625	25,475
2014	23,690	2,605	26,295
2015	25,760	1,499	27,259
2016	6,335	296	6,631
	<u>\$ 97,645</u>	<u>\$ 12,585</u>	<u>\$ 110,230</u>

Debt service requirements to retire capital lease obligations for business-type activities at December 31, 2011 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 66,990	\$ 15,266	\$ 82,256
2013	73,150	12,138	85,288
2014	79,310	8,722	88,032
2015	86,240	5,018	91,258
2016	21,208	990	22,198
	<u>\$ 326,898</u>	<u>\$ 42,134</u>	<u>\$ 369,032</u>

Other Long-Term Obligations

Business-type Activities:

The County has drawn \$292,735 of approximately \$614,000 in funds under the State of New Hampshire, State Water Pollution Control Revolving Fund Program for improvements to the Wastewater Treatment System. Payments are not scheduled to commence until the first anniversary of the scheduled completion date of the project or the date of substantial completion, whichever is earliest. Interest is accrued at 1% during the construction period of the project and is to be paid upon completion of the construction project within the following year.

As authorized by the American Recovery and Reinvestment Act, the County shall be provided federal financial assistance for the above Wastewater Treatment System Project, whereby a portion of the principal sum, not to exceed \$225,500 or 50% of aggregate disbursements, whichever is less, will be forgiven. The principal forgiveness will be applied at the time of each loan repayment over a period not to exceed 10 years.

Direct Financing Lease Receivable

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

the end of the lease. Future minimum lease payments to be received have been recognized in the governmental activities and are as follows:

Year Ending December 31,	Principal	Interest	Totals
2012	\$ 130,000	\$ 59,020	\$ 189,020
2013	130,000	53,690	183,690
2014	130,000	48,230	178,230
2015	130,000	42,575	172,575
2016	130,000	36,790	166,790
2017-2021	650,000	93,275	743,275
	<u>\$ 1,300,000</u>	<u>\$ 333,580</u>	<u>\$ 1,633,580</u>

NOTE 12--INTERFUND BALANCES AND TRANSFERS

The County has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at December 31, 2011 are as follows:

	Due from				Totals
	General Fund	Nonmajor Governmental Funds	Nursing Home Fund	Fiduciary Funds	
General Fund		\$ 19,966	\$ 3,703,943		\$ 3,723,909
ARRA Fund	\$ 233,681				233,681
Nonmajor Governmental Funds	40,674				40,674
Nursing Home Fund				\$ 3,381	3,381
Internal Service Fund	8,439				8,439
Fiduciary Funds	19,748				19,748
	<u>\$ 302,542</u>	<u>\$ 19,966</u>	<u>\$ 3,703,943</u>	<u>\$ 3,381</u>	<u>\$ 4,029,832</u>

During the year, several interfund transactions occurred between funds. The General Fund transferred funds to the Nursing Home to support current operations. The various transfers between the Nonmajor Governmental Funds and the General Fund included \$325,000 of interest earned on bond proceeds and administration costs associated with a grant award. Funds transferred from the Nonmajor Governmental Funds to the Nursing Home Fund in the amount of \$122,918 represents capital assets acquired through a grant award.

Interfund transfers for the year ended December 31, 2011 are as follows:

	Transfer from		
	General Fund	Nonmajor Governmental Funds	Totals
General Fund		\$ 350,547	\$ 350,547
Nursing Home Fund	\$ 2,709,924	122,918	2,832,842
	<u>\$ 2,709,924</u>	<u>\$ 473,465</u>	<u>\$ 3,183,389</u>

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

NOTE 13—SELF INSURANCE

During the year ended December 31, 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 \$70,000 annually for each individual plan participant. The County purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss.

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

<u>Year Ending December 31,</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Year Liability</u>
2007	\$ 149,409	\$ 1,797,670	\$(1,823,025)	\$ 124,054
2008	124,054	1,328,138	(1,308,809)	143,383
2009	143,383	2,065,974	(2,098,137)	111,220
2010	111,220	2,719,547	(2,717,938)	112,829
2011	112,829	2,483,553	(2,494,922)	101,460

NOTE 14—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
ARRA Medicaid funds	\$ 2,071,819	
County Extension Services	12,163	
Donations	20,031	\$ 72,054
Correctional facility project	145,756	
Sheriff's forfeiture funds	9,408	
Miscellaneous grants	34,278	
	<u>\$ 2,293,455</u>	<u>\$ 72,054</u>

NOTE 15—COMPONENTS OF FUND BALANCE

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

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

<u>Fund Balances</u>	<u>General Fund</u>	<u>ARRA Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Prepaid expenses	\$ 94,611			\$ 94,611
Restricted for:				
ARRA Medicaid funds		\$ 2,071,819		2,071,819
County Extension Services	12,163			12,163
Donations	481		\$ 19,550	20,031
Correctional facility project			145,756	145,756
Deeds surcharge			16,002	16,002
Sheriff's forfeiture funds			9,408	9,408
Miscellaneous grants			34,278	34,278
Committed for:				
Capital Reserve Funds	209,062			209,062
Reduction of 2012 tax rate	483,164			483,164
Assigned for:				
Encumbrances	28,216			28,216
Carryforward appropriations	10,700			10,700
Unassigned	4,210,508			4,210,508
	<u>\$ 5,048,905</u>	<u>\$ 2,071,819</u>	<u>\$ 224,994</u>	<u>\$ 7,345,718</u>

NOTE 16--COMMITMENTS AND CONTINGENCIES

Litigation

Legal counsel estimates that any potential claims against the County which are not covered by insurance are immaterial and would not affect the financial position of the County.

Other Contingencies

The County participates in the federally assisted Medicaid program at the County Nursing Home. This program is subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time; although the County expects such amounts, if any, to be immaterial.

Federal Grants

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

NOTE 17--RECLASSIFICATION

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

NOTE 18—RESTATEMENT OF EQUITY

Governmental Funds

During the year ended December 31, 2011, it was determined that the liability for accrued vacation was not previously reflected as a current liability within the General Fund. It was also determined that the interfund balance between the General Fund and the House of Corrections Construction Fund was overstated. The water and wastewater projects were previously reported in Capital Projects Funds (included within the nonmajor governmental funds). Since these two projects are for the benefit of the Nursing Home, all associated activity with the water and wastewater upgrades are to be recorded within the Nursing Home Proprietary Fund.

Effective January 1, 2011, the County retroactively changed its method of financial reporting to conform to a recent pronouncement of the Governmental Accounting Standards Board (Statement No. 54). This new standard changes how fund balance is reported for governmental fund types. As a result, several of the County's previously reported nonmajor governmental funds (Capital Reserve Funds, County Extension Service Fund, and the Heman Chase Fund) have been reclassified into the General Fund for reporting purposes. In addition, resources that are for the sole benefit of the Nursing Home have been reclassified into the Nursing Home Proprietary Fund for reporting purposes.

The impact of the restatement on the governmental funds is as follows:

	General Fund	House of Corrections Construction Fund	Nonmajor Governmental Funds
Fund Balance - January 1 (as previously reported)	\$3,300,323	\$ 485,129	\$ 349,204
Amount of restatement due to:			
Current liability for accrued vacation	(249,069)		
Overstatement of interfund (receivable)/payable	(331,436)	331,436	
Capital Project Funds applicable to the Nursing Home Proprietary Fund			70,270
Reclassification of major fund to a nonmajor fund		(816,565)	816,565
Amount of restatement due to conversion to GASB Statement No. 54			
Donations and Capital Reserve Funds applicable to the Nursing Home Proprietary Fund			(108,153)
Capital Reserve Funds	208,929		(208,929)
County Extension Service Fund	15,144		(15,144)
Heman Chase Fund	481		(481)
Fund Balance - January 1, as restated	<u>\$2,944,372</u>	<u>\$ -</u>	<u>\$ 903,332</u>

Proprietary Fund Statements

The water and wastewater projects were previously reported in Capital Projects Funds (included within the nonmajor governmental funds). Since these two projects are for the benefit of the Nursing Home, all associated activity with the water and wastewater upgrades are to be recorded within the Nursing Home

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Proprietary Fund. These water and wastewater upgrade projects resulted in capital asset additions which were funded through authorized debt issuances, all of which was previously recognized in the County's governmental activities. In addition, resources that are for the sole benefit of the Nursing Home have been reclassified into the Nursing Home Proprietary Fund for reporting purposes.

Net assets of the Nursing Home Fund as of January 1, 2011 have been restated as follows:

Net Assets - January 1 (as previously reported)	\$1,460,107
Amount of restatement due to:	
Deficit balance of the Capital Project Funds	(70,270)
Donations and Capital Reserve Funds	108,153
Net book value of capital assets	873,921
Long-term obligations	(634,415)
Net Assets - January 1, as restated	<u>\$1,737,496</u>

Government-Wide Financial Statements

As previously referenced, the ending balance of the water and wastewater capital projects funds, the capital assets and the long-term obligations are to be recorded within the Nursing Home Proprietary Fund. During the year ended December 31, 2011, it was also determined that capital assets were overstated as of December 31, 2010 in the governmental activities.

Net assets of the governmental and business-type activities as of January 1, 2011 have been restated as follows:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>
Net Assets - January 1 (as previously reported)	\$ 13,267,448	\$ 2,184,309
Amount of restatement due to:		
Governmental Funds now reported within Proprietary Funds	(37,883)	37,883
Net book value of capital assets	(873,921)	873,921
Long-term obligations	634,415	(634,415)
Overstatement of capital assets	(553,936)	
Net Assets - January 1, as restated	<u>\$ 12,436,123</u>	<u>\$ 2,461,698</u>

NOTE 19—SUBSEQUENT EVENT

Subsequent to year end, the County converted the funds borrowed under the state revolving loan fund of \$292,735 for improvements to the Wastewater Treatment System and accrued interest of \$1,761 into a \$294,496 note payable. As authorized by the American Recovery and Reinvestment Act, a total of \$146,367 of principal will be forgiven at the time of the initial repayment. The County will make annual principal payments of \$29,626 over a 5 year period and interest at a rate of 0.97%.

SCHEDULE 1

COUNTY OF CHESHIRE, NEW HAMPSHIRE

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual (Budgetary Basis) - General Fund

For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 23,914,868	\$ 23,861,006	\$ 23,861,006	\$ -
Intergovernmental	2,301,614	1,819,107	1,149,449	(669,658)
Charges for services	2,708,195	2,751,130	2,764,712	13,582
Interest income	355,956	30,956	4,389	(26,567)
Miscellaneous	715,412	715,412	696,095	(19,317)
Total Revenues	<u>29,996,045</u>	<u>29,177,611</u>	<u>28,475,651</u>	<u>(701,960)</u>
Expenditures:				
Current:				
General government	4,605,994	4,554,931	4,382,429	172,502
Public safety	7,054,474	7,215,146	7,071,844	143,302
Farm	215,029	215,029	189,302	25,727
Human services	8,627,023	8,627,023	8,094,543	532,480
Conservation	130,044	130,044	132,913	(2,869)
Capital outlay	625,827	175,555	79,256	96,299
Debt Service:				
Principal retirement	2,421,100	2,331,100	2,331,100	-
Interest and fiscal charges	1,729,380	1,725,580	1,605,521	120,059
Total Expenditures	<u>25,408,871</u>	<u>24,974,408</u>	<u>23,886,908</u>	<u>1,087,500</u>
Excess revenues over expenditures	<u>4,587,174</u>	<u>4,203,203</u>	<u>4,588,743</u>	<u>385,540</u>
Other financing sources (uses):				
Transfers in	-	325,000	352,812	27,812
Transfers out	(4,587,174)	(4,517,503)	(2,820,238)	1,697,265
Total other financing sources (uses)	<u>(4,587,174)</u>	<u>(4,192,503)</u>	<u>(2,467,426)</u>	<u>1,725,077</u>
Net change in fund balance	-	10,700	2,121,317	2,110,617
Fund balance at beginning of year				
- Budgetary Basis, as restated	<u>2,677,666</u>	<u>2,677,666</u>	<u>2,677,666</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 2,677,666</u>	<u>\$ 2,688,366</u>	<u>\$ 4,798,983</u>	<u>\$ 2,110,617</u>

See accompanying notes to the required supplementary information

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2011

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

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

	Revenues, and Transfers	Expenditures and Transfers
Per Exhibit D	\$ 28,896,153	\$ 26,791,620
Encumbrances, December 31, 2011		28,216
Encumbrances, December 31, 2010		(42,152)
Non-budgetary revenues and expenditures	(3,782)	(6,630)
On-behalf fringe benefits	(63,908)	(63,908)
Per Schedule 1	<u>\$ 28,828,463</u>	<u>\$ 26,707,146</u>

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

NOTE 2—BUDGETARY FUND BALANCE

As of December 31, 2011, the County's unassigned fund balance that is available to reduce the 2012 property tax rate is \$4,210,508.

SCHEDULE I
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

<u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from Community Development		
Finance Authority		
Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	14.228	
#09-403-CDHS		\$ 3,877
#10-403-CDED		<u>500,000</u>
Total Department of Housing and Urban Development		<u>503,877</u>
DEPARTMENT OF JUSTICE		
Pass Through Payments from the New Hampshire		
Department of Justice		
Violence Against Women Formula Grants - Recovery Act	16.588	
#2010-WF-AX-0042		30,000
#2009-EF-S6-0019		<u>32,770</u>
		<u>62,770</u>
Residential Substance Abuse Treatment for State Prisoners	16.593	
#2010-RT-BX-0039		<u>8,913</u>
Enforcing Underage Drinking Laws Program	16.727	
#2010CD29		11,236
#2011CD29		<u>2,858</u>
		<u>14,094</u>
Received Directly From U.S. Treasury Department		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	
#2010-DJ-BX-0959		<u>13,266</u>
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	
#2009-SB-B9-2958		<u>32,790</u>
Total Department of Justice		<u>131,833</u>
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from the New Hampshire		
Department of Transportation		
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	
#NH-65-X001		<u>18,078</u>
State and Community Highway Safety	20.600	
#315-11A-090		<u>1,098</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	
#308-11A-083		<u>1,341</u>
Total Department of Transportation		<u>20,517</u>

See notes to schedule of expenditures of federal awards

SCHEDULE I
COUNTY OF CHESHIRE, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
ENVIRONMENTAL PROTECTION AGENCY		
Pass Through Payments from the New Hampshire Department of Environmental Services		
Capitalization Grants for Clean Water State Revolving Funds - Recovery Act #CS-333094-03	66.458	<u>945</u>
Total Environmental Protection Agency		<u>945</u>
DEPARTMENT OF ENERGY		
Received Directly From U.S. Treasury Department		
Energy Efficiency and Conservation Block Grant Program (EECBG) - Recovery Act #DE-SC0003699	81.128	<u>197,463</u>
Total Department of Energy		<u>197,463</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass Through Payments from the Town of New Ipswich, New Hampshire		
Medical Reserve Corps Small Grant Program #IMRCSG101005-01	93.008	<u>2,324</u>
Pass Through Payments from the New Hampshire Department of Health and Human Services		
Public Health Emergency Preparedness	93.069	<u>143,736</u>
Block Grants for Prevention and Treatment of Substance Abuse #95846502	93.959	<u>70,035</u>
Total Department of Health and Human Services		<u>216,095</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,070,730</u></u>

See notes to schedule of expenditures of federal awards

COUNTY OF CHESHIRE, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2011

NOTE 1—GENERAL

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

NOTE 2—BASIS OF ACCOUNTING

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

NOTE 3—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The recognition of expenditures of federal awards has been reported in the County's basic financial statements as intergovernmental revenues in the governmental and proprietary funds as follows:

Major Governmental Fund:	
General Fund	\$ 320,065
Nonmajor Governmental Funds	<u>749,720</u>
	<u>\$ 1,069,785</u>

The amount of \$945 represents fifty percent of expenditures in the Wastewater System upgrade project to be drawn down from the State Revolving Loan Fund Program. This is the amount that will be forgiven on the principal of the loan over the length of the loan.

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

To the Board of Commissioners
County of Cheshire, New Hampshire

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of Cheshire, New Hampshire as of and for the year ended December 31, 2011, and have issued our report thereon dated May 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the County of Cheshire, New Hampshire is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County of Cheshire, New Hampshire's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Cheshire, New Hampshire's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Cheshire, New Hampshire's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Cheshire, New Hampshire's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Jackson Clukay & Company PC

May 29, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Commissioners
County of Cheshire, New Hampshire

Compliance

We have audited the County of Cheshire, New Hampshire's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of Cheshire, New Hampshire's major federal programs for the year ended December 31, 2011. The County of Cheshire, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Cheshire, New Hampshire's management. Our responsibility is to express an opinion on the County of Cheshire, New Hampshire's compliance based on our audit.

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

In our opinion, the County of Cheshire, New Hampshire complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the County of Cheshire, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Cheshire, New Hampshire's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over

compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County of Cheshire, New Hampshire's internal control over compliance.

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

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

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

Vachon Clukay & Company PC

May 29, 2012

**County of Cheshire, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011**

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: adverse

Internal control over financial reporting:

Material weakness(es) identified?	_____yes	<u>X</u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____yes	<u>X</u> none reported

Noncompliance material to financial statements noted? _____yes Xno

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?	_____yes	<u>X</u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____yes	<u>X</u> none reported

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG) – Recovery Act

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

Auditee qualified as low-risk auditee? _____yes Xno

Section II—Financial Statement Findings

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

Section III—Federal Award Findings and Questioned Costs

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