

SULLIVAN COUNTY, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Sullivan County, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Sullivan County, New Hampshire, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Sullivan County, New Hampshire's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Sullivan County, New Hampshire, as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparison for all budgeted funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress – Other Post-Employment Benefits, the Schedule of Proportionate Share of the Net Pension Liability, and the Schedule of Contributions 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 evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Melanson Heath

November 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Sullivan County, New Hampshire (the County), we offer readers this narrative overview and analysis of the financial activities of Sullivan County for the fiscal year ended June 30, 2015.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains required 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 our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The governmental activities include general government, public safety, corrections, human services, cooperative extension, and nursing home.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The accounts of the County are reported as governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of 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 in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-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.

An annual appropriated budget is adopted for all funds. A budgetary comparison statement has been provided for all funds to demonstrate compliance with this budget.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$7,137,474 (i.e., net position), a change of \$3,061,090 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,121,068, a change of \$2,100,497 in comparison to the prior year.
- At the end of the current fiscal year, the fund balance for the general fund was \$11,230,028, a change of \$2,117,808 in comparison to the prior year.
- Total bonds payable, including bond premium, at the close of the current fiscal year was \$6,081,852, a change of \$(848,748) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

NET POSITION

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Current assets	\$ 13,467,799	\$ 11,285,203
Noncurrent assets	15,552,170	15,882,299
Deferred outflows	<u>1,205,010</u>	<u>-</u>
Total assets and deferred outflows	30,224,979	27,167,502
Current liabilities	2,515,901	2,445,519
Noncurrent liabilities	18,802,563	7,592,836
Deferred inflows	<u>1,769,041</u>	<u>-</u>
Total liabilities and deferred inflows	23,087,505	10,038,355
Net position:		
Net investment in capital assets	10,062,233	9,507,072
Restricted	2,455,893	963,989
Unrestricted	<u>(5,380,652)</u>	<u>6,658,086</u>
Total net position	\$ <u>7,137,474</u>	\$ <u>17,129,147</u>

CHANGE IN NET POSITION

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 15,600,853	\$ 14,420,496
Operating grants and contributions	759,471	674,097
Capital grants and contributions - Biomass	-	22,500
General revenues:		
County taxes	13,880,826	13,885,603
Investment income	3,451	4,725
Miscellaneous	<u>316,614</u>	<u>286,486</u>
Total revenues	30,561,215	29,293,907

(continued)

(continued)

CHANGE IN NET POSITION

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Expenses:		
General government	2,813,425	2,205,531
Public safety	787,724	933,399
Corrections	4,287,075	4,459,514
Human services	5,604,331	5,621,701
Cooperative extension	324,830	344,088
Nursing home	13,481,460	14,149,543
Interest	<u>201,280</u>	<u>215,804</u>
Total expenses	<u>27,500,125</u>	<u>27,929,580</u>
Change in net position	3,061,090	1,364,327
Net position - beginning of year	<u>4,076,384</u> *	<u>15,764,820</u>
Net position - end of year	<u>\$ 7,137,474</u>	<u>\$ 17,129,147</u>

*Restated – see footnote 17

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$7,137,474, a change of \$3,061,090 from the prior year.

The largest portion of net position, \$10,062,233, reflects our investment in capital assets (e.g., land, buildings and improvements, equipment and furnishings, vehicles, and construction in progress), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$2,455,893, represents resources that are subject to external restrictions on how they may be used.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$3,061,090. Key elements of this change are as follows:

<u>Operating Results:</u>	
General fund	\$ 2,117,808
Register of deeds fund	12,122
Grants fund	(5,016)
Capital projects fund	<u>(24,417)</u>
Subtotal operating results	2,100,497
Purchase of capital assets	672,935
Depreciation expense in excess of principal debt service	(93,357)
Change in deferred outflows of resources	163,393
Change in accrued interest liability	12,970
Change in compensated absence liability	15,897
Change in net OPEB obligation	(85,024)
Change in net pension liability	2,042,820
Change in deferred inflows of resources	<u>(1,769,041)</u>
Total	\$ <u><u>3,061,090</u></u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$12,121,068, a change of \$2,100,497 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and transfers in excess of expenditures	\$ 2,117,808
Register of deeds fund revenues in excess of expenditures and transfers out	12,122
Grants fund expenditures and transfers out in excess of revenues	(5,016)
Capital projects fund expenditures in excess of revenues	<u>(24,417)</u>
Total	\$ <u><u>2,100,497</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,942,912, while total fund balance was \$11,230,028. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total budgeted expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>Percentage of Total Budgeted Expenditures</u>
Unassigned fund balance	\$ 5,942,912	\$ 6,888,761	\$ (945,849)	19.8%
Total fund balance	\$ 11,230,028	\$ 9,112,220	\$ 2,117,808	37.5%

The total fund balance of all funds changed by \$2,100,497 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 1,549,121
Expenditures less than appropriations	1,548,515
Use of fund balance - reduce taxes	(809,100)
Use of fund balance - prior year reserves	(163,622)
Non-budgeted capital projects fund expenditures	<u>(24,417)</u>
Total all funds	\$ <u>2,100,497</u>

Included in the general fund is the County's Delegation voted reserve fund with the following balance:

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
Capital reserve	\$ 927,328	\$ 480,648	\$ 446,680

E. BUDGETARY HIGHLIGHTS

Differences between the original and the final amended budget resulted in an overall change in appropriations of \$163,622. This change relates to a use of voted reserves (fund balance) for various purposes.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$15,552,170 (net of accumulated depreciation), a change of \$(330,129) from the prior year. This investment in capital assets includes land, buildings and improvements, equipment and furnishings, vehicles, and construction in progress.

Additional information on capital assets can be found in the Notes to Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$6,081,852, all of which relates to the corrections facility upgrade and the biomass project, was backed by the full faith and credit of the County. Additional information on long-term debt can be found in the Notes to Financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Sullivan County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Sullivan County, New Hampshire
14 Main Street
Newport, New Hampshire 03773

SULLIVAN COUNTY, NEW HAMPSHIRE

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental <u>Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current:	
Cash and short-term investments	\$ 10,922,174
Restricted cash	804,672
Accounts receivable, net of allowances	1,541,427
Prepaid expenses	157,176
Inventory	<u>42,350</u>
Total current assets	13,467,799
Noncurrent:	
Capital Assets:	
Land	403,430
Construction in progress	27,500
Capital assets, net of accumulated depreciation	<u>15,121,240</u>
Total noncurrent assets	<u>15,552,170</u>
TOTAL ASSETS	29,019,969
Deferred Outflows of Resources	<u>1,205,010</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	30,224,979
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Current:	
Accounts payable	738,751
Accrued liabilities	541,588
Other liabilities	6,772
Restricted cash liability	173,763
Current portion of noncurrent liabilities:	
Notes payable	60,957
Bonds payable	847,651
Compensated absences	<u>146,419</u>
Total current liabilities	2,515,901
Noncurrent:	
Bonds payable	5,234,201
Compensated absences	204,871
Net OPEB obligation	1,311,930
Net pension liability	<u>12,051,561</u>
Total noncurrent liabilities	<u>18,802,563</u>
TOTAL LIABILITIES	21,318,464
Deferred Inflows of Resources	<u>1,769,041</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	23,087,505
NET POSITION	
Net investment in capital assets	10,062,233
Restricted	2,455,893
Unrestricted	<u>(5,380,652)</u>
TOTAL NET POSITION	\$ <u>7,137,474</u>

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

		<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
General government	\$ 2,813,425	\$ 312,622	\$ 152,444	\$ (2,348,359)
Public safety	787,724	239,827	43,916	(503,981)
Corrections	4,287,075	195,047	187,762	(3,904,266)
Human services	5,604,331	-	362,059	(5,242,272)
Cooperative extension	324,830	-	13,290	(311,540)
Nursing home	13,481,460	14,853,357	-	1,371,897
Interest	<u>201,280</u>	<u>-</u>	<u>-</u>	<u>(201,280)</u>
Total Governmental Activities	<u>\$ 27,500,125</u>	<u>\$ 15,600,853</u>	<u>\$ 759,471</u>	(11,139,801)
		General Revenues:		
				13,880,826
				3,451
				<u>316,614</u>
			Total general revenues	<u>14,200,891</u>
			Change in Net Position	3,061,090
		Net Position:		
			Beginning of year, as restated	<u>4,076,384</u>
			End of year	<u>\$ 7,137,474</u>

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	General Fund	Register of Deeds Fund	Grants Fund	Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 10,209,028	\$ 3,172	\$ 57,102	\$ 652,872	\$ 10,922,174
Restricted cash	630,975	173,697	-	-	804,672
Accounts receivable, net of allowances	1,388,336	-	153,091	-	1,541,427
Prepaid expenses	157,176	-	-	-	157,176
Inventory	42,350	-	-	-	42,350
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 12,427,865</u>	<u>\$ 176,869</u>	<u>\$ 210,193</u>	<u>\$ 652,872</u>	<u>\$ 13,467,799</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 641,940	\$ 1,079	\$ 95,732	\$ -	\$ 738,751
Accrued liabilities	418,246	2,192	7,007	-	427,445
Other liabilities	-	-	6,772	-	6,772
Restricted cash liability	137,651	36,112	-	-	173,763
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	1,197,837	39,383	109,511	-	1,346,731
Fund Balances:					
Nonspendable	199,526	-	-	-	199,526
Restricted	1,560,848	137,486	104,687	652,872	2,455,893
Committed	927,328	-	-	-	927,328
Assigned	2,599,414	-	-	-	2,599,414
Unassigned	5,942,912	-	(4,005)	-	5,938,907
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>11,230,028</u>	<u>137,486</u>	<u>100,682</u>	<u>652,872</u>	<u>12,121,068</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,427,865</u>	<u>\$ 176,869</u>	<u>\$ 210,193</u>	<u>\$ 652,872</u>	<u>\$ 13,467,799</u>

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2015

Total governmental fund balances	\$ 12,121,068
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,552,170
• Deferred outflows of resources from net pension liability	1,205,010
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(114,143)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Notes payable	(60,957)
Bonds payable	(6,081,852)
Compensated absences	(351,290)
Net OPEB obligation	(1,311,930)
Net pension liability	(12,051,561)
• Deferred inflows of resources from net pension liability	<u>(1,769,041)</u>
Net position of governmental activities	<u><u>\$ 7,137,474</u></u>

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Register of Deeds Fund	Grants Fund	Capital Projects Fund	Total Governmental Funds
Revenues:					
County taxes	\$ 13,880,826	\$ -	\$ -	\$ -	\$ 13,880,826
Nursing home	14,853,357	-	-	-	14,853,357
Charges for services	347,312	312,622	87,562	-	747,496
Intergovernmental	133,559	-	625,912	-	759,471
Investment income	3,451	-	-	-	3,451
Miscellaneous	284,014	-	-	-	284,014
Total Revenues	<u>29,502,519</u>	<u>312,622</u>	<u>713,474</u>	<u>-</u>	<u>30,528,615</u>
Expenditures:					
Current:					
General government	2,402,933	281,948	117,182	-	2,802,063
Public safety	658,644	-	122,748	-	781,392
Corrections	3,923,032	-	194,541	-	4,117,573
Human services	5,334,127	-	272,376	-	5,606,503
Cooperative extension	340,100	-	-	-	340,100
Nursing home	13,213,048	-	-	-	13,213,048
Capital outlay	512,624	-	-	24,417	537,041
Debt service:					
Principal	816,148	-	-	-	816,148
Interest	214,250	-	-	-	214,250
Total Expenditures	<u>27,414,906</u>	<u>281,948</u>	<u>706,847</u>	<u>24,417</u>	<u>28,428,118</u>
Excess (deficiency) of revenues over expenditures	2,087,613	30,674	6,627	(24,417)	2,100,497
Other Financing Sources (Uses):					
Transfers:					
Grants	11,643	-	(11,643)	-	-
Register of Deeds	18,552	(18,552)	-	-	-
Total Other Financing Sources (Uses)	<u>30,195</u>	<u>(18,552)</u>	<u>(11,643)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	2,117,808	12,122	(5,016)	(24,417)	2,100,497
Fund Equity, at Beginning of Year	<u>9,112,220</u>	<u>125,364</u>	<u>105,698</u>	<u>677,289</u>	<u>10,020,571</u>
Fund Equity, at End of Year	<u>\$ 11,230,028</u>	<u>\$ 137,486</u>	<u>\$ 100,682</u>	<u>\$ 652,872</u>	<u>\$ 12,121,068</u>

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

Net changes in fund balances - Total governmental funds	\$ 2,100,497
<ul style="list-style-type: none"> 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 and reported as depreciation expense: 	
Capital asset purchases	672,935
Depreciation	(1,003,064)
<ul style="list-style-type: none"> The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: 	
Repayments of bonds payable	816,148
Repayments of notes payable	60,959
Amortization of bond premium	32,600
<ul style="list-style-type: none"> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	
	12,970
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: 	
Compensated absences	15,897
Net OPEB obligation	(85,024)
GASB 68 net pension liability changes:	
Net pension liability	2,042,820
Deferred outflows of resources	163,393
Deferred inflows of resources	<u>(1,769,041)</u>
Change in net position of governmental activities	\$ <u>3,061,090</u>

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

ALL BUDGETED FUNDS

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original Budget	From Prior Years' Budgets	Final Budget		
Revenues:					
General Fund:					
County taxes	\$ 13,880,826	\$ -	\$ 13,880,826	\$ 13,880,826	\$ -
Nursing home	13,728,408	-	13,728,408	14,853,357	1,124,949
Charges for services	262,715	-	266,723	347,312	80,589
Intergovernmental	79,158	-	79,158	133,559	54,401
Investment income	12,500	-	12,500	3,451	(9,049)
Miscellaneous	230,821	-	230,821	284,014	53,193
Other Funds:					
Register of Deeds	330,000	-	330,000	312,622	(17,378)
Grants	455,066	-	451,058	713,474	262,416
Total Revenues	28,979,494	-	28,979,494	30,528,615	1,549,121
Expenditures:					
General Fund:					
General government	2,515,159	-	2,559,927	2,402,933	156,994
Public safety	710,172	-	710,172	658,644	51,528
Corrections	4,331,108	-	4,306,108	3,923,032	383,076
Human services	5,645,500	-	5,645,500	5,334,127	311,373
Cooperative extension	356,978	-	356,978	340,100	16,878
Nursing home	13,716,835	-	13,705,310	13,213,048	492,262
Capital outlay	716,900	163,622	876,287	512,624	363,663
Debt service:					
Principal	860,000	-	816,148	816,148	-
Interest	170,398	-	214,250	214,250	-
Other Funds:					
Register of Deeds	310,478	-	310,478	281,948	28,530
Grants	455,066	-	451,058	706,847	(255,789)
Total Expenditures	29,788,594	163,622	29,952,216	28,403,701	1,548,515
Excess (deficiency) of revenues over expenditures before other financing sources	(809,100)	(163,622)	(972,722)	2,124,914	3,097,636
Other Financing Sources:					
Use of fund balance - reduce taxes	809,100	-	809,100	809,100	-
Use of fund balance - prior year reserves	-	163,622	163,622	163,622	-
Total Other Financing Sources	809,100	163,622	972,722	972,722	-
Excess of revenues and other financing sources over expenditures	\$ -	\$ -	\$ -	\$ 3,097,636	\$ 3,097,636

The accompanying notes are an integral part of these financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of Sullivan County, New Hampshire (the County) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The County is a municipal corporation governed by an elected Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the County and applicable component units for which the County is considered to be financially accountable. In fiscal year 2015, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Generally, all other revenue items are considered to be measurable and available only when cash is received by the County. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The County reports the following major governmental funds:

- The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.
- The *Register of Deeds Fund* is used to account for the proceeds of specific revenue sources and related expenditures that are associated with registry activities.
- The *Grants Fund* accounts for grant activity of the County.
- The *Capital Projects Fund* accounts for the activity of the biomass project.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

E. Inventory

Inventory is valued at cost using the first-in/first-out (FIFO) method.

F. Capital Assets

Capital assets, which include land, buildings and improvements, equipment and furnishings, vehicles, and construction in progress, are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 - 40
Equipment and furnishings	5
Vehicles	5

G. Compensated Absences

It is the County's policy to permit employees to accumulate earned but unused vacation pay benefits. All vested vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position.

I. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The County reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and, therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The County's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent.
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the County (i.e., County Delegation).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the County uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

J. Fund Balance Policy

There is no rule or law in New Hampshire that governs the level of fund balance for counties. However, by looking at other guidelines that exist and by comparing the County to other counties in the state and in other states, the County arrived at a policy that fits the County's needs and standards:

- 1) The NH Department of Revenue Administration recommends that municipalities maintain a fund balance that represents between 5% and 10% of its total annual appropriations, including municipal, school, and county obligations.
- 2) The Government Finance Officer Association recommends as a best practice that "general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time". Two months of operating revenues for the County is approximately \$5 million, including all operations. Operations funded by the general fund are approximately \$2,500,000, which is approximately 16% of budgeted general fund appropriations.

Through this fund balance policy, the County will endeavor to achieve and maintain an undesignated fund balance that is between 8% and 16% of its annual general fund budgeted appropriations, which represents one to two months of operations. In conjunction with this goal, the County will also

endeavor to fund its long-term capital improvements plan, as well as annually assign fund balance specifically to address any unanticipated shortfalls in budgeted revenues for Sullivan County Health Care. The recommended amount to be assigned for Sullivan County Health Care is also 8% to 16% of the nursing home fund budget (one to two months of operations, between \$1-2 million).

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The County follows the following procedures establishing the budgetary data reflected in the basic financial statements:

- Prior to May 1st, the County departments submit to the County Commissioners a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Hearings are conducted by the County Commissioners prior to the County's budget meeting to discuss the proposed budget.
- The budget is legally enacted by the County Delegation prior to September 1st.
- Appropriations for certain projects and specific items not fully expended at the fiscal year-end are carried forward as continued appropriations to the new fiscal year in which they supplement the appropriations of that year.
- The budgets for all departments and operations of the County are prepared under the direction of the County Commissioners. Original appropriations are acted upon by the County Delegation vote.
- A copy of the budget is published in the Annual Report of Sullivan County, New Hampshire.

B. Budgetary Basis

The final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers.

C. Budget/GAAP Reconciliation

Budgetary data is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>All Budgeted Funds</u>	<u>Revenues and and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 30,528,615	\$ 28,428,118
To reverse non-budgeted capital projects fund expenditures	-	(24,417)
Budgetary Basis	<u>\$ 30,528,615</u>	<u>\$ 28,403,701</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

<u>Fund Number</u>	<u>Fund Name</u>	<u>Deficit</u>
605	NH State RSAT for DOC	\$ (481)
937	CDBG Earle Bourden Centre	(254)
979	SCFBSATI	<u>(3,270)</u>
Total		<u>\$ (4,005)</u>

The deficits in these funds will be eliminated through future revenues and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County’s deposits may not be returned to it. RSA 29:1 limits “deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus.” The County does not have a deposit policy for custodial credit risk.

As of June 30, 2015, \$2,136,093 of the County’s bank balance of \$13,453,648 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Restricted Cash

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. As of June 30, 2015, cash is restricted for the following:

Capital reserve fund	\$ 482,328
Registry of Deeds	173,697
Nursing Home resident funds	86,530
Inmate funds	33,132
Nursing Home trust funds	10,996
Sheriff accounts	16,879
Other accounts	<u>1,110</u>
Total	<u>\$ 804,672</u>

5. Allowance for Doubtful Accounts and Contractual Allowances

The allowance for doubtful accounts for Nursing Home receivables has been estimated at \$282,000 at June 30, 2015. Nursing Home receivables are also reported net of contractual allowances.

6. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 26,159	\$ 464	\$ -	\$ 26,623
Equipment and furnishings	3,869	185	(43)	4,011
Vehicles	<u>526</u>	<u>-</u>	<u>-</u>	<u>526</u>
Total capital assets, being depreciated	30,554	649	(43)	31,160
Less accumulated depreciation for:				
Buildings and improvements	(11,136)	(861)	-	(11,997)
Equipment and furnishings	(3,579)	(87)	42	(3,624)
Vehicles	<u>(363)</u>	<u>(55)</u>	<u>-</u>	<u>(418)</u>
Total accumulated depreciation	<u>(15,078)</u>	<u>(1,003)</u>	<u>42</u>	<u>(16,039)</u>
Total capital assets, being depreciated, net	15,476	(354)	(1)	15,121
Capital assets, not being depreciated:				
Land	403	-	-	403
Construction in progress	<u>3</u>	<u>28</u>	<u>(3)</u>	<u>28</u>
Total capital assets, not being depreciated	<u>406</u>	<u>28</u>	<u>(3)</u>	<u>431</u>
Governmental activities capital assets, net	<u>\$ 15,882</u>	<u>\$ (326)</u>	<u>\$ (4)</u>	<u>\$ 15,552</u>

Depreciation expense was charged to functions of the County as follows (in thousands):

Governmental Activities:	
General government	\$ 159
Public safety	28
Human services	1
Corrections	322
Nursing home	<u>493</u>
Total depreciation expense - governmental activities	<u>\$ 1,003</u>

7. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of assets that are applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of the deferred outflows of resources balance as of June 30, 2015:

	<u>Governmental Activities</u>
Pension contributions subsequent to the measurement date	\$ <u>1,205,010</u>
Total	\$ <u><u>1,205,010</u></u>

8. Accounts Payable

Accounts payable represents fiscal year 2015 expenditures paid after June 30, 2015.

9. Long-Term Debt

A. General Obligation Bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	Amount Outstanding as of <u>6/30/15</u>
Corrections facility upgrades	01/15/20	2.62%	\$ 3,275,000
Biomass project	08/22/28	2.50%	<u>2,643,852</u>
Total Governmental Activities			\$ <u><u>5,918,852</u></u>

B. Notes Payable

The County has entered into agreements to provide funds for the acquisition of vehicles. At June 30, 2015, notes payable outstanding were as follows:

<u>Governmental Activities:</u>	<u>Maturities Through</u>	<u>Interest Rate(s) %</u>	Amount Outstanding as of <u>6/30/15</u>
Vehicles	2016	0.950%	\$ <u>60,957</u>
Total Governmental Activities			\$ <u><u>60,957</u></u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding and notes payable as of June 30, 2015 are as follows:

<u>Bonds Payable</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 815,051	\$ 190,546	\$ 1,005,597
2017	818,991	166,956	985,947
2018	823,210	136,538	959,748
2019	827,358	106,190	933,548
2020	831,666	75,681	907,347
2021 - 2025	951,801	178,937	1,130,738
2025 - 2029	<u>850,775</u>	<u>53,813</u>	<u>904,588</u>
Total	\$ <u>5,918,852</u>	\$ <u>908,661</u>	\$ <u>6,827,513</u>

<u>Notes Payable</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ <u>60,957</u>	\$ <u>579</u>	\$ <u>61,536</u>
Total	\$ <u>60,957</u>	\$ <u>579</u>	\$ <u>61,536</u>

The general fund has been designated as the source that will repay the long-term debt outstanding as of June 30, 2015.

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/14</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/15</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/15</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 6,735	\$ -	\$ (816)	\$ 5,919	\$ (815)	\$ 5,104
Bond premium	<u>196</u>	<u>-</u>	<u>(33)</u>	<u>163</u>	<u>(33)</u>	<u>130</u>
Subtotal	6,931	-	(849)	6,082	(848)	5,234
Other:						
Notes payable	122	-	(61)	61	(61)	-
Compensated absences	367	-	(16)	351	(146)	205
Net OPEB obligation	1,227	111	(26)	1,312	-	1,312
Net pension liability	<u>14,094</u>	<u>-</u>	<u>(2,043)</u>	<u>12,051</u>	<u>-</u>	<u>12,051</u>
Totals	\$ <u>22,741</u>	\$ <u>111</u>	\$ <u>(2,995)</u>	\$ <u>19,857</u>	\$ <u>(1,055)</u>	\$ <u>18,802</u>

10. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of assets that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of the deferred inflows of resources balance as of June 30, 2015:

	<u>Governmental Activities</u>
Net difference between projected and actual pension investment earnings	\$ 1,542,007
Changes in proportion and differences between contributions and proportionate share of pension contributions	<u>227,034</u>
Total	<u><u>\$ 1,769,041</u></u>

11. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

12. Fund Balances

The following is a summary of fund balances at June 30, 2015:

	General Fund	Register of Deeds Fund	Grants Fund	Capital Projects Fund	Total Governmental Funds
Nonspendable:					
Prepaid expenses	\$ 157,176	\$ -	\$ -	\$ -	\$ 157,176
Inventory	42,350	-	-	-	42,350
Total Nonspendable	199,526	-	-	-	199,526
Restricted:					
Nursing home trust fund	10,848	-	-	-	10,848
SCHC reserve fund (RSA 24:13, IV)	1,500,000	-	-	-	1,500,000
Inmate health reserve fund (RSA 35:1-c)	50,000	-	-	-	50,000
Deeds surcharge account	-	137,486	-	-	137,486
Unexpended grant funds	-	-	104,687	-	104,687
Unexpended capital project funds	-	-	-	652,872	652,872
Total Restricted	1,560,848	137,486	104,687	652,872	2,455,893
Committed:					
Capital reserve fund	927,328	-	-	-	927,328
Total Committed	927,328	-	-	-	927,328
Assigned:					
Use of fund balance in subsequent year budget:					
To reduce taxes	900,000	-	-	-	900,000
Capital projects	615,000	-	-	-	615,000
Employee HRA carryover	48,697	-	-	-	48,697
Encumbrances	223	-	-	-	223
Designated for future projects	1,035,494	-	-	-	1,035,494
Total Assigned	2,599,414	-	-	-	2,599,414
Unassigned:					
Grant funds in deficit	-	-	(4,005)	-	(4,005)
Remaining fund balance	5,942,912	-	-	-	5,942,912
Total Unassigned	5,942,912	-	(4,005)	-	5,938,907
Total Fund Balances	\$ 11,230,028	\$ 137,486	\$ 100,682	\$ 652,872	\$ 12,121,068

13. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the County is involved. The County's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

14. Post-Employment Healthcare Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

The County provides post-employment healthcare benefits for retired employees through the County's plan. As of July 1, 2014, the actuarial valuation date, 27 retirees and 217 active employees met the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The County provides medical benefits to its eligible retirees and their covered dependents. All active employees who retire from the County and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Eligible retirees and their spouses contribute 100% of premium rates for the medical plan selected. Medical coverage continues to the spouse after the death of the retiree, provided the spouse makes the required contributions. The County contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The County's fiscal year 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The

following table shows the components of the County's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the County's net OPEB obligation based on an actuarial valuation as of July 1, 2014.

Annual Required Contribution (ARC)	\$ 133,357
Interest on net OPEB obligation	49,076
Adjustment to ARC	<u>(70,960)</u>
Annual OPEB cost	111,473
Contributions made	<u>26,449</u>
Increase in net OPEB obligation	85,024
Net OPEB obligation - beginning of year	<u>1,226,906</u>
Net OPEB obligation - end of year	<u>\$ 1,311,930</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 111,473	24%	\$ 1,311,930
2014	\$ 414,600	33%	\$ 1,226,906
2013	\$ 396,788	28%	\$ 948,271
2012	\$ 436,565	23%	\$ 661,759
2011	\$ 415,329	21%	\$ 327,330

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2014, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 1,147,776
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,147,776</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 8,624,967</u>
UAAL as a percentage of covered payroll	<u>13%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of

events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the projected unit credit method was used. The actuarial value of assets was not determined, as the County has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 9%, which decreases to a 5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level dollar amount over 30 years on an open amortization period for pay-as-you-go. This has been calculated at a rate of 4.0% pay-as-you-go.

15. Retirement System

The County follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the State of New Hampshire Retirement System (NHRS).

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System, a cost sharing, multiple-employer defined benefit contributory pension plan and trust established in 1967 by RSA 100-A:2 and qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death, and vested retirement benefits to mem-

bers and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to Group I. Police officers and firefighters belong to Group II. All assets are held in a single trust and are available to each group. Additional information is disclosed in the NHRS' annual report publicly available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. Benefits Provided

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

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have a nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by $\frac{1}{4}$ of 1% or age 60.

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

C. Contributions

Plan members are required to contribute a percentage of their gross earnings to the pension plan, for which the contribution rates are 7% for employees and 11.55% for sheriff's deputies and correctional officers. The County makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 10.77% to 25.30% of covered compensation. The County's contributions to NHRS for the year ended June 30, 2015 was \$1,205,010, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

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

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

At June 30, 2015, the County reported a liability of \$ 12,051,561 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2013, the County's proportion was .32748807 percent.

At the most recent measurement date of June 30, 2014, the County's proportion was .32106796 percent, which was a decrease of .00642011 percent from its previous year proportion.

For the year ended June 30, 2015, the County recognized pension expense of \$767,840. In addition, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings	\$ -	\$ 1,542,007
Changes in proportion and differences between contributions and proportionate share of contributions	-	227,034
Contributions subsequent to the measurement date (fiscal year 2015)	<u>1,205,010</u>	<u>-</u>
Total	<u>\$ 1,205,010</u>	<u>\$ 1,769,041</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ (770,234)
2017	434,776
2018	434,776
2019	434,776
2020	<u>29,937</u>
Total	<u>\$ 564,031</u>

Actuarial assumptions: The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent per year
Salary increases	3.75 - 5.8 percent average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for woman for mortality improvements.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class	Target Allocation Percentage	Weighted Average Average Long-Term Expected Real Rate of Return
Large Cap Equities	22.50 %	3.25%
Small/Mid Cap Equities	7.50	3.25%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.25%
Emerging Int'l Equities	7.00	6.50%
Total international equities	20.00	
Core Bonds	18.00	-0.47%
High-Yield Bonds	1.50	1.50%
Global Bonds (unhedged)	5.00	-1.75%
Emerging Market Debt (external)	0.50	2.00%
Total fixed income	25.00	
Private equity	5.00	5.75%
Private debt	5.00	5.00%
Real estate	10.00	3.25%
Opportunistic	5.00	2.50%
Total alternative investments	25.00	
Total	100.00 %	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based

on the expected payroll of current members only. Employer contributions are determined based on the pension plan’s actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the County’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2014	\$ 15,873,867	\$ 12,051,561	\$ 8,826,874

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued NHRS financial report.

16. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

17. Beginning Net Position Restatement

The beginning (July 1, 2014) net position of the County has been restated as follows:

	Governmental <u>Activities</u>
As previously reported	\$ 17,129,147
GASB 68 implementation	<u>(13,052,763)</u>
As restated	<u><u>\$ 4,076,384</u></u>

SULLIVAN COUNTY, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
7/1/2010	\$ -	\$ 2,501,694	\$ 2,501,694	0%	\$ 8,273,545	30%
7/1/2012	\$ -	\$ 3,153,546	\$ 3,153,546	0%	\$ 9,133,477	35%
7/1/2014	\$ -	\$ 1,147,776	\$ 1,147,776	0%	\$ 8,624,967	13%

See Independent Auditors' Report.

SULLIVAN COUNTY, NEW HAMPSHIRE
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
(Unaudited)

	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.321068%
Proportionate share of the net pension liability for the most recent measurement date	\$ 12,051,561
Covered-employee payroll for the most recent measurement date	\$ 8,297,704
Proportionate share of the net pension liability as a percentage of covered-employee payroll	135.89%
Plan fiduciary net position as a percentage of the total pension liability	66.32%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

SULLIVAN COUNTY, NEW HAMPSHIRE
SCHEDULE OF CONTRIBUTIONS
(Unaudited)

	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 1,205,010
Contributions in relation to the contractually required contribution	<u>(1,205,010)</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 8,868,629
Contributions as a percentage of covered-employee payroll	13.59%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.