

**SULLIVAN COUNTY, NEW HAMPSHIRE
GENERAL PURPOSE FINANCIAL STATEMENTS**

and

SUPPLEMENTARY INFORMATION

June 30, 2001

With Independent Auditors' Report



BERRY.DUNN.MCNEIL & PARKER



**CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS**

SULLIVAN COUNTY, NEW HAMPSHIRE

June 30, 2001

Table of Contents

	Page(s)
Independent Auditors' Report.....	1
General Purpose Financial Statements:	
Combined Balance Sheet – All Fund Types and Account Groups.....	2
Combined Statement of Revenues and Expenditures – GAAP Basis – All Governmental Fund Types and Expendable Trust Funds.....	3
Combined Statement of Revenues and Expenditures/Expenses – Budget and Actual – Budgetary Basis – All Governmental and Proprietary Fund Types	4
Combined Statement of Revenues and Expenses – Proprietary Fund Types and Similar Trust Funds.....	5
Combined Statement of Changes in Retained Earnings (Deficit)/Fund Balances – All Fund Types and Account Group.....	6
Statement of Cash Flows – Proprietary Fund Types.....	7
Notes to General Purpose Financial Statements	8 – 23
Supplementary Information:	
Schedule 1 – Combining Balance Sheet – Special Revenue Fund.....	24
Schedule 2 – Combining Statement of Revenue and Expenditures – Special Revenue Fund	25
Independent Auditors' Report on Compliance and on Internal Control.....	26 – 27



CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Commissioners
Sullivan County, New Hampshire

We have audited the accompanying general purpose financial statements of Sullivan County, New Hampshire (the County) as of and for the year ended June 30, 2001, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County, New Hampshire as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and similar trust funds for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic general purpose financial statements taken as a whole. The supplementary information contained in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic general purpose financial statements taken as a whole.

Berry, Dunn, McNeil & Parker

Lebanon, New Hampshire
August 6, 2001

SULLIVAN COUNTY, NEW HAMPSHIRE

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2001

	Governmental Fund Types		Proprietary Fund Types Enterprise	Fiduciary Fund Types Trust Funds	Account Groups		Total (Memorandum Only)
	General	Special Revenue			General Fixed Assets	General Long-term Debt	
ASSETS							
Cash	\$ 233,430	\$ 279,212	\$ 200	\$ 4,818	\$ -	\$ -	\$ 517,660
Accounts receivable, less allowance for doubtful accounts of \$50,000	-	-	722,099	-	-	-	722,099
Prepaid expenditures	73,518	-	-	-	-	-	73,518
Due from other funds	3,910,755	335,221	-	-	-	-	4,245,976
Due from other governments	5,530	-	-	-	-	-	5,530
Inventory	-	-	34,558	-	-	-	34,558
Restricted assets - cash	495,745	-	130,665	7,479	-	-	633,889
Buildings and improvements	-	-	6,276,292	-	3,779,562	-	10,055,854
Equipment	-	-	1,685,736	-	795,039	-	2,480,775
Vehicles	-	-	-	-	122,100	-	122,100
Accumulated depreciation	-	-	(4,253,849)	-	-	-	(4,253,849)
Construction in progress	-	-	1,649,828	-	-	-	1,649,828
Other receivables	-	-	85,000	-	-	-	85,000
Amounts to be provided for the retirement of general long-term obligations	-	-	-	-	-	58,969	58,969
Total assets	\$ 4,718,978	\$ 614,433	\$ 6,330,529	\$ 12,297	\$ 4,696,701	\$ 58,969	\$ 16,431,907
LIABILITIES AND FUND EQUITY (DEFICIT)							
Liabilities	\$ 245,429	\$ 240,363	\$ 220,183	\$ -	\$ -	\$ -	\$ 705,975
Accounts payable	174,487	10,704	188,637	-	-	-	373,828
Accrued liabilities	1,000,000	-	-	-	-	-	1,000,000
Revenue anticipation notes	-	-	245,996	-	-	-	245,996
Compensated absences payable	-	-	130,665	-	-	-	130,665
Due to residents	-	-	4,245,976	-	-	-	4,245,976
Due to other funds	-	-	2,501,528	-	-	58,969	2,560,497
Long-term debt	46,840	-	-	-	-	-	46,840
Accrual for self-funded insurance	1,466,756	251,067	7,532,985	-	-	-	9,309,777
Total liabilities	\$ 2,765,032	\$ 491,437	\$ 10,500,707	\$ 12,297	\$ 4,696,701	\$ 58,969	\$ 13,968,706
Commitment (Note 8)	-	-	-	-	-	-	-
Fund equity (deficit)	-	-	1,644,036	-	-	-	1,644,036
Contributed capital	-	-	(3,077,020)	-	-	-	(3,077,020)
Accumulated deficit	-	-	-	-	-	-	4,696,701
Investment in general fixed assets	-	-	-	-	4,696,701	-	4,696,701
Fund balances	73,518	-	-	-	-	-	73,518
Reserved for prepaid expenses	1,129,675	5,584	230,528	-	-	-	1,365,787
Reserved for encumbrances	-	-	-	7,479	-	-	7,479
Reserved for future expenditures	-	-	-	4,818	-	-	4,818
Unreserved - undesignated	2,049,029	357,782	-	-	-	-	2,411,629
Total fund equity (deficit)	3,252,222	363,366	(1,202,456)	12,297	4,696,701	-	7,122,130
Total liabilities and fund equity (deficit)	\$ 4,718,978	\$ 614,433	\$ 6,330,529	\$ 12,297	\$ 4,696,701	\$ 58,969	\$ 16,431,907

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

SULLIVAN COUNTY, NEW HAMPSHIRE

Combined Statement of Revenues and Expenditures – GAAP Basis

All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 2001

	Governmental Fund Types		Fiduciary Fund Types	Total (Memorandum Only)
	General	Special Revenue	Expendable Trust	
Revenues				
Taxes	\$ 8,611,640	\$ -	\$ -	\$ 8,611,640
Fines and fees	47,846	342,363	-	390,209
Grant revenue	-	92,190	-	92,190
Charges for products and services	80,052	-	-	80,052
Intergovernmental	404,410	-	-	404,410
Interest	57,727	-	8,457	66,184
Miscellaneous	116,186	-	776	116,962
Total revenues	<u>9,317,861</u>	<u>434,553</u>	<u>9,233</u>	<u>9,761,647</u>
Expenditures				
Current				
Cooperative Extension Service	160,180	-	-	160,180
General government	317,760	307,361	-	625,121
Public safety	2,040,301	-	-	2,040,301
Health and welfare	3,020,796	-	-	3,020,796
Grant expenditures	-	92,190	-	92,190
Miscellaneous	371,135	-	14,525	385,660
Capital outlay	34,032	-	-	34,032
Debt service				
Principal retirement	57,714	-	-	57,714
Interest and fiscal charges	121,075	-	-	121,075
Total expenditures	<u>6,122,993</u>	<u>399,551</u>	<u>14,525</u>	<u>6,537,069</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 3,194,868</u>	<u>\$ 35,002</u>	<u>\$ (5,292)</u>	<u>\$ 3,224,578</u>

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

SULLIVAN COUNTY, NEW HAMPSHIRE

Combined Statement of Revenues and Expenses –

Proprietary Fund Types and Similar Trust Funds

Year Ended June 30, 2001

	<u>Proprietary Fund Types Enterprise</u>	<u>Fiduciary Fund Types Nonexpendable Trust</u>	<u>Total (Memorandum Only)</u>
Operating revenues			
Charges for services – state welfare	\$ 5,732,135	\$ -	\$ 5,732,135
– private	1,113,898	-	1,113,898
Medicaid enhancement funds	520,007	-	520,007
Interest	-	208	208
Miscellaneous	<u>428,813</u>	<u>1,835</u>	<u>430,648</u>
Total operating revenues	<u>7,794,853</u>	<u>2,043</u>	<u>7,796,896</u>
Operating expenses			
Personnel services	5,505,149	-	5,505,149
Contractual services	709,166	-	709,166
Supplies and office expenses	147,140	-	147,140
Heat, light, and power	247,411	-	247,411
Depreciation	283,548	-	283,548
Payroll and other taxes	432,669	-	432,669
Food	392,136	-	392,136
Repairs and maintenance	99,090	-	99,090
Employee benefits	1,131,849	-	1,131,849
Bad debts	62,657	-	62,657
Telephone	14,025	-	14,025
Miscellaneous	14,341	3,741	18,082
Equipment	13,499	-	13,499
Interest expense	57,780	-	57,780
Insurance	64,331	-	64,331
Medicine	<u>198,052</u>	<u>-</u>	<u>198,052</u>
Total operating expenses	<u>9,372,843</u>	<u>3,741</u>	<u>9,376,584</u>
Excess of operating expenses over revenues	(1,577,990)	(1,698)	(1,579,688)
Loss on sale of assets	<u>(76,146)</u>	<u>-</u>	<u>(76,146)</u>
Net loss	<u>\$ (1,654,136)</u>	<u>\$ (1,698)</u>	<u>\$ (1,655,834)</u>

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

SULLIVAN COUNTY, NEW HAMPSHIRE

Combined Statement of Changes in Retained Earnings (Deficit)/Fund Balances - All Fund Types and Account Group
Year Ended June 30, 2001

	Governmental Fund Types			Proprietary Fund Types			Fiduciary Fund Types		Account Group	Total (Memorandum Only)	
	General Reserve for Prepaid Expenses	Reserve for Encumbrances	Special Revenue Unrestricted	Nursing Home	Nursing Home Capital	Reserve for Encumbrances	Expendable Trust	Nonexpendable Trust			General Fixed Assets
Fund balances/retained earnings (deficit), beginning of year, as previously stated	\$ (107,389)	\$ 81,272	\$ 393,002	\$ -	\$ (3,003,043)	\$ 1,511,885	\$ 10,110	\$ 9,177	\$ 4,640,319	\$ 5,363,990	
Prior period adjustment for correction of errors (Note 2)	-	-	(64,638)	-	298,802	-	-	-	-	234,164	
Fund balances/retained earnings (deficit), beginning of year, as restated	(107,389)	81,272	328,364	(2,704,241)	1,644,036	1,511,885	10,110	9,177	4,640,319	5,598,154	
Net loss	3,194,868	-	35,002	(1,654,136)	-	-	(5,292)	(1,698)	-	1,568,744	
Capital outlay - purchase of fixed assets	-	-	-	-	-	-	-	-	56,911	56,911	
Capital retirement	-	-	-	-	-	-	-	-	(329)	(329)	
Encumbrances	(945,054)	-	(5,584)	1,281,357	-	(1,281,357)	-	-	-	-	
Changes in prepaid expenses	7,754	(7,754)	-	-	-	-	-	-	-	-	
Other changes	(101,150)	-	-	-	-	-	-	-	-	(101,150)	
Fund balances/retained earnings (deficit), end of year	\$ 2,049,022	\$ 73,518	\$ 357,782	\$ (3,077,020)	\$ 1,644,036	\$ 230,528	\$ 4,818	\$ 7,479	\$ 4,696,701	\$ 7,122,130	

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

SULLIVAN COUNTY, NEW HAMPSHIRE

Statement of Cash Flows – Proprietary Fund Types

Year Ended June 30, 2001

Cash flows from operating activities	
Net loss	\$ (1,654,136)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	283,548
Loss on sale of assets	76,146
Bad debt expense	62,657
Decrease (increase) in	
Accounts receivable	(130,448)
Inventory	31,908
Restricted cash	-
Increase in	
Accounts payable	178,958
Due to other funds	<u>1,358,914</u>
Net cash provided by operating activities	<u>207,547</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(36,163)
Principal payments of long-term debt	(281,067)
Proceeds from debt issuance	<u>109,683</u>
Net cash used by capital and related financing activities	<u>(207,547)</u>
Net increase in cash	-
Cash, beginning of year	<u>200</u>
Cash, end of year	\$ <u><u>200</u></u>
Supplemental disclosures of cash flow information	
Interest	\$ 57,780
Non-cash investing and financing activities	
Financing of construction in progress	\$ 1,303,978
Sale of asset for account receivable	85,000
Prior period restatement for accumulated depreciation	298,802

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

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

1. Summary of Significant Accounting Policies

Sullivan County, New Hampshire (the County) was established in 1827 and operates under a County Commissioner/Delegation form of government. The County is responsible for the following facilities and services, as authorized by its charter: sheriff's department, nursing home, correctional facility, county farm and woodlands, registry of deeds, and general administrative services for the County.

The accounting policies of the County, as reflected in the accompanying general purpose financial statements, conform to U.S. generally accepted accounting principles applicable to governmental units. The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, FASB prevails. The following is a summary of the more significant policies:

A. Reporting Entity

Specific criteria are used in the determination of which funds are included in the general purpose financial statements of the County and in the definition of the County as a separate reporting entity from any other unit of government. These criteria are: (1) oversight responsibility, which addresses the extent of the governing authority of elected officials, (2) scope of public service which addresses the type of services provided in the geographic service area, and (3) the existence of any special financing relationships which exist between the County and other entities. Based on these criteria, there are no agencies or entities which should be combined with the general purpose financial statements of the County.

B. Basis of Presentation

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (deficit), revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general purpose financial statements in this report, into three broad fund categories, four generic fund types, and two account groups, as follows:

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Governmental Funds

General Fund

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

Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified services.

Proprietary Funds

Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. As such, they are intended to be financed primarily through proceeds from their operations. The Enterprise Fund of the County consists of the Sullivan County Nursing Home (County Home). The County Home provides a service to the general public on a continuing basis which is financed through user charges and reimbursement from the State of New Hampshire. Periodic determination of revenues earned, expenses incurred, and net income (loss) is appropriate for capital maintenance, public policy, management control, accountability, and cost reimbursement purposes.

Fiduciary Funds

Trust Funds

Trust Funds are used to account for assets held in trust or as an agent by the County for others. Unrestricted trust funds are expendable trusts and accounted for as a Governmental Fund (modified accrual basis). Restricted trust funds are nonexpendable and accounted for as a Proprietary Fund (accrual basis).

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Concluded)

Account Groups

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the County, other than those accounted for in the Proprietary Funds. General fixed assets are stated at cost. Where the original cost records are not available, the assets are recorded at the estimated historical cost. No depreciation has been provided on general fixed assets.

General Long-term Debt Account Group

This account group is established to account for all long-term liabilities of the County that are expected to be financed from the Governmental Funds.

C. Basis of Accounting

The modified accrual basis of accounting is used by the Governmental and Expendable Trust Funds. Under the modified accrual basis of accounting, revenues are recorded when received in cash, except for measurable and available revenues of a material amount not received as of the statement date. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Major revenue sources susceptible to accrual include: taxes from towns, fines and fees, charges for products and services, intergovernmental charges, and interest income.

The Proprietary Funds and nonexpendable Trust Funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. Outlays for property and equipment are capitalized and depreciated. Outlays for retirement of debt are recorded as a reduction of the related liability.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Concluded)

Long-term debt related to property and equipment additions of Proprietary Funds is accounted for in the Enterprise Fund. Contributed capital represents the original construction costs of the County Home.

The General, Special Revenue, and Enterprise use encumbrance accounting. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year, but are carried forward as reserved fund balance until liquidated.

D. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. County Budget and Budgetary Accounting

The County budgets revenues and expenditures/expenses for Governmental and Proprietary Funds. The County prepares its annual budget on a basis which is different from U.S. generally accepted accounting principles (GAAP basis). To provide a meaningful comparison of actual results with the budget, the combined statement of revenues and expenditures/expenses budget and actual is presented in accordance with the County's budget (budget basis). The major differences between the budget and GAAP bases are as follows:

- The budget recognizes as revenues (expenditures) surplus (deficits in) unrestricted funds brought forward from prior periods. GAAP records prior year surplus (deficit) in fund balances brought forward.
- The budget expenses outlays for supplies and inventory of the Enterprise Fund when purchased. GAAP expenses these items when consumed.
- The budget expenses outlays for capital additions of the Enterprise Fund. GAAP capitalizes these outlays.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

1. Summary of Significant Accounting Policies (Continued)

E. County Budget and Budgetary Accounting (Continued)

- The budget does not provide for depreciation of Enterprise Fund fixed assets. GAAP provides for depreciation of these assets.
- The budget expenses compensated absences when paid. GAAP expenses compensated absences when earned by employees.
- The budget recognizes proceeds from debt issuance as revenue and payments on debt and capital lease obligations as expenditures. For GAAP purposes, proceeds and payments on these obligations are recorded as increases and decreases in liabilities, as appropriate.
- The budget records cash received on sale of Enterprise Fund assets as revenue. GAAP records a gain or loss based on the cash and accumulated depreciation at the time of sale.
- The budget records expenditures for commitments to acquire goods or services not yet received. For GAAP purposes, these amounts are recorded as encumbrance (reserved fund balance).

Budgets

The County follows the following procedures establishing the budgetary data reflected in the general purpose 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.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

1. Summary of Significant Accounting Policies (Continued)

E. County Budget and Budgetary Accounting (Concluded)

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.

In summary form, the approved budgets for the General, Special Revenue, and Enterprise Funds for the year ended June 30, 2001 were as follows:

Budgeted revenue	\$ 18,767,987
Budgeted expenditures	<u>18,767,987</u>
Budgeted surplus	\$ <u> -</u>

F. Property and Equipment

County Home property and equipment are stated at cost. Depreciation has been provided over the estimated useful lives using the straight-line method.

G. Fund Balances

Fund balances of Governmental and Proprietary Funds are classified in three separate categories. The categories, if applicable, and their general meanings, are as follows:

Reserved Fund Balance

Indicates that portion of fund equity which is not appropriable for expenditure or is legally segregated for specific purposes.

Unreserved – Designated Fund Balance

Indicates that portion of fund equity for which the County has made tentative plans.

Unreserved – Undesignated Fund Balance

Indicates that portion of fund equity which is available for appropriation and expenditure in future periods.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

1. Summary of Significant Accounting Policies (Concluded)

H. Revenue Recognition for Grants

Revenues from federal, state, and other grants, designated for payment of specific County expenditures, are recognized in the Special Revenue Fund when the related expenditures are incurred.

I. Compensated Absences

The County has an earned time program, combining traditional vacation, personal, holiday, and sick time benefits into one bank of earned time hours. Consequently, earned time, up to the maximum as specified by the program, is recorded as a liability for compensated absences.

J. Inventory

Only the Enterprise Fund records inventory which consists of linen and supplies. Inventory is recorded at cost.

K. Due To/From Other Funds

Short-term amounts owed between funds are classified as "due to/from other funds." Transfers between funds are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

L. Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Such data are not comparable to a consolidation since interfund eliminations have not been made.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

2. Prior Period Adjustments

Special Revenue Fund

In prior years, certain cash accounts of the Special Revenue Fund and related liabilities were not properly reflected on the books of the County due to the need to keep funds due to the State separate from County funds. The treatment of these accounts has been determined to be in error, and the amount due to the State has been recorded in the current year resulting in a decrease to the Special Revenue Fund's fund balance of \$64,638 as of July 1, 2000.

Enterprise Fund

Certain errors resulting in the overstatement of previously reported depreciation expense and the related accumulated depreciation were discovered during the current year. Accordingly, an adjustment of \$298,802 has been made to increase the fund balance of the Enterprise Fund as of July 1, 2000.

3. Cash

The cash deposits in the County's Funds, including restricted cash, at year end consisted of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured, collateralized by U.S. Government and other short-term securities	389,844	433,103
Uninsured, no collateral held	<u>560,730</u>	<u>648,812</u>
	\$ <u>1,150,574</u>	\$ <u>1,281,915</u>

The above amount does not include petty cash funds of \$975.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

4. Changes in General Fixed Assets

The changes in general fixed assets were as follows:

	Balance <u>July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2001</u>
Building and improvements	\$ 3,777,044	\$ 2,518	\$ -	\$ 3,779,562
Equipment and vehicles	<u>863,275</u>	<u>54,393</u>	<u>529</u>	<u>917,139</u>
	<u>\$ 4,640,319</u>	<u>\$ 56,911</u>	<u>\$ 529</u>	<u>\$ 4,696,701</u>

5. Changes in Long-Term Debt

Long-term debt consisted of the following as of June 30, 2001:

	<u>Enterprise Fund</u>	<u>General Long-term Debt Account Group</u>	<u>Total</u>
\$1,900,000 capital improvement bond (issue date July 20, 1995), principal due in annual installments of \$190,000 through 2006. Interest is payable semiannually at 5.25%	\$ 950,000	\$ -	\$ 950,000
Uncollateralized revolving fund sewer project loan, proceeds paid throughout the project, not to exceed \$1,835,000, five year principal and interest payments to begin one year after substantial completion or January 1, 2001	1,537,302	-	1,537,302
Capital lease – cargo van	-	12,524	12,524
Capital lease – Sheriff's Department	-	46,445	46,445
Capital lease – club wagon	<u>14,226</u>	<u>-</u>	<u>14,226</u>
	<u>\$ 2,501,528</u>	<u>\$ 58,969</u>	<u>\$ 2,560,497</u>

The capital improvement bonds are backed by the full faith and credit of Sullivan County.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

5. Changes in Long-Term Debt (Continued)

Future minimum payments, including interest of \$176,875, are as follows for the years ending June 30:

	Enterprise Fund	General Long-term Debt Account Group	Total
2002	\$ 559,334	\$ 31,867	\$ 591,201
2003	549,359	31,867	581,226
2004	531,624	-	531,624
2005	521,649	-	521,649
2006	<u>511,672</u>	<u>-</u>	<u>511,672</u>
	<u>\$ 2,673,638</u>	<u>\$ 63,734</u>	<u>\$ 2,737,372</u>

Below is a summary of changes in the General Long-Term Debt Account Group for the year ended June 30, 2001:

	Balance June 30, <u>2000</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2001</u>
Accrued claims and judgments	\$ 20,000	\$ -	\$ 20,000	\$ -
Capital improvement bond	10,450	-	10,450	-
Capital lease – Sheriff’s department	68,022	-	21,577	46,445
Capital lease – cargo van	<u>18,211</u>	<u>-</u>	<u>5,687</u>	<u>12,524</u>
	<u>\$ 116,683</u>	<u>\$ -</u>	<u>\$ 57,714</u>	<u>\$ 58,969</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

5. Changes in Long-Term Debt (Concluded)

Below is a summary of changes in the Enterprise Fund for the year ended June 30, 2001:

	Balance June 30, <u>2000</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2001</u>
Capital improvement bond, issued July 13, 1990	\$ 84,550	\$ -	\$ 84,550	\$ -
Capital improvement bond, issued July 20, 1995	1,140,000	-	190,000	950,000
Sewer Project Loan	123,641	1,413,661	-	1,537,302
Capital lease – club wagon	<u>20,743</u>	<u> </u>	<u>- 6,517</u>	<u>14,226</u>
	<u>\$ 1,368,934</u>	<u>\$ 1,413,661</u>	<u>\$ 281,067</u>	<u>\$ 2,501,528</u>

Assets related to the County's capital leases are as follows:

	<u>Enterprise Fund</u>	<u>General Fund</u>
Cost included in equipment	\$ -	\$ 118,100
Cost included in vehicles	34,650	-
Accumulated depreciation	<u>(7,059)</u>	<u>-</u>
Net book value	<u>\$ 27,591</u>	<u>\$ 118,100</u>

Operating Leases

The County has entered into a number of operating leases which contain cancellation provisions and are subject to annual appropriations. For the reporting period, rent expenditures approximated \$8,800 for all types of leases. These expenditures were made primarily from the General and Enterprise Funds.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

6. Interfund Receivables and Payables

Interfund receivables and payables consisted of the following as of June 30, 2001:

	<u>General Fund</u>	<u>Enterprise</u>	<u>Special Revenue</u>
Due from Enterprise	\$ 4,245,976	\$ -	\$ -
Due to Special Revenue	(335,221)	-	-
Due to General Fund	-	(4,245,976)	-
Due from General Fund	<u>-</u>	<u>-</u>	<u>335,221</u>
Due from (to) other funds	\$ <u>3,910,755</u>	\$ <u>(4,245,976)</u>	\$ <u>335,221</u>

7. Taxes

Taxes were received from each of the following municipalities in the proportionate share as determined by the New Hampshire Department of Revenue Administration based on an equalized assessed evaluation:

<u>Municipality</u>	<u>Percentage</u>	<u>Amount</u>
Acworth	2.1 %	\$ 180,937
Charlestown	6.7	579,287
Claremont	21.5	1,845,366
Cornish	3.5	303,772
Croydon	1.7	143,284
Goshen	1.7	149,672
Grantham	11.8	1,012,555
Langdon	1.5	127,324
Lempster	2.1	180,188
Newport	10.9	945,265
Plainfield	5.9	505,159
Springfield	4.1	355,647
Sunapee	19.8	1,705,487
Unity	2.6	221,581
Washington	<u>4.1</u>	<u>356,116</u>
	<u>100.0 %</u>	<u>\$ 8,611,640</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

8. Retirement System

Plan Description

The County contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer contributory defined benefit pension plan. NHRS provides service, disability, death, and vested retirement benefits to plan members and beneficiaries. NHRS is administered by a 13-member Board of Trustees. The Board of Trustees formulates administrative policies and procedures and authorizes benefit payments to members and their beneficiaries. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New Hampshire Retirement System, 4 Chenell Drive, Concord, NH 03301-8509 or by calling (603) 271-3351.

Funding Policy

Sheriff's deputies and correctional office plan members and all other employee plan members are required to contribute 8.20% and 4.14%, respectively, of their annual covered salary and the County is required to contribute at an actuarially determined rate. The current rate for sheriff's deputies and correctional officers is 7.13% of annual covered payroll. The current rate for all other employees is 3.94% of annual covered payroll. The contribution requirements of plan members are fixed by statute. The County's contributions to NHRS for the years ended June 30, 2001, 2000, and 1999 were \$219,000, \$227,745, and \$195,105, respectively, equal to the required contributions for each year.

9. Significant Concentration

Approximately 80% of the residents of the Sullivan County Nursing Home served during 2001 were beneficiaries of the New Hampshire Medicaid program. Under this program, the provider is reimbursed for the care of qualified residents at specified interim contractual rates during the year.

Effective February 1, 1999, the New Hampshire Department of Health and Human Services implemented an acuity-based nursing facility reimbursement system. Providers of services to nursing care residents eligible for Medicaid benefits are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on each facility's acuity and allowable cost incurred for its fiscal year ended in 1998. Base year allowable costs are subject to certain rate setting cost containment provisions of the New Hampshire Acuity-Based Nursing Facility Reimbursement Systems.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

9. Significant Concentration (Concluded)

The mix of revenues from residents and third-party payors for the year ended June 30, 2001 was as follows:

Medicaid	80%
Private	14
Other	<u>6</u>
	<u>100%</u>

Due to the large concentration of residents who receive benefits from the Medicaid reimbursement program, the County is highly dependent upon regulatory authorities' establishing reimbursement rates that are adequate to sustain the Sullivan County Nursing Home's operations.

10. Risk Management

The County is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The County along with other municipalities and other qualified political subdivisions of New Hampshire are members of the New Hampshire Municipal Association Property-Liability Insurance Trust, Inc. (NHMA), a Trust organized to provide property and liability insurance coverage to its members. The County pays an annual premium to NHMA for its property and liability insurance coverage. The premium paid in 2001 was \$57,319. The insurance coverage includes \$500,000 for each and every covered property, crime, or liability that exceeds \$1,000. There are no unpaid contributions or claims submitted to the Trust for which the County has a partial obligation as of June 30, 2001. During December 2000, \$15,032 was returned to the County as its 2000 dividend for the years 1998 and 1999.

Should there be a deficiency in NHMA Trust funds, NHMA has authority to make additional assessments of its members to meet its liabilities. As of June 30, 2001, NHMA has indicated it foresees no likelihood of an additional assessment for any of the past years.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

11. Budgetary Basis of Accounting

Adjustments necessary to convert the results of operations for the year on a GAAP basis to a budget basis are as follows:

	General <u>Fund</u>	Special Revenue <u>Fund</u>	Enterprise <u>Fund</u>	<u>Total</u>
Excess of revenues over expenditures/net loss budget basis	\$ 1,721,018	\$ 29,418	\$ (1,551,894)	\$ 198,542
Receivables not recorded as revenue	(1,165,606)	-	(85,000)	(1,250,606)
Loss on sale of building – GAAP	-	-	(76,146)	(76,146)
Long-term debt payment not recognized as expenditure	-	-	281,067	281,067
Prior year’s deficit not recognized as expense	1,541,719	-	-	1,541,719
Release of prior year encumbrances recorded as change in estimate – GAAP	50,574	-	-	50,574
Capital outlays not recognized as expenditure	-	-	36,163	36,163
Depreciation	-	-	(283,548)	(283,548)
Encumbrances	<u>1,047,163</u>	<u>5,584</u>	<u>25,222</u>	<u>1,077,969</u>
 Excess of revenues over expenditures/net loss GAAP basis	 \$ <u>3,194,868</u>	 \$ <u>35,002</u>	 \$ <u>(1,654,136)</u>	 \$ <u>1,575,734</u>

The receivable not recorded as revenue in the General Fund of \$1,165,606 represents supplemental tax revenue. A supplemental budget was passed by the delegation during the year to cover expected deficits. This amount represents additional tax revenue that will not be collected until December 2001. This revenue has not been accrued for GAAP purposes.

12. Accrual for Self-funded Insurance

The County participates in the New Hampshire Municipal Association Health Insurance Trust Self-Funding Plus Program (Program) which provides medical health benefits to its eligible employees and their eligible dependents. The Program is self-funded and amounts collected from premiums, net of claims paid on behalf of participants, are maintained in a separate cash account and are reflected on the combined balance sheet as general fund “restricted cash”. Claims relating to the year ended June 30, 2001, which have not been paid, have been recorded as a liability as of June 30, 2001. The County is insured above a stop-loss amount of \$75,000 on individual and aggregate claims.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

June 30, 2001

13. Enterprise Fund Deficit

Losses incurred by the Nursing Home and the resulting deficit of fund balance will be supported by tax revenues recorded in the General Fund.

SULLIVAN COUNTY, NEW HAMPSHIRE

Schedule 1

Combining Balance Sheet – Special Revenue Fund

June 30, 2001

	<u>Registry of Deeds</u>	<u>Sheriff's Grants</u>	<u>Total</u>
ASSETS			
Cash	\$ 279,212	\$ -	\$ 279,212
Due from other funds	<u>335,221</u>	<u>-</u>	<u>335,221</u>
Total assets	\$ <u>614,433</u>	\$ <u>-</u>	\$ <u>614,433</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable	\$ 240,363	\$ -	\$ 240,363
Accrued liabilities	<u>10,704</u>	<u>-</u>	<u>10,704</u>
Total liabilities	<u>251,067</u>	<u>-</u>	<u>251,067</u>
Fund equity			
Reserve for encumbrances	5,584	-	5,584
Undesignated	<u>357,782</u>	<u>-</u>	<u>357,782</u>
Total fund equity	<u>363,366</u>	<u>-</u>	<u>363,366</u>
Total liabilities and fund equity	\$ <u>614,433</u>	\$ <u>-</u>	\$ <u>614,433</u>

Combining Statement of Revenue and Expenditures – Special Revenue Fund

Year Ended June 30, 2001

	<u>Registry of Deeds</u>	<u>Sheriff's Grants</u>	<u>Total</u>
Revenue			
Fines and fees	\$ 342,363	\$ -	\$ 342,363
Grant revenue	<u>-</u>	<u>92,190</u>	<u>92,190</u>
Total revenue	<u>342,363</u>	<u>92,190</u>	<u>434,553</u>
Expenditures			
Current			
Grant expenditures	-	92,190	92,190
General government	<u>307,361</u>	<u>-</u>	<u>307,361</u>
Total expenditures	<u>307,361</u>	<u>92,190</u>	<u>399,551</u>
Excess of revenues over expenditures	\$ <u>35,002</u>	\$ <u>-</u>	\$ <u>35,002</u>



CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

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

The Commissioners
Sullivan County, New Hampshire

We have audited the general purpose financial statements of Sullivan County, New Hampshire (the County) as of and for the year ended June 30, 2001, and have issued our report thereon dated August 6, 2001. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. This reportable condition is described in the following paragraph.

Resident Cash Account

Resident funds are held in a Sullivan County Nursing Home cash account. The County has implemented a system of controls, including documentation of resident elections relating to funds held for residents, segregation of duties for recording transactions for resident accounts, and reconciliation of the cash account on a monthly basis. However, this cash account was not reconciled on a regular basis during the year ended June 30, 2001, including reconciliation to individual resident account balances. We recommend that the County reconcile this account as soon as possible and continue with the reconciliation process on a monthly basis.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the County in a separate letter dated August 6, 2001.

This report is intended solely for the information and use of Sullivan County Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

Berry, Dunn, McNeil & Parker

Lebanon, New Hampshire
August 6, 2001

