

OFFICE

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**BASIC FINANCIAL STATEMENTS**

and

**SUPPLEMENTARY INFORMATION**

**June 30, 2002**

**With Independent Auditors' Report**



BERRY, DUNN, MCNEIL & PARKER



CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

SULLIVAN COUNTY, NEW HAMPSHIRE

June 30, 2002

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# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

This section of Sullivan County, New Hampshire's (County) basic financial statements presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2002. Please read it in conjunction with the County's financial statements, which follow this section.

### Financial Highlights

- The County's total net assets increased significantly over the course of this year's operations. However, while the net asset/deficit of our business-type activities increased \$1.5 million (or nearly 94 percent), this was offset by an increase of \$3.7 million (or 69 percent) in the net assets of our governmental activities.
- During the year, governmental program expenses were \$3.7 million less than the \$12.2 million generated in taxes and other revenues for governmental programs (before special items). This is improved from last year, when revenues exceeded expenses by \$3.3 million.
- In the County's business-type activities, revenues and expenses increased 1 percent.
- The total cost of the County's programs increased by 13 percent from 2001. No new programs were added this year.
- The general fund reported a surplus this year of \$2.6 million.
- The resources available for appropriation were \$288,000 more than budgeted for the general fund.

### Overview of the Financial Statements

The basic financial statements and supplementary information consist of four parts—*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, an optional section that presents budgetary comparison information for the enterprise fund, and *combining statements* for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the County's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the County government, reporting the County's operations in *more detail* than the government-wide statements.
  - The *governmental funds* statements tell how *general government* services like public welfare were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like a business*. This fund currently consists solely of the activities of the County nursing home.

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detail data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in single columns in the basic financial statements.

**Figure A-1**  
**Required Components of**  
**Sample County's Financial Report**

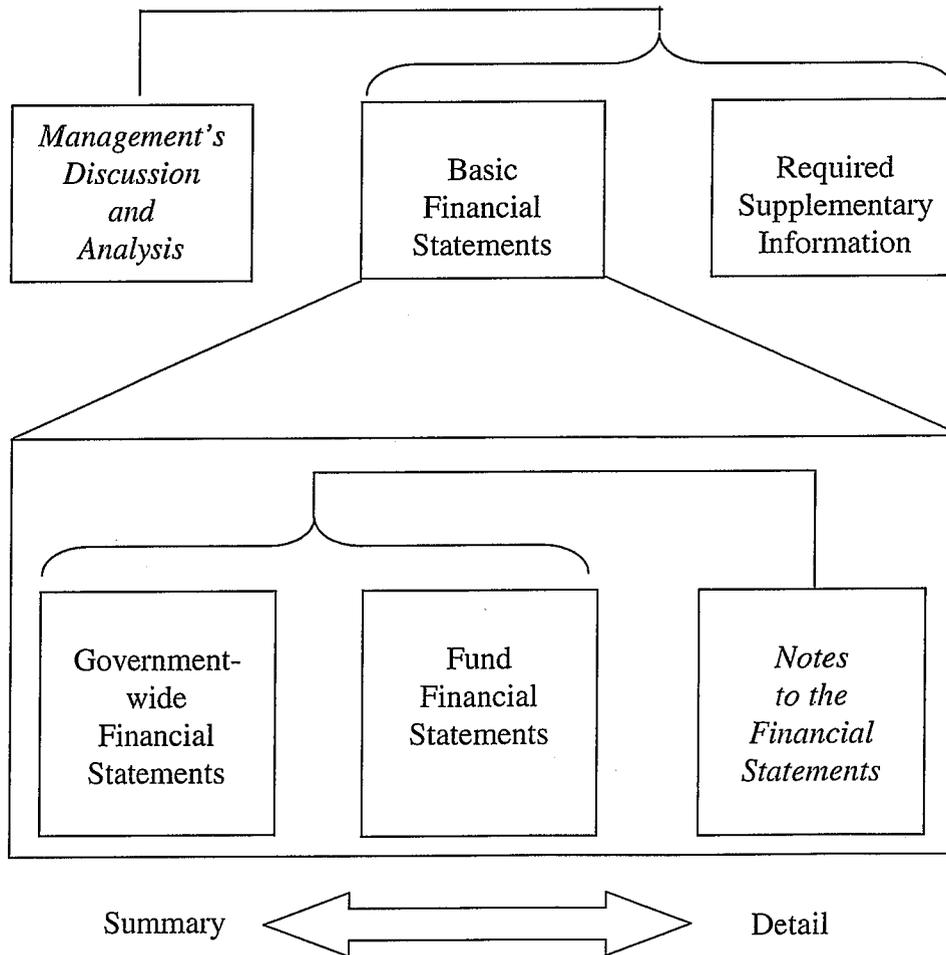


Figure A-2 summarizes the major features of the County's financial statements, including the portions of the County government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

**Figure A-2  
Major Features of Sullivan County's Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire County's government	The activities of the County that are not proprietary or fiduciary, such as Sheriff, Commissioners, and Public Welfare	Activities in the County that operate similar to private businesses: the nursing home
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenses, and changes in net asset (deficit)</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

### Government-wide Statements

The government-wide statements report information about the County as a whole using accrual accounting methods prescribed for governmental entities. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the County's *net assets* and how they have changed. Net assets—the difference between the County's assets and liabilities—is one way to measure the County's financial health, or *position*.

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the County you need to consider additional nonfinancial factors such as changes in the County's property tax base and the quality and availability of public service available to County residents.

The information in the government-wide financial statements of the County is divided into two categories:

- *Governmental activities*—Most of the County's basic services are included here, such as the Sheriff's office, Commissioners, Register of Deeds, treasurer, Department of Corrections, and the cooperative extension service. Property taxes, fees, and state and federal grants finance most of these activities.
- *Business-type activities*—The County charges fees to residents to help it cover the costs of certain services it provides. The County nursing home is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant *funds*—not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law and by bond covenants.

The County has two kinds of funds:

- *Governmental funds*—Most of the County's basic services are included in governmental funds, which focus on (1) how *cash* and *other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds*—Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

### Financial Analysis of the County as a Whole

**Net Assets.** The County's net assets increased significantly between fiscal year 2001 and 2002. The balance approximated \$5,818,000. (See Table A-1). Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge.

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

Table A-1  
Sullivan County's Net Assets  
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2001-2002
	2001	2002	2001	2002	2001	2002	
Current and other assets	\$ 5,345	\$ 10,059	\$ 980	\$ (5,079)	\$ 6,325	\$ 4,980	-21.3%
Capital assets	3,040	2,942	4,640	4,568	7,680	7,510	-2.2%
<b>Total assets</b>	<b>\$ 8,385</b>	<b>\$ 13,001</b>	<b>\$ 5,620</b>	<b>\$ (511)</b>	<b>\$ 14,005</b>	<b>\$ 12,490</b>	<b>-10.8%</b>
Long-term debt	\$ 351	\$ 395	\$ 2,209	\$ 2,194	\$ 2,560	\$ 2,589	1.1%
Other liabilities	2,741	3,647	5,031	436	7,772	4,083	-47.5%
<b>Total liabilities</b>	<b>\$ 3,092</b>	<b>\$ 4,042</b>	<b>\$ 7,240</b>	<b>\$ 2,630</b>	<b>\$ 10,332</b>	<b>\$ 6,672</b>	<b>-35.4%</b>
<b>Net assets</b>							
Invested in capital assets, net of related debt	\$ 2,689	\$ 2,617	\$ 2,431	\$ 2,620	\$ 5,120	\$ 5,237	2.3%
Restricted	6	6	7	7	13	13	0.0%
Unrestricted	2,598	6,336	(4,058)	(5,768)	(1,460)	568	-138.9%
<b>Total net assets</b>	<b>\$ 5,293</b>	<b>\$ 8,959</b>	<b>\$ (1,620)</b>	<b>\$ (3,141)</b>	<b>\$ 3,673</b>	<b>\$ 5,818</b>	<b>58.4%</b>

Net assets of the County's governmental activities increased 69% to \$9 million. 33% of the total net assets at year-end are invested in capital assets (buildings, equipment, etc.). The increase in the unrestricted governmental net assets represents revenues in excess of the amounts needed to finance current expenditures and liabilities. This amount also represents amounts needed to cover the decrease in net assets of the business-type activities (the Nursing Home). The total net asset/deficit of the Nursing Home increased 94% to \$(3,141,000). Negative net assets represents a deficit that indicates the Nursing Home has been unable to self-fund its operations and relies heavily on support from tax revenues.

In total, the government-wide net assets increased 58% to \$5,818,000. Most of this balance is invested in capital assets, net of related debt.

**Changes in net assets.** The County's total revenues increased 14% from 2001 to 2002 (see Table A-2). Half of the County's revenues in 2002 came from property taxes. Another 40% was raised from charges for services at both the Nursing Home and in other governmental activities.

The total costs of all programs and services increased 13% from 2001 to 2002. The County's expenses cover a wide range of service, but 53% of expenses in fiscal year 2002 were related to providing Nursing Home services (see Figure A-4). Even with the increase in expenses in the current year, the government as a whole was able to generate enough revenue to cover expenditures. Table A-2 and the narrative that follows considers the operations of governmental and business-type activities separately.

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

Table A-2  
Changes in Sullivan County's Net Assets  
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2001-2002
	2001	2002	2001	2002	2001	2002	
<b>Revenues</b>							
Program revenues							
Charges for services	\$ 746	\$ 877	\$ 6,846	\$ 6,696	\$ 7,592	\$ 7,573	-0.3%
Federal and State grants	238	281	-	60	238	341	43.3%
Medicaid enhancement funds	-	-	520	485	520	485	-6.7%
General revenues							
Property taxes	8,612	10,884	-	-	8,612	10,884	26.4%
Interest	65	71	-	-	65	71	9.2%
Other	100	47	430	668	530	715	34.9%
Total revenues	<u>9,761</u>	<u>12,160</u>	<u>7,796</u>	<u>7,909</u>	<u>17,557</u>	<u>20,069</u>	<u>14.3%</u>
<b>Expenses</b>							
Commissioners	173	244	-	-	173	244	41.0%
Public welfare	3,304	4,518	-	-	3,304	4,518	36.7%
Public safety	466	589	-	-	466	589	26.4%
Register of Deeds	307	329	-	-	307	329	7.2%
General government	274	398	-	-	274	398	45.3%
Cooperative Extension	160	169	-	-	160	169	5.6%
County Attorney	214	209	-	-	214	209	-2.3%
Department of Corrections	1,459	1,928	-	-	1,459	1,928	32.1%
Interest on long-term debt	121	111	-	-	121	111	-8.3%
Nursing Home	-	-	9,377	9,431	9,377	9,431	0.6%
Total expenses	<u>6,478</u>	<u>8,495</u>	<u>9,377</u>	<u>9,431</u>	<u>15,855</u>	<u>17,926</u>	<u>13.1%</u>
Increase (decrease) in net assets	<u>\$ 3,283</u>	<u>\$ 3,665</u>	<u>\$ (1,581)</u>	<u>\$ (1,522)</u>	<u>\$ 1,702</u>	<u>\$ 2,143</u>	<u>13.1%</u>

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

Figure A-3  
Sullivan County, New Hampshire  
Sources of Revenue for Fiscal Year 2002

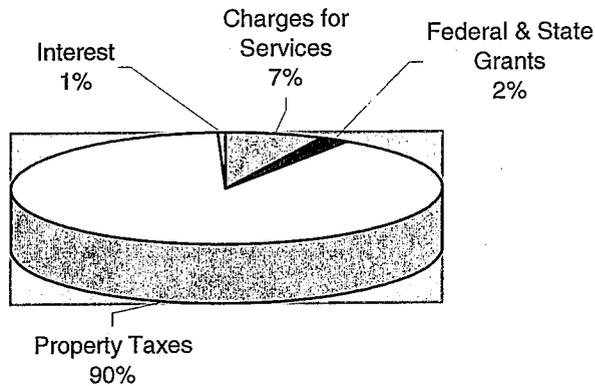
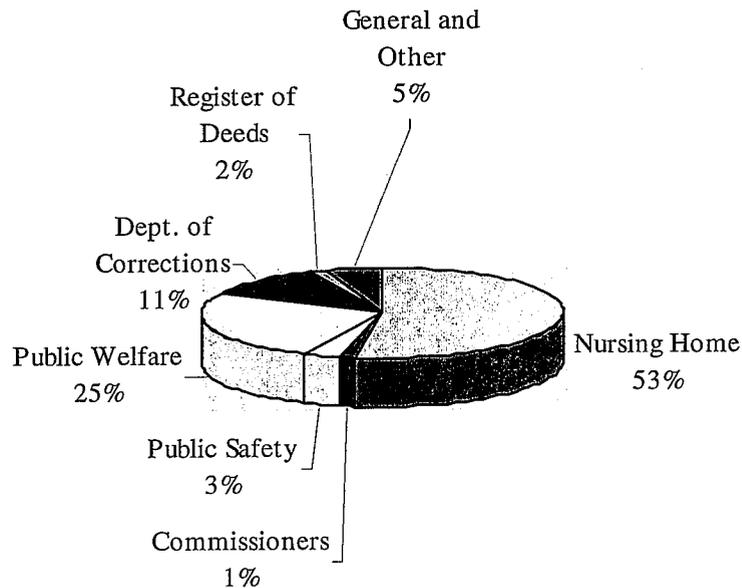


Figure A-4  
Sullivan County, New Hampshire  
Functional Expenses for Fiscal Year 2002



# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

### Governmental Activities

Revenues for the County's governmental activities increased 25% while total expenses increased 31%. The primary increase in revenues was a result of increased taxes to cover prior year deficits and current year expected deficits in the Nursing Home. Major initiatives within the governmental activities included:

- A 12% increase in the tax rate. This increase raised tax revenues \$1,102,507 and they are budgeted to increase an additional \$122,723 next year.
- A supplemental budget was passed in 2001 resulting in an additional \$1,165,606 in tax revenue on a GAAP basis in the current year.

Table A-3 presents the cost of each of the County's four largest programs—public welfare, Department of Corrections, register of deeds, and public safety—as well as each program's net costs (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

The cost of services shown below has been adjusted to remove depreciation expense in the current year. Depreciation expense for 2001 is unavailable.

Table A-3  
Net Cost of Sullivan County's Governmental Activities  
(dollars in thousands)

	Total Cost of Services		Percentage Change <u>2001-2002</u>	Net Cost of Services		Percentage Change <u>2001-2002</u>
	<u>2001</u>	<u>2002</u>		<u>2001</u>	<u>2002</u>	
Public Welfare	\$ 3,304	\$ 4,516	37 %	\$ 3,159	\$ 4,343	37 %
Dept. of Corrections	1,459	1,816	24	1,374	1,717	25
Register of Deeds	307	325	6	35	(113)	-423
Public Safety	466	555	19	42	107	155
<b>Total</b>	<b>\$ 5,536</b>	<b>\$ 7,212</b>	<b>30 %</b>	<b>\$ 4,610</b>	<b>\$ 6,054</b>	<b>31 %</b>

### Business-Type Activities

Revenues and expenses of the County's business-type activities increased 1 percent to \$7.9 million and \$9.4 million, respectively. (Refer to Table A-2). Factors contributing to these results included:

- Medicaid rates fluctuated throughout the year, starting at \$123.92 on July 1, 2001 and ending at \$124.42 on June 30, 2002.
- The annual census remained consistent throughout the year, with the average census approximating 90%.

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

- In March of 2001 an agreement was reached with the Bargaining Unit at the Nursing Home that settled the issues of wages and benefits through June 30, 2003. The agreement provides for increased wages of 2% effective July 1, 2001, 1% effective January 13, 2002, 2% effective July 14, 2002, and 1% effective January 6, 2003. It also increased the shift differential from \$.60 to \$.80 per hour effective with the first pay period after the signing of the agreement and \$.90 per hour effective July 1, 2002. These changes will help make the nursing home more competitive in the local staffing market.

The Nursing Home was less dependent on the use of contract nurses to cover staffing shortages during the year. The use of these services represented approximately 8% of the Nursing Home's expenses in 2001 and 6% in 2002.

### Financial Analysis of the County's Funds

#### General Fund Budgetary Highlights

Over the course of the year, the County Commissioners and delegation revised the budget several times. These budget amendments fall into two main categories:

- Amendments to individual line items to re-appropriate funds within programs.
- Amendments to individual line items to re-appropriate funds between programs.

At the end of the year, actual revenues had exceeded expenditures by \$2,583,870 for a positive budget variance of \$30,056. The Register of Deeds experienced an increase in the amount of fees collected which helped that program create a positive revenue variance of \$172,392. The General Fund also has a positive revenue variance, mostly as a result of the prior year surplus.

Expenditures in total were below budget. Within the General Fund, positive expense variances resulted in the public welfare, county jail, and County attorney departments.

The total positive budget variance may be available to provide support to the Nursing Home which had a positive budget variance of \$239,354 for the year, but continues to operate at a loss.

Revenues and expenses recorded on a budgetary basis vary from those recorded in accordance with generally accepted accounting principles due to differences in recording transactions based on the matching of revenues and appropriations to the budget, or matching revenues and expenses to specific incurrence of events for accrual accounting.

The County's change in general fund balance differs from the change in general fund budgetary fund balance reported in the budgetary comparison schedule principally because the change in budgetary fund balance excludes:

- Encumbrances of \$25,039 reported as expenditures for budgetary purposes
- Prior year's surplus of \$174,350 recorded as revenue for budgetary purposes
- Revenue of \$1,165,606 recorded as revenue for GAAP purposes.

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Management's Discussion and Analysis

### Capital Asset and Debt Administration

#### Capital Assets

During 2002, the County invested \$387,000 in a range of capital assets, including general and sheriff's equipment, County building renovations, Nursing Home equipment, and sewer lines. (See Table A-4). This amount represents a net decrease in capital spending of \$1,018,000 or 72% from last year. This decline can be attributed to the capital costs of the Unity sewer project in 2001.

Table A-4  
Sullivan County's Capital Assets  
(net of depreciation, in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2001	2002	2001	2002	2001	2002	2001-2002
Building and improvements	\$ 2,364	\$ 2,634	\$ 3,110	\$ 4,386	\$ 5,474	\$ 7,020	28.20 %
Equipment and vehicles	363	308	213	182	576	490	(14.90)
Construction in progress	313	-	1,336	-	1,649	-	(100.00)
<b>Total</b>	<b>\$ 3,040</b>	<b>\$ 2,942</b>	<b>\$ 4,659</b>	<b>\$ 4,568</b>	<b>\$ 7,699</b>	<b>\$ 7,510</b>	<b>(2.50) %</b>

This year's major capital asset additions included (dollars in thousands):

- Completion of the Unity sewer project, paid for with proceeds from long-term debt of \$198,000.

The County's fiscal year 2003 capital budget projects spending another \$874,954 for capital projects. The County has no plans to issue additional debt to finance these projects; however, subsequent to the completion of the sewer project in 2002, the County has begun payment on the sewer project loan. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

#### Long-Term Debt

At year-end, the County had \$2,255,304 in bonds, notes, and capital lease obligations outstanding, a decrease of 12% over last year – as shown in Table A-5. More detailed information on the County's long-term liabilities is presented in Note 6 to the financial statements.

New debt resulted mainly from the Unity sewer project.

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Management's Discussion and Analysis**

Table A-5  
Sullivan County's Outstanding Debt  
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2001-2002
	2001	2002	2001	2002	2001	2002	
	General obligation bonds	\$ -	\$ -	\$ 950	\$ 760	\$ 950	
Notes payable	292	277	1,245	1,181	1,537	1,458	(5)
Capital lease obligations	59	30	14	7	73	37	(49)
<b>Total</b>	<b>\$ 351</b>	<b>\$ 307</b>	<b>\$ 2,209</b>	<b>\$ 1,948</b>	<b>\$ 2,560</b>	<b>\$ 2,255</b>	<b>(12) %</b>

**Economic Factors and Next Year's Budgets and Rates**

The above indicators were taken into account when adopting the General Fund budget for 2003. Amounts available for appropriation in the General Fund budget are \$8,317,639, an increase of \$273,691 over the final 2002 budget. Property taxes (\$9,840,870) (benefiting from the 2002 rate increases and increases in assessed valuations), charges for fees and services (\$9,873,963), and grant revenue (\$100,848) are expected to lead the increase. The County will use these increases to finance programs we currently offer.

Budgeted expenditures are expected to rise 5 percent to \$19,613,985. The largest increments are increased wages and cost-of-living adjustments of 2.5 percent based on agreements reached with the union. There are no major new programs or initiatives included in the 2003 budget.

If these estimates are realized, the County's net assets will remain level.

As for the County's business-type activities, we expect that the 2003 results will increase.

Effective July 1, 2002, the Nursing Home increased private pay rates by \$10 to \$170.00 per day for a semi-private room and \$185.00 per day for private rooms.

Effective August 1, 2002, Medicaid reimbursement rates increased from \$124.42 to \$125.04 per day.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sullivan County Commissioners Office, 14 Main Street, Newport, NH 03773 or email [sucomm@sugar.river.net](mailto:sucomm@sugar.river.net).



CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

The Commissioners  
Sullivan County, New Hampshire

We have audited the accompanying basic financial statements of Sullivan County, New Hampshire (County) as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County, New Hampshire as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type 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 2, 2002 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.

As described in Note 1 to the basic financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. This results in a change to the County's method of accounting for certain nonexchange revenues and a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis and the other required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

*Berry, Dunn, McNeil & Parker*

Lebanon, New Hampshire  
August 2, 2002

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Statement of Net Assets**

**June 30, 2002**

**ASSETS**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Cash	\$ 2,249,423	\$ 200	\$ 2,249,623
Accounts receivable, less allowances for doubtful accounts of \$50,000	-	692,405	692,405
Internal balances	5,902,983	(5,902,983)	-
Due from other governments	11,856	-	11,856
Inventories and prepaid expenses	121,139	34,558	155,697
Restricted assets, cash	1,773,333	97,106	1,870,439
Capital assets, net (Note 4)	<u>2,942,048</u>	<u>4,567,777</u>	<u>7,509,825</u>
 Total assets	 <u>\$ 13,000,782</u>	 <u>\$ (510,937)</u>	 <u>\$ 12,489,845</u>

**LIABILITIES AND NET ASSETS (DEFICIT)**

Accounts payable	\$ 108,912	\$ 157,300	\$ 266,212
Accrued liabilities	1,721,025	188,637	1,909,662
Due to other governments	1,817,486	-	1,817,486
Due to residents	-	90,081	90,081
Long-term liabilities (Note 6)			
Due within one year	185,929	733,301	919,230
Due in more than one year	<u>208,948</u>	<u>1,460,779</u>	<u>1,669,727</u>
Total liabilities	<u>4,042,300</u>	<u>2,630,098</u>	<u>6,672,398</u>
 Commitment (Note 9)			
Net assets (deficit)			
Invested in capital assets, net of related debt	2,616,975	2,619,693	5,236,668
Restricted			
Expendable	5,427	2,952	8,379
Nonexpendable	-	4,073	4,073
Unrestricted (deficit)	<u>6,336,080</u>	<u>(5,767,753)</u>	<u>568,327</u>
Total net assets (deficit)	<u>8,958,482</u>	<u>(3,141,035)</u>	<u>5,817,447</u>
	 <u>\$ 13,000,782</u>	 <u>\$ (510,937)</u>	 <u>\$ 12,489,845</u>

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

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Statement of Activities**

**Year Ended June 30, 2002**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Government activities							
Public welfare	\$ 4,517,871	\$ -	\$ 173,226	\$ -	\$ (4,344,645)	\$ -	\$ (4,344,645)
Department of Corrections	1,927,818	85,036	-	14,055	(1,828,727)	-	(1,828,727)
Public safety	589,055	354,225	93,952	-	(140,878)	-	(140,878)
General government	398,238	-	-	-	(398,238)	-	(398,238)
Registrar of Deeds	328,690	437,392	-	-	108,702	-	108,702
Commissioner's office	243,968	-	-	-	(243,968)	-	(243,968)
County attorney	209,449	-	-	-	(209,449)	-	(209,449)
Cooperative extension service	169,034	-	-	-	(169,034)	-	(169,034)
Interest on long-term liabilities	110,634	-	-	-	(110,634)	-	(110,634)
Total governmental activities	8,494,757	876,653	267,178	14,055	(7,336,871)	-	(7,336,871)
Business-type activities							
Nursing home services	9,431,110	7,243,134	484,706	59,920	-	(1,643,350)	(1,643,350)
Total primary government	\$ 17,925,867	\$ 8,119,787	\$ 751,884	\$ 73,975	(7,336,871)	(1,643,350)	(8,980,221)
General revenues							
Property taxes, levied for general purposes					10,884,326	-	10,884,326
Interest income					71,238	-	71,238
Miscellaneous					47,083	122,217	169,300
Total general revenues					11,002,647	122,217	11,124,864
Change in net assets (deficit)					3,665,776	(1,521,133)	2,144,643
Net assets (deficit), beginning of year, as previously stated					3,620,406	(1,194,977)	2,425,429
Prior period adjustment (Note 2)					1,672,300	(424,925)	1,247,375
Net assets (deficit), beginning of year, as restated					5,292,706	(1,619,902)	3,672,804
Net assets (deficit), end of year					\$ 8,958,482	\$ (3,141,035)	\$ 5,817,447

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

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Balance Sheet - Governmental Funds**

**June 30, 2002**

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Cash	\$ 1,903,510	\$ 340,486	\$ 2,243,996
Due from other funds	5,461,309	441,674	5,902,983
Due from other governments	11,856	-	11,856
Prepaid expenses	121,139	-	121,139
Restricted assets – cash	<u>1,773,333</u>	<u>-</u>	<u>1,773,333</u>
 Total assets	 \$ <u>9,271,147</u>	 \$ <u>782,160</u>	 \$ <u>10,053,307</u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>			
Accounts payable	\$ 108,167	\$ 745	\$ 108,912
Accrued liabilities	1,721,025	-	1,721,025
Due to other governments	<u>1,523,201</u>	<u>294,285</u>	<u>1,817,486</u>
Total liabilities	<u>3,352,393</u>	<u>295,030</u>	<u>3,647,423</u>
 Commitment (Note 9)			
 <b>Fund balances</b>			
Reserved for prepaid expenses	121,139	-	121,139
Reserved for encumbrances	132,792	4,421	137,213
Unreserved – undesignated	<u>5,664,823</u>	<u>482,709</u>	<u>6,147,532</u>
Total fund balances	<u>5,918,754</u>	<u>487,130</u>	<u>6,405,884</u>
 Total liabilities and fund balances	 \$ <u>9,271,147</u>	 \$ <u>782,160</u>	

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

Expendable trust funds without a legally adopted budget are not included here	5,427
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	2,942,048
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(394,877)</u>

Net assets of governmental activities \$ 8,958,482

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

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds**

**Year Ended June 30, 2002**

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Revenues			
Taxes	\$ 9,718,720	\$ -	\$ 9,718,720
Fines and fees	56,641	437,392	494,033
Grant revenue	41,055	93,952	135,007
Charges for products and services	102,863	-	102,863
Intergovernmental	420,932	-	420,932
Interest	68,521	-	68,521
Miscellaneous	<u>44,733</u>	<u>-</u>	<u>44,733</u>
Total revenues	<u>10,453,465</u>	<u>531,344</u>	<u>10,984,809</u>
Expenditures			
Current			
Cooperative extension service	167,022	-	167,022
General government	333,640	-	333,640
Register of Deeds	-	324,332	324,332
County attorney	202,631	-	202,631
Public safety	460,714	-	460,714
Department of Corrections	1,816,266	-	1,816,266
Health and welfare	4,515,813	-	4,515,813
Grant expenditures	-	93,952	93,952
Commissioners' office	233,135	-	233,135
Capital outlay	133,188	-	133,188
Debt service			
Principal retirement	95,941	-	95,941
Interest and fiscal charges	<u>110,634</u>	<u>-</u>	<u>110,634</u>
Total expenditures	<u>8,068,984</u>	<u>418,284</u>	<u>8,487,268</u>
Net change in fund balances	<u>2,384,481</u>	<u>113,060</u>	<u>2,497,541</u>
Fund balances, beginning of year, as previously stated	4,488,307	374,070	4,862,377
Prior period adjustment (Note 2)	<u>(954,034)</u>	<u>-</u>	<u>(954,034)</u>
Fund balances, beginning of year, as restated	<u>3,534,273</u>	<u>374,070</u>	<u>3,908,343</u>
Fund balances, end of year	\$ <u>5,918,754</u>	\$ <u>487,130</u>	\$ <u>6,405,884</u>

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

SULLIVAN COUNTY, NEW HAMPSHIRE

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities

Year Ended June 30, 2002

Net change in fund balances – total governmental funds	\$ 2,497,541
Amounts reported for governmental activities in the statement of activities different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$227,109) exceeded capital outlays (\$133,188) in the current period	(93,921)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	1,165,606
Repayments of notes and leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	95,941
Change in non-expendable trusts not included in budgetary accounting	<u>609</u>
Change in net assets of governmental activities	\$ <u>3,665,776</u>

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

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Balance Sheet – Proprietary Fund**

**June 30, 2002**

**ASSETS**

	<u>Enterprise Fund</u>
	<u>Nursing Home</u>
Current assets	
Cash	\$ 200
Accounts receivable, less allowance for doubtful accounts of \$57,398	692,405
Inventory	<u>34,558</u>
Total current assets	<u>727,163</u>
Noncurrent assets	
Restricted assets – cash	97,106
Buildings and improvements	7,480,610
Equipment	1,724,082
Accumulated depreciation	<u>(4,636,915)</u>
Total noncurrent assets	<u>4,664,883</u>
Total assets	\$ <u>5,392,046</u>

**LIABILITIES AND NET DEFICIT**

Current liabilities	
Accounts payable	\$ 157,300
Accrued liabilities	188,637
Compensated absences payable	245,996
Due to other funds	5,902,983
Bonds, notes, and leases payable	<u>487,305</u>
Total current liabilities	<u>6,982,221</u>
Noncurrent liabilities	
Due to residents	90,081
Bonds, notes, and leases payable	<u>1,460,779</u>
Total noncurrent liabilities	<u>1,550,860</u>
Total liabilities	<u>8,533,081</u>
Commitment (Note 9)	
Net assets (deficit)	
Invested in capital assets, net of related debt	2,619,693
Restricted	
Nonexpendable	4,073
Expendable	2,952
Unrestricted	<u>(5,767,753)</u>
Total net deficit	<u>(3,141,035)</u>
Total liabilities and net deficit	\$ <u>5,392,046</u>

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

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Statement of Revenues, Expenses, and Changes in Net Assets (Deficit) - Proprietary Fund**

**Year Ended June 30, 2002**

	<u>Enterprise Fund</u> <u>Nursing Home</u>
Operating revenues	
Charges for services – state welfare	\$ 5,569,582
– private	1,127,460
Medicaid enhancement funds	484,706
Meals reimbursement	419,248
Miscellaneous	<u>249,061</u>
Total operating revenues	<u>7,850,057</u>
Operating expenses	
Personnel services	5,565,270
Contractual services	534,811
Supplies and office expenses	133,234
Utilities	319,264
Depreciation	330,429
Payroll and other taxes	437,361
Food	421,648
Repairs and maintenance	124,187
Employee benefits	1,157,278
Bad debts	41,919
Telephone	17,382
Miscellaneous	13,516
Insurance	65,819
Medicine	<u>207,966</u>
Total operating expenses	<u>9,370,084</u>
Operating loss	(1,520,027)
Interest expense	(61,026)
Grant revenue	<u>59,920</u>
Change in net deficit	<u>(1,521,133)</u>
Net asset (deficit), beginning of year, as previously stated	(1,194,977)
Prior period adjustment (Note 2)	<u>(424,925)</u>
Net asset (deficit), beginning of year, as restated	<u>(1,619,902)</u>
Net asset (deficit), end of year	\$ <u>(3,141,035)</u>

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

SULLIVAN COUNTY, NEW HAMPSHIRE

Statement of Cash Flows -- Proprietary Fund

Year Ended June 30, 2002

	<u>Enterprise Fund</u> <u>Nursing Home</u>
Cash flows from operating activities	
Receipts from other funds	\$ 1,657,007
Receipts from customers	6,719,338
Receipts from interfund services provided	459,182
Payments to suppliers	(2,347,000)
Payments to employees	(6,722,548)
Other receipts from State	484,706
Other receipts	<u>208,985</u>
Net cash provided by operating activities	<u>459,670</u>
Cash flows from capital and related financing activities	
Capital contributions	59,920
Purchases of capital assets	(60,076)
Principal paid on capital debt	(483,488)
Proceeds from sale of capital assets	85,000
Payments for interest	<u>(61,026)</u>
Net cash used by capital and related financing activities	<u>(459,670)</u>
Net increase in cash	-
Cash, beginning of year	<u>200</u>
Cash, end of year	\$ <u>200</u>
Non-cash investing, capital, and financing activities	
Financing of construction in progress	\$ 222,130
Prior period restatement of capital assets	716,557
Prior period restatement of long-term debt	292,086
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (1,520,027)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	330,429
Bad debt expense	41,919
(Increase) decrease in	
Accounts receivable	(12,225)
Restricted cash	40,584
Increase (decrease) in	
Accounts payable	(37,433)
Due to residents	(40,584)
Due to other funds	<u>1,657,007</u>
Net cash provided by operating activities	\$ <u>459,670</u>

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

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Notes to Basic Financial Statements

June 30, 2002

### 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 basic financial statements, conform to 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, GASB prevails. For Enterprise Funds, GASB Statement Nos. 20 and 34 provide the County the option of electing to apply FASB pronouncements issued after November 30, 1989. The County has elected not to apply those pronouncements. The more significant policies are discussed in subsequent subsections of this note. For the fiscal year ended June 30, 2002, the County early implemented the new financial reporting requirements of GASB Statement Nos. 33, 34, and 37, as well as Interpretation No. 6. As a result, an entirely new financial presentation format has been implemented.

#### A. Reporting Entity

Specific criteria are used in the determination of which funds are included in the basic 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 basic financial statements of the County.

#### B. Basis of Presentation

##### Government-wide Financial Statements

The statement of net assets and statement of activities display information about the County as a whole. They include all funds of the County except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2002

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Concluded)

Fund Financial Statements

Fund financial statements of the County are organized on a fund basis, 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 balance (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 basic financial statements in this report, into two broad fund categories and four generic fund types, as follows:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the County. It is used to account for all financial resources, except those legally or administratively required to be accounted for in other funds.

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).

Permanent Fund

The Permanent Fund is used to account for assets that have been designated by the contributor to be held in perpetuity, the income of which is to be used to support Enterprise Fund programs.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2002

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied.

In the government-wide statement of net assets and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus.

In the fund financial statements, the Governmental Funds utilize a current financial resources focus whereas the Proprietary Fund uses the economic resources measurement focus.

Economic Resources Focus

The accounting objectives of this focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with Fund activities are reported. Fund equity is classified as net assets.

Current Financial Resources

Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances presents sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statement of net assets and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Notes to Basic Financial Statements

June 30, 2002

### 1. Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus and Basis of Accounting (Concluded)

##### Basis of Accounting (Concluded)

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

#### D. Use of Estimates

The preparation of 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 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 Budgetary Comparison Schedules included in Schedules 1 and 4 are 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.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2002

1. Summary of Significant Accounting Policies (Continued)

E. County Budget and Budgetary Accounting (Continued)

- The budget expenses outlays for capital additions. GAAP capitalizes these outlays.
- The budget does not provide for depreciation of 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 assets as revenue. GAAP records a gain or loss based on the cash, cost, 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 encumbrances (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 Basic Financial Statements

June 30, 2002

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, Other Governmental, and Proprietary Funds for the year ended June 30, 2002 were as follows:

Budgeted revenue	\$ 18,724,233
Budgeted expenditures	<u>18,724,233</u>
Budgeted surplus	\$ <u>          -</u>

F. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2002

1. Summary of Significant Accounting Policies (Continued)

**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 generally not appropriable for expenditure or is legally segregated for specific purposes. Reserved fund balance is used to fund certain appropriations only after unreserved funds are depleted.

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.

**H. Revenues**

Operating Revenues

Operating revenues in the Proprietary Fund are those that result from providing services. It also includes all revenue not related to capital and related financing, noncapital financing, or investing activities.

Grants

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

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Notes to Basic Financial Statements

June 30, 2002

### 1. Summary of Significant Accounting Policies (Continued)

#### H. Revenues (Concluded)

##### Property Taxes

Taxes are levied annually and are due by the first business day following December 17. After such date, interest is accrued until the date of payment. The County bills and collects the property taxes from each town within the County. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide financial statements.

#### 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 long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

#### J. Inventory

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

#### K. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. The amounts have been eliminated in the statement of net assets.

#### L. Restricted Cash

Restricted cash in the statement of net assets represents amounts that are not available for general use of the County.

The business-type activity funds represent amounts held on behalf of residents and restricted trust funds, income of which is to be used for specific activities at the Nursing Home.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2002

1. Summary of Significant Accounting Policies (Concluded)

L. Restricted Cash (Concluded)

Within the governmental activity funds, \$1,523,201 represents advances recorded from New Hampshire Medicaid. These funds, although received, have not been released for use by the State. Accordingly, revenue has not been recognized and the funds have been segregated from operating cash. The remaining \$250,132 represents funds set aside to pay health coverage costs.

M. 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 excluded from the results of operations of both Governmental and Proprietary Funds.

2. Prior Period Adjustments

In the prior year, several amounts that should have been expensed and reported as liabilities were encumbered in error. Accordingly, an adjustment of \$954,034 has been made to decrease the General Fund's fund balance as of July 1, 2001.

During the year, the County converted its fixed assets to a new system. Depreciation was recalculated using a half-year convention. Errors in depreciation reported in prior years amounted to \$404,925. Accordingly, proprietary fund balances have been reduced by \$404,925 as of July 1, 2002.

In prior years, a sewer construction project has been recorded by the County in the Enterprise Fund. In the current year when the construction project ended, a portion of the expenses, including principal payments on related debt, have been allocated to the General Fund based on use of the sewer line. Accordingly, an equal portion of the construction in progress and the sewer debt have been transferred to the General Fund as of the beginning of the year. This transfer has resulted in a \$20,000 decrease in the Enterprise Fund balance and an increase in the General Fund balance.

Other restatements of general fund balance represent amounts related to recording fixed assets and long-term debt in accordance with GASB 34.

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Notes to Basic Financial Statements**

**June 30, 2002**

**2. Prior Period Adjustments (Concluded)**

The following table summarizes the presentation of prior period adjustments in the basic financial statements:

	<u>Government-Wide Financial Statements</u>		<u>Fund Financial Statements</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
			<u>General Fund</u>	<u>Enterprise Fund</u>
Adjustment of encumbrances	\$ (954,034)	\$ -	\$ (954,034)	\$ -
Adjustment of accumulated depreciation	-	(404,925)	-	(404,925)
Net transfer of construction in progress and related debt	20,000	(20,000)	-	-
Inclusion of long-term debt as of July 1, 2001	(58,969)	-	-	-
Effect of recording fixed assets in accordance with GASB 34	<u>2,665,303</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,672,300</u>	<u>\$ (424,925)</u>	<u>\$ (954,034)</u>	<u>\$ (404,925)</u>

The effect of the above adjustments on prior year operations is as follows:

	<u>Government-Wide Financial Statements</u>		<u>Fund Financial Statements</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
			<u>General Fund</u>	<u>Enterprise Fund</u>
Increase in expenditures	\$ 954,034	\$ -	\$ 954,034	\$ -
Increase in depreciation expense	<u>200,971</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in prior year expense	<u>\$ 1,155,005</u>	<u>\$ -</u>	<u>\$ 954,034</u>	<u>\$ -</u>

**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	2,975,949	2,975,949
Uninsured, no collateral held	<u>943,139</u>	<u>1,008,686</u>
	<u>\$ 4,119,088</u>	<u>\$ 4,184,635</u>

The above amount does not include petty cash funds of \$974.

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Notes to Basic Financial Statements**

**June 30, 2002**

**4. Capital Assets**

The changes in capital assets were as follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Governmental activities				
Capital assets not being depreciated				
Construction in progress	\$ <u>313,467</u>	\$ <u>46,519</u>	\$ <u>(359,986)</u>	\$ _____
Other capital assets				
Land improvements	-	359,986	-	359,986
Building and improvements	3,780,750	54,933	-	3,835,683
Equipment and vehicles	<u>894,207</u>	<u>27,321</u>	-	<u>921,528</u>
	<u>4,674,957</u>	<u>442,240</u>	-	<u>5,117,197</u>
Less accumulated depreciation				
Land improvements	-	17,999	-	17,999
Buildings and improvements	1,416,510	127,018	-	1,543,528
Equipment and vehicles	<u>531,529</u>	<u>82,093</u>	-	<u>613,622</u>
Total accumulated depreciation	<u>1,948,039</u>	<u>227,110</u>	-	<u>2,175,149</u>
Governmental activities capital assets, net	\$ <u>3,040,385</u>	\$ <u>261,649</u>	\$ <u>(359,986)</u>	\$ <u>2,942,048</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities	
Registrar of Deeds	\$ 4,349
Public safety/sheriff's department	34,399
Public welfare	2,058
County attorney	6,818
Department of Corrections	111,552
Commissioner's office	10,833
Cooperative extension service	2,012
General government	55,089

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Notes to Basic Financial Statements**

**June 30, 2002**

**4. Capital Assets (Concluded)**

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ <u>1,336,361</u>	\$ <u>198,315</u>	\$ <u>(1,534,676)</u>	\$ <u>          -</u>
Other capital assets				
Buildings and improvements	6,276,292	1,554,276	(349,958)	7,480,610
Equipment	1,576,964	40,476	-	1,617,440
Vehicles	<u>106,642</u>	<u>          -</u>	<u>          -</u>	<u>106,642</u>
Total other capital assets at historical cost	<u>7,959,898</u>	<u>1,594,752</u>	<u>(349,958)</u>	<u>9,204,692</u>
Less accumulated depreciation for				
Buildings and improvements	3,185,478	259,036	(349,958)	3,094,556
Equipment	1,391,204	60,123	-	1,451,327
Vehicles	<u>79,762</u>	<u>11,270</u>	<u>          -</u>	<u>91,032</u>
Total accumulated depreciation	<u>4,656,444</u>	<u>330,429</u>	<u>(349,958)</u>	<u>4,636,915</u>
Other capital assets, net	<u>3,303,454</u>	<u>1,264,323</u>	<u>          -</u>	<u>4,567,777</u>
Business-type activities capital assets, net	\$ <u>4,639,815</u>	\$ <u>1,462,638</u>	\$ <u>(1,534,676)</u>	\$ <u>4,567,777</u>

**5. Short-Term Debt**

The County issues tax anticipation notes in advance of County tax collections, depositing the proceeds in its General Fund. These notes are necessary because the County begins to incur operating expenses prior to the December 17 due date.

Short-term debt activity for the year ended June 30, 2002 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending</u> <u>Balance</u>
Tax anticipation notes	\$ 1,000,000	\$ 5,000,000	\$ (6,000,000)	\$ -

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Notes to Basic Financial Statements**

**June 30, 2002**

**6. Changes in Long-Term Debt**

Long-term liability activity for the year ended June 30, 2002 was as follows:

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities</b>					
Notes and leases payable					
Uncollateralized revolving fund sewer project loan, proceeds paid throughout the project. Payments of \$71,250 due annually through 2006, including interest at 1.19%	\$ 292,087	\$ 52,105	\$ 67,223	\$ 276,969	\$ 68,021
Capital lease – sheriff’s department	46,445		22,656	23,789	23,789
Capital lease – cargo van	<u>12,524</u>		<u>6,062</u>	<u>6,462</u>	<u>6,462</u>
Total notes and leases payable	351,056	52,105	95,941	307,220	98,272
<b>Other liabilities</b>					
Compensated absences payable	<u>87,657</u>	<u>150,981</u>	<u>150,981</u>	<u>87,657</u>	<u>87,657</u>
<b>Governmental activities long-term liabilities</b>	\$ <u>438,713</u>	\$ <u>203,086</u>	\$ <u>246,922</u>	\$ <u>394,877</u>	\$ <u>185,929</u>
<b>Business-type activities</b>					
Bonds, notes, and leases payable					
\$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	\$ -	\$ 190,000	\$ 760,000	\$ 190,000
Uncollateralized revolving fund sewer project loan, proceeds paid throughout the project. Payments of \$ 303,750 due annually through 2006, including interest at 1.19%	1,245,215	222,130	286,581	1,180,764	289,985
Capital lease – club wagon	<u>14,226</u>	<u>-</u>	<u>6,906</u>	<u>7,320</u>	<u>7,320</u>
Total bonds, notes, and leases payable	2,209,441	222,130	483,487	1,948,084	487,305
<b>Other liabilities</b>					
Compensated absences	<u>245,996</u>	<u>367,544</u>	<u>367,544</u>	<u>245,996</u>	<u>245,996</u>
	\$ <u>2,455,437</u>	\$ <u>589,674</u>	\$ <u>851,031</u>	\$ <u>2,194,080</u>	\$ <u>733,301</u>

**SULLIVAN COUNTY, NEW HAMPSHIRE**

**Notes to Basic Financial Statements**

**June 30, 2002**

**6. Changes in Long-Term Debt (Continued)**

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

Debt service requirements as of June 30, 2002 are as follows:

	Governmental Activities					
	Cargo Van – Capital Lease		Sheriff's Department – Capital Lease		Sewer Project	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 6,462	\$ 427	\$ 23,789	\$ 1,189	\$ 68,021	\$ 3,289
2004	-	-	-	-	68,829	2,481
2005	-	-	-	-	69,646	1,664
2006	-	-	-	-	70,473	837
	<u>\$ 6,462</u>	<u>\$ 427</u>	<u>\$ 23,789</u>	<u>\$ 1,189</u>	<u>\$ 276,969</u>	<u>\$ 8,271</u>

	Business-type Activities					
	Nursing Home – Capital Lease		Capital Improvement Bond – Nursing Home		Sewer Project	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 7,320	\$ 439	\$ 190,000	\$ 34,913	\$ 289,985	\$ 14,021
2004	-	-	190,000	24,938	293,428	10,578
2005	-	-	190,000	14,963	296,913	7,093
2006	-	-	190,000	4,988	300,438	3,568
	<u>\$ 7,320</u>	<u>\$ 439</u>	<u>\$ 760,000</u>	<u>\$ 79,802</u>	<u>\$ 1,180,764</u>	<u>\$ 35,260</u>

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

	Governmental Activities	Business-type Activities
Cost included in vehicles	\$ 118,100	\$ 34,650
Accumulated depreciation	47,240	27,720
Net book value	<u>\$ 70,860</u>	<u>\$ 6,930</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2002

6. Changes in Long-Term Debt (Concluded)

Operating Leases

The County has entered into a number of operating leases which contain cancellation provisions and are subject to annual appropriations. For the year ended June 30, 2002, rent expenditures approximated \$12,400 for all types of leases. These expenditures were made primarily from the General and Proprietary Funds.

7. Interfund Receivables and Payables

Interfund receivables and payables have been recorded in the statement of activities for amounts due between funds. Because operating cash is held by the General Fund, all accounts payable and receivable transactions have been recorded in that Fund, as well as transactions resulting from charges for services. The County does not segregate balances due to or from each fund, therefore, detail has not been provided here.

8. 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%	\$ 224,071
Charlestown	7.4	804,414
Claremont	20.2	2,198,369
Cornish	3.7	403,059
Croydon	1.8	192,071
Goshen	1.7	190,036
Grantham	11.7	1,271,677
Langdon	1.3	143,110
Lempster	2.1	224,325
Newport	10.7	1,163,313
Plainfield	5.7	624,502
Springfield	4.1	450,227
Sunapee	20.6	2,243,880
Unity	2.8	307,321
Washington	4.1	443,951
	<u>100.0%</u>	<u>\$ 10,884,326</u>

# SULLIVAN COUNTY, NEW HAMPSHIRE

## Notes to Basic Financial Statements

June 30, 2002

### 9. 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 9.3% and 5%, 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 5.33% of annual covered payroll. The current rate for all other employees is 4.14% 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, 2002, 2001, and 2000 were \$225,751, \$220,186, and \$227,745, respectively, equal to the required contributions for each year.

### 10. Significant Concentration

Approximately 77% 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 Basic Financial Statements

June 30, 2002

10. Significant Concentration (Concluded)

The mix of revenues from residents and third-party payors for the year ended June 30, 2002 was as follows:

Medicaid	77%
Private	14
Other	<u>9</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.

11. 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 and 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, 2002.

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, 2002, NHMA has indicated it foresees no likelihood of an additional assessment for any of the past years. Effective July 1, 2002 the County has obtained alternate coverage.

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 balance sheet as general fund "restricted cash". Claims relating to the year ended June 30, 2002, which have not been paid, have been recorded as a liability as of June 30, 2002. The County is insured above a stop-loss amount of \$138,000 on individual and aggregate claims as of June 30, 2002.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2002

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  
(Concluded)

Note to Budgetary Comparison Schedules

Year Ended June 30, 2002

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP follows:

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Excess of revenues over expenditures – budget basis	\$ 2,583,870	\$ 114,223	\$ 2,698,093
Prior year surplus is a budgetary resource but are not revenues for financial reporting purposes	(174,350)	-	(174,350)
Encumbrances for supplies and services ordered but not received are reported in the year the order is placed for budgetary purposes, and in the year the supplies are received for financial reporting purposes	<u>(25,039)</u>	<u>(1,163)</u>	<u>(26,202)</u>
Excess of revenues over expenditures – modified accrual basis	\$ <u>2,384,481</u>	\$ <u>113,060</u>	\$ <u>2,497,541</u>

Combining Statement of Net Assets – Other Governmental Funds

June 30, 2002

	Expendable Trust Fund	Registry of Deeds	Sheriff's Grants	Total
<b>ASSETS</b>				
Cash	\$ 5,427	\$ 340,486	\$ -	\$ 345,913
Due from other funds	-	441,674	-	441,674
Capital assets, net	<u>-</u>	<u>17,853</u>	<u>-</u>	<u>17,853</u>
Total assets	\$ <u>5,427</u>	\$ <u>800,013</u>	\$ <u>-</u>	\$ <u>805,440</u>
<b>LIABILITIES AND FUND EQUITY</b>				
Liabilities				
Accounts payable	\$ -	\$ 745	\$ -	\$ 745
Due to other governments	-	294,285	-	294,285
Accrued liabilities	<u>-</u>	<u>10,704</u>	<u>-</u>	<u>10,704</u>
Total liabilities	<u>-</u>	<u>305,734</u>	<u>-</u>	<u>305,734</u>
Fund equity				
Reserve for encumbrances	-	4,421	-	4,421
Undesignated	<u>5,427</u>	<u>489,858</u>	<u>-</u>	<u>495,285</u>
Total fund equity	<u>5,427</u>	<u>494,279</u>	<u>-</u>	<u>499,706</u>
Total liabilities and fund equity	\$ <u>5,427</u>	\$ <u>800,013</u>	\$ <u>-</u>	\$ <u>805,440</u>

## Combining Statement of Activities – Other Governmental Funds

Year Ended June 30, 2002

	Expendable Trust Fund	Registry of Deeds	Sheriff's Grants	Total
Revenue				
Fines and fees	\$ -	\$ 437,392	\$ -	\$ 437,392
Other income	10,119	-	-	10,119
Grant revenue	-	-	93,952	93,952
Total revenue	<u>10,119</u>	<u>437,392</u>	<u>93,952</u>	<u>541,463</u>
Expenditures				
Current				
Grant expenditures	-	-	93,952	93,952
General government	9,510	329,820	-	339,330
Total expenditures	<u>9,510</u>	<u>329,820</u>	<u>93,952</u>	<u>433,282</u>
Excess of revenues over expenditures	\$ <u>609</u>	\$ <u>107,572</u>	\$ <u>-</u>	\$ <u>108,181</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Schedule 4

Budgetary Comparison Schedule – Proprietary Fund

Year Ended June 30, 2002

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Residents' fees				
State welfare	\$ 5,520,595	\$ 5,520,595	\$ 5,569,582	\$ 48,987
Private	1,242,215	1,242,215	1,127,460	(114,755)
Proportionment share fund	520,004	520,004	484,706	(35,298)
Meals reimbursement	390,093	390,093	419,248	29,155
Insurance refunds	73,965	73,965	34,673	(39,292)
Laundry income	63,112	63,112	55,192	(7,920)
Grants	61,589	61,589	59,920	(1,669)
Administrative services	45,240	45,240	39,934	(5,306)
Cafeteria	19,800	19,800	15,916	(3,884)
Rent income	19,200	19,200	16,808	(2,392)
Respite care	7,100	7,100	15,660	8,560
Miscellaneous income	<u>5,000</u>	<u>5,000</u>	<u>70,878</u>	<u>65,878</u>
Total revenues	<u>7,967,913</u>	<u>7,967,913</u>	<u>7,909,977</u>	<u>(57,936)</u>
<b>Expenses</b>				
Administration	356,547	372,184	384,672	(12,488)
Human resources	107,016	107,020	101,789	5,231
Dietary	1,250,464	1,284,889	1,266,239	18,650
Nursing care	5,624,847	5,611,727	5,462,193	149,534
Operation of plant	707,355	716,169	677,166	39,003
Housekeeping	493,872	510,669	490,824	19,845
Laundry and linen	280,808	297,454	289,891	7,563
Physician and pharmacy	18,600	18,600	8,312	10,288
Special services	35,772	35,772	34,216	1,556
Social services	93,245	93,371	91,352	2,019
Therapy	303,816	281,514	243,310	38,204
Interest	90,193	68,244	61,025	7,219
Principal – bonded debt	478,670	490,171	476,582	13,589
Capital outlay	<u>60,289</u>	<u>55,524</u>	<u>52,947</u>	<u>2,577</u>
Total expenses	<u>9,901,494</u>	<u>9,943,308</u>	<u>9,640,518</u>	<u>302,790</u>
Decrease in net assets	\$ <u>(1,933,582)</u>	\$ <u>(1,975,395)</u>	\$ <u>(1,730,541)</u>	\$ <u>244,854</u>

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

Decrease in net assets, budgetary basis	\$ (1,730,541)
Long-term debt payment not recognized as expenditure	476,582
Capital outlays not recognized as expenditure	52,094
Depreciation	(330,429)
Encumbrances	<u>11,161</u>
Decrease in net assets, GAAP basis	\$ <u>(1,521,133)</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 basic financial statements of Sullivan County, New Hampshire (County) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 2, 2002. 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 basic 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 basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 basic financial statements. The reportable conditions are described in the following paragraphs.

### Purchasing System

In the County's current purchase order (PO) system, PO's are routinely generated and approved after the items have been purchased and/or received. PO's for unencumbered items (those that are expensed immediately) are not numerically tracked, and no reliable system exists to account for outstanding and unrecorded PO's. Currently, there is not a second review of printed checks against the check manifest or invoices before they are sealed in envelopes and no second signature is required for checks over a specific dollar amount. These procedures represent controls that could be in place to provide segregation of duties in the disbursement system. Segregation of duties in any reporting process ensures that any one individual is not responsible for all aspects of a transaction. Segregation of duties provides protection for the County and its employees should an unintentional misstatement be recorded.

We understand that management has revised the PO system whereby a PO must be generated and approved before items may be purchased. This system is being implemented at the Nursing Home, with other departments to follow suit. We strongly recommend that all departments adopt this policy to ensure proper control and authorization over purchases. We also recommend assigning purchase order numbers to PO's for unencumbered items to ensure that management is aware of all outstanding obligations at any point during the year. In addition, we recommend an appropriate individual review the check-run against both the manifest and related invoices to ensure proper control over the check writing process. A second-signature policy should also be adopted for checks over a pre-determined dollar amount.

### Revenue Recognition

While documenting the County's internal control system, we noted a lack of segregation of duties in the recording of revenues from elected officials. Because elected officials are not employees of the County, they manage the operation of their position independently of other County departments.

During the reporting period, the elected officials oversee the collection of revenues in their department, including cash collections, billing (if applicable), and bank reconciliation. At the end of the month, the revenues are reported to the administrative office for inclusion in the records of the County. Management of the County has no process for reconciling the amounts provided. Since the elected officials who are collecting revenues record them in a system designed for their position, we recommend that this revenue report be provided to the County when cash receipts are deposited. Instituting this procedure will allow management of the County to reconcile revenues with cash receipts.

### Commissions Revenue

The DOC receives a commission check from Verizon and AT&T based upon phone usage by the inmates. The DOC deposits the commission check into the DOC Commission Fund, and sends a check for 50 percent of the telephone commissions received to the Commissioner's office. The Commissioner's office records revenue for the 50% received; however, the remaining telephone commissions deposited in the commission fund are not recorded as revenue, nor are the withdrawals for expenditures reported as expenses. In addition, the commission cash account is not reported in the G/L.

We recommend the Commission check be sent directly to the commissioner's office, and the check register for the commission fund be maintained by a separate individual in the Commissioner's office. We recommend bank reconciliations for this fund be performed by an individual separate from the cash receipts function in the Commissioner's office, and the fund be reported as an asset of the general fund. We recommend implementing a purchase order system for DOC expenditures from this fund. This process will facilitate the segregation of cash receipts and revenue reporting, and help ensure more accurate reporting of revenue and expenditures.

### Accounts Receivable And Resident Revenue

While performing our audit procedures, we noted a variance between the accounts receivable detail maintained at the nursing home and the general ledger maintained in the County's records. Through analytical testing, we also noted variances between the expected revenue based on patient days as maintained at the nursing home and the general ledger. Upon further investigation, the variances were due to mispostings during the year and potential missed revenue due to the manual billing process. The reconciliation process that was in effect related to accounts receivable did not detect the variances.

We recommend that management institute procedures to be performed on a monthly basis that will compare and reconcile information as collected at the nursing home to information recorded in the general ledger of the County. Ensuring that this information is correct is critical to ensuring the accuracy of the financial statements.

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 basic 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 2, 2002.

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 2, 2002