

COUNTY OF BELKNAP, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended December 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
County of Belknap, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Belknap, New Hampshire, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County of Belknap, New Hampshire's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Gunstock Area Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gunstock Area Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Belknap, New Hampshire, as of December 31, 2012, and the respective changes in financial position and the respective budgetary comparison for all budgeted funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Melanson, Heath + Company P.C.
Nashua, New Hampshire
June 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the County of Belknap, New Hampshire, we offer readers this narrative overview and analysis of the financial activities of the County of Belknap, New Hampshire for the year ended December 31, 2012.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

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

The component unit column in the government-wide financial statements is the financial data of Gunstock Area Commission, which is reported as of its latest fiscal operating year ended April 30, 2012. A component unit is an entity that is legally separate from the County, but for which the County is financially accountable.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available

at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current year, the total of assets exceeded liabilities by \$10,677,217 (i.e., net position), a change of \$55,674 in comparison to the prior year.
- As of the close of the current year, governmental funds reported combined ending fund balances of \$3,906,360, a change of \$(1,358,455) in comparison to the prior year.
- At the end of the current year, unassigned fund balance for the general fund was \$1,722,223, a change of \$1,377,714 in comparison to the prior year.
- Total long-term debt (i.e., bonds and capital lease payable) at the close of the current year was \$3,129,056, a change of \$(639,668) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

NET POSITION

| | Governmental Activities | |
|-----------------------------------|----------------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| Current assets | \$ 5,300,909 | \$ 6,932,229 |
| Noncurrent assets | <u>11,218,815</u> | <u>10,245,682</u> |
| Total assets | 16,519,724 | 17,177,911 |
| | | |
| Current liabilities | 2,504,420 | 2,794,508 |
| Noncurrent liabilities | <u>3,338,087</u> | <u>3,761,860</u> |
| Total liabilities | 5,842,507 | 6,556,368 |
| | | |
| Net position: | | |
| Net investments in capital assets | 8,041,156 | 6,428,355 |
| Restricted | 17 | 3,314 |
| Unrestricted | <u>2,636,044</u> | <u>4,189,874</u> |
| Total net position | \$ <u>10,677,217</u> | \$ <u>10,621,543</u> |

CHANGE IN NET POSITION

| | Governmental Activities | |
|------------------------------------|----------------------------|--------------|
| | <u>2012</u> | <u>2011</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 10,815,228 | \$ 9,269,093 |
| Operating grants and contributions | 113,388 | 1,342,302 |
| General revenues: | | |
| County taxes | 14,043,150 | 14,072,183 |
| Investment income | 2,285 | 1,641 |
| Other | 642,312 | 660,356 |
| Transfers from Gunstock | <u>175,000</u> | <u>-</u> |
| Total revenues | 25,791,363 | 25,345,575 |

(continued)

(continued)

CHANGE IN NET POSITION

| | Governmental Activities | |
|----------------------------------|----------------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| Expenses: | | |
| Administration | 662,978 | 632,108 |
| Finance office | 303,685 | 181,844 |
| County attorney | 632,412 | 627,324 |
| Registry of deeds | 430,149 | 505,542 |
| Sheriff | 2,106,014 | 2,068,945 |
| Youth services | 184,904 | 174,139 |
| Information technology | 85,696 | 62,229 |
| Maintenance | 743,858 | 849,428 |
| Human services | 5,509,105 | 5,389,948 |
| Corrections | 3,346,683 | 3,294,468 |
| Economic Development Council | 75,000 | 70,000 |
| Cooperative extension | 162,818 | 169,029 |
| Outside agencies | 780,051 | 786,183 |
| Nursing home | 10,569,333 | 10,602,165 |
| Interest expense | <u>143,003</u> | <u>187,138</u> |
| Total expenses | <u>25,735,689</u> | <u>25,600,490</u> |
| Change in net position | 55,674 | (254,915) |
| Net position - beginning of year | <u>10,621,543</u> | <u>10,876,458</u> |
| Net position - end of year | <u>\$ 10,677,217</u> | <u>\$ 10,621,543</u> |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent year, total net position was \$10,677,217, a change of \$55,674 from the prior year.

The largest portion of net position \$8,041,156 reflects our investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery and equipment, and construction in progress); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$17 represents resources that are subject to external restrictions on how they may be used. The remaining balance of

unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$55,674. Key elements of this change are as follows:

Operating Results:

| | |
|--|-------------------------|
| General fund | \$ (1,355,158) |
| Nonmajor governmental funds | <u>(3,297)</u> |
| Subtotal operating results | (1,358,455) |
| Depreciation expense in excess of principal debt service | (279,593) |
| Change in deferred debt financing expense | (9,720) |
| Change in accrued interest | 4,042 |
| Capital asset purchases | 1,892,395 |
| Change in net OPEB obligation | (157,711) |
| Change in compensated absences | <u>(35,284)</u> |
| Total | \$ <u><u>55,674</u></u> |

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current year, the combined ending fund balance for all funds was \$3,906,360, a change of \$(1,358,455) in comparison to the prior year. Key elements of this change are as follows:

| | |
|---|------------------------------|
| General fund expenditures in excess of revenues | \$ (1,355,158) |
| Nonmajor governmental fund expenditures and transfers out in excess of revenues | <u>(3,297)</u> |
| Total | \$ <u><u>(1,358,455)</u></u> |

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$1,722,223, while total fund balance was \$3,906,343. As a measure of the general fund's liquidity, it may be

useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Refer to the table below.

| <u>General Fund</u> | <u>12/31/12</u> | <u>12/31/11</u> | <u>Change</u> | <u>% of Total General Fund Expenditures</u> |
|-------------------------|-----------------|-----------------|----------------|---|
| Unassigned fund balance | \$ 1,722,223 | \$ 344,509 | \$ 1,377,714 | 6.4% |
| Total fund balance | \$ 3,906,343 | \$ 5,261,501 | \$ (1,355,158) | 14.4% |

The fund balance of the general fund changed by \$(1,355,158) during the current year. Key factors in this change are as follows:

| | |
|---|-----------------------|
| Revenues in excess of budget | \$ 2,549,676 |
| Expenditures less than appropriations | 932,646 |
| Use of fund balance as a funding source | (3,750,000) |
| Encumbrance timing differences | <u>(1,087,480)</u> |
| Total | \$ <u>(1,355,158)</u> |

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no changes to the total budget during year 2012; however, the final budget includes line item transfers that were approved.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$11,170,212 (net of accumulated depreciation), a change of \$973,134 from the prior year. This investment in capital assets includes land, land improvements, buildings and improvements, machinery and equipment, and construction in progress.

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

Long-term debt. At the end of the current year, total bonded debt and capital leases outstanding totaled \$3,129,056, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to Financial Statements.

REQUESTS FOR INFORMATION

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

Board of Commissioners
County of Belknap, New Hampshire
34 County Drive
Laconia, New Hampshire 03246

COUNTY OF BELKNAP, NEW HAMPSHIRE

STATEMENT OF NET POSITION

DECEMBER 31, 2012

| | Primary Government Governmental Activities | Gunstock Area Commission (Component Unit - April 30, 2012) |
|---|--|---|
| ASSETS | | |
| Current: | | |
| Cash and short-term investments | \$ 4,017,131 | \$ 638,314 |
| Restricted cash | 38,895 | - |
| Investments | - | 90,860 |
| Accounts receivable, net | 906,783 | 145,392 |
| Intergovernmental receivables, net | 235,748 | - |
| Due from fiduciary funds | 59,490 | - |
| Inventory | 42,862 | 198,161 |
| Prepaid expenses | - | 218,599 |
| Other | 48,603 | - |
| Noncurrent: | | |
| Capital Assets: | | |
| Land | 144,829 | 2,197,595 |
| Construction in progress | 215,310 | - |
| Capital assets, net of accumulated depreciation | <u>10,810,073</u> | <u>12,795,458</u> |
| TOTAL ASSETS | 16,519,724 | 16,284,379 |
| LIABILITIES | | |
| Current: | | |
| Accounts payable | 1,109,315 | 402,273 |
| Accrued expenses | 308,880 | 349,393 |
| Deposits payable | - | 35,198 |
| Restricted cash liability | 3,398 | - |
| Deferred revenue | - | 1,447,778 |
| Current portion of long-term liabilities: | | |
| Bonds payable | 590,000 | 622,486 |
| Capital lease payable | 29,056 | 98,993 |
| Compensated absences | 463,771 | - |
| Noncurrent: | | |
| Bonds payable, net of current portion | 2,510,000 | 6,247,486 |
| Capital lease payable, net of current portion | - | 49,962 |
| Compensated absences, net of current portion | 432,930 | - |
| Net OPEB obligation | <u>395,157</u> | <u>-</u> |
| TOTAL LIABILITIES | 5,842,507 | 9,253,569 |
| NET POSITION | | |
| Net investment in capital assets | 8,041,156 | 7,974,126 |
| Restricted for: | | |
| Grants and other statutory restrictions | 17 | - |
| Unrestricted | <u>2,636,044</u> | <u>(943,316)</u> |
| TOTAL NET POSITION | \$ <u>10,677,217</u> | \$ <u>7,030,810</u> |

See notes to financial statements.

COUNTY OF BELKNAP, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

| | | Program Revenues | | Net (Expenses) Revenues and Changes in Net Position | Gunstock Area Commission (Component Unit- for the year ended April 30, 2012) |
|---|----------------------|-------------------------|--|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | |
| Governmental Activities: | | | | | |
| Administration | \$ 662,978 | \$ - | \$ - | \$ (662,978) | |
| Finance office | 303,685 | - | - | (303,685) | |
| County attorney | 632,412 | - | 93,427 | (538,985) | |
| Registry of deeds | 430,149 | 829,873 | - | 399,724 | |
| Sheriff | 2,106,014 | 410,555 | - | (1,695,459) | |
| Youth services | 184,904 | 21,993 | - | (162,911) | |
| Information technology | 85,696 | - | - | (85,696) | |
| Maintenance | 743,858 | - | - | (743,858) | |
| Human services | 5,509,105 | 491,841 | - | (5,017,264) | |
| Corrections | 3,346,683 | 162,878 | 19,961 | (3,163,844) | |
| Economic Development Council | 75,000 | - | - | (75,000) | |
| Cooperative extension | 162,818 | - | - | (162,818) | |
| Outside agencies | 780,051 | - | - | (780,051) | |
| Nursing home | 10,569,333 | 8,898,088 | - | (1,671,245) | |
| Interest expense | 143,003 | - | - | (143,003) | |
| Total Governmental Activities and Primary Government | \$ <u>25,735,689</u> | \$ <u>10,815,228</u> | \$ <u>113,388</u> | (14,807,073) | |
| Component Unit: | | | | | |
| Gunstock Area Commission | \$ <u>8,749,952</u> | \$ <u>7,538,026</u> | \$ <u>-</u> | | \$ <u>(1,211,926)</u> |
| Total Component Unit | \$ <u>8,749,952</u> | \$ <u>7,538,026</u> | \$ <u>-</u> | | (1,211,926) |
| General Revenues and Transfers: | | | | | |
| County taxes | | | | 14,043,150 | - |
| Investment income | | | | 2,285 | 2,006 |
| Miscellaneous | | | | 642,312 | 452,705 |
| Transfers, net (Gunstock Area Commission) | | | | 175,000 | (175,000) |
| Total general revenues and transfers | | | | <u>14,862,747</u> | <u>279,711</u> |
| Change in Net Position | | | | 55,674 | (932,215) |
| Net Position: | | | | | |
| Beginning of year | | | | <u>10,621,543</u> | <u>7,963,025</u> |
| End of year | | | | \$ <u>10,677,217</u> | \$ <u>7,030,810</u> |

See notes to financial statements.

COUNTY OF BELKNAP, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2012

| | <u>General</u> | Nonmajor Governmental <u>Funds</u> | Total Governmental <u>Funds</u> |
|--------------------------------------|---------------------|--|---------------------------------------|
| ASSETS | | | |
| Cash and short-term investments | \$ 4,017,114 | \$ 17 | \$ 4,017,131 |
| Restricted cash | 38,895 | - | 38,895 |
| Accounts receivable, net | 906,783 | - | 906,783 |
| Intergovernmental receivables | 235,748 | - | 235,748 |
| Due from other funds | 59,490 | - | 59,490 |
| Inventory | 42,862 | - | 42,862 |
| TOTAL ASSETS | <u>\$ 5,300,892</u> | <u>\$ 17</u> | <u>\$ 5,300,909</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 1,109,315 | \$ - | \$ 1,109,315 |
| Accrued expenses | 281,836 | - | 281,836 |
| Restricted cash liability | 3,398 | - | 3,398 |
| TOTAL LIABILITIES | 1,394,549 | - | 1,394,549 |
| Fund Balances: | | | |
| Nonspendable | 42,862 | - | 42,862 |
| Restricted | - | 17 | 17 |
| Assigned | 2,141,258 | - | 2,141,258 |
| Unassigned | 1,722,223 | - | 1,722,223 |
| TOTAL FUND BALANCES | <u>3,906,343</u> | <u>17</u> | <u>3,906,360</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 5,300,892</u> | <u>\$ 17</u> | <u>\$ 5,300,909</u> |

See notes to financial statements.

COUNTY OF BELKNAP, NEW HAMPSHIRE

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

DECEMBER 31, 2012

| | |
|--|-----------------------------|
| Governmental Fund Balances | \$ 3,906,360 |
| <ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 11,170,212 |
| <ul style="list-style-type: none">• Deferred debt financing expense is not recognized in the current period and, therefore, is not reported in the governmental funds. | 48,603 |
| <ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (27,044) |
| <ul style="list-style-type: none">• Long-term liabilities, including bonds payable, capital lease payable, compensated absences, and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(4,420,914)</u> |
| Net Position of Governmental Activities | \$ <u><u>10,677,217</u></u> |

See notes to financial statements.

COUNTY OF BELKNAP, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2012

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|--|---|
| Revenues: | | | |
| County taxes | \$ 14,043,150 | \$ - | \$ 14,043,150 |
| Charges for services | 10,990,228 | - | 10,990,228 |
| Intergovernmental | 58,873 | 54,516 | 113,389 |
| Investment income | 2,285 | - | 2,285 |
| Miscellaneous | <u>642,072</u> | <u>-</u> | <u>642,072</u> |
| Total Revenues | 25,736,608 | 54,516 | 25,791,124 |
| Expenditures: | | | |
| Current: | | | |
| Administration | 479,321 | - | 479,321 |
| Finance office | 298,354 | - | 298,354 |
| County attorney | 615,712 | 34,554 | 650,266 |
| Registry of deeds | 433,133 | - | 433,133 |
| Sheriff | 2,045,443 | - | 2,045,443 |
| Youth services | 175,553 | - | 175,553 |
| Information technology | 85,696 | - | 85,696 |
| Maintenance | 2,390,600 | - | 2,390,600 |
| Human services | 5,509,105 | - | 5,509,105 |
| Corrections | 3,089,295 | 19,962 | 3,109,257 |
| Economic Development Council | 75,000 | - | 75,000 |
| Cooperative extension | 162,818 | - | 162,818 |
| Outside agencies | 780,051 | - | 780,051 |
| Nursing home | 10,214,360 | - | 10,214,360 |
| Debt service: | | | |
| Principal | 600,000 | - | 600,000 |
| Interest | <u>137,325</u> | <u>-</u> | <u>137,325</u> |
| Total Expenditures | <u>27,091,766</u> | <u>54,516</u> | <u>27,146,282</u> |
| Excess (deficiency) of revenues over expenditures | (1,355,158) | - | (1,355,158) |
| Other Financing Sources (Uses): | | | |
| Transfers out (to agency funds) | <u>-</u> | <u>(3,297)</u> | <u>(3,297)</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(3,297)</u> | <u>(3,297)</u> |
| Change in fund balance | (1,355,158) | (3,297) | (1,358,455) |
| Fund Balance, at Beginning of Year | <u>5,261,501</u> | <u>3,314</u> | <u>5,264,815</u> |
| Fund Balance, at End of Year | <u>\$ 3,906,343</u> | <u>\$ 17</u> | <u>\$ 3,906,360</u> |

See notes to financial statements.

COUNTY OF BELKNAP, NEW HAMPSHIRE

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

FOR THE YEAR ENDED DECEMBER 31, 2012

Net Changes in Fund Balances - Total Governmental Funds **\$ (1,358,455)**

- Governmental funds report capital asset purchases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital asset purchases 1,892,395

Depreciation (919,261)

- In the Statement of Activities, deferred debt financing expense for refinanced bonds payable is amortized over the life of the bonds and does not require the use of current financial resources, and therefore, is not reported as an expenditure in the governmental funds. (9,720)

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Repayments of capital lease payable 39,668

Repayments of bonds payable 600,000

- In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 4,042

- Some expenses reported in the Statement of Activities, such as compensated absences and net OPEB obligation, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

Compensated absences (35,284)

Net OPEB obligation (157,711)

Change in Net Position of Governmental Activities **\$ 55,674**

See notes to financial statements.

COUNTY OF BELKNAP, NEW HAMPSHIRE

ALL BUDGETED FUNDS

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

FOR THE YEAR ENDED DECEMBER 31, 2012

| | Original Budget | Final Budget | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|---|---|
| Revenues: | | | | |
| General Fund: | | | | |
| County taxes | \$ 14,043,150 | \$ 14,043,150 | \$ 14,043,150 | \$ - |
| Charges for services | 8,741,124 | 8,741,124 | 10,990,228 | 2,249,104 |
| Intergovernmental | 60,767 | 60,767 | 58,873 | (1,894) |
| Investment income | 200 | 200 | 2,285 | 2,085 |
| Miscellaneous | 396,207 | 396,207 | 642,072 | 245,865 |
| Other Funds: | | | | |
| Grants and other | - | - | 54,516 | 54,516 |
| Total Revenues | 23,241,448 | 23,241,448 | 25,791,124 | 2,549,676 |
| Expenditures: | | | | |
| General Fund: | | | | |
| Administration | 522,809 | 522,809 | 479,321 | 43,488 |
| Finance office | 302,870 | 302,870 | 298,354 | 4,516 |
| County attorney | 742,659 | 742,659 | 615,712 | 126,947 |
| Registry of deeds | 451,391 | 451,391 | 433,133 | 18,258 |
| Sheriff | 2,072,893 | 2,072,893 | 2,045,443 | 27,450 |
| Youth services | 167,011 | 192,011 | 175,553 | 16,458 |
| Information technology | 91,181 | 91,181 | 85,696 | 5,485 |
| Maintenance | 1,499,300 | 1,499,300 | 1,303,121 | 196,179 |
| Human services | 5,571,064 | 5,571,064 | 5,509,105 | 61,959 |
| Corrections | 3,114,472 | 3,089,472 | 3,089,295 | 177 |
| Economic Development Council | 75,000 | 75,000 | 75,000 | - |
| Cooperative extension | 162,818 | 162,818 | 162,818 | - |
| Outside agencies | 780,872 | 780,872 | 780,051 | 821 |
| Nursing home | 10,548,019 | 10,548,019 | 10,214,360 | 333,659 |
| Contingency | 80,000 | 80,000 | - | 80,000 |
| Debt service - principal | 600,000 | 600,000 | 600,000 | - |
| Debt service - interest | 209,089 | 209,089 | 137,325 | 71,764 |
| Other Funds: | | | | |
| Grants and other | - | - | 54,515 | (54,515) |
| Total Expenditures | 26,991,448 | 26,991,448 | 26,058,802 | 932,646 |
| Excess (deficiency) of revenues over expenditures | (3,750,000) | (3,750,000) | (267,678) | 3,482,322 |
| Other Financing Sources: | | | | |
| Use of fund balance | 3,750,000 | 3,750,000 | 3,750,000 | - |
| Excess of revenues over expenditures | \$ - | \$ - | \$ 3,482,322 | \$ 3,482,322 |

See notes to financial statements.

COUNTY OF BELKNAP, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2012

| | Agency Funds |
|---------------------------------|------------------|
| <u>ASSETS</u> | |
| Cash and short-term investments | \$ 60,016 |
| Total Assets | <u>\$ 60,016</u> |
| <u>LIABILITIES</u> | |
| Due to other funds | \$ 59,490 |
| Other liabilities | <u>526</u> |
| Total Liabilities | <u>\$ 60,016</u> |

See notes to financial statements.

COUNTY OF BELKNAP, NEW HAMPSHIRE

Notes to Financial Statements

1. **Summary of Significant Accounting Policies**

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Discretely Presented Component Unit

The component unit columns in the government-wide financial statements include the financial data of the County's component unit, Gunstock Area Commission (the Commission). It is reported in a separate column to emphasize that they are legally separate from the County. The Commission, which is incorporated as a body politic and an agency of the County by the State of New Hampshire in 1959, is included because the County is responsible for selection of the Commissioners and debt issued by the County on behalf of the Commission. Debt issued is backed by the full faith and credit of the County.

The County may make appropriations directly to the Commission. The Commission is reported as of its latest fiscal operating year, April 30, 2012, which differs from the County's calendar operating year of December 31, 2012. Separately issued financial statements of Gunstock Area Commission may be obtained by writing to their Board of Commissioners at P.O. Box 1307, Laconia, New Hampshire 03247.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental fund:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Agency Fund* is used to account for money held by the County on behalf of others (e.g., inmate funds and patient funds).

D. Cash and Short-Term Investments

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

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

G. Inventory

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

H. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, machinery and equipment, and construction in progress are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 for assets acquired for use in the Nursing Home, and \$2,500 for all other assets, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Land improvements | 10 |
| Buildings and improvements | 5 - 40 |
| Machinery and equipment | 3 -20 |

I. Compensated Absences

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only

if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

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

K. Fund Equity

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

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

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

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

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

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

L. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The County's budget represents functional appropriations by department as authorized by the County Delegation. The County Board of Commissioners may transfer funds between operating categories as they deem necessary. Currently there is an agreement in place requiring approval of the Delegation on transfers in excess of \$10,000. The County adopts its budget under State regulations.

B. Budgetary Basis

The final budget appearing on the "Budget and Actual" page of the financial statements represents the final amended budget after all transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

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

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

| <u>All Funds</u> | <u>Revenues and Other Financing Sources</u> | <u>Expenditures and Other Financing Uses</u> |
|--|---|--|
| Revenues/Expenditures (GAAP Basis) - Governmental Funds | \$ 25,791,124 | \$ 27,146,282 |
| Other financing sources/uses (GAAP Basis) | <u>-</u> | <u>3,297</u> |
| Subtotal (GAAP Basis) | 25,791,124 | 27,149,579 |
| Reverse beginning of year appropriation carryforwards to expenditures | - | (1,128,738) |
| Add end of year appropriation carryforwards to expenditures | - | 41,258 |
| Reverse unbudgeted transfer | - | (3,297) |
| To record use of fund balance | <u>3,750,000</u> | <u>-</u> |
| Budgetary Basis | <u>\$ 29,541,124</u> | <u>\$ 26,058,802</u> |

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. RSA 29:1, II states, "The amount of collected funds on deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus." The County's deposit policy states that no investment or deposit shall be made in any institution with a capital to asset ratio of less than 6%, unless the investment is within FDIC insured limits or is collateralized.

As of December 31, 2012, \$57,050 of the County's bank balance of \$4,651,815 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Allowance for Doubtful Accounts

The allowance for doubtful accounts for Nursing Home receivables has been estimated at \$129,468 at December 31, 2012, based on a detailed review of past due accounts. Nursing Home receivables are also reported net of contractual allowances.

5. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2012.

6. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2012 balances in interfund receivable and payable accounts:

| <u>Fund</u> | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> |
|--------------|---------------------------------|-------------------------------|
| General Fund | \$ 59,490 | \$ - |
| Agency Funds | <u>-</u> | <u>59,490</u> |
| Total | <u>\$ 59,490</u> | <u>\$ 59,490</u> |

7. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Land improvements | \$ 52,374 | \$ - | \$ - | \$ 52,374 |
| Buildings and improvements | 18,971,934 | 1,657,247 | 10,800 | 20,639,981 |
| Machinery and equipment | <u>3,341,736</u> | <u>86,463</u> | <u>-</u> | <u>3,428,199</u> |
| Total capital assets, being depreciated | 22,366,044 | 1,743,710 | 10,800 | 24,120,554 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (41,174) | (311) | - | (41,485) |
| Buildings and improvements | (10,045,223) | (713,144) | - | (10,758,367) |
| Machinery and equipment | <u>(2,304,823)</u> | <u>(205,806)</u> | <u>-</u> | <u>(2,510,629)</u> |
| Total accumulated depreciation | <u>(12,391,220)</u> | <u>(919,261)</u> | <u>-</u> | <u>(13,310,481)</u> |
| Total capital assets, being depreciated, net | 9,974,824 | 824,449 | 10,800 | 10,810,073 |
| Capital assets, not being depreciated: | | | | |
| Land | 144,829 | - | - | 144,829 |
| Construction in progress | <u>77,425</u> | <u>148,685</u> | <u>(10,800)</u> | <u>215,310</u> |
| Total capital assets, not being depreciated | <u>222,254</u> | <u>148,685</u> | <u>(10,800)</u> | <u>360,139</u> |
| Governmental activities capital assets, net | <u>\$ 10,197,078</u> | <u>\$ 973,134</u> | <u>\$ -</u> | <u>\$ 11,170,212</u> |

Depreciation expense was charged to functions of the County as follows:

Governmental Activities:

| | |
|--|-------------------|
| Administration | \$ 170,397 |
| County attorney | 3,108 |
| Sheriff | 84,063 |
| Youth services | 4,003 |
| Maintenance | 126,070 |
| Corrections | 196,930 |
| Nursing home | <u>334,690</u> |
| Total depreciation expense - governmental activities | \$ <u>919,261</u> |

8. Accounts Payable

Accounts payable represent 2012 expenditures paid after December 31, 2012.

9. Anticipation Notes Payable

The following summarizes notes payable activity during 2012:

| | Issue Amount | Date of Issue | Interest Rate | Balance Beginning of Year | New Issues | Maturities | Balance End of Year |
|------------------|-----------------|------------------|------------------|---------------------------------|---------------|----------------|---------------------------|
| Tax anticipation | \$ 9,600,000 | 04/26/12 | 0.35% | \$ - | \$ 9,600,000 | \$ (9,600,000) | \$ - |

10. Capital Lease Obligations

The County is the lessee of certain equipment under capital leases expiring in various years through 2013. Future minimum lease payments under the capital leases consisted of the following as of December 31, 2012:

| Fiscal Year | Principal | Interest | Total |
|----------------|------------------|-----------------|------------------|
| 2013 | \$ <u>29,056</u> | \$ <u>1,696</u> | \$ <u>30,752</u> |

Equipment financed by capital lease payable totaling \$170,691 is reported in capital assets net of \$112,322 accumulated depreciation.

11. Long-Term Debt

A. General Obligation Bonds

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

| <u>Governmental Activities:</u> | <u>Serial Maturities Through</u> | <u>Interest Rate(s) %</u> | <u>Amount Outstanding as of 12/31/12</u> |
|---------------------------------|--|-------------------------------|--|
| General purpose bonds | 06/15/17 | 2 - 3% | \$ 1,630,000 |
| Roof bonds | 07/15/18 | 2.6 - 4.0% | <u>1,470,000</u> |
| Total Governmental Activities | | | <u>\$ 3,100,000</u> |

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2012 are as follows:

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|---------------------|-------------------|---------------------|
| 2013 | \$ 590,000 | \$ 94,000 | \$ 684,000 |
| 2014 | 580,000 | 78,206 | 658,206 |
| 2015 | 570,000 | 60,988 | 630,988 |
| 2016 | 560,000 | 42,568 | 602,568 |
| 2017 | 555,000 | 24,005 | 579,005 |
| 2018 | <u>245,000</u> | <u>9,800</u> | <u>254,800</u> |
| Total | <u>\$ 3,100,000</u> | <u>\$ 309,567</u> | <u>\$ 3,409,567</u> |

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

| | Total Balance 1/1/12 | Additions | Reductions | Total Balance 12/31/12 | Less Current Portion | Equals Long-Term Portion 12/31/12 |
|--------------------------------|----------------------------|-------------------|---------------------|------------------------------|----------------------------|--|
| <u>Governmental Activities</u> | | | | | | |
| Bonds payable | \$ 3,700,000 | \$ - | \$ (600,000) | \$ 3,100,000 | \$ (590,000) | \$ 2,510,000 |
| Other: | | | | | | |
| Capital lease payable | 68,724 | - | (39,668) | 29,056 | (29,056) | - |
| Compensated absences | 861,417 | 35,284 | - | 896,701 | (463,771) | 432,930 |
| Net OPEB obligation | 237,446 | 349,291 | (191,580) | 395,157 | - | 395,157 |
| Totals | <u>\$ 4,867,587</u> | <u>\$ 384,575</u> | <u>\$ (831,248)</u> | <u>\$ 4,420,914</u> | <u>\$ (1,082,827)</u> | <u>\$ 3,338,087</u> |

12. Restricted Net Position

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

13. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The County has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at December 31, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or legislation.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the County's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special appropriations approved at the County Convention, reserve funds set aside by Delegation vote (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the County's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various County departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

The following is a summary of fund balances at December 31, 2012:

| | <u>Unassigned</u> | <u>Assigned</u> | <u>Restricted</u> | <u>Nonspendable</u> | <u>Total</u> |
|---|---------------------|---------------------|-------------------|---------------------|---------------------|
| <u>General Fund</u> | | | | | |
| Reserve for inventory | \$ - | \$ - | \$ - | \$ 42,862 | \$ 42,862 |
| Encumbrances | - | 41,258 | - | - | 41,258 |
| Use of fund balance in subsequent year budget | - | 2,100,000 | - | - | 2,100,000 |
| Remaining fund balance | <u>1,722,223</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,722,223</u> |
| Total General Fund | 1,722,223 | 2,141,258 | - | 42,862 | 3,906,343 |
| <u>Nonmajor Governmental Funds</u> | | | | | |
| Unexpended grant funds | <u>-</u> | <u>-</u> | <u>17</u> | <u>-</u> | <u>17</u> |
| Total Nonmajor Governmental Funds | <u>-</u> | <u>-</u> | <u>17</u> | <u>-</u> | <u>17</u> |
| Total All Funds | <u>\$ 1,722,223</u> | <u>\$ 2,141,258</u> | <u>\$ 17</u> | <u>\$ 42,862</u> | <u>\$ 3,906,360</u> |

14. Subsequent Events

Subsequent to December 31, 2012, the County issued a \$7,400,000 tax anticipation note to be used for working capital purposes, with a maturity date of December 30, 2013.

15. Commitments and Contingencies

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

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

16. **Post-Employment Healthcare and Life Insurance Benefits**

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

A. Plan Description

In addition to providing the pension benefits described, the County provides post-employment healthcare benefits for retired employees through the County's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2010, the actuarial valuation date, 33 retirees and 163 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 100% of the cost of the health plan.

D. Annual OPEB Costs and Net OPEB Obligation

The County's calendar 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the County's annual OPEB cost for the year ending December 31, 2012, the amount actually contributed to the plan, and the change in the County's net OPEB obligation based on an actuarial valuation as of January 1, 2010.

| | |
|---|--------------------------|
| Annual Required Contribution (ARC) | \$ 353,526 |
| Interest on net OPEB obligation | 9,498 |
| Adjustment to ARC | <u>(13,733)</u> |
| Annual OPEB cost | 349,291 |
| Contributions made | <u>(191,580)</u> |
| Increase in net OPEB obligation | 157,711 |
| Net OPEB obligation - beginning of year | <u>237,446</u> |
| Net OPEB obligation - end of year | <u><u>\$ 395,157</u></u> |

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

| <u>Fiscal year ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|--|----------------------------|
| 2012 | \$ 349,291 | 54.8% | \$ 395,157 |
| 2011 | \$ 338,509 | 60.7% | \$ 237,446 |
| 2010 | \$ 329,242 | 68.3% | \$ 104,516 |

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2010, the date of the most recent actuarial valuation was as follows:

| | |
|---|----------------------------|
| Actuarial accrued liability (AAL) | \$ 2,485,133 |
| Actuarial value of plan assets | <u>-</u> |
| Unfunded actuarial accrued liability (UAAL) | <u><u>\$ 2,485,133</u></u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u><u>0%</u></u> |
| Covered payroll (active plan members) | <u><u>\$ 6,425,803</u></u> |
| UAAL as a percentage of covered payroll | <u><u>38.7%</u></u> |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements,

presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the January 1, 2010 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the County has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 10.0% which decreases to a 5.0% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 0.0%.

17. Retirement System

The County follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

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

B. Funding Policy

Covered sheriff and correctional plan members and all other employee plan members are required to contribute 11.55% and 7%, respectively, of their annual covered salary and the County is required to contribute at an actuarially determined rate. The rate for sheriff and correctional plan members is 14.63% of covered payroll through June 30, 2011 and 25.57% thereafter. The rate for all other employees is 9.16% of covered payroll through June 30, 2011 and 12.31% thereafter. The County's contributions to the System for the years ended December 31, 2012, 2011, and 2010 were \$900,203, \$843,640, and \$834,087, respectively, which were equal to its annual required contributions for each of these years.

The payroll for employees covered by the System for the year ended December 31, 2012, was \$8,074,297. Contribution requirements for the year ended December 31, 2012, were as follows:

| | |
|--------------------------|---------------------|
| County contributions | \$ 910,118 |
| Employees' contributions | <u>643,189</u> |
| Total | <u>\$ 1,553,307</u> |

18. Risk Management

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

19. Gunstock Area Commission

Under the act providing for the creation of Gunstock Area Commission (the Commission) to manage and operate the County owned recreational area,

serial notes or bonds of such Commission are considered to be the pledge of the full faith and credit of the County of Belknap, New Hampshire.

Provisions of the agreement provide that the Commission will make an annual payment of \$150,000 to the County prior to March 31st of each year. An additional payment is to be remitted to the County based on a percentage of the gross income from the previous fiscal year. For the year ended April 30, 2012, a total of \$175,000 was recognized as a return of capital contributions to the County in the Commission's financial statements. This amount has been recognized as miscellaneous income from the Commission in the County's General Fund during 2012.

20. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015. Management's current assessment is that this pronouncement will have a significant impact on the County's basic financial statements by recognizing as a liability and expense, the County's applicable portion of the County's actuarially accrued liability.

GUNSTOCK AREA COMMISSION

Notes to Basic Financial Statements

April 30, 2012 and 2011

1. Summary of Significant Accounting Principles

The accounting policies of the Gunstock Area Commission (the "Commission") conform to accounting principles generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of the significant accounting policies.

Financial Reporting Entity

The Commission was incorporated as a body politic and an agency of the County of Belknap (the County) by Act of the New Hampshire General Court, effective September 15, 1959, to provide for the operation and maintenance of the former Belknap County Recreational Area. The Commission is authorized to borrow funds to accomplish its purposes upon approval by the County Convention. All debt has been authorized pursuant to New Hampshire laws and carries the pledge of the full faith and credit of the County of Belknap.

The Commission (a component unit of the County of Belknap, New Hampshire) is accounted for as a separate and distinct enterprise fund from the County.

Basis of Accounting

The financial statements of the Commission have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when they are incurred. The Commission has elected not to follow the pronouncements as required by the FASB Accounting Standards Codification issued after November 30, 1989 in accounting and reporting for its proprietary operations.

Investments

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

Inventories

Merchandise available for sale is valued at the lower of cost (under the first-in, first-out method), or market.

Capital Assets

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Land improvements | 5 - 25 |
| Buildings and improvements | 5 - 33 |
| Equipment | 3 -20 |
| Leasehold improvements | 8 |

Compensated Absences

Employees earn vacation leave as they provide services. Pursuant to the personnel policy, full time/year round employees earn twelve to twenty days of vacation leave on an annual basis dependent on length of service. Accrued and unused vacation leave has been included as a liability in these financial statements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net assets is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

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

Estimates

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

2. Risk Management

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended April 30, 2012 and 2011, the Commission was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

PRIMEX was organized to provide statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of PRIMEX, the Commission shares in contributing to the cost of and receiving benefits from a self-insured pooled risk management program through annual member premiums. The worker's compensation benefits and employer's liability provides coverage up to \$2,000,000 and includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

The Trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years.

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at April 30, 2012 or 2011.

3. **Deposits and Investments**

Deposits and investments as of April 30, 2012 and 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

| | <u>2012</u> | <u>2011</u> |
|---------------------------|-------------------|---------------------|
| Cash and cash equivalents | \$ 638,314 | \$ 2,203,100 |
| Investments | <u>90,860</u> | <u>189,291</u> |
| | <u>\$ 729,174</u> | <u>\$ 2,392,391</u> |

Deposits and investments as of April 30, 2012 and 2011 consist of the following:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------------|-------------------|---------------------|
| Cash on hand | \$ 9,300 | \$ 8,000 |
| Deposits with financial institutions | <u>719,874</u> | <u>2,384,391</u> |
| | <u>\$ 729,174</u> | <u>\$ 2,392,391</u> |

The Commission's investment policy requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The Commission limits its investments to demand deposits, certificates of deposit and repurchase agreements.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Commission's cash management program is based on a zero balance bank account for operations. The available balance in this account is transferred to a money market account on a daily basis. The funds in the money market account are invested in overnight repurchase agreements. The Commission has entered into a Federal Reserve Joint Custody Safekeeping Program with the Bank of New York - Mellon.

Under the terms of the agreement, as contracted with the Bank of New York - Mellon, securities are segregated in a Joint Custody account with the title of the Commission and the Bank. The Bank agrees to monitor the accounts and assign securities as collateral in an amount equal to the account balances. Accordingly, as of April 30, 2012 and 2011, \$378,797 and \$1,699,196 respectively of the Commission's deposits with financial institutions were collateralized. The Commission did not have any uninsured deposits as of April 30, 2012 and 2011.

4. Accounts Receivable

All receivables are considered collectible in full and will be received within one year. A summary of the principal items of accounts receivable is as follows:

| | <u>2012</u> | <u>2011</u> |
|--------------------|-------------------|-------------------|
| Other | \$ 131,704 | \$ 112,850 |
| Tower lease income | <u>13,688</u> | <u>31,063</u> |
| | <u>\$ 145,392</u> | <u>\$ 143,913</u> |

5. Due From Other Governments

Receivables from other governments at April 30, 2011 consist of a federal and state funded project. These receivables are considered collectible in full and were received in the 2012 fiscal year. The receivable balance of \$34,487 represents reimbursement for eligible costs on the Commission's bridge project for the year ended April 30, 2011.

6. Prepaid Expenses

Payments made to vendors for services and supplies that will benefit periods beyond April 30th are recorded as prepaid items. Prepaid expenses at year-end are as follows:

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Trams and tow repair parts (net of reserve, \$ 21,761 in 2012 and \$ 41,049 in 2011) | \$ 146,549 | \$ 124,176 |
| Mobile equipment repair parts | 49,297 | 28,476 |
| Insurance | 22,753 | 8,505 |
| Deposits on capital improvements | <u>-</u> | <u>17,828</u> |
| | <u>\$ 218,599</u> | <u>\$ 178,985</u> |

7. Capital Assets

The following is a summary of changes in capital assets during the years ended April 30, 2012 and 2011:

| | Balance 5/1/11 | Additions | Reductions | Balance 4/30/12 |
|---|-------------------|--------------|----------------|--------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,197,595 | \$ - | \$ - | \$ 2,197,595 |
| Construction in progress | 1,613,419 | - | (1,613,419) | - |
| Total capital assets, not being depreciated | 3,811,014 | - | (1,613,419) | 2,197,595 |
| Other capital assets: | | | | |
| Land improvements | 1,406,006 | 1,312,317 | - | 2,718,323 |
| Buildings and improvements | 4,028,018 | 126,606 | - | 4,154,624 |
| Equipment | 21,280,863 | 2,744,953 | (315,105) | 23,710,711 |
| Leasehold improvements | 374,946 | - | - | 374,946 |
| Total other capital assets at historical cost | 27,089,833 | 4,183,876 | (315,105) | 30,958,604 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (804,110) | (104,170) | - | (908,280) |
| Buildings and improvements | (2,804,576) | (137,705) | - | (2,942,281) |
| Equipment | (13,465,424) | (967,528) | 314,705 | (14,118,247) |
| Leasehold improvements | (147,095) | (47,243) | - | (194,338) |
| Total accumulated depreciation | (17,221,205) | (1,256,646) | 314,705 | (18,163,146) |
| Total other capital assets, net | 9,868,628 | 2,927,230 | (400) | 12,795,458 |
| Total capital assets, net | \$ 13,679,642 | \$ 2,927,230 | \$ (1,613,819) | \$ 14,993,053 |

| | Balance 5/1/10 | Additions | Reductions | Balance 4/30/11 |
|---|-------------------|-------------|------------|--------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,197,595 | \$ - | \$ - | \$ 2,197,595 |
| Construction in progress | 219,269 | 1,397,740 | (3,590) | 1,613,419 |
| Total capital assets, not being depreciated | 2,416,864 | 1,397,740 | (3,590) | 3,811,014 |
| Other capital assets: | | | | |
| Land improvements | 1,314,161 | 91,845 | - | 1,406,006 |
| Buildings and improvements | 3,976,852 | 73,423 | (22,257) | 4,028,018 |
| Equipment | 21,151,538 | 395,755 | (266,430) | 21,280,863 |
| Leasehold improvements | 374,946 | - | - | 374,946 |
| Total other capital assets at historical cost | 26,817,497 | 561,023 | (288,687) | 27,089,833 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (722,815) | (81,295) | - | (804,110) |
| Buildings and improvements | (2,698,548) | (128,285) | 22,257 | (2,804,576) |
| Equipment | (12,853,557) | (874,997) | 263,130 | (13,465,424) |
| Leasehold improvements | (99,852) | (47,243) | - | (147,095) |
| Total accumulated depreciation | (16,374,772) | (1,131,820) | 285,387 | (17,221,205) |
| Total other capital assets, net | 10,442,725 | (570,797) | (3,300) | 9,868,628 |
| Total capital assets, net | \$ 12,859,589 | \$ 826,943 | \$ (6,890) | \$ 13,679,642 |

Depreciation expense was charged as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------------|---------------------|---------------------|
| Departmental expenses: | | |
| Trams and tows | \$ 581,456 | \$ 591,165 |
| Restaurant | 1,285 | 1,830 |
| Summer attractions | 111,113 | - |
| Ski shop rentals | 84,207 | 81,643 |
| Ski touring | 7,457 | 5,116 |
| Ski learning center | 1,825 | - |
| Camping and swimming pool | 23,474 | 44,521 |
| Programs (functions) | 8,804 | 9,559 |
| General expenses | 420,221 | 378,290 |
| Administrative expenses | <u>16,804</u> | <u>19,696</u> |
| | <u>\$ 1,256,646</u> | <u>\$ 1,131,820</u> |

The balance of the assets acquired through capital leases as of April 30, 2012 and 2011 is as follows:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|-------------------|-------------------|
| Equipment | \$ 410,400 | \$ 461,075 |
| Less: Accumulated depreciation | <u>(34,304)</u> | <u>(105,567)</u> |
| | <u>\$ 376,096</u> | <u>\$ 355,508</u> |

8. Pension Plan

Profit Sharing Plan

Effective September 1, 2008, the Gunstock Area Commission entered into a profit sharing pension plan. The plan provides for participation by employees who have 1,000 hours of service in a twelve month consecutive period and have attained the age of 21. Eligible employees may elect to enroll in this pension plan on a semi-annual basis and are eligible for normal retirement after age 62. Once eligible, employer contributions are vested in increments of 20% for each year of service. After six years of service, the employer contributions are 100% vested. The plan further provides that the Commission may contribute a uniform percentage of each participant's compensation at its sole discretion. An employee must be actively working on April 30 to receive an employer contribution.

If a participant terminates employment prior to attaining the normal retirement age, the maximum distribution amount is \$5,000. Prior to termination of

employment, a participant may elect a distribution from his vested account in the event of hardship or if he has attained the age of 59½.

Covered wages paid under this plan during the fiscal year ended April 30, 2012 and 2011 were \$1,323,374 and \$1,343,452. The Commission's contributions to the plan during fiscal years 2012 and 2011 were \$66,169 and \$67,173.

457(b) Plan

Effective September 1, 2008, the Gunstock Area Commission entered into a 457(b) pension plan. Employees may participate in the plan following one year of continuous service and have attained the age of 21. Under the plan, employees are eligible for normal retirement after age 62. There are no limits on an employee's contributions. In addition, participants are permitted to make age 50 catch-up contributions. No matching contribution is made by the Commission. A participant's contributions are 100% vested immediately without regard to additional service of employment. Prior to termination of employment, a participant may elect a distribution from his vested account in the event of an unforeseeable emergency or if he has attained the age of 70½.

9. Accrued Expenses

Accrued expenses at year-end are as follows:

| | <u>2012</u> | <u>2011</u> |
|----------------------|-------------------|-------------------|
| Vacation | \$ 134,887 | \$ 141,095 |
| Payroll | 59,248 | 82,465 |
| Pension contribution | 66,169 | 67,173 |
| Real estate taxes | 549 | 549 |
| Stale dated checks | 12,059 | 6,897 |
| Interest | <u>76,481</u> | <u>80,071</u> |
| | <u>\$ 349,393</u> | <u>\$ 378,250</u> |

10. Short-Term Obligations – Revenue Anticipation Notes

The Commission issues revenue anticipation notes during the year. These borrowings are to assist in the payment of operating expenses during the off-season and are guaranteed to be repaid from operating revenues of the Commission. The majority of the Commission's operating revenues are received during the winter months.

The changes in short-term revenue anticipation note obligations for the years ended April 30, 2012 and 2011 are as follows:

| | <u>2012</u> | <u>2011</u> |
|--------------------|------------------|--------------------|
| Balance - May 1 | \$ - | \$ - |
| Additions | 600,000 | 1,000,000 |
| Reductions | <u>(600,000)</u> | <u>(1,000,000)</u> |
| Balance - April 30 | <u>\$ -</u> | <u>\$ -</u> |

11. Long-Term Obligations

Changes in Long-Term Obligations

The changes in long-term debt obligations for the years ended April 30, 2012 and 2011 are as follows:

| <u>Type</u> | <u>Balance</u> <u>5/1/11</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>4/30/12</u> | <u>Amounts</u> <u>Due Within</u> <u>One Year</u> |
|-----------------------------|---------------------------------|---------------------|-----------------------|----------------------------------|--|
| Bonds payable | \$ 5,992,458 | \$ 1,500,000 | \$ (622,486) | \$ 6,869,972 | \$ 622,486 |
| Capital leases | 98,832 | 146,250 | (96,127) | 148,955 | 98,993 |
| Other long-term obligations | <u>500,000</u> | <u>-</u> | <u>(500,000)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 6,591,290</u> | <u>\$ 1,646,250</u> | <u>\$ (1,218,613)</u> | <u>\$ 7,018,927</u> | <u>\$ 721,479</u> |

| <u>Type</u> | <u>Balance</u> <u>5/1/10</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>4/30/11</u> | <u>Amounts</u> <u>Due Within</u> <u>One Year</u> |
|-----------------------------|---------------------------------|-------------------|---------------------|----------------------------------|--|
| Bonds payable | \$ 6,484,695 | \$ - | \$ (492,237) | \$ 5,992,458 | \$ 472,486 |
| Capital leases | 194,811 | - | (95,979) | 98,832 | 48,024 |
| Other long-term obligations | <u>-</u> | <u>500,000</u> | <u>-</u> | <u>500,000</u> | <u>-</u> |
| | <u>\$ 6,679,506</u> | <u>\$ 500,000</u> | <u>\$ (588,216)</u> | <u>\$ 6,591,290</u> | <u>\$ 520,510</u> |

General Obligation Bonds

Bonds payable at April 30, 2012 and 2011 are comprised of the following individual issues:

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| \$ 3,800,000 bonds due in annual installments of \$ 225,000 beginning May 2005 through May 2012 and \$ 250,000 through May 2020; interest at 3.20% - 3.80% | \$ 2,225,000 | \$ 2,450,000 |
| \$ 1,500,000 bonds due in annual installments of \$ 150,000 through April 29, 2021; interest at 2.59% | 1,350,000 | - |
| \$ 3,250,000 bonds due in an annual installment of \$ 100,000 in January 2010 and \$ 175,000 thereafter until January 2028; interest at 3.500% - 4.375% | 2,800,000 | 2,975,000 |
| \$ 525,000 bonds due in annual installments of \$ 52,500 through October 2018; interest at 3.99% | 367,500 | 420,000 |
| \$ 250,000 bonds due in annual installments of \$ 12,500 through January 2019; interest at 4.98% | 87,500 | 100,000 |
| \$ 100,000 bonds due in annual installments of \$ 5,000 through January 2019; interest at 5.0% | 35,000 | 40,000 |
| \$ 47,320 bonds due in annual installments of \$ 2,486 through September 2014; interest at 0% | <u>4,972</u> | <u>7,458</u> |
| | <u>\$ 6,869,972</u> | <u>\$ 5,992,458</u> |

Debt service requirements to retire general obligation bonds outstanding at April 30, 2012 are as follows:

| Year Ending <u>April 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---------------------------------|---------------------|---------------------|---------------------|
| 2013 | \$ 622,486 | \$ 231,297 | \$ 853,783 |
| 2014 | 647,486 | 212,849 | 860,335 |
| 2015 | 645,000 | 193,450 | 838,450 |
| 2016 | 645,000 | 173,489 | 818,489 |
| 2017 | 645,000 | 153,064 | 798,064 |
| 2018 - 2022 | 2,615,000 | 438,530 | 3,053,530 |
| 2023 - 2027 | 875,000 | 146,346 | 1,021,346 |
| 2028 | <u>175,000</u> | <u>7,656</u> | <u>182,656</u> |
| | <u>\$ 6,869,972</u> | <u>\$ 1,556,681</u> | <u>\$ 8,426,653</u> |

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. Capital leases payable at April 30, 2012 and 2011 are comprised of the following individual issues:

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|------------------|
| \$ 190,000 equipment lease due in monthly installments of \$ 10,650 between the months of December and April each year, including interest at 5.649%, through April 2013 | \$ 50,807 | \$ 98,832 |
| \$ 146,300 equipment lease due in monthly installments of \$ 10,350 between the months of December and April each year, including interest at 3.9%, through April 2014 | <u>94,148</u> | <u>-</u> |
| | <u>\$ 144,955</u> | <u>\$ 98,832</u> |

Debt service requirements to retire capital lease obligations outstanding at April 30, 2012 are as follows:

| Year Ending <u>April 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---------------------------------|-------------------|-----------------|-------------------|
| 2013 | \$ 98,993 | \$ 6,007 | \$ 105,000 |
| 2014 | <u>49,962</u> | <u>1,651</u> | <u>51,613</u> |
| | <u>\$ 148,955</u> | <u>\$ 7,658</u> | <u>\$ 156,613</u> |

Other Long-Term Obligations

On April 29, 2011, the Commission drew down \$500,000 of \$1,500,000 of a general obligation bond line of credit for the development of summer attractions at Gunstock Mountain Resort. The remaining portion of the line of credit of \$1,000,000 was drawn down during fiscal year 2012 and payments commenced on the bond.

12. Lease of Area Facilities

Restaurant Facilities

On October 15, 2007, the Commission entered into a four year agreement with an independent company to provide exclusive food services, including the sale of alcoholic beverages, at the Gunstock Area. The agreement was renewed for an additional four year term in October 2011. The agreement stipulates that the Commission will receive an applicable percentage of gross receipts generated from food service sales. In any contract year in which the aggregate commissionable sales exceed \$1,350,000, the Commission will receive an additional 5% commission on the excess amount. The Commission is responsible for the utilities.

During the years ended April 30, 2012 and 2011, the annual income received from food service commissions was \$222,413 and \$291,888, respectively.

The agreement further stipulates that the independent company is responsible for maintenance costs and will provide \$375,000 in capital renovations and equipment purchases within the first eighteen months of the contract which will become the property of the Commission. Upon expiration of the agreement, the independent company will be reimbursed for the undepreciated balance of its capital purchases. The net book value of these capital renovations and equipment purchases are reported as leasehold improvements of the Commission and an offsetting payable at fiscal year-end. Capital contributions are recognized by the Commission as the capitalized leasehold improvements are depreciated over their estimated useful life.

For the years ended April 30, 2012 and 2011 the net book value of the leasehold improvements was \$180,607 and \$227,850, respectively, and the recognized capital contributions were \$47,243 and \$47,244, respectively.

Land Parcel

During February 1993, the Commission entered into an initial five year agreement to lease a parcel of land to a corporation on which they may construct and operate a facility to conduct cellular radio, telephone and other telecommunications operations. Per the agreement, the lessee has the option to renew and extend this lease agreement for five separate and successive five year periods. During February 2008, the option to renew this agreement was extended for another five years until January 31, 2013.

On June 3, 1998 the Commission signed an amendment to the land parcel lease. This amendment provides that the Commission will receive 25% of rental income if the land parcel is subleased to another entity.

During June 2009, the Commission signed an additional amendment to the land parcel lease to increase the size of the parcel of land being leased to a corporation. The monthly rent is subject to an increase of \$1,800 per month which shall not be effective until the earlier of ninety days from the issuance of a building permit to start construction of the new replacement tower on the premises or upon the commencement of tower lease rental payment for the new antennae on the replacement tower. This new agreement further provides that commencing February 1, 2013 and each five year anniversary thereafter, the rent for each five year term shall increase based on the percentage change in the Consumer Price Index published by the Bureau of Labor and Statistics of the United States Department of Labor for all Urban Consumers, US City Average.

The agreement provides that the Commission will receive rent payable in equal monthly installments. During the years ended April 30, 2012 and 2011, the annual income from the land lease was \$80,833 and \$31,484, respectively. The lessee is responsible for real estate taxes and utilities.

Tower Leases

The Commission has entered into various agreements to lease tower space to several independent companies for telecommunication and radio operations. These lease agreements range from being renewed on an annual basis to long-term agreements for a period of five years.

Tower lease rentals are payable in monthly installments. In addition, the Commission will receive an annual trade agreement of signal time from the lessee. During the years ended April 30, 2012 and 2011, the annual income from tower leases was \$26,366 and \$31,484, respectively.

Soul Festival

During June 2006, the Commission entered into a five year agreement with a corporation to grant them the right to conduct the Soul Festival at the Gunstock Area Commission. The first event was held in August 2005. At the conclusion of the 2011 event, the terms and conditions of the agreement were automatically renewed for the next five-year term with one more option for an automatic renewal for five years with the last event to be held in August 2021. Terms of the agreement provide that the Commission will retain campsite sales up to \$100,000 and 50% of these sales thereafter. In addition, the Commission will retain the income from summit chair lift rides up to \$8,000. During the years ended April 30, 2012 and 2011, the annual income from the Soul Festival was as follows:

| | <u>2012</u> | <u>2011</u> |
|------------------|-------------------|-------------------|
| Camping | \$ 110,718 | \$ 114,010 |
| Chair lift rides | <u>50,285</u> | <u>45,960</u> |
| | <u>\$ 161,003</u> | <u>\$ 159,970</u> |

13. Operating and Financing Arrangements

During the year ended April 30, 2011, the County provided the Commission a subsidy of \$20,062 for the purposes of servicing a portion of the Commission's debt. The principal portion of the subsidy was recorded at the date of inception of the agreement as a receivable due from the County. The interest portion of the subsidy of \$312 is recorded as an operating subsidy in the statement of operations for the year ended April 30, 2012, as the final payments on the debt were made in the previous year.

14. Commitments and Contingencies

Belknap County Agreement

In October 2010, the Commission and Belknap County entered into a five-year agreement which requires the Commission to make an annual payment of \$175,000 to the County; payable on or before March 31 of each year of the agreement. The purpose of this payment is to reduce the amount to be raised by taxes for funding of the budget of Belknap County and shall be derived from operating receipts through the operation of Gunstock.

Property and Liability Insurance

The Commission has acquired property and liability insurance, which is administered through a commercial insurer. General liability provides coverage up to \$1,000,000 per incident and in the aggregate; the Commission's deductible is \$15,000 per incident and \$75,000 in the aggregate. Umbrella liability provides coverage up to \$6,000,000 per incident with a general aggregate limit of \$12,000,000. The Commission has a self-insurance retention plan of \$10,000 for umbrella liability. Insurance coverage for scheduled buildings and contents is \$3,000,000; the Commission's deductible is \$10,000 per incident, except for flood or earthquake at \$25,000 per incident.

Litigation

Gunstock Area Commission is involved in certain litigation in the ordinary course of business, primarily its ski operations. Management, based on discussions with its insurer, is of the opinion that the ultimate disposition of these matters will not result in a material effect on the financial condition or results of operations at Gunstock Area Commission.

15. Subsequent Events

Revenue Anticipation Notes

The Commission secured a line of credit up to \$950,000 during June 2012. Any borrowings are guaranteed to be repaid from operating revenues of the Commission. Subsequent to year end, the Commission has borrowed \$300,000 against this line of credit. The interest rate on this line of credit is 1.19%. The borrowed amount, and accrued interest, is due on February 28, 2013.

16. Capital Lease Payable

In May 2012, the Commission entered into a lease agreement for computer equipment in the amount of \$62,443. The lease is payable in monthly installments through May 2015 and will accrue interest at 6.468%.

COUNTY OF BELKNAP, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2012
(Unaudited)

Other Post-Employment Benefits

| Actuarial Valuation <u>Date</u> | Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) - Projected Unit Credit Cost <u>(b)</u> | Unfunded AAL (UAAL) <u>(b-a)</u> | Funded Ratio <u>(a/b)</u> | Covered Payroll <u>(c)</u> | UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u> |
|---------------------------------------|---|---|---|---------------------------------|----------------------------------|---|
| 01/01/10 | \$ - | \$ 2,485,133 | \$ 2,485,133 | 0.0% | \$ 6,425,803 | 38.67% |

See Independent Auditors' Report.