TOWN OF HILLSBOROUGH, NEW HAMPSHIRE

FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2016

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R&G

Roberts & Greene, PLLC

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Hillsborough
Hillsborough, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hillsborough, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Basis for Adverse Opinion on Governmental Activities

As discussed in Note I.B.3. to the financial statements, management has not determined its liability or annual cost for postemployment benefits other than pensions (OPEB) in governmental activities. Accounting principles generally accepted in the United States of America require that management recognize OPEB expense for the required contributions and a liability for unpaid required contributions, which would increase the liabilities, decrease net position, and increase expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

Also, as discussed in Note I.B.3. to the financial statements, management has not recorded certain capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those assets be capitalized and

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depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraphs, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Town of Hillsborough, as of December 31, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Town of Hillsborough, as of December 31, 2016, and the respective changes in financial position thereof and budgetary comparisons of the major funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension information on pages 32-34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Town of Hillsborough has not presented a management's discussion and analysis. Accounting principles generally accepted in the United States of America have determined that the management's discussion and analysis is necessary to supplement, but is not required to be part of, the basic financial statements.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hillsborough's basic financial statements. The combining nonmajor and individual general fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. They are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor and individual general fund schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

October 30, 2017

Roberts & Greene, PLLC

BASIC FINANCIAL STATEMENTS

EXHIBIT 1
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Position
December 31, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 8,155,672
Investments	2,758,844
Intergovernmental receivable	219,803
Other receivables, net of allowance for uncollectibles	2,730,571
Prepaid items	6,084
Tax deeded property held for resale	404,508
Other current asset	10
Total assets	14,275,492
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts related to pensions	1,065,176
LIABILITIES	
Accounts payable	139,968
Accrued payroll and benefits	74,337
Accrued interest payable	60,014
Intergovernmental payable	4,738,936
Retainage payable	4,951
Performance and escrow deposits	41,897
Noncurrent obligations:	
Due within one year:	
Bonds and notes payable	429,694
Unamortized bond premium	12,446
Capital leases payable	148,184
Compensated absences payable	5,952
Accrued landfill postclosure care costs	17,459
Due in more than one year:	
Bonds and notes payable	2,904,909
Unamortized bond premium	87,120
Capital leases payable	871,777
Compensated absences payable	148,070
Accrued landfill postclosure care costs	331,721
Net pension liability	3,635,288
Total liabilities	13,652,723
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts related to pensions	45,905
Unearned revenue	1,864
Total deferred inflows of resources	47,769
NET POSITION	
Net investment in capital assets	(4,256,749)
Restricted for:	
Endowments:	
Nonexpendable	1,147,299
Expendable	300,420
Other purposes	543,546
Unrestricted	3,905,660
Total net position	$ 1,640,176

The notes to the financial statements are an integral part of this statement.

EXHIBIT 2
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Activities
For the Year Ended December 31, 2016

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities:				
General government	$ 1,045,700	$ 3,130	$ 124,582	$ (917,988)
Public safety	3,399,358	518,032	-	(2,881,326)
Highways and streets	1,241,828	63	174,650	(1,067,115)
Sanitation	925,347	843,252	19,278	(62,817)
Water distribution and treatment	243,253	710,078	35,701	502,526
Health	16,329	-	-	(16,329)
Welfare	144,762	-	-	(144,762)
Culture and recreation	524,252	48,171	95,019	(381,062)
Conservation	8,264	-	1,604	(6,660)
Interest on long-term debt	149,785	-	-	(149,785)
Capital outlay	2,011,414	-	-	(2,011,414)
Total primary government	$ 9,710,292	$ 2,122,726	$ 450,834	(7,136,732)
General revenues:				
Property taxes				4,916,224
Other taxes				281,893
Licenses and permits				948,529
Grants and contributions not restricted to specific programs				307,930
Miscellaneous				112,469
Total general revenues				6,567,045
Change in net position				(569,687)
Net position, beginning, as restated, see Note III.D.				2,209,863
Net position, ending				$ 1,640,176

The notes to the financial statements are an integral part of this statement.

EXHIBIT 3
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2016

	General	Sewer Department	Permanent	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 6,310,113	$ 1,092,345	$ 103,412	$ 649,802	$ 8,155,672
Investments	508,684	290,759	1,417,262	542,139	2,758,844
Receivables, net of allowance					
for uncollectibles:					
Taxes	2,179,076	-	-	-	2,179,076
Accounts	105,161	213,461	-	232,873	551,495
Intergovernmental	22,422	-	-	-	22,422
Interfund receivable	85,764	-	-	8,875	94,639
Prepaid items	6,084	-	-	-	6,084
Tax deeded property held for resale	404,508	-	-	-	404,508
Other current asset	10	-	-	-	10
Total assets	$ 9,621,822	$ 1,596,565	$ 1,520,674	$ 1,433,689	$ 14,172,750
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 133,558	$ 1,726	$ -	$ 4,684	$ 139,968
Accrued salaries and benefits	70,910	2,935	-	492	74,337
Intergovernmental payable	4,738,936	-	-	-	4,738,936
Retainage payable	-	4,951	-	-	4,951
Interfund payable	8,875	3,987	72,955	8,822	94,639
Escrow and performance deposits	30,347	11,550	-	-	41,897
Total liabilities	4,982,626	25,149	72,955	13,998	5,094,728
Deferred inflows of resources:					
Deferred revenue	2,094,342	1,077	-	111	2,095,530
Fund balances:					
Nonspendable	410,592	-	1,147,299	-	1,557,891
Restricted	543,547	-	300,420	-	843,967
Committed	627,183	1,570,339	-	1,419,580	3,617,102
Assigned	2,825	-	-	-	2,825
Unassigned	960,707	-	-	-	960,707
Total fund balances	2,544,854	1,570,339	1,447,719	1,419,580	6,982,492
Total liabilities, deferred inflows of resources, and fund balances	$ 9,621,822	$ 1,596,565	$ 1,520,674	$ 1,433,689	$ 14,172,750

The notes to the financial statements are an integral part of this statement.

EXHIBIT 4
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Reconciliation of Total Fund Balances of Governmental Funds to the Statement of Net Position
December 31, 2016

Total fund balances of governmental funds (Exhibit 3)			$ 6,982,492
Amounts reported for governmental activities in the statement of net position are different because:			
Interfund receivables and payables between governmental funds are eliminated on the statement of net position.			
	Receivables	$ (94,639)	
	Payables	94,639	
			-
Revenues that are not available to pay for current period expenditures are deferred in the funds.			
	Deferred tax revenue	$ 2,033,503	
	Deferred ambulance revenue	60,163	
			2,093,666
Interest on long-term debt is not accrued in governmental funds.			
	Accrued interest payable		(60,014)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
	Bonds and notes outstanding	$ 3,334,603	
	Unamortized loan forgiveness	(197,381)	
	Unamortized bond premium	99,566	
	Capital leases outstanding	1,019,961	
	Compensated absences payable	154,022	
	Accrued landfill postclosure care costs	349,180	
	Net pension liability	3,635,288	
			(8,395,239)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.			
	Deferred outflows of resources related to pensions	$ 1,065,176	
	Deferred inflows of resources related to pensions	(45,905)	
			1,019,271
Total net position of governmental activities (Exhibit 1)			$ 1,640,176

The notes to the financial statements are an integral part of this statement.

EXHIBIT 5
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Sewer Department	Permanent	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 5,188,859	$ -	$ -	$ 250	$ 5,189,109
Licenses, permits and fees	948,529	-	-	-	948,529
Intergovernmental	610,381	-	-	23,801	634,182
Charges for services	679,810	638,681	-	748,330	2,066,821
Miscellaneous	102,078	3,322	124,582	7,069	237,051
Total revenues	7,529,657	642,003	124,582	779,450	9,075,692
Expenditures:					
Current:					
General government	1,041,069	-	5,328	-	1,046,397
Public safety	3,203,164	-	13,050	22,111	3,238,325
Highways and streets	1,355,118	-	-	-	1,355,118
Sanitation	485,283	436,070	-	-	921,353
Water distribution and treatment	-	-	-	243,169	243,169
Health	16,329	-	-	-	16,329
Welfare	145,465	-	-	-	145,465
Culture and recreation	509,085	-	-	15,167	524,252
Conservation	8,264	-	-	-	8,264
Debt service:					
Principal	98,640	53,333	-	278,366	430,339
Interest	27,392	12,941	-	97,335	137,668
Capital outlay	2,003,165	88,967	-	5,650	2,097,782
Total expenditures	8,892,974	591,311	18,378	661,798	10,164,461
Excess (deficiency) of revenues over (under) expenditures	(1,363,317)	50,692	106,204	117,652	(1,088,769)
Other financing sources (uses):					
Transfers in	29,276	-	-	790	30,066
Transfers out	(790)	-	(29,276)	-	(30,066)
Inception of capital leases	1,036,706	-	-	-	1,036,706
Total other financing sources and uses	1,065,192	-	(29,276)	790	1,036,706
Net change in fund balances	(298,125)	50,692	76,928	118,442	(52,063)
Fund balances, beginning	2,842,979	1,519,647	1,370,791	1,301,138	7,034,555
Fund balances, ending	$ 2,544,854	$ 1,570,339	$ 1,447,719	$ 1,419,580	$ 6,982,492

The notes to the financial statements are an integral part of this statement.

EXHIBIT 6
TOWN OF HILLSBOROUGH, 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, 2016

Net change in fund balances of governmental funds (Exhibit 5)		$ (52,063)
Amounts reported for governmental activities in the statement of activities are different because:		
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in	$ (30,066)	
Transfers out	30,066	
		-
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in governmental funds.		
Change in deferred tax revenue	$ 9,008	
Change in deferred ambulance fees	55,905	
		64,913
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Inception of capital leases	$ (1,036,706)	
Repayment of bond and note principal	441,174	
Amortization of loan forgiveness	(10,966)	
Amortization of bond premium	12,446	
Repayment of capital lease principal	246,036	
		(348,016)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Increase in accrued interest expense	$ (24,432)	
Decrease in compensated absences payable	8,740	
Increase in accrued landfill postclosure care costs	(2,911)	
		(18,603)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employee contributions, is reported as pension expense.		
Town pension contributions	$ 291,317	
Cost of benefits earned, net of employee contributions	(507,235)	
		(215,918)
Change in net position of governmental activities (Exhibit 2)		$ (569,687)

The notes to the financial statements are an integral part of this statement.

EXHIBIT 7
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Statement of Revenues, Expenditures and Changes in Unassigned Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	$ 5,203,127	$ 5,197,867	$ (5,260)
Licenses, permits and fees	876,700	948,529	71,829
Intergovernmental	518,962	515,362	(3,600)
Charges for services	575,000	679,810	104,810
Miscellaneous	69,500	63,714	(5,786)
Total revenues	7,243,289	7,405,282	161,993
EXPENDITURES			
Current:			
General government	1,065,783	1,033,419	32,364
Public safety	3,292,000	3,153,164	138,836
Highways and streets	1,492,951	1,355,118	137,833
Sanitation	530,283	485,283	45,000
Health	20,316	16,329	3,987
Welfare	174,256	145,465	28,791
Culture and recreation	441,542	435,562	5,980
Conservation	11,089	11,089	-
Debt service:			
Principal	98,125	98,640	(515)
Interest on long-term debt	39,710	27,392	12,318
Interest on tax anticipation note	5,000	-	5,000
Capital outlay	210,889	193,467	17,422
Total expenditures	7,381,944	6,954,928	427,016
Excess (deficiency) of revenues over (under) expenditures	(138,655)	450,354	589,009
Other financing sources (uses):			
Transfers in	2,500	24,519	22,019
Transfers out	(445,790)	(445,790)	-
Total other financing sources and uses	(443,290)	(421,271)	22,019
Net change in fund balance	$ (581,945)	29,083	$ 611,028
Decrease in nonspendable fund balance		58,063	
Decrease in restricted fund balance		723	
Unassigned fund balance, beginning		2,906,341	
Unassigned fund balance, ending		$ 2,994,210	

The notes to the financial statements are an integral part of this statement.

EXHIBIT 8
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Sewer Department Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Charges for services	681,704	638,681	(43,023)
Miscellaneous	-	1,633	1,633
Total revenues	681,704	640,314	(41,390)
EXPENDITURES			
Current:			
Sanitation	515,410	436,070	79,340
Debt service:			
Principal	53,334	53,333	1
Interest	12,960	12,941	19
Total expenditures	581,704	502,344	79,360
Excess of revenues over expenditures	100,000	137,970	37,970
Other financing uses:			
Transfers out	(100,000)	(135,578)	(35,578)
Net change in fund balance	$ -	2,392	$ 2,392
Unreserved fund balance, beginning		650,958	
Unreserved fund balance, ending		$ 653,350	

The notes to the financial statements are an integral part of this statement.

EXHIBIT 9
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2016

	Private Purpose Trust	Agency
Assets:		
Cash and cash equivalents	$ 31,854	$ 811,382
Investments	245,596	588,664
Total assets	277,450	1,400,046
Liabilities:		
Due to other governmental units	-	1,400,046
Net position:		
Held in trust for specific purposes	$ 277,450	$ -

The notes to the financial statements are an integral part of this statement.

EXHIBIT 10
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2016

	Private Purpose Trust
Additions:	
Investment earnings:	
Interest and dividends	$ 11,246
Net change in fair value of investments	38,951
Total additions	50,197
Deductions:	
Trust distributions	8,975
Change in net position	41,222
Net position, beginning	236,228
Net position, ending	$ 277,450

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

I. Summary of Significant Accounting Principles

I.A. Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the Town of Hillsborough (the Town) are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the Town's financial activities for the year ended December 31, 2016.

I.B. Financial Reporting Entity – Basis of Presentation

I.B.1. *Entity Defined*

The Town of Hillsborough is a municipal corporation governed by a board of selectmen consisting of three members elected by the voters. These financial statements present the financial position and activity of the primary government. Component units are organizations for which the primary government is financially accountable, or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete. Based on the stated criteria, the Town's financial statements do not include any component units.

I.B.2. *Government-Wide and Fund Financial Statements*

Government-Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole, excluding fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges for the Town's services; (2) operating grants and contributions, which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which finance the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and revenue from other sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major governmental funds are reported in separate columns with composite columns for nonmajor funds.

I.B.3. *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The financial statements of the Town are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) except as noted below. The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, except as noted.

The Town has not determined the historical cost value of its capital assets and related accumulated depreciation as required by GAAP. The Town also has not reported its annual cost for post-employment benefits other than pensions (OPEB) or its net OPEB obligation liability, if any, as required by GAAP. The amounts that should be recorded as the annual required contribution and the net OPEB obligation for health and dental insurance on current employees and retirees are unknown.

The government-wide and fiduciary fund financial statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met. The agency funds are custodial in nature and do not measure results of operations.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year, and defers any not received by that date. When calculating fund balance used to set the tax rate, unavailable tax revenues are not deferred in accordance with the instructions of the New Hampshire Department of Revenue Administration. Expenditures are recorded when the related fund liability is incurred, except for general obligation debt principal and interest which are reported as expenditures in the year due. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

Major revenues susceptible to accrual are property taxes, intergovernmental amounts, charges for services, and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

I.B.4. *Fund Types and Major Funds*

Governmental Funds

The Town reports the following major governmental funds:

General Fund – Reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Sewer Department Fund – This special revenue fund accounts for all revenues and expenditures related to the Town's sewage disposal operations.

Permanent Fund – The permanent fund is used to account for financial assets held by the trustees of trust funds, from which only the income, and not principal, is used for supporting Town purposes.

The Town also reports five nonmajor governmental funds.

Fiduciary Funds

The Town reports the following fiduciary funds:

Private Purpose Trust Funds – Account for financial resources of the Town used only for the benefit of other entities or individuals.

Agency Funds – Account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. The Town's agency funds are used to account for performance bonds held in escrow, and amounts held by the trustees of trust funds that belong to the Hillsboro-Deering Cooperative School District and Emerald Lake Village District.

I.C. Assets, Liabilities, and Net Position or Fund Equity

I.C.1. *Cash and Investments*

The laws of the State of New Hampshire require that the Town's treasurer have custody of all monies belonging to the Town**,** other than those held by the trustees of trust funds and library trustees, and pay out the same only upon orders of the Board of Selectmen. The treasurer shall deposit all monies in participation units in the public deposit investment pool established pursuant to N.H. RSA 383.22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge or deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations, or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

Investments are stated at fair value based on quoted market prices.

New Hampshire law authorizes the Town to invest in obligations of the United States government; the public deposit investment pool established pursuant to RSA 383:22; savings bank deposits; prime bankers' acceptances; or certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer.

Any person who directly or indirectly receives any such funds or monies for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

I.C.2. ***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

I.C.3. ***Long-Term Debt***

In the government-wide financial statements, outstanding debt is reported as liabilities. The balance of long-term debt is not reported in the governmental funds.

I.C.4. ***Compensated Absences***

Full-time, permanent employees are granted accrued vacation benefits in varying amounts to specified maximums based on the number of years in employment. Employees are entitled to their accrued leave upon termination.

Eligible employees have the option of being compensated for overtime hours worked by receiving compensatory time at a rate of one and one-half hours granted for each hour of overtime worked. Employees may carry up to forty hours of unused compensatory time into the next calendar year. Employees are entitled to their compensatory time upon termination.

Compensated absences are reported as accrued in the government-wide financial statements. Governmental funds report only matured compensated absences payable to currently terminated employees which are included in wages and benefits expenditures.

I.C.5. *Equity*

The government-wide statement of net position reports net position in the following components:

- Net investment in capital assets, which is computed as the total capital assets less accumulated depreciation, net of outstanding debt used to acquire those assets. Because the Town has not determined the value of its capital assets and related accumulated depreciation, this amount is reported as a negative balance, reflecting only the debt.
- Restricted for endowments, nonexpendable, which consists of the principal balance of the permanent funds that must be permanently invested for Town purposes.
- Restricted for endowments, expendable, which consists of the balance of the permanent funds' income that is allowed to be expended for Town purposes.
- Restricted for other purposes, which consists of the balances of the library fund and project lift fund, whose use is restricted by law.
- Unrestricted, which consists of the remaining balance of net position.

The governmental funds report the following components of fund balance:

- Nonspendable, which consists of endowments in the permanent funds; and prepaid items and tax deeded property held for resale in the general fund, whose resources are in a nonspendable form.
- Restricted, which represents the expendable income from permanent funds and the library's balance, whose use is limited by law.
- Committed, which consists of balances for which the intended use has been established by Town Meeting vote, or by the Board of Selectmen, and would require an equally formal action to remove those commitments.
- Assigned, which consists of balances for which the intended use is established by the Board of Selectmen in the form of encumbrances.
- Unassigned, which represents the remaining fund balance in the General Fund in excess of the nonspendable, restricted, committed and assigned balances.

I.D. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

II. Stewardship, Compliance and Accountability

II.A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Sewer Department Funds, and the nonmajor Water Department Fund. Unless encumbered, all appropriations lapse at year-end. The Town is allowed to use beginning fund balance to balance the budget. In 2016, $25,000 of the General Fund's unassigned fund balance from 2015 was so used, and another $556,945 was voted from surplus.

Encumbrance accounting is employed by the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as commitments or assignments of fund balances and do not constitute expenditures or liabilities because they will be added to the appropriations voted in the subsequent year.

Revenues are budgeted by source. Expenditures are budgeted by functions as follow: general government, public safety, highways and streets, sanitation, water distribution and treatment, health, welfare, culture and recreation, conservation, economic development, debt service, and capital outlay. Management can transfer appropriations among budget line items as necessary, but the total expenditures cannot legally exceed the total appropriations unless permission is received from the Commissioner of Revenue Administration.

(This note continues on the following page.)

II.B. Reconciliation of Budgetary Basis to GAAP

General Fund

Revenues and other financing sources:	
Per Exhibit 7 (budgetary basis)	$ 7,429,801
Adjustments:	
Basis difference:	
Capital lease inception	1,036,706
Tax revenue deferred in the prior year	2,024,495
Tax revenue deferred in the current year	(2,033,503)
Perspective difference:	
Revenue of library fund	27,257
Revenue of project lift fund	95,776
Revenue of expendable trust fund	10,350
Transfer to library fund	4,757
Per Exhibit 5 (GAAP basis)	$ 8,595,639
Expenditures and other financing uses:	
Per Exhibit 7 (budgetary basis)	$ 7,400,718
Adjustments:	
Basis difference:	
Encumbrances, beginning	28,487
Encumbrances, ending	(8,547)
Capital lease inception	1,036,706
Perspective difference:	
Transfers to expendable trust fund	(445,000)
Expenditures of library fund	452,644
Expenditures of project lift fund	73,420
Expenditures from expendable trust fund	355,336
Per Exhibit 5 (GAAP basis)	$ 8,893,764
Unassigned fund balance:	
Per Exhibit 7 (budgetary basis)	$ 2,994,210
Adjustment:	
Basis difference:	
Deferred tax revenue, GAAP basis	(2,033,503)
Per Exhibit 3 (GAAP basis)	$ 960,707

Sewer Department Fund

Revenues and other financing sources:	
Per Exhibit 8 (budgetary basis)	$ 640,314
Adjustment:	
Perspective difference:	
Revenue of expendable trust fund	1,689
Per Exhibit 5 (GAAP basis)	$ 642,003
Committed fund balance:	
Per Exhibit 8 (budgetary basis)	$ 653,350
Adjustment:	
Perspective difference:	
Equity of expendable trust fund reported in Sewer Department Fund	916,989
Per Exhibit 3 (GAAP Basis)	$ 1,570,339

The Permanent Fund is not budgeted.

III. Detailed Notes on Funds and Government-Wide Statements

III.A. Assets

III.A.1. *Cash and Cash Equivalents*

Custodial Credit Risks for Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Town does not have a policy for custodial credit risk. As of December 31, 2016, $4,933,366 of the Town of Hillsborough's bank balances of $8,998,908 was exposed to custodial credit risk as uninsured and uncollateralized.

III.A.2. *Investments*

As of December 31, 2016, the Town's reporting entity had the following investments:

Closed End Funds	$ 1,256,076
Mutual Funds	49,870
Common Stock	226,325
Fixed Income Funds	617,019
Corporate Bonds	102,233
New Hampshire Public Deposit Investment Pool	1,341,581
	$ 3,593,104

The investments appear in the financial statements as follow:

Fund reporting level:	
Governmental funds - balance sheet (Exhibit 3)	$ 2,758,844
Fiduciary funds - statement of fiduciary net position (Exhibit 9)	834,260
Total	$ 3,593,104

Investment Risks

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. New Hampshire law limits investments to those described in Note I.C.1. The Town does not have an investment policy that places any further restrictions on its investment choices.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town does not have an investment policy that addresses limiting interest rate risk.

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Of the Town's $3,593,104 of investments, $1,751,523 has exposure to custodial credit risk because the related securities are uninsured and uncollateralized.

III.A.3. ***Receivables, Uncollectible Accounts and Deferred Revenue***

Property Taxes Receivable and Property Tax Calendar

Property taxes are levied and collected by the Town on a semi-annual basis. Tax bills are due on or around July 1 and December 1, with interest of 12% per annum on all taxes not received by the due date. The first billing is an estimate only based on half of the previous year's billing. The final billing is levied based on an inventory taken in April of each year (the tax year runs from April 1 to March 31), and is assessed after the tax rate has been calculated and set by the New Hampshire Department of Revenue Administration. A lien is executed on any unpaid property taxes in the following year and this lien takes priority over any others. Interest of 18% per annum is charged upon redemption of liened taxes. Properties not redeemed within two years of the date of the tax lien should be deeded to the Town. During the current year, the tax collector executed a lien for uncollected 2015 property taxes on June 17th.

The property taxes levied and collected by the Town include amounts for the State of New Hampshire, the Hillsboro-Deering Cooperative School District, Hillsborough County, and the Emerald Lake Village District. The Town is responsible for the collection of all these taxes. During the annual tax rate setting process, the Town sets an amount for potential abatements and tax deeding, known as overlay. Overlay is raised through taxation and is reported as a reduction in tax revenue.

The net assessed valuation as of April 1, 2016, upon which the 2016 property tax levy was based was:

For the New Hampshire education tax	$ 473,212,273
For all other taxes	$ 510,681,003

The tax rates and amounts assessed for the year ended December 31, 2016 were as follow:

	Per $1,000 of Assessed Valuation	
Municipal portion	$10.09	$ 5,152,908
School portion:		
State of New Hampshire	$2.25	1,062,528
Local	$16.04	8,191,881
County portion	$1.14	583,681
Precinct portion:		
Emerald Lake Village District	$2.46	185,742
Total property taxes assessed		$ 15,176,740

The following details the taxes receivable at year-end:

Property:	
Levy of 2016	$ 1,244,806
Unredeemed (under tax lien):	
Levy of 2015	470,385
Levy of 2014	317,108
Levy of 2013	156,350
Levy of 2012	60,856
Levies of 2011 and prior	152,244
Land use change	4,522
Water liens	54,303
Sewer liens	50,502
Less: allowance for estimated uncollectible taxes	(332,000)
Net taxes receivable	$ 2,179,076

Other Receivables

Significant receivables include the unpaid balances on ambulance service, water and sewer charges, welfare liens and grant reimbursements for the Town's various grant programs. These receivables are reported net of allowances that represent the welfare liens that the Town does not expect to collect, and uncollected ambulance charges over 60 days past due as of year-end. Related amounts are shown in the following table:

Accounts	$	605,668
Intergovernmental		22,422
Liens		24,732
Less: allowance for uncollectible amounts		(78,905)
Net total receivables	$	573,917

Deferred Revenue

Deferred revenue in the General Fund of $2,094,342 at December 31, 2016 represents $2,033,503 of property taxes and liens and $60,163 of ambulance service charges that were not collected within 60 days of year-end, and therefore, are deferred in accordance with generally accepted accounting principles; and $676 of unearned revenue.

Deferred revenue in the Sewer Department and Nonmajor Funds of $1,077 and $111, respectively, represent prepayments of water and sewer rents. They are reported as unearned revenue in the governmental activities, along with the $676 unearned revenue in the General Fund.

III.B. Liabilities

III.B.1. *Intergovernmental Payable*

The amount due to other governments at December 31, 2016 consists of $4,645,975 due to the Hillsboro-Deering Cooperative School District for the balance of the 2016-2017 district assessment, and $92,961 due to the Emerald Lake Village District for the balance of the 2016 district assessment.

III.B.2. *Long-Term Liabilities*

General obligation bonds and notes are approved by the voters and repaid with general revenues (property taxes). These bonds and notes are backed by the full faith and credit of the Town. Long-term liabilities currently outstanding in the governmental activities are as follow:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at 12/31/2016	Current Portion
General obligation bonds payable:						
Water mains	$ 1,792,000	2004	2024	2.5-4.125	$ 699,000	$ 90,000
Fire station	$ 282,000	2004	2024	2.5-4.125	113,000	15,000
Water line	$ 1,200,000	2006	2021	4.3	98,523	98,523
Library	$ 400,000	2010	2026	3.3	275,512	25,139
Loon Pond	$ 240,000	2011	2020	1.79	52,096	12,679
Water filtration (refunded)	$ 1,124,000	2012	2024	2.0-5.0	763,000	99,000
Bible Hill	$ 214,258	2012	2031	1.1	89,418	4,771
Screw pump	$ 800,000	2013	2027	2.75	430,586	53,334
Water filtration	$ 833,389	2015	2035	2.616	813,468	31,248
					3,334,603	429,694
Unamortized bond premium					99,566	12,446
Capital leases payable:						
Grader	$ 335,777	2013	2017	3.2	1	1
Dump truck	$ 186,217	2015	2019	3.2	119,621	38,893
Fire apparatus	$ 850,000	2016	2025	3.05	753,057	73,975
Air packs and filling station	$ 186,706	2016	2020	2.79	147,282	35,315
					1,019,961	148,184
Compensated absences payable:						
Vested earned leave					7,999	-
Accrued vacation leave					146,023	5,952
					154,022	5,952
Accrued landfill postclosure care costs					349,180	17,459
Net pension liability					3,635,288	-
					$ 8,592,620	$ 596,276

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities of the governmental activities for the year ended December 31, 2016:

	General Obligation Bonds and Notes Payable	Unamortized Bond Premium	Capital Leases Payable	Compensated Absences Payable	Accrued Landfill Postclosure Care Costs	Net Pension Liability	Total
Balance, beginning	$ 3,775,777	$ 112,012	$ 229,291	$ 162,762	$ 346,269	$ 2,570,826	$ 7,196,937
Additions	-	-	1,036,706	-	2,911	1,064,462	2,104,079
Reductions	(441,174)	(12,446)	(246,036)	(8,740)	-	-	(708,396)
Balance, ending	$ 3,334,603	$ 99,566	$ 1,019,961	$ 154,022	$ 349,180	$ 3,635,288	$ 8,592,620

Debt Service Requirements to Maturity

The annual debt service requirements to maturity for the bonds and notes outstanding as of year-end are as follow:

Year Ending December 31,	Principal	Interest	Total
2017	$ 429,694	$ 112,261	$ 541,955
2018	332,563	97,542	430,105
2019	334,018	86,123	420,141
2020	329,523	75,434	404,957
2021	317,514	63,665	381,179
2022-2026	1,112,328	149,573	1,261,901
2027-2031	271,345	49,421	320,766
2032-2035	207,618	13,370	220,988
Totals	$ 3,334,603	$ 647,389	$ 3,981,992

The future minimum lease obligations for the capital leases are as follow:

Year Ending December 31,	Principal	Interest	Total
2017	$ 148,184	$ 30,336	$ 178,520
2018	152,485	26,035	178,520
2019	156,645	21,608	178,253
2020	119,307	17,061	136,368
2021	83,422	13,522	96,944
2022-2025	359,918	27,858	387,776
Totals	$ 1,019,961	$ 136,420	$ 1,156,381

Accrued Landfill Postclosure Care Costs

The Town ceased operating its landfill in 1989. State and federal laws and regulations require that the Town continue to perform certain maintenance and monitoring functions at the landfill site for thirty years after the closure. An estimated liability has been recorded based on the future postclosure care costs that will be incurred. The estimated liability for landfill postclosure care costs has a balance of $349,180 as of December 31, 2016. The estimated total current cost of the landfill postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of December 31, 2016. However, the actual costs of postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations.

III.C. Balances and Transfers – Payments Within the Reporting Entity

III.C.1. *Receivables and Payables*

Generally, outstanding balances between funds reported as "interfund receivables/payables" include outstanding charges by one fund to another for goods or services, subsidy commitments outstanding at year-end, or other miscellaneous amounts. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is also reported as "interfund receivables/payables."

The following schedule reports interfund receivables and payables within the reporting entity at year-end:

Receivable fund	Payable fund	Amount
General	Sewer department	$ 3,987
General	Permanent	72,955
General	Nonmajor	8,822
Nonmajor	General	8,875
		$ 94,639

The amount due to the general fund from the sewer department fund represents reimbursement of payroll charges. The amount due to the general fund from the permanent fund represents interest earned on trust funds that will be paid over in the next year for town purposes. The amount due to the general fund from the nonmajor funds represents overdrafts of pooled cash. The amount due to the nonmajor funds from the general fund represents unspent conservation appropriations.

III.C.2. *Transfers*

Transfers within the reporting entity are substantially for the purposes of distributing taxes to the fund for which the appropriation was made, and distributing trust income and certain voted amounts to the applicable fund. The government-wide statement of activities eliminates transfers reported within the governmental activities columns.

The following schedule reports transfers within the reporting entity:

	Transfers In:		
	General Fund	Nonmajor Funds	Total
Transfers out:			
General fund	$ -	$ 790	$ 790
Permanent fund	29,276	-	29,276
	$ 29,276	$ 790	$ 30,066

The amount transferred to the nonmajor funds from the general fund represents the unspent balance of the conservation appropriation. The amount transferred to the general fund from the permanent fund represents income earned.

III.D. Restatement of Beginning Equity

Equity in the governmental activities at January 1, 2016 was restated to reflect the following adjustment:

To report additional long-term debt payable	$ (625,042)
Net position, as previously reported	2,834,905
Net position, as restated	$ 2,209,863

III.E. Fund Equity

The components of fund balance, as described in Note I.C.5., are classified for the following purposes:

	General Fund	Sewer Department Fund	Permanent Fund	Nonmajor Funds
Nonspendable:				
Endowments	$ -	$ -	$ 1,147,299	$ -
Prepaid items	6,084	-	-	-
Tax deeded property	404,508	-	-	-
Total nonspendable	410,592	-	1,147,299	-
Restricted:				
General government	-	-	300,420	-
Culture and recreation	543,547	-	-	-
Total restricted	543,547	-	300,420	-
Committed:				
Public safety	-	-	-	20,975
Sanitation	-	653,350	-	-
Water distribution and treatment	-	-	-	789,925
Culture and recreation	-	-	-	3,029
Conservation	-	-	-	100,600
Capital outlay	627,183	916,989	-	505,051
Total committed	627,183	1,570,339	-	1,419,580
Assigned for conservation	2,825	-	-	-
Unassigned	960,707	-	-	-
Total fund balance	$ 2,544,854	$ 1,570,339	$ 1,447,719	$ 1,419,580

IV. Other Information

IV.A. Risk Management

The Town's risk management activities are reported with governmental activities and recorded in the general fund. During the fiscal year, the Town was a member of the NH Public Risk Management Exchange (Primex), which is organized to provide certain property and liability protection to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of Primex, the Town shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from January 1 through December 31 for property/liability and workers' compensation.

Contributions paid in 2016 to be recorded as an insurance expenditure/expense totaled $42,562 for property/liability. There were no unpaid contributions. The Town paid $27,906 for workers' compensation for the year ended December 31, 2016. The trust agreement permits the Primex to make additional assessments to members should there be a deficiency in trust assets to meet its liabilities. At this time, the Town foresees no likelihood of any additional assessments for past years.

IV.B. Retirement Pensions

General Information about the Pension Plan

The New Hampshire Retirement System (NHRS) is a multiple-employer, cost-sharing, contributory public employee defined benefit plan qualified under section 401(a) of the Internal Revenue Code, and funded through a trust which is exempt from tax under Internal Revenue Code section 501(a). The NHRS provides service, disability, death and vested retirement benefits for employees and their beneficiaries. The New Hampshire Legislature establishes the provisions for benefits and contributions. The NHRS issues a separate financial report that is available at www.nhrs.org or by contacting the NHRS at 54 Regional Drive, Concord, NH 03301.

Both the members and the Town make contributions to the NHRS. Member rates of contribution are set by the Legislature. Employer rates are determined by the NHRS trustees based on an actuarial valuation. The rates of contribution for police officers and fire employees are 11.55% and 11.80%, respectively, of gross earnings. The rates of contribution for pension and the medical subsidy from the Town were 26.38% for police officers and 29.16% for fire employees. The rates are actuarially determined to generate an amount, that when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions from the Town during the years 2014, 2015 and 2016 were $253,083, $275,436 and $291,317, respectively. The amounts are paid on a monthly basis as due.

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

At December 31, 2016, the Town reported a liability of $3,635,288 for its proportionate share of the net pension liability. The net pension liability is based upon the June 30, 2015 actuarial valuation, rolled forward to determine the net pension liability as of June 30, 2016. The roll-forward of the total pension liability from June 30, 2015 to June 30, 2016 reflects expected service and interest costs reduced by actual benefit payments, refunds, and administrative expenses for the plan year. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating municipalities and school districts, actuarially determined. As of June 30, 2016, the Town's proportion was 0.0684%, which was an increase of 0.0035% from its proportion measured as of June 30, 2015.

For 2016, the Town recognized pension expense of $291,317. At year-end, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 226,379	$ -
Net differences between projected and actual earnings on pension plan investments	227,442	-
Differences between expected and actual experience	10,102	45,905
Changes in assumptions	447,388	-
Town contributions subsequent to the measurement date	153,865	-
	$ 1,065,176	$ 45,905

The Town reported $153,865 as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the following year.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follow:

Year Ended June 30,	
2017	$ 190,299
2018	190,299
2019	265,831
2020	208,428
2021	10,549
	$ 865,406

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	5.6% average, including inflation
Investment rate of return	7.25% per year

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period of July 1, 2010 to June 30, 2015.

Mortality rates were based on the RP-2014 Mortality Table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of net pension liability	$ 4,671,098	$ 3,635,288	$ 2,776,249

Other actuarial assumptions, as well as detailed information about the pension plan's fiduciary net position, are available in the separately issued NHRS report.

IV.C. Contingent Liabilities

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 11
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of the Net Pension Liability
New Hampshire Retirement System

For the year ended December 31,	Town's proportion of net pension liability	Town's proportionate share of the net pension liability	Town's covered-employee payroll	Town's proportionate share of the net pension liablity as a percentage of covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2014	0.0624%	$ 2,341,255	$ 993,250	235.72%	66.3%
2015	0.0649%	$ 2,570,826	$ 1,057,030	243.21%	65.5%
2016	0.0684%	$ 3,635,288	$ 1,096,405	331.56%	58.3%

The note to the required supplementary information is an integral part of this statement.

EXHIBIT 12
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of the Town's Pension Contributions
New Hampshire Retirement System

For the year ended December 31,	Contractually required contribution	Contribution in relation to the contractually required contribution	Contribution deficiency	Town's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2014	$ 253,083	$ (253,083)	$ -	$ 993,250	25.48%
2015	$ 275,436	$ (275,436)	$ -	$ 1,057,030	26.06%
2016	$ 291,317	$ (291,317)	$ -	$ 1,096,405	26.57%

The note to the required supplementary information is an integral part of this statement.

TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

The schedule of the Town's Proportionate Share of the Net Pension Liability and the Schedule of the Town's Pension Contributions are meant to present related information for ten years. Because this is the second year that the Town has presented the pension schedules, only three years are presented. An additional year's information will be added each year until there are ten years shown.

COMBINING NONMAJOR GOVERNMENTAL AND INDIVIDUAL GENERAL FUND SCHEDULES

EXHIBIT 13
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2016

	Special Revenue Funds					
	Police Detail	Parks and Recreation Revolving	Conservation Commission	Water Department	Youth Services	Total
ASSETS						
Cash and cash equivalents	$ 6,647	$ 3,029	$ -	$ 627,397	$ 12,729	$ 649,802
Investments	-	-	99,560	442,579	-	542,139
Accounts receivable	9,235	-	-	223,638	-	232,873
Interfund receivable	-	-	1,040	7,835	-	8,875
Total assets	$ 15,882	$ 3,029	$ 100,600	$ 1,301,449	$ 12,729	$ 1,433,689
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable	$ -	$ -	$ -	$ 4,684	$ -	$ 4,684
Accrued salaries and benefits	-	-	-	492	-	492
Interfund payable	7,142	-	-	1,186	494	8,822
Total liabilities	7,142	-	-	6,362	495	13,998
Deferred inflows of resources:						
Deferred revenue	-	-	-	111	-	111
Fund balances:						
Committed	8,740	3,029	100,600	1,294,976	12,235	1,419,580
Total liabilities, deferred inflows of resources, and fund balances	$ 15,882	$ 3,029	$ 100,600	$ 1,301,449	$ 12,729	$ 1,433,689

EXHIBIT 14
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2016

	Special Revenue Funds					
	Police Detail	Parks and Recreation Revolving	Conservation Commission	Water Department	Youth Services	Total
REVENUES						
Taxes	$ -	$ -	$ 250	$ -	$ -	$ 250
Intergovernmental	-	-	-	23,801	-	23,801
Charges for services	27,773	10,479	-	710,078	-	748,330
Miscellaneous	4	-	472	4,550	2,043	7,069
Total revenues	27,777	10,479	722	738,429	2,043	779,450
EXPENDITURES						
Current:						
Public safety	22,111	-	-	-	-	22,111
Water distribution and treatment	-	-	-	243,169	-	243,169
Culture and recreation	-	9,982	-	-	5,185	15,167
Debt service:						
Principal	-	-	-	278,366	-	278,366
Interest	-	-	-	97,335	-	97,335
Capital outlay	-	-	-	5,650	-	5,650
Total expenditures	22,111	9,982	-	624,520	5,185	661,798
Excess (deficiency) of revenues over (under) expenditures	5,666	497	722	113,909	(3,142)	117,652
Other financing sources:						
Transfers in	-	-	790	-	-	790
Net change in fund balances	5,666	497	1,512	113,909	(3,142)	118,442
Fund balances, beginning	3,074	2,532	99,088	1,181,067	15,377	1,301,138
Fund balances, ending	$ 8,740	$ 3,029	$ 100,600	$ 1,294,976	$ 12,235	$ 1,419,580

EXHIBIT 15
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2016

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	$ 4,931,928	$ 4,916,224	$ (15,704)
Land use change	-	250	250
Timber	13,500	23,563	10,063
Excavation	1,365	1,401	36
Payments in lieu of taxes	1,334	1,353	19
Interest and penalties on delinquent taxes	255,000	255,076	76
Total taxes	5,203,127	5,197,867	(5,260)
Licenses, permits and fees:			
Business licenses and permits	700	660	(40)
Motor vehicle permits	841,000	910,682	69,682
Building permits	30,000	32,843	2,843
Other	5,000	4,344	(656)
Total licenses, permits and fees	876,700	948,529	71,829
Intergovernmental:			
State sources:			
Meals and rooms distributions	307,930	307,930	-
Highway block grant	174,650	174,650	-
State and federal forest land	1,604	1,604	-
Water filtration grant	15,500	11,900	(3,600)
Other government sources	19,278	19,278	-
Total intergovernmental	518,962	515,362	(3,600)
Charges for services:			
Income from departments	575,000	679,810	104,810
Miscellaneous:			
Sale of property	28,000	13,854	(14,146)
Interest on investments	23,500	24,494	994
Rent of property	-	4,246	4,246
Fines and forfeits	-	632	632
Insurance dividends and reimbursements	-	7,673	7,673
Other	18,000	12,815	(5,185)
Total miscellaneous	69,500	63,714	(5,786)
Other financing sources:			
Transfers in:			
Nonmajor funds	2,500	24,519	22,019
Total revenues and other financing sources	7,245,789	$ 7,429,801	$ 184,012
Use of fund balance	581,945		
Total revenues, other financing sources and use of fund balance	$ 7,827,734		

EXHIBIT 16
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2016

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	$ -	$ 397,007	$ 407,458	$ -	$ (10,451)
Election and registration	-	9,880	11,977	-	(2,097)
Financial administration	-	190,695	189,324	-	1,371
Revaluation of property	-	65,000	62,031	-	2,969
Legal	-	11,000	7,090	-	3,910
Planning and zoning	7,650	108,447	114,076	-	2,021
General government buildings	-	56,452	57,778	-	(1,326)
Cemeteries	-	32,800	27,106	-	5,694
Insurance, not otherwise allocated	-	192,500	160,957	-	31,543
Other	-	2,002	3,272	-	(1,270)
Total general government	7,650	1,065,783	1,041,069	-	32,364
Public safety:					
Police	-	1,956,391	1,917,143	-	39,248
Fire	-	652,111	587,135	-	64,976
Building inspection	-	58,134	59,993	-	(1,859)
Emergency management	-	11,615	9,754	-	1,861
Other	-	613,749	579,139	-	34,610
Total public safety	-	3,292,000	3,153,164	-	138,836
Highways and streets:					
Highways and streets	-	1,440,451	1,300,550	-	139,901
Street lighting	-	52,500	54,568	-	(2,068)
Total highways and streets	-	1,492,951	1,355,118	-	137,833
Sanitation:					
Solid waste disposal	-	530,283	485,283	-	45,000
Health:					
Pest control	-	16,316	12,329	-	3,987
Health agencies and hospitals	-	4,000	4,000	-	-
Total health	-	20,316	16,329	-	3,987
Welfare:					
Administration and direct assistance	-	174,256	145,465	-	28,791

(continued)

EXHIBIT 16 (continued)
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2016

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Culture and recreation:					
Parks and recreation	-	180,103	183,554	-	(3,451)
Public library	-	216,208	213,262	-	2,946
Patriotic purposes	-	17,531	16,895	-	636
Other	-	27,700	21,851	-	5,849
Total culture and recreation	-	441,542	435,562	-	5,980
Conservation	-	11,089	8,264	2,825	-
Debt service:					
Principal	-	98,125	98,640	-	(515)
Interest on long-term debt	-	39,710	27,392	-	12,318
Interest on tax anticipation note	-	5,000	-	-	5,000
Total debt service	-	142,835	126,032	-	16,803
Capital outlay:					
Machinery, vehicles and equipment	9,000	210,889	202,468	-	17,421
Improvements other than buildings	11,837	-	6,114	5,722	1
Total capital outlay	20,837	210,889	208,582	5,722	17,422
Other financing uses:					
Transfers out:					
Expendable trust funds	-	445,000	445,000	-	-
Nonmajor funds	-	790	790	-	-
Total other financing uses	-	445,790	445,790	-	-
Total encumbrances, appropriations, expenditures and other financing uses	$ 28,487	$ 7,827,734	$ 7,420,658	$ 8,547	$ 427,016

EXHIBIT 17
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2016

Unassigned fund balance, beginning		$ 2,906,341
Changes:		
Unassigned fund balance used to reduce tax rate		(25,000)
Unassigned fund balance voted for appropriations		(556,945)
Budget summary:		
Revenue surplus (Exhibit 15)	$ 184,012	
Unexpended balance of appropriations (Exhibit 16)	427,016	
Budget surplus		611,028
Decrease in nonspendable fund balance		58,063
Decrease in restricted fund balance		723
Unassigned fund balance, ending		$ 2,994,210

Roberts & Greene, PLLC

INDEPENDENT AUDITOR'S COMMUNICATION TO MANAGEMENT

To the Members of the Board of Selectmen
Town of Hillsborough
Hillsborough, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hillsborough as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We do want to discuss the following other matters:

Tax Deeded Property

The Town does not maintain adequate records of tax deeded property held for resale. The Town should maintain a listing of property taken through the tax deeding process, which should include the amount of taxes owed at the time of the tax deed. This will allow for the proper recording of revenues or the reduction of assets for any future sales of tax deeded property.

Capital Asset and Capital Asset Policy

The Town has not recorded its capital assets and accumulated depreciation, as required by generally accepted accounting principles. We recommend that the Town develop a capital asset policy that addresses the dollar limit for capitalization, useful lives by asset category, safeguarding of assets, and procedures over the inventorying and recording of capital assets, including the ongoing monitoring and evaluation of useful lives of existing assets. After adopting a policy on capital assets, we recommend that the Town work to compile a listing of its existing capital assets at historical cost.

This communication is intended solely for the information and use of management, the Board of Selectmen and others within the Town of Hillsborough, and is not intended to be, and should not be, used by anyone other than these specified parties.

Roberts & Greene, PLLC

Concord, New Hampshire
October 30, 2017

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