TOWN OF HILLSBOROUGH, NEW HAMPSHIRE

FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2017

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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, 2017, 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., management has not recorded its 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 depreciated, which would increase the

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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, 2017, 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.

Other Opinions

Also, 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, 2017, 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 24, 2018

Roberts & Greene, PLLC

BASIC FINANCIAL STATEMENTS

EXHIBIT 1
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Position
December 31, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 8,855,240
Investments	2,863,432
Intergovernmental receivable	20,580
Other receivables, net of allowance for uncollectibles	2,901,589
Prepaid items	71,820
Tax deeded property held for resale	516,499
Total assets	15,229,160
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts related to pensions	790,552
LIABILITIES	
Accounts payable	278,843
Accrued payroll and benefits	85,373
Accrued interest payable	56,907
Intergovernmental payable	5,337,889
Performance and escrow deposits	29,833
Other current liabilities	108
Noncurrent obligations:	
Due within one year:	
Bonds and notes payable	332,563
Unamortized bond premium	12,446
Capital leases payable	194,628
Compensated absences payable	5,968
Accrued landfill postclosure care costs	20,329
Due in more than one year:	
Bonds and notes payable	2,572,346
Unamortized bond premium	74,674
Capital leases payable	853,697
Compensated absences payable	157,669
Accrued landfill postclosure care costs	589,541
Net pension liability	3,502,638
Total liabilities	14,105,452
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	119,839
Deferred amounts related to pensions	89,187
Total deferred inflows of resources	209,026
NET POSITION	
Net investment in capital assets	(3,853,939)
Restricted for:	
Endowments:	
Nonexpendable	1,435,997
Expendable	120,428
Other purposes	658,443
Unrestricted	3,344,305
Total net position	$ 1,705,234

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, 2017

		Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental activities:					
General government	$ 1,043,939	$ 8,550	$ 172,430	$ -	$ (862,959)
Public safety	3,602,022	431,318	14,511	-	(3,156,193)
Highways and streets	1,182,986	-	-	324,025	(858,961)
Sanitation	1,239,033	890,683	107,333	-	(241,017)
Water distribution and treatment	219,353	706,591	15,021	-	502,259
Health	11,988	-	-	-	(11,988)
Welfare	167,441	-	-	-	(167,441)
Culture and recreation	563,266	39,897	-	-	(523,369)
Conservation	8,069	3,375	9,649	-	4,955
Interest on long-term debt	95,975	-	-	-	(95,975)
Capital outlay	1,021,027	-	-	-	(1,021,027)
Total governmental activities	$ 9,155,099	$ 2,080,414	$ 318,944	$ 324,025	(6,431,716)

General revenues:	
Property taxes	4,853,825
Other taxes	266,422
Licenses and permits	976,105
Grants and contributions not restricted to specific programs	309,619
Miscellaneous	90,804
Total general revenues	6,496,775
Change in net position	65,059
Net position, beginning	1,640,175
Net position, ending	$ 1,705,234

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, 2017

	General	Sewer Department	Permanent	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 6,794,889	$ 1,199,343	$ 72,045	$ 788,963	$ 8,855,240
Investments	455,360	293,460	1,566,393	548,219	2,863,432
Receivables, net of allowance for uncollectibles:					
Taxes	2,220,817	-	-	-	2,220,817
Accounts	81,804	196,946	-	215,607	494,357
Intergovernmental	20,580	-	-	-	20,580
Interfund receivable	94,179	270	-	3,497	97,946
Prepaid items	71,820	-	-	-	71,820
Tax deeded property held for resale	516,499	-	-	-	516,499
Total assets	$ 10,255,948	$ 1,690,019	$ 1,638,438	$ 1,556,286	$ 15,140,691
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 269,783	$ 4,594	$ -	$ 4,466	$ 278,843
Accrued salaries and benefits	84,816	-	-	557	85,373
Intergovernmental payable	5,337,889	-	-	-	5,337,889
Interfund payable	3,461	6,142	82,012	6,331	97,946
Escrow and performance deposits	25,744	4,089	-	-	29,833
Other current liabilities	108	-	-	-	108
Total liabilities	5,721,801	15,709	82,012	11,354	5,829,992
Deferred inflows of resources:					
Deferred revenue	2,311,515	884	-	341	2,312,740
Fund balances:					
Nonspendable	588,319	-	1,435,997	-	2,024,316
Restricted	658,443	-	120,429	-	778,872
Committed	910,770	1,674,310	-	1,544,591	4,129,671
Assigned	4,750	-	-	-	4,750
Unassigned	60,350	-	-	-	60,350
Total fund balances	2,222,632	1,674,310	1,556,426	1,544,591	6,997,959
Total liabilities, deferred inflows of resources, and fund balances	$ 10,255,948	$ 1,690,019	$ 1,638,438	$ 1,556,286	$ 15,140,691

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, 2017

Total fund balances of governmental funds (Exhibit 3)		$ 6,997,959
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	$ (97,946)	
Payables	97,946	
		-
Revenues that are not available to pay for current period expenditures are deferred in the funds.		
Deferred tax revenue	$ 2,147,262	
Deferred ambulance revenue	45,639	
		2,192,901
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(56,907)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds and notes outstanding	$ 2,904,909	
Unamortized loan forgiveness	(186,415)	
Unamortized bond premium	87,120	
Capital leases outstanding	1,048,325	
Compensated absences payable	163,637	
Accrued landfill postclosure care costs	609,870	
Net pension liability	3,502,638	
		(8,130,084)
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	$ 790,552	
Deferred inflows of resources related to pensions	(89,187)	
		701,365
Total net position of governmental activities (Exhibit 1)		$ 1,705,234

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, 2017

	General	Sewer Department	Permanent	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 5,004,488	$ -	$ -	$ 2,000	$ 5,006,488
Licenses, permits and fees	976,105	-	-	-	976,105
Intergovernmental	755,282	-	-	2,500	757,782
Charges for services	744,736	630,542	-	719,660	2,094,938
Miscellaneous	77,945	4,917	194,806	7,942	285,610
Total revenues	7,558,556	635,459	194,806	732,102	9,120,923
Expenditures:					
Current:					
General government	1,044,423	-	1,200	-	1,045,623
Public safety	3,454,486	-	12,300	15,020	3,481,806
Highways and streets	1,218,426	-	-	-	1,218,426
Sanitation	542,752	437,085	-	-	979,837
Water distribution and treatment	-	-	-	219,047	219,047
Health	11,988	-	-	-	11,988
Welfare	167,343	-	-	-	167,343
Culture and recreation	550,242	-	7,007	6,017	563,266
Conservation	8,069	-	-	-	8,069
Debt service:					
Principal	73,145	53,333	-	291,698	418,176
Interest	23,846	11,465	-	76,769	112,080
Capital outlay	1,074,336	29,605	-	-	1,103,941
Total expenditures	8,169,056	531,488	20,507	608,551	9,329,602
Excess (deficiency) of revenues over (under) expenditures	(610,500)	103,971	174,299	123,551	(208,679)
Other financing sources (uses):					
Transfers in	65,592	-	-	1,461	67,053
Transfers out	(1,461)	-	(65,592)	-	(67,053)
Inception of capital lease	224,147	-	-	-	224,147
Total other financing sources and uses	288,278	-	(65,592)	1,461	224,147
Net change in fund balances	(322,222)	103,971	108,707	125,012	15,468
Fund balances, beginning	2,544,854	1,570,339	1,447,719	1,419,579	6,982,491
Fund balances, ending	$ 2,222,632	$ 1,674,310	$ 1,556,426	$ 1,544,591	$ 6,997,959

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, 2017

Net change in fund balances of governmental funds (Exhibit 5)		$ 15,468
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	$ (67,053)	
Transfers out	67,053	
		-
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	$ 113,759	
Change in deferred ambulance revenue	(14,524)	
		99,235
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 lease	$ (224,147)	
Repayment of bond and note principal	418,728	
Amortization of bond premium	12,446	
Repayment of capital lease principal	195,783	
		402,810
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.		
Decrease in accrued interest expense	$ 3,107	
Increase in compensated absences payable	(9,615)	
Increase in accrued landfill postclosure care costs	(260,690)	
		(267,198)
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	$ 320,383	
Cost of benefits earned, net of employee contributions	(505,639)	
		(185,256)
Change in net position of governmental activities (Exhibit 2)		$ 65,059

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, 2017

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	$ 5,264,883	$ 5,118,247	$ (146,636)
Licenses, permits and fees	925,400	976,105	50,705
Intergovernmental	1,253,738	660,404	(593,334)
Charges for services	625,000	744,736	119,736
Miscellaneous	88,000	53,358	(34,642)
Total revenues	8,157,021	7,552,850	(604,171)
EXPENDITURES			
Current:			
General government	1,074,237	1,044,423	29,814
Public safety	3,508,313	3,454,486	53,827
Highways and streets	1,351,114	1,367,708	(16,594)
Sanitation	539,611	542,752	(3,141)
Health	18,009	11,988	6,021
Welfare	176,464	167,343	9,121
Culture and recreation	441,877	447,864	(5,987)
Conservation	11,454	9,994	1,460
Debt service:			
Principal	73,139	73,145	(6)
Interest on long-term debt	21,594	23,846	(2,252)
Interest on tax anticipation note	3,000	-	3,000
Capital outlay	1,143,956	582,140	561,816
Total expenditures	8,362,768	7,725,689	637,079
Deficiency of revenues under expenditures	(205,747)	(172,839)	32,908
Other financing sources (uses):			
Transfers in	67,500	150,429	82,929
Transfers out	(585,000)	(586,461)	(1,461)
Total other financing sources and uses	(517,500)	(436,032)	81,468
Net change in fund balance	$ (723,247)	(608,871)	$ 114,376
Increase in nonspendable fund balance		(177,727)	
Unassigned fund balance, beginning		2,994,210	
Unassigned fund balance, ending		$ 2,207,612	

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, 2017

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Charges for services	$ 680,354	$ 630,542	$ (49,812)
Miscellaneous	-	3,074	3,074
Total revenues	680,354	633,616	(46,738)
EXPENDITURES			
Current:			
Sanitation	515,520	437,085	78,435
Debt service:			
Principal	53,334	53,333	1
Interest	11,500	11,465	35
Capital outlay	-	29,605	(29,605)
Total expenditures	580,354	531,488	48,866
Excess of revenues over expenditures	100,000	102,128	2,128
Other financing sources:			
Transfers in	-	29,605	29,605
Transfers out	(100,000)	(100,000)	-
Total other financing sources and uses	(100,000)	(70,395)	29,605
Net change in fund balance	$ -	31,733	$ 31,733
Fund balance, beginning		653,350	
Fund balance, ending		$ 685,083	

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, 2017

	Private Purpose Trust	Agency
Assets:		
Cash and cash equivalents	$ 38,651	$ 1,121,896
Investments	269,757	605,947
Total assets	308,408	1,727,843
Liabilities:		
Due to other governmental units	-	1,727,843
Net position:		
Held in trust for specific purposes	$ 308,408	$ -

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, 2017

	Private Purpose Trust
Additions:	
Investment earnings:	
Interest and dividends	11,406
Net change in fair value of investments	28,527
Total additions	39,933
Deductions:	
Trust distributions	8,975
Change in net position	30,958
Net position, beginning	277,450
Net position, ending	$ 308,408

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, 2017.

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 reported its capital assets because it 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 – Reports as a special revenue fund and accounts for all revenues and expenditures related to the Town's sewage disposal operations.

Permanent Fund – 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 2017, $25,000 of the General Fund's unassigned fund balance from 2016 was so used, and another $698,247 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, 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)	$ 7,703,279
Adjustments:	
Basis difference:	
Capital lease inception	224,147
Tax revenue deferred in the prior year	2,033,503
Tax revenue deferred in the current year	(2,147,262)
Perspective difference:	
Revenue of library fund	20,658
Revenue of project lift fund	96,897
Revenue of expendable trust fund	1,910
Transfers from expendable trust fund	(35,274)
Transfers from library fund	(54,444)
Transfers to library fund	4,881
Per Exhibit 5 (GAAP basis)	$ 7,848,295
Expenditures and other financing uses:	
Per Exhibit 7 (budgetary basis)	$ 8,312,150
Adjustments:	
Basis difference:	
Encumbrances, beginning	8,547
Encumbrances, ending	(356,723)
Capital lease inception	224,147
Perspective difference:	
Transfers to expendable trust fund	(585,000)
Expenditures from library fund	13,418
Expenditures from project lift fund	88,960
Expenditures from expendable trust fund	465,018
Per Exhibit 5 (GAAP basis)	$ 8,170,517
Unassigned fund balance:	
Per Exhibit 7 (budgetary basis)	$ 2,207,612
Adjustment:	
Basis difference:	
Deferred tax revenue, GAAP basis	(2,147,262)
Per Exhibit 3 (GAAP basis)	$ 60,350

Sewer Department Fund

Revenues and other financing sources:		
Per Exhibit 8 (budgetary basis)	$	663,221
Adjustments:		
Perspective difference:		
Revenue of expendable trust fund		1,843
Transfer from expendable trust fund		(29,605)
Per Exhibit 5 (GAAP basis)	$	635,459
Expenditures and other financing uses:		
Per Exhibit 8 (budgetary basis)	$	631,488
Adjustment:		
Perspective difference:		
Transfer to expendable trust fund		(100,000)
Per Exhibit 5 (GAAP basis)	$	531,488
Committed fund balance:		
Per Exhibit 8 (budgetary basis)	$	685,083
Adjustment:		
Perspective difference:		
Equity of expendable trust fund reported in Sewer Department Fund		989,227
Per Exhibit 3 (GAAP Basis)	$	1,674,310

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, 2017, $5,183,775 of the Town of Hillsborough's bank balances of $9,977,819 was exposed to custodial credit risk as uninsured and uncollateralized.

III.A.2. *Investments*

As of December 31, 2017, the Town's reporting entity had the following investments:

Closed End Funds	$ 1,264,899
Mutual Funds	100,108
Common Stock	252,664
Fixed Income Funds	720,768
Corporate Bonds	103,659
New Hampshire Public Deposit Investment Pool	1,297,038
	$ 3,739,136

The investments appear in the financial statements as follow:

Fund reporting level:	
Governmental funds - balance sheet (Exhibit 3)	$ 2,863,432
Fiduciary funds - statement of fiduciary net position (Exhibit 9)	875,704
Total	$ 3,739,136

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. The Town's credit rating quality of investments as of December 31, 2017 is as follows:

	Fair Value
Baa2	$ 58,409
B2	45,250
Not rated	2,338,439
Exempt from disclosure	1,297,038
	$ 3,739,136

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. The Town's sensitivity of the fair value of the Town's investments to market interest rate fluctuations is as follows:

		Investment maturities (in years)	
	Fair Value	5 to 10	10 to 15
Corporate bonds	$ 103,659	$ 58,409	$ 45,250

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have an investment policy that addresses concentration of credit risk. As of December 31, 2017, the Town had $562,285 invested in iShares Select Dividend ETF, $280,597 invested in Peyto Exploration & Development Corp, $197,904 in SPDR Dow Jones Industrial Average ETF, and $188,783 invested in iShares IBoxx Investment Grade Corporate Bond Fund, representing 15.04%, 7.5%, 5.29%, and 5.05%, respectively, of its total investments.

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 $3,739,136 of investments, $2,341,989 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 2017 property taxes on June 27th.

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, 2017, upon which the 2017 property tax levy was based was:

For the New Hampshire education tax	$ 483,158,377
For all other taxes	$ 521,218,307

The tax rates and amounts assessed for the year ended December 31, 2017 were as follow:

	Per $1,000 of Assessed Valuation	
Municipal portion	$10.09	$ 5,260,246
School portion:		
State of New Hampshire	$2.08	1,005,774
Local	$17.13	8,928,955
County portion	$1.17	607,382
Precinct portion:		
Emerald Lake Village District	$2.83	218,866
Total property taxes assessed		$ 16,021,223

The following details the taxes receivable at year-end:

Property:	
Levy of 2017	$ 1,289,949
Unredeemed (under tax lien):	
Levy of 2016	491,722
Levy of 2015	325,152
Levy of 2014	144,752
Levy of 2013	82,202
Levies of 2012 and prior	182,377
Land use change	792
Excavation	602
Water liens	51,361
Sewer liens	47,908
Less: allowance for estimated uncollectible taxes	(396,000)
Net taxes receivable	$ 2,220,817

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	$ 661,292
Intergovernmental	20,580
Less: allowance for uncollectible amounts	(166,935)
Net total receivables	$ 514,937

Deferred Revenue

Deferred revenue in the General Fund of $2,311,515 at December 31, 2017 represents $2,147,262 of property taxes and liens and $45,639 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, $117,930 in prepayments of taxes, and $684 of miscellaneous items. In the governmental activities, the prepayments and miscellaneous amounts are reported as unearned revenue.

Deferred revenue in the Sewer Department and Nonmajor Funds of $884 and $341, respectively, represent prepayments of water and sewer rents. They are reported as unearned revenue in the governmental activities.

III.B. Liabilities

III.B.1. *Intergovernmental Payable*

The amount due to other governments at December 31, 2017 consists of $5,210,336 due to the Hillsboro-Deering Cooperative School District for the balance of the 2017-2018 district assessment, and $127,553 due to the Emerald Lake Village District for the balance of the 2017 district assessment.

The notes continue on the next page

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 12/31/2017	Current Portion
General obligation bonds/notes payable:						
Water mains	$ 1,792,000	2004	2024	2.5-4.125	$ 609,000	$ 90,000
Fire station	$ 282,000	2004	2024	2.5-4.125	98,000	15,000
Library	$ 400,000	2010	2026	3.3	250,373	25,975
Loon Pond	$ 240,000	2011	2020	1.79	39,417	12,907
Water filtration (refunded)	$ 1,124,000	2012	2024	2.0-5.0	664,000	98,000
Bible Hill	$ 214,258	2012	2031	1.1	84,647	4,919
Screw pump	$ 800,000	2013	2027	2.75	377,252	53,333
Water filtration	$ 833,389	2015	2035	2.616	782,220	32,429
					2,904,909	332,563
Unamortized bond premium					87,120	12,446
Capital leases payable:						
Dump truck	$ 186,217	2015	2019	3.2	80,728	39,953
Fire apparatus	$ 850,000	2016	2025	3.05	679,082	76,232
Air packs and filling station	$ 186,706	2016	2020	2.79	111,967	36,300
Highway truck	$ 224,147	2017	2021	3.09	176,548	42,143
					1,048,325	194,628
Compensated absences payable:						
Vested earned leave					10,881	-
Accrued vacation leave					152,756	5,968
					163,637	5,968
Accrued landfill postclosure care costs					609,870	20,329
Net pension liability					3,502,638	-
					$ 8,316,499	$ 565,934

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, 2017:

	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	$ 3,334,603	$ 99,566	$ 1,019,961	$ 154,022	$ 349,180	$ 3,635,288	$ 8,592,620
Additions	-	-	224,147	9,615	260,690	-	494,452
Reductions	(429,694)	(12,446)	(195,783)	-	-	(132,650)	(770,573)
Balance, ending	$ 2,904,909	$ 87,120	$ 1,048,325	$ 163,637	$ 609,870	$ 3,502,638	$ 8,316,499

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
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	318,925	51,935	370,860
2023-2027	844,224	110,335	954,559
2028-2032	272,632	42,155	314,787
2033-2035	155,510	7,939	163,449
Totals	$ 2,904,909	$ 535,128	$ 3,440,037

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

Year Ending December 31,	Principal	Interest	Total
2018	$ 194,628	$ 31,490	$ 226,118
2019	200,090	25,761	225,851
2020	164,095	19,872	183,967
2021	129,594	14,949	144,543
2022	85,966	10,978	96,944
2023-2025	273,952	16,880	290,832
Totals	$ 1,048,325	$ 119,930	$ 1,168,255

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 $609,870 as of December 31, 2017. 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, 2017. 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	$ 6,106
General	Permanent	82,012
General	Nonmajor	6,061
Sewer Department	Nonmajor	270
Nonmajor	General	3,461
Nonmajor	Sewer Department	36
		$ 97,946

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. The amount due from the sewer department fund to the nonmajor fund, and from the nonmajor fund to the sewer department fund represent cash receipts deposited into the wrong accounts.

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	$ -	$ 1,461	$ 1,461
Permanent fund	65,592	-	65,592
	$ 65,592	$ 1,461	$ 67,053

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 for general government and culture and recreation purposes.

III.D. 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	$ -	$ -	$ 1,435,997	$ -
Prepaid items	71,820	-	-	-
Tax deeded property	516,499	-	-	-
Total nonspendable	588,319	-	1,435,997	-
Restricted:				
General government	-	-	120,429	-
Culture and recreation	509,161	-	-	-
Capital outlay	149,282	-	-	-
Total restricted	658,443	-	120,429	-
Committed:				
Public safety	-	-	-	17,046
Sanitation	-	659,053	-	-
Water distribution and treatment	-	-	-	848,462
Culture and recreation	-	-	-	3,029
Conservation	-	-	-	104,990
Capital outlay	910,770	1,015,257	-	571,064
Total committed	910,770	1,674,310	-	1,544,591
Assigned for conservation	4,750	-	-	-
Unassigned	60,350	-	-	-
Total fund balance	$ 2,222,632	$ 1,674,310	$ 1,556,426	$ 1,544,591

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. Primex provided property and employer's liability coverage in varying amounts and statutory coverage for workers' compensation.

Contributions paid in 2017 to be recorded as an insurance expenditure/expense totaled $88,014 for property/liability, and $58,341 for workers' compensation. The member agreement permits the Primex to make additional assessments to members should there be a deficiency in 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 for the first half of the year, increasing on July 1st to 29.43% for police and 31.89% 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 2015, 2016 and 2017 were $275,436, $291,317 and $320,383, 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, 2017, the Town reported a liability of $3,502,638 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward. 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 December 31, 2017, the Town's proportion was 0.0712%, which was an increase of 0.0028% from its proportion reported as of December 31, 2016.

For 2017, the Town recognized pension expense of $505,639. 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	$ 261,636	$ -
Net differences between projected and actual earnings on pension plan investments	-	44,608
Differences between expected and actual experience	7,942	44,579
Changes in assumptions	351,711	-
Town contributions subsequent to the measurement date	169,263	-
	$ 790,552	$ 89,187

The Town reported $169,263 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 December 31,	
2018	$ 154,495
2019	233,458
2020	174,582
2021	(30,433)
	$ 532,102

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017, 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, 2016 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 Healthy Annuitant and Employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study.

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	$ 4,614,550	$ 3,502,638	$ 2,591,471

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 Liability as a Percentage of Covered-Employee Payroll	Plan Fiduciary Net Postion 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%
2017	0.0712%	$ 3,502,638	$ 1,140,469	307.12%	62.7%

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%
2017	$ 320,383	$ (320,383)	$ -	$ 1,140,469	28.09%

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, 2017

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 third year that the Town has presented the pension schedules, only four 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, 2017

	Special Revenue Funds					
	Police Detail	Parks and Recreation Revolving	Conservation Commission	Water Department	Youth Services	Total
ASSETS						
Cash and cash equivalents	$ 8,188	$ 3,029	$ -	$ 766,010	$ 11,736	$ 788,963
Investments	-	-	101,529	446,690	-	548,219
Accounts receivable, net of allowance for uncollectibles	1,543	-	-	214,064	-	215,607
Interfund receivable	-	-	3,461	36	-	3,497
Total assets	$ 9,731	$ 3,029	$ 104,990	$ 1,426,800	$ 11,736	$ 1,556,286
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable	$ -	$ -	$ -	$ 4,466	$ -	$ 4,466
Accrued salaries and benefits	-	-	-	557	-	557
Interfund payable	2,935	-	-	1,910	1,486	6,331
Total liabilities	2,935	-	-	6,933	1,486	11,354
Deferred inflows of resources:						
Deferred revenue	-	-	-	341	-	341
Fund balances:						
Committed	6,796	3,029	104,990	1,419,526	10,250	1,544,591
Total liabilities, deferred inflows of resources, and fund balances	$ 9,731	$ 3,029	$ 104,990	$ 1,426,800	$ 11,736	$ 1,556,286

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, 2017

	Special Revenue Funds					
	Police Detail	Parks and Recreation Revolving	Conservation Commission	Water Department	Youth Services	Total
REVENUES						
Taxes	$ -	$ -	$ 2,000	$ -	$ -	$ 2,000
Intergovernmental	-	-	-	-	2,500	2,500
Charges for services	13,069	-	-	706,591	-	719,660
Miscellaneous	7	-	929	5,473	1,533	7,942
Total revenues	13,076	-	2,929	712,064	4,033	732,102
EXPENDITURES						
Current:						
Public safety	15,020	-	-	-	-	15,020
Water distribution and treatment	-	-	-	219,047	-	219,047
Culture and recreation	-	-	-	-	6,017	6,017
Debt service:						
Principal	-	-	-	291,698	-	291,698
Interest	-	-	-	76,769	-	76,769
Total expenditures	15,020	-	-	587,514	6,017	608,551
Excess (deficiency) of revenues over (under) expenditures	(1,944)	-	2,929	124,550	(1,984)	123,551
Other financing sources:						
Transfers in	-	-	1,461	-	-	1,461
Net change in fund balances	(1,944)	-	4,390	124,550	(1,984)	125,012
Fund balances, beginning	8,740	3,029	100,600	1,294,976	12,234	1,419,579
Fund balances, ending	$ 6,796	$ 3,029	$ 104,990	$ 1,419,526	$ 10,250	$ 1,544,591

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, 2017

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	$ 5,027,383	$ 4,853,825	$ (173,558)
Land use change	-	2,000	2,000
Timber	19,000	18,104	(896)
Excavation	1,000	896	(104)
Payments in lieu of taxes	2,500	2,709	209
Interest and penalties on delinquent taxes	215,000	240,713	25,713
Total taxes	5,264,883	5,118,247	(146,636)
Licenses, permits and fees:			
Business licenses and permits	500	510	10
Motor vehicle permits	900,000	944,451	44,451
Building permits	22,000	28,235	6,235
Other	2,900	2,909	9
Total licenses, permits and fees	925,400	976,105	50,705
Intergovernmental:			
State sources:			
Meals and rooms distributions	307,119	307,119	-
Highway block grant	324,028	324,025	(3)
Water pollution grant	23,143	15,021	(8,122)
State and federal forest land	1,784	1,784	-
Sidewalk TAP grant	530,765	-	(530,765)
Other government sources	66,899	12,455	(54,444)
Total intergovernmental	1,253,738	660,404	(593,334)
Charges for services:			
Income from departments	625,000	744,736	119,736
Miscellaneous:			
Sale of property	13,000	13,592	592
Interest on investments	25,000	27,122	2,122
Rent of property	15,000	7,287	(7,713)
Fines and forfeits	-	381	381
Other	35,000	4,976	(30,024)
Total miscellaneous	88,000	53,358	(34,642)
Other financing sources:			
Transfers in:			
Expendable trust fund	-	35,274	35,274
Nonmajor funds	67,500	115,155	47,655
Total other financing sources	67,500	150,429	82,929
Total revenues and other financing sources	8,224,521	$ 7,703,279	$ (521,242)
Use of fund balance	723,247		
Total revenues, other financing sources and use of fund balance	$ 8,947,768		

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, 2017

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	$ -	$ 399,741	$ 404,059	$ -	$ (4,318)
Election and registration	-	4,615	4,184	-	431
Financial administration	-	192,961	192,869	-	92
Revaluation of property	-	78,000	72,491	-	5,509
Legal	-	9,000	15,584	-	(6,584)
Planning and zoning	-	126,594	120,079	-	6,515
General government buildings	-	56,224	52,452	-	3,772
Cemeteries	-	31,300	30,959	-	341
Insurance, not otherwise allocated	-	172,500	147,309	-	25,191
Other	-	3,302	4,437	-	(1,135)
Total general government	-	1,074,237	1,044,423	-	29,814
Public safety:					
Police	-	2,068,123	2,057,234	-	10,889
Fire	-	742,173	733,191	-	8,982
Building inspection	-	74,044	74,231	-	(187)
Emergency management	-	11,065	9,462	-	1,603
Other	-	612,910	580,368	-	32,542
Total public safety	-	3,508,313	3,454,486	-	53,827
Highways and streets:					
Highways and streets	-	1,296,114	1,163,899	149,282	(17,067)
Street lighting	-	55,000	54,527	-	473
Total highways and streets	-	1,351,114	1,218,426	149,282	(16,594)
Solid waste disposal	-	539,611	542,752	-	(3,141)
Health:					
Pest control	-	10,009	3,988	-	6,021
Health agencies and hospitals	-	8,000	8,000	-	-
Total health	-	18,009	11,988	-	6,021
Welfare:					
Direct assistance	-	176,464	167,343	-	9,121
Culture and recreation:					
Parks and recreation	-	184,479	185,922	-	(1,443)
Public library	-	221,364	229,263	-	(7,899)
Patriotic purposes	-	17,532	14,834	-	2,698
Other	-	18,502	17,845	-	657
Total culture and recreation	-	441,877	447,864	-	(5,987)
Conservation	2,825	11,454	8,069	4,750	1,460

(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, 2017

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Debt service:					
Principal	-	73,139	73,145	-	(6)
Interest on long-term debt	-	21,594	23,846	-	(2,252)
Interest on tax anticipation note	-	3,000	-	-	3,000
Total debt service	-	97,732	96,991	-	741
Capital outlay:					
Machinery, vehicles and equipment	-	93,000	82,552	-	10,448
Buildings	-	72,500	1,096	70,000	1,404
Improvements other than buildings	5,722	978,456	301,523	132,691	549,964
Total capital outlay	5,722	1,143,956	385,171	202,691	561,816
Other financing uses:					
Transfers out:					
Expendable trust fund	-	535,000	535,000	-	-
Nonmajor funds	-	50,000	51,461	-	(1,461)
Total other financing uses	-	585,000	586,461	-	(1,461)
Total encumbrances, appropriations, expenditures and other financing uses	$ 8,547	$ 8,947,768	$ 7,963,974	$ 356,723	$ 635,618

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, 2017

Unassigned fund balance, beginning		$ 2,994,210
Changes:		
Unassigned fund balance used to reduce tax rate		(25,000)
Unassigned fund balance appropriated		(698,247)
Budget summary:		
Revenue shortfall (Exhibit 15)	$ (521,242)	
Unexpended balance of appropriations (Exhibit 16)	635,618	
Budget surplus		114,376
Decrease in nonspendable fund balance		(177,727)
Unassigned fund balance, ending		$ 2,207,612

R&G

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, 2017, 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. We consider the following deficiency in internal control to be a material weakness:

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.

We also want to discuss the following other matters:

Tax Deeded Property

The Town does not have adequate records supporting tax deeded property held for resale that was deeded in past years. 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. The Town should determine its currently held property that was taken by tax deed, using its Town report and copies of deeded property on record at the Registrar of Deeds, and research the balance of outstanding taxes at the time of deeding for all levies to develop a listing that would support the asset reported.

Other Postemployment Benefits (OPEB)

The Town does not report its liability or annual cost for postemployment benefits other than pensions in its governmental activities, and receives an adverse opinion on its governmental activities because the amount by which this departure affects the liabilities, net position, and expenses of the governmental activities is not

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known. If management wishes to get an unmodified opinion on the governmental activities, the Town will have to obtain a measurement valuation to determine it liability. This can be done by an actuary or by using an alternative measurement method.

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 24, 2018