TOWN OF HILLSBOROUGH, NEW HAMPSHIRE

FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2018

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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, 2018, 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 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, deferred inflows and outflows of resources, 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

47 Hall Street ▪ Concord, NH 03301
603-856-8005 ▪ 603-856-8431 (fax)
info@roberts-greene.com

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, 2018, 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, 2018, 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 34-36 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 23, 2019

Roberts & Greene, PLLC

BASIC FINANCIAL STATEMENTS

EXHIBIT 1
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Net Position
December 31, 2018

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 7,875,313
Investments	2,835,628
Intergovernmental receivable	37,623
Other receivables, net of allowance for uncollectibles	2,801,931
Prepaid items	9,587
Tax deeded property held for resale	516,499
Total assets	14,076,581
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts related to pensions	613,153
LIABILITIES	
Accounts payable	282,209
Accrued payroll and benefits	94,552
Accrued interest payable	38,351
Intergovernmental payable	4,714,185
Performance and escrow deposits	49,726
Other current liabilities	41
Noncurrent obligations:	
Due within one year:	
Bonds and notes payable	286,016
Unamortized bond premium	12,446
Capital leases payable	200,090
Compensated absences payable	192
Accrued landfill postclosure care costs	20,239
Due in more than one year:	
Bonds and notes payable	2,238,328
Unamortized bond premium	62,228
Capital leases payable	653,607
Compensated absences payable	196,427
Accrued landfill postclosure care costs	586,931
Net pension liability	3,403,243
Total liabilities	12,838,811
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	1,830
Deferred amounts related to pensions	125,815
Total deferred inflows of resources	127,645
NET POSITION	
Net investment in capital assets	(3,228,268)
Restricted for:	
Endowments:	
Nonexpendable	1,183,989
Expendable	323,832
Other purposes	539,667
Unrestricted	2,904,058
Total net position	$ 1,723,278

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, 2018

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:					
General government	$ 1,061,370	$ 16,766	$ (34,890)	$ -	$ (1,079,494)
Public safety	3,815,808	512,493	27,783	-	(3,275,532)
Highways and streets	1,244,313	-	-	7,658	(1,236,655)
Sanitation	993,550	924,689	146,003	-	77,142
Water distribution and treatment	326,549	713,433	-	-	386,884
Health	11,515	-	-	-	(11,515)
Welfare	156,581	-	-	-	(156,581)
Culture and recreation	543,381	38,970	7,962	-	(496,449)
Conservation	13,150	3,015	1,778	-	(8,357)
Interest on long-term debt	75,711	-	-	-	(75,711)
Capital outlay	1,099,093	-	-	177,680	(921,413)
Total primary government	$ 9,341,021	$ 2,209,366	$ 148,636	$ 185,338	(6,797,681)

General revenues:	
Property taxes	5,018,981
Other taxes	270,149
Licenses and permits	1,039,493
Grants and contributions not restricted to specific programs	306,117
Miscellaneous	180,985
Total general revenues	6,815,725
Change in net position	18,044
Net position, beginning	1,705,234
Net position, ending	$ 1,723,278

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, 2018

	General	Water Department	Sewer Department	Permanent	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 5,773,555	$ 908,430	$ 1,077,722	$ 92,776	$ 22,830	$ 7,875,313
Investments	539,337	454,967	298,897	1,435,525	106,902	2,835,628
Receivables, net of allowance for uncollectibles:						
Taxes	2,048,004	-	-	-	-	2,048,004
Accounts	130,248	213,871	231,579	-	2,780	578,478
Intergovernmental	37,623	-	-	-	-	37,623
Interfund receivable	36,724	-	-	-	2,411	39,135
Prepaid items	66,760	-	-	-	-	66,760
Tax deeded property held for resale	516,499	-	-	-	-	516,499
Total assets	$ 9,148,750	$ 1,577,268	$ 1,608,198	$ 1,528,301	$ 134,923	$ 13,997,440
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 250,380	$ 8,100	$ 23,729	$ -	$ -	$ 282,209
Accrued salaries and benefits	89,141	2,149	3,262	-	-	94,552
Intergovernmental payable	4,714,185	-	-	-	-	4,714,185
Interfund payable	2,411	8,108	5,844	20,480	2,292	39,135
Escrow and performance deposits	31,617	-	18,109	-	-	49,726
Other current liabilities	41	-	-	-	-	41
Total liabilities	5,087,775	18,357	50,944	20,480	2,292	5,179,848
Deferred inflows of resources:						
Deferred revenue	1,814,050	418	728	-	-	1,815,196
Fund balances:						
Nonspendable	583,259	-	-	1,183,989	-	1,767,248
Restricted	544,799	-	-	323,832	-	868,631
Committed	1,084,183	1,558,493	1,556,526	-	132,631	4,331,833
Assigned	1,761	-	-	-	-	1,761
Unassigned	32,923	-	-	-	-	32,923
Total fund balances	2,246,925	1,558,493	1,556,526	1,507,821	132,631	7,002,396
Total liabilities, deferred inflows of resources, and fund balances	$ 9,148,750	$ 1,577,268	$ 1,608,198	$ 1,528,301	$ 134,923	$ 13,997,440

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, 2018

Total fund balances of governmental funds (Exhibit 3)			$ 7,002,396
Amounts reported for governmental activities in the statement of net position are different because:			
Payments not due until the subsequent period are recorded as prepaid in the governmental funds.			
	Prepaid debt principal and interest		(57,173)
Interfund receivables and payables between governmental funds are eliminated on the statement of net position.			
	Receivables	$ (39,135)	
	Payables	39,135	
			-
Revenues that are not available to pay for current period expenditures are deferred in the funds.			
	Unavailable tax revenue	$ 1,735,770	
	Unavailable ambulance revenue	77,596	
			1,813,366
Interest on long-term debt is not accrued in governmental funds.			
	Accrued interest payable		(38,351)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
	Bonds and notes outstanding	$ 2,524,344	
	Unamortized loan forgiveness	(175,449)	
	Unamortized bond premium	74,674	
	Capital leases outstanding	853,697	
	Compensated absences payable	196,619	
	Accrued landfill postclosure care costs	607,170	
	Net pension liability	3,403,243	
			(7,484,298)
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	$ 613,153	
	Deferred inflows of resources related to pensions	(125,815)	
			487,338
Total net position of governmental activities (Exhibit 1)			$ 1,723,278

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, 2018

	General	Water Department	Sewer Department	Permanent	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 5,699,327	$ -	$ -	$ -	$ 1,295	$ 5,700,622
Licenses, permits and fees	1,039,493	-	-	-	-	1,039,493
Intergovernmental	639,220	-	-	-	-	639,220
Charges for services	769,959	713,433	664,310	-	29,707	2,177,409
Miscellaneous	151,805	12,876	11,485	870	4,820	181,856
Total revenues	8,299,804	726,309	675,795	870	35,822	9,738,600
Expenditures:						
Current:						
General government	1,054,790	-	-	1,450	-	1,056,240
Public safety	3,632,507	-	-	27,545	23,222	3,683,274
Highways and streets	1,318,115	-	-	-	-	1,318,115
Sanitation	535,145	-	459,840	-	-	994,985
Water distribution and treatment	-	326,248	-	-	-	326,248
Health	11,515	-	-	-	-	11,515
Welfare	156,491	-	-	-	-	156,491
Culture and recreation	533,914	-	-	3,317	6,150	543,381
Conservation	13,150	-	-	-	-	13,150
Debt service:						
Principal	73,642	194,622	53,333	-	-	321,597
Interest	21,058	66,472	10,012	-	-	97,542
Capital outlay	639,551	-	572,074	-	-	1,211,625
Total expenditures	7,989,878	587,342	1,095,259	32,312	29,372	9,734,163
Excess (deficiency) of revenues over (under) expenditures	309,926	138,967	(419,464)	(31,442)	6,450	4,437
Other financing sources (uses):						
Transfers in	17,163	-	301,680	-	1,116	319,959
Transfers out	(302,796)	-	-	(17,163)	-	(319,959)
Total other financing sources and uses	(285,633)	-	301,680	(17,163)	1,116	-
Net change in fund balances	24,293	138,967	(117,784)	(48,605)	7,566	4,437
Fund balances, beginning	2,222,632	1,419,526	1,674,310	1,556,426	125,065	6,997,959
Fund balances, ending	$ 2,246,925	$ 1,558,493	$ 1,556,526	$ 1,507,821	$ 132,631	$ 7,002,396

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, 2018

Net change in fund balances of governmental funds (Exhibit 5)		$ 4,437
Amounts reported for governmental activities in the statement of activities are different because:		
Payments not due until the subsequent period are recorded as prepaid in the governmental funds.		
Change in prepaid debt principal and interest		2,470
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in	$ (319,959)	
Transfers out	319,959	
		-
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in governmental funds.		
Change in unavailable tax revenue	$ (411,492)	
Change in unavailable ambulance revenue	31,957	
Change in long-term receivable for loan forgiveness	(10,966)	
		(390,501)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position.		
Repayment of bond and note principal	$ 331,565	
Amortization of bond premium	12,446	
Repayment of capital lease principal	194,628	
		538,639
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	$ 7,913	
Increase in compensated absences payable	(32,982)	
Decrease in accrued landfill postclosure care costs	2,700	
		(22,369)
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	$ 356,330	
Cost of benefits earned, net of employee contributions	(470,962)	
		(114,632)
Change in net position of governmental activities (Exhibit 2)		$ 18,044

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, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	$ 5,274,603	$ 5,287,835	$ 13,232
Licenses, permits and fees	968,500	1,039,493	70,993
Intergovernmental	519,037	526,346	7,309
Charges for services	700,000	769,959	69,959
Miscellaneous	98,375	122,570	24,195
Total revenues	7,560,515	7,746,203	185,688
EXPENDITURES			
Current:			
General government	1,071,953	1,054,790	17,163
Public safety	3,647,677	3,632,507	15,170
Highways and streets	1,279,713	1,168,833	110,880
Sanitation	559,590	535,145	24,445
Health	16,210	11,515	4,695
Welfare	172,371	156,491	15,880
Culture and recreation	457,582	428,582	29,000
Conservation	11,719	10,161	1,558
Debt service:			
Principal	73,642	73,642	-
Interest on long-term debt	21,058	21,058	-
Interest on tax anticipation note	1,500	-	1,500
Capital outlay	350,000	506,693	(156,693)
Total expenditures	7,663,015	7,599,417	63,598
Excess (deficiency) of revenues over (under) expenditures	(102,500)	146,786	249,286
Other financing sources (uses):			
Transfers in	2,500	12,031	9,531
Transfers out	(650,000)	(602,796)	47,204
Total other financing sources and uses	(647,500)	(590,765)	56,735
Net change in fund balance	$ (750,000)	(443,979)	$ 306,021
Decrease in nonspendable fund balance		5,060	
Unassigned fund balance, beginning		2,207,612	
Unassigned fund balance, ending		$ 1,768,693	

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

EXHIBIT 8
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Water Department Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Charges for services	$ 741,975	$ 713,433	$ (28,542)
Miscellaneous	5,000	9,369	4,369
Total revenues	746,975	722,802	(24,173)
EXPENDITURES			
Current:			
Water distribution and treatment	420,495	326,248	94,247
Debt service:			
Principal	195,000	194,622	378
Interest	66,480	66,472	8
Total expenditures	681,975	587,342	94,633
Excess of revenues over expenditures	65,000	135,460	70,460
Other financing uses:			
Transfers out	(65,000)	(65,000)	-
Net change in fund balance	$ -	70,460	$ 70,460
Fund balance, beginning		848,461	
Fund balance, ending		$ 918,921	

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

EXHIBIT 9
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Sewer Department Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Charges for services	$ 698,804	$ 664,310	$ (34,494)
Miscellaneous	3,000	6,271	3,271
Total revenues	701,804	670,581	(31,223)
EXPENDITURES			
Current:			
Sanitation	538,370	459,840	78,530
Debt service:			
Principal	53,334	53,333	1
Interest	10,100	10,012	88
Capital outlay	-	572,074	(572,074)
Total expenditures	601,804	1,095,259	(493,455)
Excess (deficiency) of revenues over (under) expenditures	100,000	(424,678)	(524,678)
Other financing sources (uses):			
Transfers in	-	572,075	572,075
Transfers out	(100,000)	(100,000)	-
Total other financing sources and uses	(100,000)	472,075	572,075
Net change in fund balance	$ -	47,397	$ 47,397
Fund balance, beginning		685,083	
Fund balance, ending		$ 732,480	

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

EXHIBIT 10
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2018

	Private Purpose Trust	Agency
Assets:		
Cash and cash equivalents	$ 33,972	$ 1,254,175
Investments	244,328	547,322
Total assets	278,300	1,801,497
Liabilities:		
Due to other governmental units	-	1,801,497
Net position:		
Held in trust for specific purposes	$ 278,300	$ -

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

EXHIBIT 11
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2018

	Private Purpose Trust
Additions:	
Investment earnings:	
Interest and dividends	$ 13,428
Net change in fair value of investments	(32,836)
Total additions	(19,408)
Deductions:	
Trust distributions	10,700
Change in net position	(30,108)
Net position, beginning	308,408
Net position, ending	$ 278,300

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, 2018.

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 postemployment benefits other than pensions (OPEB) or its total OPEB liability, if any, as required by GAAP.

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.

Water Department Fund – Reports as a special revenue fund and accounts for all revenues and expenditures related to the Town's water distribution operations.

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 four 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 2018, none of the General Fund's unassigned fund balance from 2017 was so used, but $750,000 was appropriated from fund balance.

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.

II.B. Reconciliation of Budgetary Basis to GAAP

General Fund

Revenues and other financing sources:	
Per Exhibit 7 (budgetary basis)	$ 7,758,234
Adjustments:	
Basis difference:	
Tax revenue deferred in the prior year	2,147,262
Tax revenue deferred in the current year	(1,735,770)
Perspective difference:	
Revenue of Library Fund	19,627
Revenue of Project Lift Fund	116,210
Revenue of Expendable Trust Fund	6,272
Transfer to Library Fund from Permanent Fund	5,132
Per Exhibit 5 (GAAP basis)	$ 8,316,967

General Fund (continued)

Expenditures and other financing uses:	
Per Exhibit 7 (budgetary basis)	$ 8,202,213
Adjustments:	
Basis difference:	
Encumbrances, beginning	356,723
Encumbrances, ending	(335,981)
Perspective difference:	
Expenditures of Library Fund	10,123
Expenditures of Project Lift Fund	95,209
Expenditures of Expendable Trust Fund	264,387
Transfers to Expendable Trust Fund	(300,000)
Per Exhibit 5 (GAAP basis)	$ 8,292,674

Unassigned fund balance:	
Per Exhibit 7 (budgetary basis)	$ 1,768,693
Adjustment:	
Basis difference:	
Deferred tax revenue, GAAP basis	(1,735,770)
Per Exhibit 3 (GAAP basis)	$ 32,923

Water Department Fund

Revenues and other financing sources:	
Per Exhibit 8 (budgetary basis)	$ 722,802
Adjustment:	
Perspective difference:	
Revenue of Expendable Trust Fund	3,507
Per Exhibit 5 (GAAP basis)	$ 726,309

Expenditures and other financing uses:	
Per Exhibit 8 (budgetary basis)	$ 652,342
Adjustment:	
Perspective difference:	
Transfers to Expendable Trust Fund	(65,000)
Per Exhibit 5 (GAAP basis)	$ 587,342

Committed fund balance:	
Per Exhibit 8 (budgetary basis)	$ 918,921
Adjustment:	
Perspective difference:	
Equity of expendable trust fund reported in Water Department Fund	639,572
Per Exhibit 3 (GAAP basis)	$ 1,558,493

Sewer Department Fund

Revenues and other financing sources:	
Per Exhibit 9 (budgetary basis)	$ 1,242,656
Adjustments:	
Perspective difference:	
Revenue of Expendable Trust Fund	5,214
Transfer from Expendable Trust Fund	(270,395)
Per Exhibit 5 (GAAP basis)	$ 977,475
Expenditures and other financing uses:	
Per Exhibit 9 (budgetary basis)	$ 1,195,259
Adjustment:	
Perspective difference:	
Transfers to Expendable Trust Fund	(100,000)
Per Exhibit 5 (GAAP basis)	$ 1,095,259
Committed fund balance:	
Per Exhibit 9 (budgetary basis)	$ 732,480
Adjustment:	
Perspective difference:	
Equity of expendable trust fund reported in Sewer Department Fund	824,046
Per Exhibit 3 (GAAP basis)	$ 1,556,526

The Permanent Fund is not budgeted.

III. Detailed Notes on Funds and Government-Wide Statements

III.A. Assets

III.A.1. *Investments*

As of December 31, 2018, the Town's reporting entity had the following investments:

Closed End Funds	$ 1,093,347
Mutual Funds	31,287
Common Stock	222,314
Fixed Income Funds	783,577
Corporate Bonds	96,650
New Hampshire Public Deposit Investment Pool	1,400,103
	$ 3,627,278

The investments appear in the financial statements as follow:

Fund reporting level:	
Governmental funds - balance sheet (Exhibit 3)	$ 2,835,628
Fiduciary funds - statement of fiduciary net position (Exhibit 10)	791,650
Total	$ 3,627,278

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, 2018 is as follows:

	Fair Value
Baa2	$ 52,650
B2	44,000
Not rated	2,130,525
Exempt from disclosure	1,400,103
	$ 3,627,278

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:

	Fair Value	Investment Maturities (in years) 5 to 10
Corporate bonds	$ 96,650	$ 96,650

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, 2018, the Town had $509,514 invested in iShares Select Dividend ETF, $249,559 invested in Peyto Exploration & Development Corp, and $186,560 in SPDR Dow Jones Industrial Average ETF, representing 14.05%, 6.88%, and 5.14%, 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 $3,627,278 of investments, $1,859,254 has exposure to custodial credit risk because the related securities are uninsured and uncollateralized.

III.A.2. *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 15th.

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, 2018, upon which the 2018 property tax levy was based was:

For the New Hampshire education tax	$ 483,288,795
For all other taxes	$ 522,650,195

The tax rates and amounts assessed for the year ended December 31, 2018 were as follow:

	Per $1,000 of Assessed Valuation	
Municipal portion	$10.05	$ 5,253,149
School portion:		
State of New Hampshire	$2.13	1,029,106
Local	$16.17	8,449,546
County portion	$1.15	602,540
Precinct portion:		
Emerald Lake Village District	$3.03	237,339
Total property taxes assessed		$ 15,571,680

The following details the taxes receivable at year-end:

Property:	
Levy of 2018	$ 1,068,210
Unredeemed (under tax lien):	
Levy of 2017	443,401
Levy of 2016	321,944
Levy of 2015	182,415
Levy of 2014	114,687
Levies of 2013 and prior	242,920
Timber	509
Water liens	51,825
Sewer liens	41,093
Less: allowance for estimated uncollectible taxes	(419,000)
Net taxes receivable	$ 2,048,004

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	$ 812,733
Intergovernmental	37,623
Liens	24,732
Less: allowance for uncollectible amounts	(258,987)
Net total receivables	$ 616,101

Deferred Revenue

Deferred revenue in the General Fund of $1,814,050 at December 31, 2018 represents $1,735,770 of property taxes and liens and $77,596 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 $684 of miscellaneous items. In the governmental activities, the miscellaneous amounts are reported as unearned revenue.

Deferred revenue in the Water Department and Sewer Department of $418 and $728, 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, 2018 consists of $4,576,441 due to the Hillsboro-Deering Cooperative School District for the balance of the 2018-2019 district assessment, and $137,744 due to the Emerald Lake Village District for the balance of the 2018 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 12/31/2018	Current Portion
General obligation bonds/notes payable:						
Water mains	$ 1,792,000	2004	2024	2.5-4.125	$ 519,000	$ 91,000
Fire station	$ 282,000	2004	2024	2.5-4.125	83,000	14,000
Library	$ 400,000	2010	2026	3.3	224,398	26,839
Loon Pond	$ 240,000	2011	2020	1.79	26,510	13,137
Water filtration (refunded)	$ 1,124,000	2012	2024	2.0-5.0	518,000	49,000
Bible Hill	$ 214,258	2012	2031	1.1	79,728	5,072
Screw pump	$ 800,000	2013	2027	2.75	323,919	53,333
Water filtration	$ 833,389	2015	2035	2.616	749,789	33,635
					2,524,344	286,016
Unamortized bond premium					74,674	12,446
Capital leases payable:						
Dump truck	$ 186,217	2015	2019	3.2	40,775	40,775
Fire apparatus	$ 850,000	2016	2025	3.05	602,850	78,557
Air packs and filling station	$ 186,706	2016	2020	2.79	75,667	37,313
Highway truck	$ 224,147	2017	2021	3.09	134,405	43,445
					853,697	200,090
Compensated absences payable:						
Vested earned leave					14,346	-
Accrued vacation leave					182,273	192
					196,619	192
Accrued landfill postclosure care costs					607,170	20,239
Net pension liability					3,403,243	-
					$ 7,659,747	$ 518,983

Loan Forgiveness

A portion of the Water Filtration debt issued in 2015 will be forgiven by the State of New Hampshire Drinking Water State Revolving Fund Program through an annual reduction of the principal amount owed. During the year ended December 31, 2018, the Town reported a reduction of bonds and notes payable of $10,966, and a remaining unamortized loan forgiveness balance of $175,449.

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, 2018:

	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	$ 2,855,909	$ 87,120	$ 1,048,325	$ 163,637	$ 609,870	$ 3,502,638	$ 8,267,499
Additions	-	-	-	32,982	-	-	32,982
Reductions	(331,565)	(12,446)	(194,628)	-	(2,700)	(99,395)	(640,734)
Balance, ending	$ 2,524,344	$ 74,674	$ 853,697	$ 196,619	$ 607,170	$ 3,403,243	$ 7,659,747

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
2019	$ 286,016	$ 86,123	$ 372,139
2020	329,523	75,434	404,957
2021	317,514	63,665	381,179
2022	318,925	51,935	370,860
2023	321,406	40,127	361,533
2024-2028	575,320	81,545	656,865
2029-2033	273,903	34,886	308,789
2034-2035	101,737	3,871	105,608
Totals	$ 2,524,344	$ 437,586	$ 2,961,930

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

Year Ending December 31,	Principal	Interest	Total
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	88,588	8,356	96,944
2024-2025	185,364	8,524	193,888
Totals	$ 853,697	$ 88,440	$ 942,137

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 $607,170 as of December 31, 2018. 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, 2018. 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	Permanent	$ 20,480
General	Water Department	8,108
General	Sewer Department	5,844
General	Nonmajor	2,292
Nonmajor	General	2,411
		$ 39,135

The amount due to the general fund from the water and sewer department funds, 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	Sewer Department Fund	Nonmajor Funds	Total
Transfers out:				
General fund	$ -	$ 301,680	$ 1,116	$ 302,796
Permanent fund	17,163	-	-	17,163
	$ 17,163	$ 301,680	$ 1,116	$ 319,959

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. The amount transferred to the sewer department from the expendable trust fund, reported in the general fund, represents reimbursements to offset capital outlay expenditures.

III.D. Restatement of Beginning Balances

In 2017, the Town prepaid on debt that was not due until 2018, and the Statement of Net Position did not report the respective changes to prepaid items, bonds and notes payable, and accrued interest payable. Although, net position remains unchanged, the balances of the governmental activities at January 1, 2018 were restated to reflect the following adjustments:

Adjust prepaid expense for early debt payment	$ 59,643
Reduce bonds payable for early debt payment	(49,000)
Reduce accrued interest payable for early debt payment	(10,643)
Net position, as previously reported	1,705,234
Net position, as restated	$ 1,705,234

III.E. Fund Equity

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

	General Fund	Water Department Fund	Sewer Department Fund	Permanent Fund	Nonmajor Funds
Nonspendable:					
Endowments	$ -	$ -	$ -	$ 1,183,989	$ -
Prepaid items	66,760	-	-	-	-
Tax deeded property	516,499	-	-	-	-
Total nonspendable	583,259	-	-	1,183,989	-
Restricted:					
General government	-	-	-	323,832	-
Culture and recreation	544,799	-	-	-	-
Total restricted	544,799	-	-	323,832	-
Committed:					
Public safety	-	-	-	-	20,289
Sanitation	-	-	732,480	-	-
Water distribution and treatment	-	918,921	-	-	-
Culture and recreation	-	-	-	-	3,029
Conservation	-	-	-	-	109,313
Capital outlay	1,084,183	639,572	824,046	-	-
Total committed	1,084,183	1,558,493	1,556,526	-	132,631
Assigned for conservation	1,761	-	-	-	-
Unassigned	32,923	-	-	-	-
Total fund balance	$ 2,246,925	$ 1,558,493	$ 1,556,526	$ 1,507,821	$ 132,631

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

Contributions paid in 2018 to be recorded as an insurance expenditure/expense totaled $88,410 for property/liability, and $56,872 for workers' compensation. The member agreement permits 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 were 11.55% and 11.80%, respectively, of gross earnings. The rates of contribution for pension and the medical subsidy from the Town were 29.43% for police and 11.38% for other 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 2016, 2017 and 2018 were $291,317, $320,383, and $356,330, 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, 2018, the Town reported a liability of $3,403,243 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, 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, 2018, the Town’s proportion was 0.0707%, which was a decrease of 0.0005% from its proportion reported as of December 31, 2017.

For 2018, the Town recognized pension expense of $470,962. 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	$ 171,653	$ 19,505
Net differences between projected and actual earnings on pension plan investments	-	78,754
Changes in assumptions	235,521	-
Differences between expected and actual experience	27,164	27,556
Town contributions subsequent to the measurement date	178,815	-
	$ 613,153	$ 125,815

The Town reported $178,815 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 Ending December 31,	
2019	$ 215,472
2020	156,875
2021	(46,836)
2022	(16,988)
	$ 308,523

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry-Age Normal
Amortization Period	Level Percenage-of-Payroll, Closed
Remaining Amortization Period	21 years beginning July 1, 2018
Asset Valuation Method	5-year smoothed market for funding purposes, 20% corridor
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% average, including inflation
Municipal Bond Rate	3.62% per year
Investment Rate of Return	7.25% net of pension plan investment expense, including inflation

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.

The actuarial assumptions used in the June 30, 2017 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.

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	$ 4,528,043	$ 3,403,243	$ 2,460,626

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 12
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of the Net Pension Liability
New Hampshire Retirement System

	2018	2017	2016	2015	2014
Town's proportion of net pension liability	0.0707%	0.0712%	0.0684%	0.0649%	0.0624%
Town's proportionate share of the net pension liability	$ 3,403,243	$ 3,502,638	$ 3,635,288	$ 2,570,826	$ 2,341,255
Town's covered-employee payroll	$ 1,203,895	$ 1,140,469	$ 1,096,405	$ 1,057,030	$ 993,250
Town's proportionate share of the net pension liability as a percentage of covered-employee payroll	282.69%	307.12%	331.56%	243.21%	235.72%
Plan fiduciary position as a percentage of the total pension liability	64.73%	62.70%	58.30%	65.50%	66.30%

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

EXHIBIT 13
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Schedule of the Town's Pension Contributions
New Hampshire Retirement System

	2018	2017	2016	2015	2014
Contractually required contribution	$ 356,330	$ 320,383	$ 291,317	$ 275,436	$ 253,083
Contribution in relation to the contractually required contribution	(356,330)	(320,383)	(291,317)	(275,436)	(253,083)
Contribution deficiency	$ -	$ -	$ -	$ -	$ -
Town's covered-employee payroll	$ 1,203,895	$ 1,140,469	$ 1,096,405	$ 1,057,030	$ 993,250
Contributions as a percentage of covered-employee payroll	29.60%	28.09%	26.57%	26.06%	25.48%

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 fourth year that the Town has presented the pension schedules, only five 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 14
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2018

	Special Revenue Funds				
	Police Detail	Parks and Recreation Revolving	Conservation Commission	Youth Services	Total
ASSETS					
Cash and cash equivalents	$ 10,507	$ 3,029	$ -	$ 9,294	$ 22,830
Investments	-	-	106,902	-	106,902
Accounts receivable	2,780	-	-	-	2,780
Interfund receivable	-	-	2,411	-	2,411
Total assets	$ 13,287	$ 3,029	$ 109,313	$ 9,294	$ 134,923
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	$ -	$ -	$ -	$ 2,292	$ 2,292
Fund balances:					
Committed	13,287	3,029	109,313	7,002	132,631
Total liabilities and fund balances	$ 13,287	$ 3,029	$ 109,313	$ 9,294	$ 134,923

EXHIBIT 15
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2018

	Special Revenue Funds				
	Police Detail	Parks and Recreation Revolving	Conservation Commission	Youth Services	Total
REVENUES					
Taxes	$ -	$ -	$ 1,295	$ -	$ 1,295
Charges for services	29,707	-	-	-	29,707
Miscellaneous	6	-	1,912	2,902	4,820
Total revenues	29,713	-	3,207	2,902	35,822
EXPENDITURES					
Current:					
Public safety	23,222	-	-	-	23,222
Culture and recreation	-	-	-	6,150	6,150
Total expenditures	23,222	-	-	6,150	29,372
Excess (deficiency) of revenues over (under) expenditures	6,491	-	3,207	(3,248)	6,450
Other financing sources:					
Transfers in	-	-	1,116	-	1,116
Net change in fund balances	6,491	-	4,323	(3,248)	7,566
Fund balances, beginning	6,796	3,029	104,990	10,250	125,065
Fund balances, ending	$ 13,287	$ 3,029	$ 109,313	$ 7,002	$ 132,631

EXHIBIT 16
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2018

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	$ 5,017,269	$ 5,018,981	$ 1,712
Land use change	-	1,295	1,295
Timber	15,000	9,904	(5,096)
Excavation	1,000	587	(413)
Payments in lieu of taxes	1,334	3,118	1,784
Interest and penalties on delinquent taxes	240,000	253,950	13,950
Total taxes	5,274,603	5,287,835	13,232
Licenses, permits and fees:			
Business licenses and permits	500	705	205
Motor vehicle permits	940,000	1,004,918	64,918
Building permits	25,000	31,110	6,110
Other	3,000	2,760	(240)
Total licenses, permits and fees	968,500	1,039,493	70,993
Intergovernmental:			
State sources:			
Meals and rooms distributions	306,365	306,365	-
Highway block grant	177,781	177,680	(101)
Water pollution grant	-	(248)	(248)
State and federal forest land	1,762	1,762	-
Federal sources:			
Sidewalk TAP grant	-	7,658	7,658
Other government sources	33,129	33,129	-
Total intergovernmental	519,037	526,346	7,309
Charges for services:			
Income from departments	700,000	769,959	69,959
Miscellaneous:			
Sale of property	1,000	5,504	4,504
Interest on investments	43,000	51,052	8,052
Rent of property	-	9,217	9,217
Fines and forfeits	-	511	511
Insurance dividends and reimbursements	30,000	30,365	365
Other	24,375	25,921	1,546
Total miscellaneous	98,375	122,570	24,195
Other financing sources:			
Transfers in:			
Permanent fund	2,500	12,031	9,531
Total revenues and other financing sources	7,563,015	$ 7,758,234	$ 195,219
Use of fund balance appropriated	750,000		
Total revenues, other financing sources and use of fund balance	$ 8,313,015		

EXHIBIT 17
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2018

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	$ -	$ 408,554	$ 400,121	$ -	$ 8,433
Election and registration	-	7,138	9,637	-	(2,499)
Financial administration	-	197,008	193,863	-	3,145
Revaluation of property	-	65,000	66,556	-	(1,556)
Legal	-	9,000	9,912	-	(912)
Planning and zoning	-	125,028	121,023	-	4,005
General government buildings	-	59,048	75,976	-	(16,928)
Cemeteries	-	32,775	27,849	-	4,926
Insurance, not otherwise allocated	-	164,400	143,300	-	21,100
Other	-	4,002	6,553	-	(2,551)
Total general government	-	1,071,953	1,054,790	-	17,163
Public safety:					
Police	-	2,155,446	2,175,104	-	(19,658)
Fire	-	756,779	759,756	-	(2,977)
Building inspection	-	80,148	78,209	-	1,939
Emergency management	-	11,001	9,961	-	1,040
Other	-	644,303	609,477	-	34,826
Total public safety	-	3,647,677	3,632,507	-	15,170
Highways and streets:					
Highways and streets	149,282	1,224,713	1,265,155	-	108,840
Street lighting	-	55,000	52,960	-	2,040
Total highways and streets	149,282	1,279,713	1,318,115	-	110,880
Solid waste disposal	-	559,590	535,145	-	24,445
Health:					
Pest control	-	8,210	3,515	-	4,695
Health agencies and hospitals	-	8,000	8,000	-	-
Total health	-	16,210	11,515	-	4,695
Welfare:					
Direct assistance	-	172,371	156,491	-	15,880

(continued)

EXHIBIT 17 (continued)
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2018

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Culture and recreation:					
Parks and recreation	-	199,539	160,599	-	38,940
Public library	-	224,011	235,405	-	(11,394)
Patriotic purposes	-	17,532	16,078	-	1,454
Other	-	16,500	16,500	-	-
Total culture and recreation	-	457,582	428,582	-	29,000
Conservation	4,750	11,719	13,150	1,761	1,558
Debt service:					
Principal	-	73,642	73,642	-	-
Interest on long-term debt	-	21,058	21,058	-	-
Interest on tax anticipation note	-	1,500	-	-	1,500
Total debt service	-	96,200	94,700	-	1,500
Capital outlay:					
Buildings	70,000	-	29,091	-	40,909
Improvements other than buildings	132,691	350,000	346,073	334,220	(197,602)
Total capital outlay	202,691	350,000	375,164	334,220	(156,693)
Other financing uses:					
Transfers out:					
Expendable trust fund	-	300,000	300,000	-	-
Sewer department fund	-	350,000	302,796	-	47,204
Total other financing uses	-	650,000	602,796	-	47,204
Total encumbrances, appropriations, expenditures and other financing uses	$ 356,723	$ 8,313,015	$ 8,222,955	$ 335,981	$ 110,802

EXHIBIT 18
TOWN OF HILLSBOROUGH, NEW HAMPSHIRE
General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2018

Unassigned fund balance, beginning		$ 2,207,612
Changes:		
Unassigned fund balance appropriated		(750,000)
Budget summary:		
Revenue surplus (Exhibit 16)	$ 195,219	
Unexpended balance of appropriations (Exhibit 17)	110,802	
Budget surplus		306,021
Decrease in nonspendable fund balance		5,060
Unassigned fund balance, ending		$ 1,768,693

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, 2018, 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 and therefore material weaknesses may exist that have not been identified. However, we consider the following deficiencies in internal control to be material weaknesses:

Capital Asset and Capital Asset Policy – Repeat Finding

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.

Other Postemployment Benefits (OPEB) – Repeat Finding

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

We also want to discuss the following other matters:

Pay Rate Authorization

During a test of payroll transactions, we noted three out of ten employees tested did not have a payroll authorization form supporting the current pay rate. We recommend that the Town keep a pay rate authorization form for each employee within its personnel files. These authorizations should be signed by the Board of

47 Hall Street ▪ Concord, NH 03301
603-856-8005 ▪ 603-856-8431 (fax)
info@roberts-greene.com

Selectmen or its designee, as well as the employee. Any pay rate change should be documented within each personnel file.

Compensated Absences Payable

The Town has a compensated absences payable of $196,619 as of December 31, 2018. This represents a potential expenditure that would be against a future year's operating budget. We recommend the Town consider the costs and benefits to establishing a capital reserve fund under RSA 35:1-c for the purpose of covering these expenditures in future years.

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 23, 2019