

TOWN OF HILLSBOROUGH, CALIFORNIA
Comprehensive Annual Financial Report
For The Fiscal Year Ended
June 30, 2018

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**TOWN OF HILLSBOROUGH
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION



TOWN OF HILLSBOROUGH

1600 FLORIBUNDA AVENUE

HILLSBOROUGH

CALIFORNIA

94010-6418

November 19, 2018

To the Honorable Mayor, Members of the City Council,
Members of the Financial Advisory Committee,
and the Citizens of the Town of Hillsborough

Local ordinances and state statutes require that all general-purpose local governments publish a complete set of financial statements at the close of each fiscal year presented in conformity with generally accepted accounting principles (GAAP) in the United States and audited in accordance with generally accepted auditing standards in the United States by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Hillsborough (the "Town") for the fiscal year ended June 30, 2018.

This report consists of management's representations concerning the finances of the Town of Hillsborough. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, Management of the Town has established a comprehensive internal control framework that is designed both to protect the Town's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. The cost of internal controls should not outweigh their benefits, the Town of Hillsborough's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Hillsborough's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Hillsborough for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town of Hillsborough's financial statements for the fiscal year ended June 30, 2018 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditors.

Town's Profile

The Town of Hillsborough is a residential community located in San Mateo County, California and incorporated on May 5, 1910 after a popular vote of 60-1 held on April 25, 1910. The Town initially included a series of large estates, some of which, over time, were divided into the now existing mix of large estate parcels, acreage and minimum one-half acre lots. The Town is located west of Highway 101 and El Camino Real and east of Highway 280 within a short commute to San Francisco and minutes from San Francisco International Airport. The community location offers excellent weather and a geographic advantage to its residents. Greenbelt canyons are located throughout the community's hilly topography. The community is well known for its trees and rural nature.

The community's residents provide a commendable level of support to the municipal government through a number of advisory bodies, a community beautification foundation, neighborhood network for emergency and other purposes, and communication through a quarterly newsletter and monthly E-Announcements. The residents work diligently at maintaining the historical and strong family-based community values. The Town has excellent, award-winning schools. Public institutions include three distinguished elementary schools and a middle school. There are three private schools located in the community.

The Town has a land area of approximately 6.23 square miles and a population of approximately 10,900. It is empowered to levy a property tax on both real and personal property located within its boundaries. The Town residents approved a public safety special tax designated for public safety operations and capital expenditures including paramedic and fire automatic aid response programs. There is also a countywide voter-approved ½-cent sales tax designated for streets and road purposes.

The Town operates under the council-manager form of government. Policy-making and legislative authority are vested in the governing city council, which consists of a mayor, a vice-mayor and three council members. Council members are elected to overlapping four-year terms, in even numbered years. The Council members select the Mayor and Vice-Mayor every other year. The Council is responsible among other things, for passing ordinances, adopting the budget, appointing commission and board members and hiring the City Manager and the City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, overseeing the day-to-day operations of the Town, and appointing department heads.

The Town of Hillsborough provides a full range of services, including police and fire protection, building permitting and inspection, land use management, maintenance of streets, public facilities, water, sewer and storm drain infrastructure. The Town contracts for recreation and library services. Working towards efficiency, the Town is in a fire services JPA with the City of Burlingame and the Central County Fire Department JPA also provides fire services to the City of Millbrae on a contractual basis.

The annual budget serves as the foundation for the Town of Hillsborough's financial planning and control. The Town's departments are required to submit requests for appropriation to the City Manager who uses these requests as the starting point for developing a proposed budget. Prior to June 30 of each year, the City Manager submits to the City Council a proposed operating budget for review. The Council holds public hearings and a final budget is adopted on or before June 30.

The appropriated budget is prepared by fund, function, and department. The department heads may make transfers of appropriations within a department. The City Manager may transfer budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Budget-to-actual comparisons are provided in the report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and other major governmental fund(s), this comparison is presented as part of the required supplementary information in this report. For governmental funds other than the major funds, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report.

Local economy

The Town is a purely residential community except for its schools and private clubs. The Town's major revenues are from property taxes and various property value-based revenues.

Property taxes, which are based on assessed values, are one of the Town's largest sources of revenue, accounting for approximately 65% (including Excess ERAF) of Town's General Fund revenues. Fiscal year 17/18 property tax (excluding Excess ERAF) revenues were \$15.8 million, up 6% from the prior year. According to data obtained from the San Mateo County Assessor, the Town had a total assessed value of \$9.7 billion for the fiscal year 17/18, an increase of \$551 million, or 6% from prior year.

The Town operates a Water Enterprise and a Sewer Enterprise for water and sewer services. The cost of operations, debt service and capital improvements are primarily funded through user charges. The Town tracks the revenue requirements to ensure that there are adequate revenues to cover expenses and to determine the need for adjustments to rates.

The Town's street repaving program is a \$2+ million every other year will continue to improve the Town's street quality. Streets are funded from several sources including general revenues as well as special revenues such as Gas Tax, Measure A, Measure M and Road Repair and Accountability monies.

Long-term financial planning

The Town provides an extended financial projection as part of the budget process, allowing the Town to be proactive in seeking both short-term and long-term budget solutions. The long term General Fund projections outlined in the fiscal year 18/19 budget are within policy and guidelines.

The Town has a General Fund reserve policy of a minimum of 30% of operating expenditures, with a goal of 50%. The FY 18/19 Adopted Budget projects a Fund balance of \$20 million with \$12 reserved per policy and the remainder reserved for future uses such as projects, capital or other items approved by City Council. To balance the financial picture, the Town also has \$39 million of pension and OPEB liabilities.

The Town's water, sewer and storm drain infrastructure requires rehabilitation. The five-year capital improvement program is \$17 million for water, \$13 million for sewer, and \$9 million for storm drains and is prioritized in the master plan. The Town is also paying its proportionate share of capital improvements to the San Francisco Hetch Hetchy water system, its water source. Similarly, it will also be paying for capital improvements to the treatment plants in Burlingame and San Mateo pursuant to the disposal contracts, and the San Mateo treatment plant will be undergoing major improvements over the next twenty years.

The Town's Enterprise Fund Certificates of Participation (Series 2000A, 2000B, 2003A, and 2006A) current long-term bond ratings are AA+ by Fitch and AAA by Standard and Poor's with a stable outlook.

Major Initiatives

The major initiatives outlined in the FY 18/19 Budget are:

Community Service

- Implement and manage the Communications Strategic Plan with a focus on customer service.
- Continue to improve the Information Technology Strategic Five-Year Plan with a focus on security, customer service, development of policies and emerging technology.
- Ensure the stability of the water and sewer/storm drain system with capital improvements of water mains, sewer priority basins and storm drains.
- Improve the street pavement condition with biennial street resurfacing project.

Financial Stability

- Study the long-term funding options to complete the Storm Drain Master Plan improvements.

Land Use

- Utilize the design, permitting and construction public forum to enhance education and outreach.
- Provide enhanced construction management of construction sites.
- Facilitate electronic application, permit and plan check process including credit card payments for fees.

Community Partnerships

- Continue to partner with Hillsborough Beautification Foundation on projects involving Town property and public rights of way.

Regional Partnerships

- Continue participation/representation in the Peninsula Clean Energy JPA.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hillsborough for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the sixteenth consecutive year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town also received the Government Finance Officers Association's Distinguished Budget Presentation Award for its Operating and Capital Budget for fiscal year 17/18. The seventeenth year it has received this equally prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the Town's budget document was judged proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

We wish to extend our appreciation to all the departments who contributed financial information to the report.

We would also like to thank the members of the City Council and the Financial Advisory Committee for their interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

Respectfully submitted,



Katharine Leroux
City Manager



Jan Cooke
Finance Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Town of Hillsborough
California

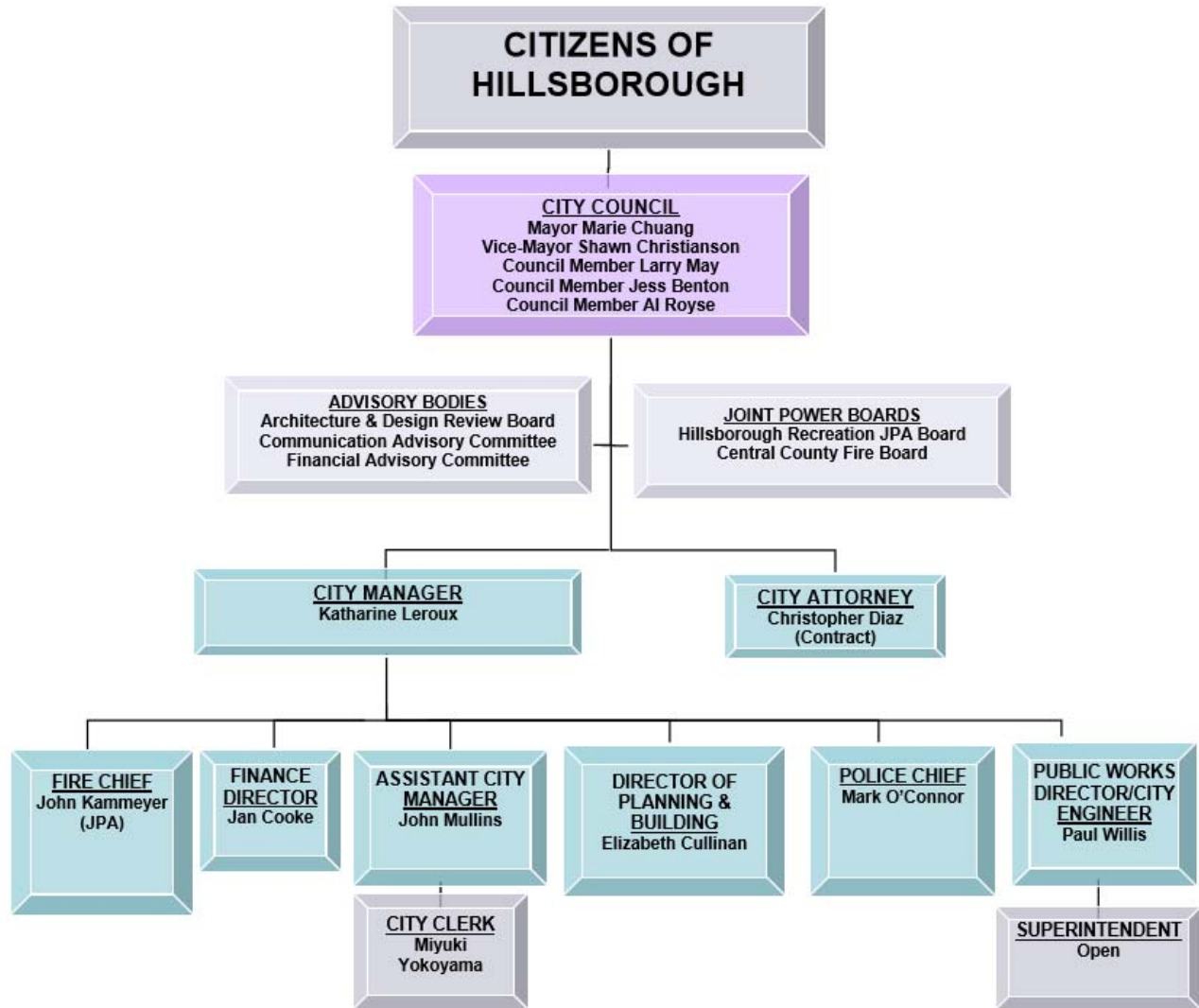
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

ORGANIZATIONAL CHART AND PRINCIPAL OFFICIALS



FIRE

FIRE OPERATIONS PERFORMED BY CENTRAL COUNTY FIRE DEPARTMENT THROUGH A JOINT POWERS AGREEMENT WITH THE CITY OF BURLINGAME

FINANCE

General Accounting
Financial Services
Utility Billing
Investments/Cash Management
Payroll
Information Technology
Debt Management
Solid Waste/Recycling

CITY MANAGER OFFICE

Human Resources
Records Management/
Elections
Risk Management
Hillsborough
Neighborhood
Network

BUILDING AND PLANNING

PLANNING:
Design Review
Environmental
Assessment
General Plan
Zoning
BUILDING:
Permits
Inspection

POLICE

Patrol
Investigation
Dispatch
Alarm Program
Neighborhood Services
Traffic Safety

PUBLIC WORKS

Streets
Storm Drainage
Water
Wastewater
Corporation Yard

FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
Town of Hillsborough, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsborough (Town), as of and for the year ended June 30, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 12 and 15 to the financial statements, the Town adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules, schedules of proportionate share of the net pension liability, schedules of pension contributions, and schedule of the change in net postemployment benefits (OPEB) liabilities and related ratios and schedule of OPEB contributions, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, capital asset schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, and capital asset schedules, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 and individual nonmajor fund financial statements and schedules, and capital asset schedules, are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 19, 2018

TOWN OF HILLSBOROUGH MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

As management of the Town of Hillsborough (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages ii to vii of this report.

Financial Highlights

- The net position of the Town as of June 30, 2018 was \$60.9 million. Of this amount, \$21.3 million is *unrestricted* and can be used to meet its ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$5.1 million with \$0.6 million from governmental activities and \$4.5 million from business-type activities.
- General Fund revenues increased \$1.4 million (6%) as compared to the prior year, and excess revenues (revenues greater than expenditures) totaled \$1.9 million. Revenue increases were primarily from increased property taxes that are attributable to strong real estate values in the Bay Area.
- The Town funded the annual required contribution for the Other Post-Employment Benefits (OPEB) liability, with \$0.3 million going into the trust and \$1.1 million paid in pay-go costs.
- Sewer Fund operating revenues increased \$0.9 million (9%) as compared to the prior year, primarily due to a rate increase of 10% effective July 1, 2017.
- Water Fund operating revenues increased \$1.0 million (7%) as compared to the prior year primarily due to increased water unit sales and rate increases. Unit sales increased 12% on a fiscal year basis.
- The Town spent \$4.8 million for capital purchases and infrastructure, with \$0.9 million in governmental activities for equipment and building improvements, and \$2.8 million in infrastructure in the water and sewer enterprise funds. Improvements were made to water tanks, water mains and priority sewer basins.
- Debt service on the State Revolving Fund Loan commenced September 2017 with annual debt service of approximately \$0.4 million per year for 30 years.
- The Town's General Fund reserve policy is 30% to 50% of budgeted operating expenditures, and is to be maintained for contingencies. The unassigned fund balance of \$22.5 million in the General Fund incorporates the \$12 million for this reserve requirement. While there is a remaining balance of unassigned reserve above policy level, the Town also has unfunded liabilities for pension and Other Postemployment Benefits (OPEB) totaling \$39.5 million. In addition, the General Fund will make a transfer/loan of up to \$2.2 million to the Sewer Fund in fiscal year 18/19 for storm drain and capital improvements. For purposes of this report, these items are not separately presented.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements such as this management's discussion and analysis.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

TOWN OF HILLSBOROUGH MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Overview of the Financial Statements (Continued)

The *statement of net position* presents information on all of the Town's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference between the two, reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, community services and streets. The business-type activities of the Town include the water and sewer operations.

The government-wide financial statements can be found on pages 21 through 22 of this report.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

TOWN OF HILLSBOROUGH MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Overview of the Financial Statements (Continued)

The Town maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, the police and fire special tax fund, and the capital projects fund which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 23 through 24 of this report.

Proprietary funds. The Town maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for the water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses an internal service fund to account for the replacement of the fleet and other equipment, and to accumulate funds to pay unfunded liabilities from pension and other post-employment benefit. Because this service predominantly benefits governmental rather than business-type function, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the internal service fund and the water and sewer operations, with the latter being considered major funds.

The basic proprietary fund financial statements can be found on page 26 through 28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 30 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's funding for OPEB, information on the pension liability and contributions, and a summary of major fund budgetary schedules. Required supplementary information can be found on pages 63 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining statements and individual fund schedules can be found on pages 73 of this report.

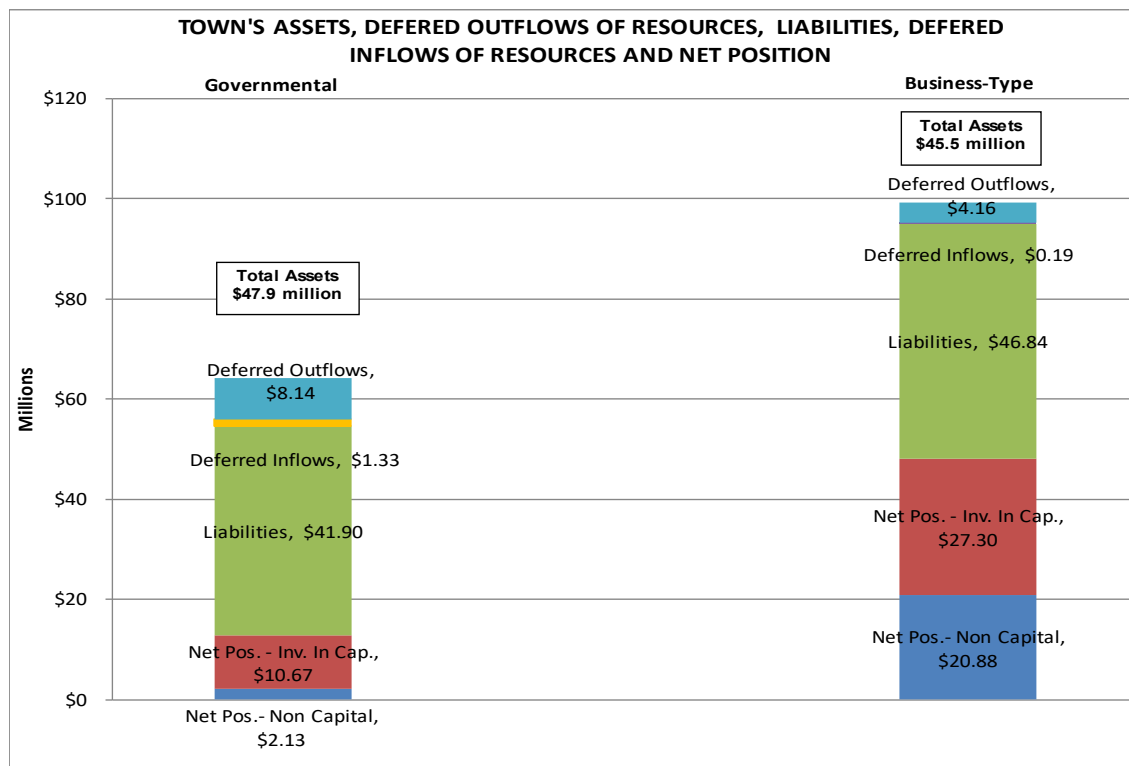
**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Government-wide Financial Analysis

The following table provides a condensed Statement of Net Position as of June 30, 2018.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current and other assets	\$ 37,227,021	\$ 34,710,142	\$ 26,768,779	\$ 24,599,060	\$ 63,995,800	\$ 59,309,202
Capital assets	10,665,462	10,792,547	64,285,965	64,679,973	74,951,427	75,472,520
Total assets	47,892,483	45,502,689	91,054,744	89,279,033	138,947,227	134,781,722
Deferred outflows of resources	8,135,714	5,156,916	4,159,472	4,988,003	12,295,186	10,144,919
Liabilities:						
Long-term liabilities	35,509,703	20,253,954	43,096,010	44,194,913	78,605,713	64,448,867
Other liabilities	6,393,353	5,529,843	3,739,117	4,882,233	10,132,470	10,412,076
Total liabilities	41,903,056	25,783,797	46,835,127	49,077,146	88,738,183	74,860,943
Deferred inflows of resources	1,328,471	1,425,004	194,910	182,154	1,523,381	1,607,158
Net Position						
Net investment in capital assets	10,665,462	10,792,547	27,303,121	25,925,584	37,968,583	36,718,131
Restricted	545,609	281,094	1,131,835	1,131,835	1,677,444	1,412,929
Unrestricted	1,585,599	12,377,163	19,749,223	17,950,317	21,334,822	30,327,480
Total net position	\$ 12,796,670	\$ 23,450,804	\$ 48,184,179	\$ 45,007,736	\$ 60,980,849	\$ 68,458,540

The following graph provides a representation of the Town's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2018.



TOWN OF HILLSBOROUGH MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Government-wide Financial Analysis (Continued)

The net position over time, may serve as a useful indicator of the Town's financial position. The Town's assets and deferred outflows of resources (for its derivatives and pensions) exceeded liabilities and deferred inflows of resources (from imposed non-exchanged transactions and pension) by \$60.9 million at June 30, 2018. The change in net position was an increase of \$5.2 million for the year. The increase in Governmental Activities net position of \$0.6 million is attributable to strong property tax revenues and other revenues that exceed the current year expenses for the governmental activities. The increase in business-type activities net position of \$4.6 million is attributable revenues exceeding current year operating expenses for the water and sewer activities that will be used to fund water and sewer capital improvements.

At June 30, 2018, the Town reports positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Town's *net investment in capital assets* (e.g. land, buildings, machinery, equipment and infrastructure) less any related debt used to acquire those assets that are still outstanding represents 62% of net position. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Capital assets transactions for fiscal year 2017/2018 include capital improvements of \$4.8 million, depreciation of \$5.5 million and principal payment of related debt in the amount of \$1.8 million.

The Town's net position includes \$1.7 million in resources that are subject to external restrictions on how they may be used – specifically, the reserve requirement relating to the certificates of participation and the State Revolving Fund loan of the business-type activities.

The *unrestricted net position* of \$21.3 million may be used to meet the Town's ongoing obligations to citizens and creditors.

The most notable change to the Town's financial statements for the year ended June 30, 2018 is the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Report for Postemployment Benefits Other Than Pension Benefits* (OPEB). The financial statements now reflect the OPEB liability and other accounting deferrals on the Statement of Net Position. This resulted in a reduction of the unrestricted net position in the amount of \$12.6 million.

**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Government-wide Financial Analysis (Continued)

The following table provides a condensed statement of activities for the fiscal year ended June 30, 2018. Analysis for governmental activities and business-type activities is outlined separately below.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES:						
Program revenues:						
Charges for service	\$ 3,798,702	\$ 3,791,494	\$ 25,889,752	\$ 23,970,578	\$ 29,688,454	\$ 27,762,072
Operating grants, transfers and Functional taxes	1,399,235	1,204,673	-	-	1,399,235	1,204,673
Capital grants, contributions and other non-operating	-	-	-	1,409,826	-	1,409,826
General revenues:						
Property taxes	15,785,068	14,872,305	-	-	15,785,068	14,872,305
Other taxes	7,167,538	6,850,489	-	-	7,167,538	6,850,489
Investment earnings	363,702	196,501	233,973	123,575	597,675	320,076
All others	190,715	82,841	-	-	190,715	82,841
Total revenues	28,704,960	26,998,303	26,123,725	25,503,979	54,828,685	52,502,282
EXPENSES:						
General government	1,651,645	1,101,642	-	-	1,651,645	1,101,642
Public safety	16,711,271	16,183,032	-	-	16,711,271	16,183,032
Community services	2,447,628	2,740,114	-	-	2,447,628	2,740,114
Streets	5,086,027	2,609,530	-	-	5,086,027	2,609,530
Water	-	-	13,083,410	12,302,076	13,083,410	12,302,076
Sewer	-	-	10,704,394	8,932,190	10,704,394	8,932,190
Total expenses	25,896,571	22,634,318	23,787,804	21,234,266	49,684,375	43,868,584
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENSES	2,808,389	4,363,985	2,335,921	4,269,713	5,144,310	8,633,698
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	2,229,769	3,346,214	2,229,769	3,346,214
Transfers out	(2,229,769)	(3,346,214)	-	-	(2,229,769)	(3,346,214)
Total Other Financing Sources (Uses)	(2,229,769)	(3,346,214)	2,229,769	3,346,214	-	-
Increase in net position	578,620	1,017,771	4,565,690	7,615,927	5,144,310	8,633,698
Net position - beginning	23,450,804	22,433,033	45,007,736	37,391,809	68,458,540	59,824,842
Change in accounting principle	(11,232,754)	-	(1,389,247)	-	(12,622,001)	-
Net position - ending	\$ 12,796,670	\$ 23,450,804	\$ 48,184,179	\$ 45,007,736	\$ 60,980,849	\$ 68,458,540

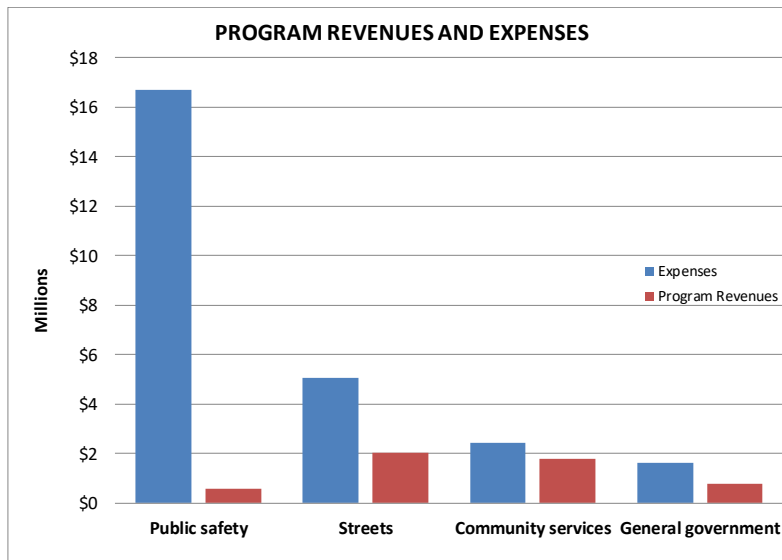
Governmental Activities. The Town's governmental activities net position increased by \$0.6 million, which largely came from General Fund where revenues exceeded expenditures, as well as timing of receipt of restricted street monies and the spending of the street resurfacing projects in the Capital Project Fund. Public Safety expenses increased over the prior year due to cost of living and benefits increases, as well as GASB 68 pension accounting timing differences.

**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Government-wide Financial Analysis (Continued)

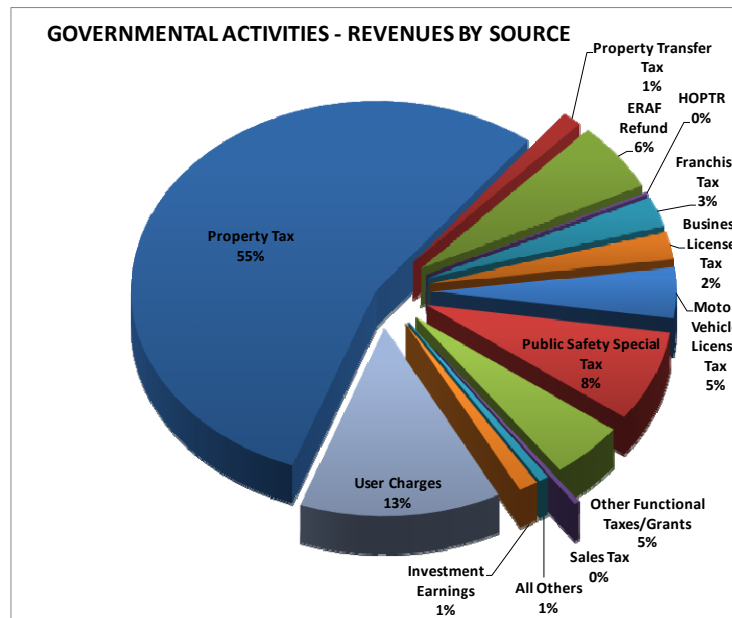
Governmental Activities – Expenses and Program Revenues

The following graph reflects functional program revenues and expenses for governmental activities. Public safety costs, comprised of police and fire services, comprise 65% of the expenses. Public Safety program revenues are primarily comprised of alarm permitting and public safety sales tax. The remainder of public safety costs are funded by general revenues including the Public Safety Special Tax (general revenues not included in chart below).



Governmental Activities – Revenues by Source

The following chart breaks down governmental activities revenues by source. Major revenue sources are property taxes-including Excess ERAF (62%), user charges (13%) and public safety special tax (8%).



**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Government-wide Financial Analysis (Continued)

Business-type Activities. The net position for business-type activities was \$48.1 million at June 30, 2018. Net position, before change in accounting principle, increased \$4.5 million. This is the result of excess revenues over expenses of \$2.3 million and transfers of \$2.3 million from the General Fund for capital projects.

Revenue increased \$2.3 million over the prior year with \$2.3 primarily from rate increases and higher water usage.

Expenses increased \$2.6 million, primarily attributable to increased costs in the water enterprise for water purchases and in the sewer enterprise for treatment plant contractual costs.

Financial Analysis of the Governmental Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Below is an outline of the governmental funds' results.

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

**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Analysis of the Governmental Funds (continued)

As of June 30, 2018, the Town's governmental funds reported combined ending fund balances of \$25.5 million - up \$0.9 million from the prior year, primarily from excess revenues over expenditures in the General Fund of \$2.4 million, timing of street and other capital projects in the Capital Fund of \$1.8 million offset by an increase in other non-major funds of \$0.3 million. The General Fund is the chief operating fund of the Town and the excess revenues were driven by strong property tax related revenues. The Capital Fund revenues are accumulated to support the street repaving program every other year. Of the \$25.5 million fund balance at June 30, 2018, \$22.5 million is classified as unassigned and the remainder is classified as restricted, committed, and non-spendable for a variety of purposes.

General Fund

General Fund Revenues

General Fund revenue increased \$1.4 million (6%) as compared to the prior year. The chart below outlines the detail of the revenue sources. The property tax increase of 6% is attributable to strong real estate values in the region.

REVENUES	2018	2017	Increase (Decrease)	Percent Change
Property taxes	\$ 15,785,068	\$ 14,872,305	\$ 912,763	6%
Public safety special tax transfer	2,234,503	2,234,248	255	0%
Excess ERAF	1,693,630	1,470,846	222,784	15%
Permits	1,370,637	1,315,948	54,689	4%
Service charges	1,090,405	1,119,680	(29,275)	-3%
In lieu of MVLF	1,261,095	1,188,946	72,149	6%
Franchise taxes	741,207	739,250	1,957	0%
Business license tax	683,726	664,654	19,072	3%
Property transfer tax	380,986	380,016	970	0%
Rental income	388,447	381,805	6,642	2%
Sales and use tax	100,563	98,856	1,707	2%
Public safety sales tax	133,337	129,527	3,810	3%
Federal, State and Local grants	46,166	5,000	41,166	823%
Transfer from Measure A	250,000	250,000	-	0%
Investment earnings	265,073	119,251	145,822	122%
All others	311,371	323,734	(12,363)	-4%
Total	<u>\$ 26,736,214</u>	<u>\$ 25,294,066</u>	<u>\$ 1,442,148</u>	6%

**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Analysis of the Governmental Funds (Continued)

General Fund Expenditures

The chart below shows the totals with and without the one-time capital contribution. General Fund expenditures increased by 8% or \$1.8 million (excluding one-time capital) as compared to the prior year, primarily attributable cost of living and contractual increases in benefits. The prior year fire expenditure reflects a one-time adjustment for monies that will maintained by CCFD for future asset replacements. One-time capital was funded in the prior year for automated meter readers. Transfers were higher than the prior year due to increased funding for storm drains and funding of asset replacement reserves.

EXPENDITURES	2018	2017	Increase (Decrease)	Percent Change
Salaries	\$ 8,170,655	\$ 7,389,182	\$ 781,473	11%
Overtime	425,318	426,363	(1,045)	0%
Temporary	91,295	69,433	21,862	31%
Medicare/FICA	392,357	342,395	49,962	15%
Retirement	2,164,767	1,805,540	359,227	20%
Insurances	1,597,474	1,616,211	(18,737)	-1%
Retirees' health insurance	1,202,421	1,161,425	40,996	4%
Workers' compensation	34,208	34,763	(555)	-2%
All others	101,477	81,637	19,840	24%
Total personnel costs	<u>14,179,972</u>	<u>12,926,949</u>	<u>1,253,023</u>	10%
Contribution for fire operations	6,704,520	6,910,784	(206,264)	-3%
Materials and services	3,672,764	3,621,810	50,954	1%
AMI Meters (one-time capital)	-	2,546,214	(2,546,214)	-100%
Reimbursement for other programs	(3,683,827)	(3,025,563)	(658,264)	22%
Transfers (including Internal Service)	3,452,853	2,105,760	1,347,093	64%
Total	<u>24,326,282</u>	<u>25,085,954</u>	<u>(759,672)</u>	-3%
Total Excluding One-Time Capital	<u>\$ 24,326,282</u>	<u>\$ 22,539,740</u>	<u>\$ 1,786,542</u>	8%

**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Analysis of the Governmental Funds (Continued)

General Fund Budgetary Highlights

The table below summarizes fiscal year 17/18 budget variances.

	Original Budget	Revised Budget	Actual	Variance	%
REVENUES					
Service charges	\$ 1,157,836	\$ 1,157,836	\$ 1,090,405	\$ (67,431)	-6%
Franchise taxes	705,151	705,151	741,207	36,056	5%
Business license	650,000	650,000	683,726	33,726	5%
Property taxes	15,589,355	15,589,355	15,785,068	195,713	1%
Permits	1,284,544	1,284,544	1,370,637	86,093	7%
Intergovernmental	1,180,390	1,180,390	1,376,989	196,599	17%
Investment earnings	80,000	80,000	265,073	185,073	231%
Excess ERAF	1,450,000	1,450,000	1,693,630	243,630	17%
All others	3,488,526	3,488,526	3,729,479	240,953	7%
Total	<u>25,585,802</u>	<u>25,585,802</u>	<u>26,736,214</u>	<u>1,150,412</u>	4%
EXPENDITURES					
Police	9,617,635	9,617,635	9,224,165	393,470	4%
Fire	6,994,520	6,994,520	6,971,570	22,950	0%
Community Services	2,703,017	2,703,017	2,729,304	(26,287)	-1%
Streets	2,484,471	2,484,471	2,029,168	455,303	18%
All others	3,445,680	3,445,680	3,372,075	73,605	2%
Total	<u>25,245,323</u>	<u>25,245,323</u>	<u>24,326,282</u>	<u>919,041</u>	4%
NET CHANGE	<u>\$ 340,479</u>	<u>\$ 340,479</u>	<u>\$ 2,409,932</u>	<u>\$ 2,069,453</u>	-608%

Revenues exceeded budget by \$1.1 million, primarily due to an increase in property taxes. Expenditures were lower than budget by \$0.9 million primarily due police and street spending. Police expenditures were favorable to budget for timing of filling of open positions, lower health benefits than estimated in the budget, and lower overtime. Street expenditures were favorable to budget due to timing of street related projects.

Financial Analysis of Proprietary Funds

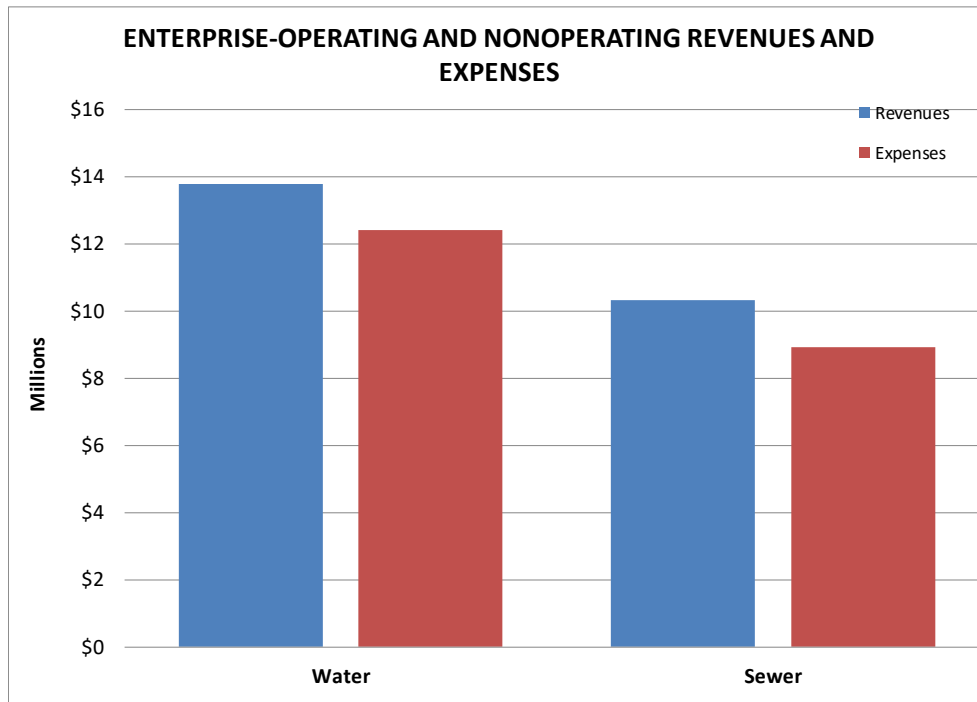
Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but with more details.

Unrestricted net position of the Water Fund at June 30, 2018 was \$11.7 million, which was \$0.5 million lower than the prior year, primarily attributable to the use of working capital to fund capital projects. The Unrestricted net position of the Sewer Fund at June 30, 2018 was \$6.9 million, which was \$1.8 million higher than the prior year, primarily attributable to an increase in working capital due to timing of cash receipts and capital project spending.

**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Analysis of the Proprietary Funds (Continued)

Water and Sewer operating revenues increased \$1.9 million (8%) primarily due to rate increases and an increase in water usage. Water usage increased 12% for the *fiscal year* ended June 30, 2018 as compared to the prior fiscal year. The sewer and water enterprise debt service coverage ratio was 2.6:1, which is in compliance with the required ratio of 1.2:1.



Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounted to \$74.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and streets.

Additional information on the Town's capital assets can be found in Note 4 to the financial statements.

**TOWN OF HILLSBOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Capital Asset and Debt Administration (Continued)

**CAPITAL ASSETS
(Net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2016
Land	\$ 1,456,560	\$ 1,456,560	\$ -	\$ -	\$ 1,456,560	\$ 1,456,560
Land improvements	1,314,028	1,312,686	-	-	1,314,028	1,312,686
Buildings	1,633,172	1,326,710	1,678	3,949	1,634,850	1,330,659
Machinery and equipment	1,237,853	1,184,090	149,117	188,270	1,386,970	1,372,360
Infrastructure	5,023,849	5,512,501	-	-	5,023,849	5,512,501
Water and sewer lines	-	-	64,135,170	64,487,754	64,135,170	64,487,754
Total	\$ 10,665,462	\$ 10,792,548	\$ 64,285,965	\$ 64,679,973	\$ 74,951,427	\$ 75,472,521

Long-term Debt. At June 30, 2018, the Town had total long-term debt outstanding of \$37 million, excluding compensated absences pension and OPEB liabilities, as outlined on the chart below:

LONG TERM DEBT

	Business-type Activities	
	2018	2017
Certificates of participation	\$ 27,615,000	\$ 29,080,000
Loan Payable - California Energy Program	563,595	623,157
Loan Payable - State Revolving Fund Loan	8,804,249	9,051,234
Total	\$ 36,982,844	\$ 38,754,391

Total principal paid during the year was \$1.8 million. The Town maintains ratings of AAA from Standard and Poor's and AA+ from Fitch on its certificates of participation.

Debt service on the State Revolving Fund Loan commenced in September 2017 at approximately \$0.4 million per year for 30 years.

Additional information on the Town's long-term debt can be found in Notes 6 and 7 on page 42 to 46 of this report.

TOWN OF HILLSBOROUGH MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Economic Factors and Future Challenges

The Storm Drain master plan outlines \$55 million in capital improvements over the next 30 years. The only current dedicated source of funding is the annual storm drain assessment of \$7.34 per parcel (annual revenues of approximately \$30,000). Storm drain improvements were funded by the General Fund in FY 17/18 for \$1.6 million. A long-term dedicated source of funding may be needed to fund the long-term master plan.

The Town lifted its mandatory regulations in June 2016 for water conservation. The City Council continues to monitor conditions to ensure that water rates are sufficient to cover the cost of the water enterprise.

The CalPERS Board approved changes in actuarial policies and assumptions and the discount rate, which will increase the rate that local government employers pay for their pension plans. The discount rate is phased in over three years, with impact starting in FY 18/19. It is projected that the annual required contributions will nearly double over the next ten to fifteen years, going from \$2.7 million in FY 18/19 to \$5.3 million in FY 27/28. For many years the Town has reviewed and taken steps to mitigate pension costs such as adding a new tier pension formula for miscellaneous plan employees, paying off the pension side fund (\$10 million), and partnering with employees to pay a portion of the employer costs. For several months the Town has had a study underway that has involved:

- Actuary analyses.
- Section 115 pension trust vendor selection and funding alternatives.
- Sensitivity analyses with respect to CalPERS payments in order to review strategic options to mitigation pension costs.

The Town is working toward a recommendation and conclusion on this analysis.

The economy in the San Francisco Bay Area was strong in FY 17/18 and is projected to remain strong in FY 18/19. The FY 18/19 General Fund Adopted Budget shows a revenue increase of 3%, net operating revenues of \$2.2 million, and net deficit after funding of capital of \$.6 million. The capital funding includes \$1.6 million for storm drain, \$1.0 million for Sewer Fund Loan (if needed), and \$0.7 million for other capital. The General Fund FY 18/19 reserve is projected to be \$20 million. To balance the financial picture, the Town also has \$39 million of pension and OPEB liabilities.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Hillsborough, 1600 Floribunda Avenue, Hillsborough, CA 94010.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF HILLSBOROUGH
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments	\$ 37,377,689	\$ 22,578,202	\$ 59,955,891
Receivables, net of an estimated allowance	688,821	2,874,343	3,563,164
Interest	253,293	-	253,293
Taxes receivable	91,791	-	91,791
Internal balances	(1,193,144)	1,193,144	-
Due from outside agencies	-	4,648	4,648
Prepaid items	8,571	-	8,571
Supplies	-	118,442	118,442
Capital assets, net of accumulated depreciation			
Land	1,456,560	-	1,456,560
Land improvements	1,314,028	-	1,314,028
Buildings	1,633,172	1,678	1,634,850
Machinery and equipment	1,237,853	149,117	1,386,970
Infrastructure	5,023,849	-	5,023,849
Water and sewer lines	-	64,135,170	64,135,170
Total assets	<u>47,892,483</u>	<u>91,054,744</u>	<u>138,947,227</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Hedging derivatives instruments	-	2,974,747	2,974,747
Deferred outflows related to other postemployment benefits	1,202,302	148,698	1,351,000
Deferred outflows related to pensions	6,933,412	1,036,027	7,969,439
Total deferred outflows of resources	<u>8,135,714</u>	<u>4,159,472</u>	<u>12,295,186</u>
LIABILITIES:			
Accounts payable and other current liabilities	893,454	759,368	1,652,822
Accrued payroll liabilities	308,530	-	308,530
Unearned revenues	109,283	-	109,283
Deposits	4,515,378	837,947	5,353,325
Uninsured claims	66,200	113,800	180,000
Accrued interest payable	-	170,364	170,364
Noncurrent liabilities:			
Due within one year:			
Compensated absences - due next year	500,508	76,515	577,023
Loans payable - due next year	-	301,123	301,123
Certificates of participation - due next year	-	1,480,000	1,480,000
Due in more than one year:			
Compensated absences	801,651	46,507	848,158
Derivative instrument - interest swap liability	-	2,974,747	2,974,747
Loans payable	-	9,066,721	9,066,721
Certificates of participation	-	26,135,000	26,135,000
OPEB liability	12,165,406	1,504,594	13,670,000
Net pension liability	22,542,646	3,368,441	25,911,087
Total liabilities	<u>41,903,056</u>	<u>46,835,127</u>	<u>88,738,183</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to other postemployment benefits	139,720	17,281	157,001
Deferred inflows related to pensions	1,188,751	177,629	1,366,380
Total deferred inflows of resources	<u>1,328,471</u>	<u>194,910</u>	<u>1,523,381</u>
NET POSITION:			
Net investment in capital assets	10,665,462	27,303,121	37,968,583
Restricted for:			
Street projects	111,433	-	111,433
Police projects	434,176	-	434,176
Debt Service	-	1,131,835	1,131,835
Unrestricted	1,585,599	19,749,223	21,334,822
Total net position	<u>\$ 12,796,670</u>	<u>\$ 48,184,179</u>	<u>\$ 60,980,849</u>

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

**TOWN OF HILLSBOROUGH
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Functions/Programs	Program revenues			Net (Expense) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	\$ 1,651,645	\$ 772,233	\$ -	\$ (879,412)	\$ -	\$ (879,412)
Public safety	16,711,271	407,497	169,591	(16,134,183)	-	(16,134,183)
Community services	2,447,628	1,792,327	-	(655,301)	-	(655,301)
Streets	5,086,027	826,645	1,229,644	(3,029,738)	-	(3,029,738)
Total governmental activities	<u>25,896,571</u>	<u>3,798,702</u>	<u>1,399,235</u>	<u>(20,698,634)</u>	<u>-</u>	<u>(20,698,634)</u>
Business-type activities:						
Water	13,083,410	14,702,348	-	-	1,618,938	1,618,938
Sewer	10,704,394	11,187,404	-	-	483,010	483,010
Total business-type activities	<u>23,787,804</u>	<u>25,889,752</u>	<u>-</u>	<u>-</u>	<u>2,101,948</u>	<u>2,101,948</u>
Total	<u>\$ 49,684,375</u>	<u>\$ 29,688,454</u>	<u>\$ 1,399,235</u>	<u>(20,698,634)</u>	<u>2,101,948</u>	<u>(18,596,686)</u>
General Revenues:						
Property tax				15,785,068	-	15,785,068
Public safety tax				2,243,038	-	2,243,038
Property transfer tax				380,986	-	380,986
Franchise tax				741,207	-	741,207
Sales tax				100,563	-	100,563
Motor vehicle license tax				1,261,095	-	1,261,095
Business license tax				683,726	-	683,726
ERAF refund				1,693,630	-	1,693,630
HOPTR				63,293	-	63,293
All others				190,715	-	190,715
Investment earnings				363,702	233,973	597,675
Transfers				(2,229,769)	2,229,769	-
Total general revenues and transfers				<u>21,277,254</u>	<u>2,463,742</u>	<u>23,740,996</u>
Change in net position				578,620	4,565,690	5,144,310
Net position - beginning				23,450,804	45,007,736	68,458,540
Cumulative effect of a change in accounting principle				(11,232,754)	(1,389,247)	(12,622,001)
Net position - beginning, as restated				<u>12,218,050</u>	<u>43,618,489</u>	<u>55,836,539</u>
Net position - ending				<u>\$ 12,796,670</u>	<u>\$ 48,184,179</u>	<u>\$ 60,980,849</u>

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

**TOWN OF HILLSBOROUGH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General Fund</u>	<u>Police and Fire Special Tax Fund</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Cash and investments	\$ 27,255,659	\$ -	\$ 2,572,045	\$ 491,857	\$ 30,319,561
Receivables	583,697	-	51,187	53,752	688,636
Interest	253,293	-	-	-	253,293
Taxes receivable	91,791	-	-	-	91,791
Prepaid items	8,571	-	-	-	8,571
Total assets	<u>\$ 28,193,011</u>	<u>\$ -</u>	<u>\$ 2,623,232</u>	<u>\$ 545,609</u>	<u>\$ 31,361,852</u>
LIABILITIES:					
Accounts payable and other current liabilities	\$ 695,180	\$ -	\$ 178,731	\$ -	\$ 873,911
Accrued payroll	308,530	-	-	-	308,530
Unearned revenues	109,283	-	-	-	109,283
Deposits payable	4,509,878	-	5,500	-	4,515,378
Uninsured claims	66,200	-	-	-	66,200
Total liabilities	<u>5,689,071</u>	<u>-</u>	<u>184,231</u>	<u>-</u>	<u>5,873,302</u>
FUND BALANCES:					
Nonspendable	8,571	-	-	-	8,571
Restricted:					
Streets projects	-	-	-	111,433	111,433
Police projects	-	-	-	434,176	434,176
Committed for capital projects	-	-	2,439,001	-	2,439,001
Unassigned	22,495,369	-	-	-	22,495,369
Total fund balances	<u>22,503,940</u>	<u>-</u>	<u>2,439,001</u>	<u>545,609</u>	<u>25,488,550</u>
Total liabilities and fund balances	<u>\$ 28,193,011</u>	<u>\$ -</u>	<u>\$ 2,623,232</u>	<u>\$ 545,609</u>	<u>\$ 31,361,852</u>

Reconciliation of the balance sheet of governmental funds to the statement of net position:

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	9,621,277
The internal service fund is used by the Town to charge the costs of fleet and other equipment management and the management information systems to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	6,889,811
Pension liabilities and related deferrals are not due and payable in the current period and therefore are not reported on the governmental funds.	(16,797,985)
Other postemployment liabilities and related deferrals are not due and payable in the current period and therefore are not reported on the governmental funds.	(11,102,824)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(1,302,159)
Net position of governmental activities	<u>\$ 12,796,670</u>

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

**TOWN OF HILLSBOROUGH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	General Fund	Police and Fire Special Tax Fund	Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 15,785,068	\$ -	\$ -	\$ -	\$ 15,785,068
Public safety special taxes	-	2,243,038	-	-	2,243,038
Franchise taxes	741,207	-	-	-	741,207
Business license taxes	683,726	-	-	-	683,726
All others taxes	2,308,516	-	-	-	2,308,516
Permits	1,370,637	-	63,239	-	1,433,876
Intergovernmental	1,376,989	-	265,878	1,087,191	2,730,058
Service charges	1,090,405	-	-	-	1,090,405
Other fees and charges	-	-	630,260	-	630,260
Fines and forfeitures	159,528	-	-	-	159,528
Investment earnings	265,073	-	31,381	6,614	303,068
Miscellaneous	470,562	-	58,400	-	528,962
Total revenues	<u>24,251,711</u>	<u>2,243,038</u>	<u>1,049,158</u>	<u>1,093,805</u>	<u>28,637,712</u>
EXPENDITURES:					
Current:					
General government	1,304,075	8,535	7,231	-	1,319,841
Public safety	16,195,735	-	-	-	16,195,735
Community services	2,729,304	-	-	-	2,729,304
Streets	2,029,168	-	3,196,282	30,391	5,255,841
Capital outlay	-	-	522,941	-	522,941
Total expenditures	<u>22,258,282</u>	<u>8,535</u>	<u>3,726,454</u>	<u>30,391</u>	<u>26,023,662</u>
Excess (deficiency) of revenues over expenditures	<u>1,993,429</u>	<u>2,234,503</u>	<u>(2,677,296)</u>	<u>1,063,414</u>	<u>2,614,050</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	2,484,503	-	878,899	-	3,363,402
Transfers out	<u>(2,068,000)</u>	<u>(2,234,503)</u>	<u>-</u>	<u>(798,899)</u>	<u>(5,101,402)</u>
Total Other Financing Sources (Uses)	<u>416,503</u>	<u>(2,234,503)</u>	<u>878,899</u>	<u>(798,899)</u>	<u>(1,738,000)</u>
Net change in fund balances	2,409,932	-	(1,798,397)	264,515	876,050
Fund balances - beginning	<u>20,094,008</u>	<u>-</u>	<u>4,237,398</u>	<u>281,094</u>	<u>24,612,500</u>
Fund balances - ending	<u>\$ 22,503,940</u>	<u>\$ -</u>	<u>\$ 2,439,001</u>	<u>\$ 545,609</u>	<u>\$ 25,488,550</u>

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

**TOWN OF HILLSBOROUGH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Net change in fund balances - total governmental funds \$ 876,050

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (190,879)

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.

Compensated absences	(70,724)
Pension expense	(1,258,998)
Other postemployment benefits	129,930

The internal service fund is used by the Town to charge the costs of fleet and other equipment management and management information systems to individual funds and to accumulate funds to service the Town's unfunded liabilities

Change in net position of governmental activities	1,093,241
	\$ 578,620

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

TOWN OF HILLSBOROUGH
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Business-Type Activities			Governmental
	Water Fund	Sewer Fund	Total Enterprise Funds	Internal Service Fund
ASSETS:				
Current assets:				
Cash and investments	\$ 12,426,462	\$ 10,151,740	\$ 22,578,202	\$ 7,058,128
Receivables, net	2,874,343	-	2,874,343	185
Due from other governments	4,648	-	4,648	-
Supplies and other current assets	114,383	4,059	118,442	-
Total current assets	15,419,836	10,155,799	25,575,635	7,058,313
Noncurrent assets:				
Capital assets:				
Buildings and improvements	292,176	49,161	341,337	-
Machinery and equipment	1,410,880	547,084	1,957,964	4,259,742
Water and sewer lines	74,074,082	73,830,110	147,904,192	-
Less accumulated depreciation	(47,846,162)	(38,071,366)	(85,917,528)	(3,215,557)
Total noncurrent assets	27,930,976	36,354,989	64,285,965	1,044,185
Total assets	43,350,812	46,510,788	89,861,600	8,102,498
DEFERRED OUTFLOWS OF RESOURCES:				
Hedging derivatives instruments	1,452,591	1,522,156	2,974,747	-
Deferred outflows related to pension	557,861	478,166	1,036,027	-
Deferred outflows related to other postemployment benefits	79,260	69,438	148,698	-
Total deferred outflows of resources	2,089,712	2,069,760	4,159,472	-
LIABILITIES:				
Current liabilities:				
Accounts payable	321,075	438,293	759,368	19,543
Deposits	837,947	-	837,947	-
Uninsured claims	2,500	111,300	113,800	-
Accrued interest payable	30,868	139,496	170,364	-
Loans payable - due next year	60,155	240,968	301,123	-
Certificates of Participation-due next year	661,667	818,333	1,480,000	-
Compensated absences-due next year	42,440	34,075	76,515	-
Total current liabilities	1,956,652	1,782,465	3,739,117	19,543
Noncurrent liabilities:				
Derivative instrument - interest swap liability	1,452,591	1,522,156	2,974,747	-
Compensated absences	44,415	2,092	46,507	-
Loans payable	503,444	8,563,277	9,066,721	-
Certificates of participation	12,822,942	13,312,058	26,135,000	-
Other postemployment liability	801,989	702,605	1,504,594	-
Net pension liability	1,813,776	1,554,665	3,368,441	-
Total noncurrent liabilities	17,439,157	25,656,853	43,096,010	-
Total Liabilities	19,395,809	27,439,318	46,835,127	19,543
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows related to other postemployment benefits	9,212	8,069	17,281	-
Deferred inflows related to pensions	95,646	81,983	177,629	-
Total deferred outflows of resources	104,858	90,052	194,910	-
NET POSITION:				
Net investment in capital assets	13,882,768	13,420,353	27,303,121	1,044,185
Restricted for debt service	375,000	756,835	1,131,835	-
Unrestricted	11,682,089	6,873,990	18,556,079	7,038,770
Total Net Position	\$ 25,939,857	\$ 21,051,178	46,991,035	\$ 8,082,955
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			1,193,144	
Net position of business-type activities			\$ 48,184,179	

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

TOWN OF HILLSBOROUGH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities			Governmental
	Water Fund	Sewer Fund	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES:				
Sale of water	\$ 10,361,534	\$ -	\$ 10,361,534	\$ -
Water meter charges	4,290,909	-	4,290,909	-
Sewer service charges	-	11,106,420	11,106,420	-
Other services	-	-	-	1,985,947
Miscellaneous	49,905	80,984	130,889	-
Total Operating Revenues	<u>14,702,348</u>	<u>11,187,404</u>	<u>25,889,752</u>	<u>1,985,947</u>
OPERATING EXPENSES:				
Water purchases, utilities and pumping	6,267,802	-	6,267,802	-
Sewage treatment services and utilities	-	3,239,112	3,239,112	-
Personnel, overhead and facilities	3,404,079	2,662,279	6,066,358	-
Materials, supplies and other	1,448,703	1,235,894	2,684,597	87,455
Depreciation and amortization	1,409,770	2,831,549	4,241,319	380,730
Total Operating Expenses	<u>12,530,354</u>	<u>9,968,834</u>	<u>22,499,188</u>	<u>468,185</u>
Operating Income (loss)	<u>2,171,994</u>	<u>1,218,570</u>	<u>3,390,564</u>	<u>1,517,762</u>
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	156,199	77,774	233,973	67,248
Interest expense	(553,056)	(735,560)	(1,288,616)	-
Total nonoperating revenue (expenses)	<u>(396,857)</u>	<u>(657,786)</u>	<u>(1,054,643)</u>	<u>67,248</u>
Income (loss) before contributions and transfers	<u>1,775,137</u>	<u>560,784</u>	<u>2,335,921</u>	<u>1,585,010</u>
Transfers in	-	1,600,000	1,600,000	138,000
Change in net position	<u>1,775,137</u>	<u>2,160,784</u>	<u>3,935,921</u>	<u>1,723,010</u>
Net position - beginning	24,905,226	19,539,135	44,444,361	6,359,945
Cumulative effect of a change in accounting principle	(740,506)	(648,741)	(1,389,247)	-
Net position - beginning, as restated	<u>24,164,720</u>	<u>18,890,394</u>	<u>43,055,114</u>	<u>6,359,945</u>
Net position - ending	<u>\$ 25,939,857</u>	<u>\$ 21,051,178</u>	<u>\$ 46,991,035</u>	<u>\$ 8,082,955</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fun			629,769	
Change in net position of business-type activities			<u>\$ 4,565,690</u>	

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

**TOWN OF HILLSBOROUGH
STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Business-Type Activities			Governmental
	Water Fund	Sewer Fund	Total Enterprise Funds	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 14,977,225	\$ 11,216,900	\$ 26,194,125	\$ -
Receipts from interfund services provided	-	-	-	1,985,762
Payment to suppliers	(8,804,588)	(4,547,369)	(13,351,957)	(156,723)
Payment to employees	(3,337,592)	(2,598,387)	(5,935,979)	-
Net cash provided (used) by operating activities	2,835,045	4,071,144	6,906,189	1,829,039
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	(3,040)	57,195	54,155	-
Transfers from other funds	-	1,600,000	1,600,000	138,000
Net cash used by noncapital financing activities	(3,040)	1,657,195	1,654,155	138,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	-	980,811	980,811	-
Acquisition and construction of capital assets	(2,269,461)	(1,577,850)	(3,847,311)	(444,521)
Loan principal paid	(59,558)	(246,987)	(306,545)	-
Principal paid on debt	(652,422)	(812,578)	(1,465,000)	-
Interest paid on debt	(558,614)	(738,650)	(1,297,264)	-
Net cash used in capital and related financing activities	(3,540,055)	(2,395,254)	(5,935,309)	(444,521)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	156,199	77,774	233,973	67,248
Net increase (decrease) in cash and cash equivalents	(551,851)	3,410,859	2,859,008	1,589,766
Cash and cash equivalents - beginning	12,978,313	6,740,881	19,719,194	5,468,362
Cash and cash equivalents - ending	\$ 12,426,462	\$ 10,151,740	\$ 22,578,202	\$ 7,058,128
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 2,171,994	\$ 1,218,570	\$ 3,390,564	\$ 1,517,762
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization expense	1,409,770	2,831,549	4,241,319	380,730
(Increase) decrease in accounts receivable	250,077	29,496	279,573	(185)
(Increase) decrease in deferred inflows	(2,437)	(2,088)	(4,525)	-
(Increase) decrease in inventories and prepaids	2,541	1,978	4,519	-
Increase (decrease) in deposits	24,800	-	24,800	-
Increase (decrease) in accounts payable	(1,090,222)	(171,133)	(1,261,355)	(69,268)
Increase (decrease) in claims liability	(402)	96,792	96,390	-
Increase (decrease) in net pension liability	246,671	211,432	458,103	-
Increase (decrease) in net OPEB liability	406,359	348,144	754,503	-
Increase (decrease) in deferred outflows	(557,861)	(478,166)	(1,036,027)	-
Increase (decrease) in compensated absences	(26,245)	(15,430)	(41,675)	-
Total adjustments	663,051	2,852,574	3,515,625	311,277
Net cash provided (used) by operating activities	\$ 2,835,045	\$ 4,071,144	\$ 6,906,189	\$ 1,829,039

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

NOTES TO THE FINANCIAL STATEMENTS

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Town's accounting policies:

A. Reporting Entity

The Town of Hillsborough (the Town) is a municipal corporation governed by a five-member council. The accompanying financial statements present the Town and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended component unit - The operations of the Hillsborough Public Improvement Corporation (HPIC) was established to assist in the financing of the acquisition of public improvements on behalf of the Town. HPIC is combined with that of the Town's Water and Sewer funds in these financial statements. The City Council sits as its Board of Directors and has full accountability for its operations. The Corporation does not issue a separate financial report.

B. Government-wide and Fund Financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Town and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for the governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town does not have any fiduciary funds or fiduciary-type component units.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

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

The *Police and Fire Special Tax Fund* is used to account for revenues apportioned under a Town voter-approved special tax which proceeds are restricted for public safety operations and capital expenditures.

The *Capital Projects Fund* is used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The Town reports the following major proprietary funds:

The *Water Fund* accounts for the activities associated with the distribution and transmission of potable water to the Town's residents.

The *Sewer Fund* accounts for activities associated with the treatment and transmission of sewage.

Additionally, the Town reports an *Internal Service Fund* that accounts for fleet management and the replacement of other equipment provided to other departments on a cost reimbursement basis.

The Town does not have any fiduciary fund and fiduciary-type component unit; hence, no such statements are included in this financial report.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the water and sewer funds' principal ongoing operations. The principal operating revenues of the water and sewer funds, and of the Town's internal service fund, are charges to customers for sales and services. The Town also recognizes as operating revenues the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 they are needed.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Town's investment policy and the California Government Code allow the Town to invest in the US Government, time certificates of deposits placed with commercial banks, negotiable certificates of deposit, banker's acceptances, commercial paper, money market funds, repurchase agreements, the County of San Mateo Pooled Fund, and the California Local Agency Investment Fund (LAIF) pool. The California Government Code Section 16429 under the oversight of the State Treasurer regulates LAIF. The Town reports its investment in LAIF at the fair value amount LAIF provided. The Town's position in the pool is approximately the same as the value of the pool shares. LAIF is not registered with the SEC and is unrated. Cash and investments with the Trustee, if any, are invested pursuant to governing bond covenants.

**TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements, outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Receivables are shown net of an allowance for uncollectible where applicable. Unbilled services revenues in the Enterprise Funds are accrued at year-end.

3. Property Taxes

Property taxes become an enforceable lien on property as of January 1, levied on July 1; secured taxes are payable in two installments on November 1 and February 1 and delinquent on December 10 and April 10. Unsecured taxes are due on July 1 and delinquent on August 31. The County bills and collects the property taxes and remits them to the City.

“Unsecured” refers to taxes on personal property other than land and buildings.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of the full market value of the property (at time of purchase) and can increase the assessed property valuation by no more than 2% per year. This tax levy is distributed to the different governmental agencies under the State-mandated alternate method of apportioning taxes (commonly referred to as the “Teeter Plan”). All local agencies with historical tax delinquency rates less than 3%, receive from the County 100% of their respective shares of the amount of ad valorem taxes levied, without regard to the actual collection of taxes levied. The County handles all delinquencies, retaining interest and penalties.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. Prepaid items in governmental funds are recorded as expenditures when consumed.

5. Restricted Assets

Certain bond and loan proceeds of the Town's Enterprise Fund are classified as restricted assets on the statement of net position because their use is limited by the applicable bond covenant.

6. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, sidewalks, and similar items), and water and sewer lines, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

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

Initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) is included regardless of their acquisition date or amount. The Town estimated the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using a price-level index to deflate the cost to the acquisition or estimated acquisition year). As the Town constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. The Town values donations of capital assets at the acquisition value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 years
Building improvements	30 years
Machinery and equipment	3-15 years
System infrastructure	30-50 years
Transmission and distribution systems	40 years

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation up to a certain amount. Sick leave credit vests in varying amounts depending on bargaining units and groups. Both are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, because of employee resignations and retirements.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

9. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The Town reports deferred outflows related to pensions, other postemployment benefits and for its hedging derivative instruments.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resource (revenue) until that time. The Town reports deferred inflows related to pensions and other postemployment benefits.

10. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Public Employees Retirement System (CalPERS) plans and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

11. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” Another significant element relates to capital assets, which are not considered to financial resources available for spending. This year's difference in the amount of \$9,621,277 relates to capital asset, \$1,302,502 relates to compensated absences, \$16,797,985 relates to pension liabilities and related deferrals, 11,102,824 relates to OPEB liabilities and related deferrals and \$6,889,811 relates to the incorporation of the internal service fund into the governmental activities.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One significant element of that reconciliation explains “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.” The details of this (\$522,941) difference are as follows:

Capital Outlay	\$ 522,941
Depreciation	(713,820)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ (190,879)

Another element of that reconciliation states, “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 the governmental funds.” (\$70,724) relates to increases in compensated absences from sick leave vesting on certain employees and (\$1,129,026) relates to pension and OPEB expense. Another element of the reconciliation includes the incorporation of the net revenue of the internal service fund for \$1,093,241.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS

The Town's deposits and investments are invested pursuant to its investment policy guidelines. The objectives of the policy are, in order of priority, preservation of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which the Town will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. Total Town cash and investments at fair value on June 30, 2018, are as follows:

Cash and investments as of June 30, 2018, consist of the following:

Cash on hand	\$ 8,300
Deposits with financial institutions	2,692,158
Total cash and bank deposits	<u>2,700,458</u>
Investments	4,912,295
Participation in LAIF pool	52,343,138
Total investments	<u>57,255,433</u>
Total cash and investments	<u><u>\$ 59,955,891</u></u>

Investments Authorized by the California Government Code and the Town's Investment Policy

The table below identifies the investment types that are allowed by the California Government Code and are authorized by the Town's more restrictive investment policy. The second part of the table relates to investments of debt proceeds held by bond trustees and governed by the provisions of the Town's debt agreements. The table addresses interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Authorized for the Town:			
U.S. Treasury Obligations	2 years 2 - 5 years	50% 50%	None
Banker's Acceptances	180 days	20%	Lower of \$1M or 10%
Time Certificate of Deposit	2 years	None	\$500,000
Commercial Paper	180 days	10%	\$1M up to 3 months \$500,000 up to 6 months
Local Agency Investment Fund (LAIF)	N/A	None	N/A
Repurchase Agreements	30 days	20%	20%
Negotiable Certificates of Deposit	5 years	30%	None
County Pooled Investment Funds	N/A	10%	N/A
Money Market Mutual Funds (Custodial Accounts Only)	N/A	None	None
Authorized By Debt Agreements:			
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Certificates of Deposits/Bankers Acceptances	360 days	None	None
Commerical Paper	270 days	None	None
Money Market Funds	N/A	None	None
Local Agency Bonds	None	None	None
Investment Contracts	None	None	None
Repurchase Agreements	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	N/A

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Changes in market interest rates will affect the fair value of an investment. Generally, investments with longer maturities are more sensitive to changes in market interest rates. The Town manages its exposure to interest rate risk by purchasing a combination of shorter and longer-term investments and by timing cash flows from maturities, so that investments mature evenly over time as necessary to provide the cash flow and liquidity needed for operations. The following table shows the distribution of the Town's investments by maturity:

Investment Type	Amount	12 Months or Less	13-24 Months	25-60 Months	Total
LAIF	\$52,343,137	\$52,343,137	\$ -	\$ -	\$52,343,137
Negotiable Certificates of Deposit	2,454,823	496,773	491,660	1,466,390	2,454,823
U.S. Treasury Notes	2,457,473	824,045	412,438	1,220,990	2,457,473
Totals	\$57,255,433	\$53,663,955	\$ 904,098	\$ 2,687,380	\$57,255,433

Credit Risk

Credit risk, when an issuer of an investment does not fulfill its obligation to the holder of an investment, is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type:

Investment Type	Amount	Exempt From Disclosure	Not Rated
LAIF	\$52,343,137	\$ -	\$52,343,137
Negotiable Certificates of Deposit	2,454,823	-	2,454,823
U.S. Treasury Notes	2,457,473	2,457,473	-
Totals	\$57,255,433	\$ 2,457,473	\$54,797,960

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk, that, in the event of the failure of the counterparty (e.g. broker-dealer used by the Town to buy the securities), the government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Town's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments with the exception of the following provision. A financial institution is required to secure deposits in excess of \$250,000 made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law secured by US government securities at a constant margin ratio of 110% for government securities.

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

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investment in the State Investment Pool

As of year-end, the Town has \$52,370,307 participation in the Local Agency Investment Fund (LAIF) regulated by the California Government Code under the oversight of the Treasurer of the State of California.

Interest and investment income consists of the following at June 30, 2018:

Interest Earned	\$ 742,636
Decrease in Fair Value	<u>(144,961)</u>
Total	<u><u>\$ 597,675</u></u>

Fair Value Measurements

The Town categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy has three levels used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the Town has the ability to access at the measurement date. Level One assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level One prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level two input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the Town's own data. The Town should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the City are not available to other market participants.

Uncategorized - Investments in the Local Agency Investment Funds/State Investment Pool are not measured using the input levels above because the Town's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

Investment Type	Fair Value Measurement Using	
	Level 1 Inputs	Uncategorized
LAIF	\$ -	\$ 52,343,137
Negotiable Certificates of Deposit	-	2,454,823
U.S. Treasury Notes	2,457,473	-
Total Investment Portfolio	<u><u>\$ 2,457,473</u></u>	<u><u>\$ 54,797,960</u></u>

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

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Land - not being depreciated	\$ 1,456,560	\$ -	\$ -	\$ 1,456,560
Capital assets, being depreciated				
Land improvements	3,632,615	94,853	-	3,727,468
Buildings	3,925,136	155,572	-	4,080,708
Machinery and equipment	6,706,570	761,863	(1,692,803)	5,775,630
Infrastructure	15,381,831	(44,823)	(4,116)	15,332,892
Total capital assets being depreciated	<u>29,646,152</u>	<u>967,465</u>	<u>(1,696,919)</u>	<u>28,916,698</u>
Less accumulated depreciation for:				
Land improvements	(2,319,929)	(93,511)	-	(2,413,440)
Buildings	(2,598,426)	150,890	-	(2,447,536)
Machinery and equipment	(5,522,480)	(708,100)	1,692,803	(4,537,777)
Infrastructure	(9,869,330)	(443,829)	4,116	(10,309,043)
Total accumulated depreciation	<u>(20,310,165)</u>	<u>(1,094,550)</u>	<u>1,696,919</u>	<u>(19,707,796)</u>
Total capital assets, being depreciated, net	<u>9,335,987</u>	<u>(127,085)</u>	<u>-</u>	<u>9,208,902</u>
Governmental activities capital assets, net	<u>\$ 10,792,547</u>	<u>\$ (127,085)</u>	<u>\$ -</u>	<u>\$ 10,665,462</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, being depreciated				
Buildings	\$ 341,337	\$ -	\$ -	\$ 341,337
Machinery and equipment	1,957,964	-	-	1,957,964
Systems and transmissions	145,034,211	3,847,311	(977,330)	147,904,192
Total capital assets being depreciated	<u>147,333,512</u>	<u>3,847,311</u>	<u>(977,330)</u>	<u>150,203,493</u>
Less accumulated depreciation for:				
Buildings	(337,388)	(2,271)	-	(339,659)
Machinery and equipment	(1,769,691)	(39,156)	-	(1,808,847)
Systems and transmissions	(80,546,460)	(4,199,892)	977,330	(83,769,022)
Total accumulated depreciation	<u>(82,653,539)</u>	<u>(4,241,319)</u>	<u>977,330</u>	<u>(85,917,528)</u>
Total capital assets, being depreciated, net	<u>64,679,973</u>	<u>(394,008)</u>	<u>-</u>	<u>64,285,965</u>
Business-type activities capital assets, net	<u>\$ 64,679,973</u>	<u>\$ (394,008)</u>	<u>\$ -</u>	<u>\$ 64,285,965</u>

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

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS (Continued)

Depreciation expense by functions/program is as follows:

Governmental Activities:	
General government	\$ 145,428
Public safety	89,290
Community services	4,333
Public works	474,769
Subtotal	<u>713,820</u>
Capital assets held by the Town's internal service funds are charged to the various functions based on their usage of the assets	380,730
Total depreciation expense - governmental activities	<u>\$ 1,094,550</u>
 Business-type Activities:	
Water	\$ 1,409,770
Sewer	2,831,549
Total depreciation expense - business-type activities	<u>\$ 4,241,319</u>

NOTE 5 – INTERFUND TRANSACTIONS

The following is a summary of the interfund transactions for the year ended June 30, 2018:

<u>Transfer Out</u>	<u>Transfer In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Sewer Fund</u>	<u>Internal Service Fund</u>	
General Fund	\$ -	\$ 330,000	\$ 1,600,000	\$ 138,000	\$ 2,068,000
Police and Fire Special Tax Fund	2,234,503	-	-	-	2,234,503
Nonmajor Governmental Funds	250,000	548,899	-	-	798,899
Total	<u>\$ 2,484,503</u>	<u>\$ 878,899</u>	<u>\$ 1,600,000</u>	<u>\$ 138,000</u>	<u>\$ 5,101,402</u>

The transfers into the General Fund included \$2,234,248 transfer from the Police and Fire Special Tax Fund to help cover costs of police and fire services and \$250,000 from the Measure “A” fund to cover street related costs incurred in the General Fund. The Capital Projects Fund was for various capital projects. Transfers into the Internal Service Fund were \$138,000 from the General Fund for the annual installments of the funds used to pay off the side funds.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS

At June 30, 2018, the Town had the following cash flow hedging derivative instruments outstanding within business-type activities:

Description	Current Notional Amount	Effective Date	Maturity Date	Terms	Options
9.7MM 2000B	\$5.80 million	8/21/2003	6/1/2030	Pay fixed at 3.75% Receive 100% of 1W SIFMA - semi-annual payments	Counterparty right to cancel if 180 rolling average of SIFMA exceeds 7.00%
15MM 2003A	\$9.80 million	8/21/2003	6/1/2033	Pay fixed at 3.77% Receive 100% of 1W SIFMA - semi-annual payments	Counterparty right to cancel if 180 rolling average of SIFMA exceeds 7.00%
12MM 2006A	\$8.92 million	4/5/2006	6/1/2035	Pay fixed at 3.507% Receive 68% of 1M LIBOR - monthly payments	N/A

Objective of Interest Rate Swap. All three swaps were entered into as a means to manage variable interest rate exposure and potentially lower long-term borrowing costs. The notional amounts of the swaps match the principal amounts of the associated debts. There was no cash paid or received when the swaps were initiated. The associated bond issues are discussed further in Note 7.

Fair Value. The following fair values of the swaps as of June 30, 2018 were derived from widely accepted industry standard valuation models. Expected future cash flows are valued using the discounted cash flow methodology, which considers the net present value of the future payments from payments to be made or received under the swap. The present value of a “fixed leg” is calculated as the sum of the present values, as of the computation date, of the payment amounts (computed at the fixed swap rate) expected to be paid over the scheduled term of the swap. The value of a “floating leg” is calculated as the sum of the present values, as of the valuation date, of the floating leg payment amounts expected to be paid over the scheduled term of the swap. The floating leg coupon rates are based on the forward rates derived from the relevant interest rate swap yield curve data as of the valuation date. The present value discount factors for each future payment date is determined by the LIBOR swap curve data using the zero coupon method. Option values are determined using quote volatilities and standard pricing models and therefore the swaps are categorized as level 2 for fair value measurement reporting. The table also shows related information evaluating effectiveness of the hedges using the quantitative synthetic instrument method. All three swaps were determined effective hedges. The derivative instruments and changes thereto, are reported on the statement of net position and are reported as deferred outflows and liability.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – DERIVATIVE INSTRUMENTS (Continued)

Description	Actual Synthetic	Swap Fixed	Percentage	Current Notional	Fair Values at 6/30/2018		Change in Fair Value	
	Rate	Rate	Ratio	Amount	Amount	Classification	Amount	Classification
9.7MM 2000B	3.73746%	3.75%	99.67%	\$5.80 million	\$ 600,163	Debt	\$ (272,106)	Deferred outflows
15MM 2003A	3.75726%	3.77%	99.66%	\$9.80 million	1,211,057	Debt	(486,099)	Deferred outflows
12MM 2006A	3.58175%	3.507%	102.13%	\$8.915 million	1,163,527	Debt	(484,478)	Deferred outflows
				Total	<u>\$ 2,974,747</u>		<u>\$(1,242,683)</u>	

Valuations are numerically expressed in accordance with the following convention: a positive value indicates that counterparty is out-of-the-money, which means that if the relevant transactions were terminated at the valuations set forth herein, there would be a payment from counterparty to Town. Likewise, a negative value indicates that Town is out-of-the-money, which means if the relevant transactions terminated, there would be a payment from Town to counterparty. All of the interest rate swaps are valued based on level 2 inputs. Level 2 inputs denote indirect observable pricing calculated using observable rates or indices.

Credit Risk. The swap counterparty is rated A3 by Moody's Investors Services, A- by Standard and Poor's and AA- by Fitch. The Town is rated AAA/A-2 by Standard and Poor's and AA+/F-1 by Fitch. The Town is not expecting any change from the ratings of the counterparties.

Termination Risk. The Town or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swaps may be terminated by the counterparty if the Town's credit quality rating falls below Baa2 by Moody's Investors Service and BBB by Fitch Ratings and by Standard and Poor's. If a swap were terminated, the variable-rate bond would no longer carry a synthetic fixed interest rate. In addition, if at the time of termination a swap has a negative fair value, the Town would be liable to the counterparty for a payment equal to the swap's fair value.

As noted above, counterparty will also have the right to, but not the obligation, to terminate the 2000B and 2003A swaps in whole, but not in part, if 180 rolling average of SIFMA exceeds 7 percent). Under such early termination event, the counterparties shall be liable to pay only the accrued interest for the period from the last payment date to the termination date.

No termination event has occurred.

Rollover Risk. The Town is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. As of June 30, 2018, the Town did not have any exposure to rollover risk.

Refer to Note 7 for swap payments and associated debt service requirements.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Compensated absences	\$ 1,231,435	\$ 845,992	\$ 775,266	\$ 1,302,161	\$ 500,508
Total governmental activity long-term liabilities	\$ 1,231,435	\$ 845,992	\$ 775,266	\$ 1,302,161	\$ 500,508
Business-type activities:					
Compensated absences	\$ 164,697	\$ 136,848	\$ 178,522	\$ 123,023	\$ 46,507
State Clean Water loan	9,051,234	-	246,985	8,804,249	240,968
ECE-ARRA loan	623,157	-	59,558	563,599	60,155
Certificates of participation	29,080,000	-	1,465,000	27,615,000	1,480,000
Total business-type activity long-term liabilities	\$38,919,088	\$ 136,848	\$1,950,065	\$37,105,871	\$1,827,630

Compensated Absences

Compensated absences due within one year represent an estimate of the compensated absences that will be utilized within the next year. All compensated absences for governmental activities are paid out of the General Fund.

California Energy Resources Conservation and Development Commission Loan – Original Principal \$908,700

In 2010, the Town entered into an agreement with the California Energy Resources Conservation and Development Commission (the “Commission”) to receive financial assistance for energy savings projects consisting of premium efficiency pumps and the Supervisory Control and Data Acquisition (SCADA) system software with control sensors for its water system. The loan is due in semi-annual installments payments at an interest of 1percent starting December 2012 and will be fully amortized on June 2027. The annual payments are to come from annual energy savings. The Town is required to maintain compliance with all provisions of the loan. The remaining debt service requirements for the loan at June 30, 2018 are summarized in the following table:

Year Ending June 30	Business-Type Activities		Total
	Principal	Interest	
2019	\$ 60,155	\$ 5,486	\$ 65,641
2020	60,745	4,896	65,641
2021	61,367	4,275	65,642
2022	61,982	3,659	65,641
2023	62,604	3,038	65,642
2024-2027	256,746	5,819	262,565
Total	\$ 563,599	\$ 27,173	\$ 590,772

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT (Continued)

Certificates of participation (COPs) – The certificates of participation are recorded in the Enterprise Fund and were issued by the Public Improvement Corporation. Two issues on June 1, 2000, comprised of \$4,900,000 Series A, proceeds of which were used to advance refund the 1997 COPs that were called on June 1, 2007 and \$9,700,000 Series B that were used to refund and retire the 1995 COPs and to finance the acquisition, construction and installation of certain improvements to the Town's water and sewer systems. The debt bears variable rates with principal payments payable annually at June 1 from 2001 through 2030. The 2003 Series A \$15,000,000 of variable rate certificates of participation (water and sewer system projects) issued in August 2003 financed various water and wastewater projects, consistent with the enterprise's ten-year capital improvement plan. The debt bears variable rates with principal payments payable annually at June 1 from 2004 through 2033.

On April 2006, the Town issued \$12,000,000 of variable rate certificates of participation (water and sewer system projects) 2006 Series A to finance various water and wastewater projects consistent with the enterprise's ten-year capital improvement plan. The debt bears variable rates with principal payments payable annually at June 1 of each year starting in 2009 through 2035.

The Town's current ratings for above debt issues are AAA-A2 from Standard and Poor's and AA+/F-1 from Fitch Ratings. A standby purchase agreement (SPA) provides for the payment of the purchase price of the tendered variable-rate COPs during the daily, weekly, and extended-rate modes in the event remarketing proceeds following such a tender are insufficient. The current term of the SPA expires on July 1, 2019.

Interest accruing on the COPs is determined at the weekly rate and is payable on the first business day of each calendar month. The debt is secured by a pledge of the net revenues of the enterprise funds. There are limitations and covenants contained in the various debt agreements. The Town complies with all restrictive limitations and covenants at June 30, 2018.

As of June 30, 2018, the debt service requirements of the variable-rate debt and net swap payments assuming current interest rates remain the same for their term, are summarized in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total Interest
	Principal	Interest		
2019	\$ 1,480,000	\$ 475,329	\$ 624,320	\$ 1,099,649
2020	1,495,000	449,854	591,546	1,041,400
2021	1,510,000	424,121	558,411	982,532
2022	1,525,000	398,130	524,916	923,046
2023	1,640,000	371,880	491,059	862,939
2024-2028	9,780,000	1,393,455	1,864,831	3,258,286
2029-2033	8,810,000	537,726	762,042	1,299,768
2034-2035	1,375,000	35,717	49,917	85,634
Total	<u>\$ 27,615,000</u>	<u>\$ 4,086,212</u>	<u>\$ 5,467,042</u>	<u>\$ 9,553,254</u>

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT (Continued)

State Clean Water Loan

On March 23, 2015, the Town entered into an Installment Sale Agreement with the Clean Water State Revolving Fund for construction financing on its sewer system, referred to as the State Revolving Fund loan (SRF loan). The loan provides for up to \$12 million and debt service commenced in September 2017 and is a 30-year loan. The debt bears interest at 1.6% per annum. The debt is secured by a pledge of net revenues of the Sewer Fund. There are limitations and covenants contained in the agreement. The Town complies with all restrictive limitations and covenants at June 30, 2018. The debt service requirements for the loan at June 30, 2018 are summarized in the following table:

Year Ending June 30	Business-type activities		Total
	Principal	Interest	
2019	\$ 240,968	\$ 140,868	\$ 381,836
2020	244,823	137,012	381,835
2021	248,741	133,095	381,836
2022	252,720	129,115	381,835
2023	256,764	125,072	381,836
2024-2028	1,346,774	562,406	1,909,180
2029-2033	1,458,019	451,161	1,909,180
2034-2038	1,578,453	330,726	1,909,179
2039-2043	1,708,835	200,344	1,909,179
2044-2047	1,468,152	59,192	1,527,344
Total	<u>\$ 8,804,249</u>	<u>\$ 2,268,991</u>	<u>\$ 11,073,240</u>

The Town's COP debt and State loan outstanding are secured by the pledging of the certain revenues. The amount and term of the remainder of these commitments are indicated in the summary of bonds outstanding tables above. Debt service payments as a ratio of the pledged gross revenue, less certain expenses as required by the debt agreement, for the year ended June 30, 2018, are indicated in the following table:

Description of Pledged Revenue	Annual Amount of Net Pledged Revenue	Annual Debt Service Payments	Pledged Revenue Coverage
Water revenue	\$ 3,737,963	\$ 1,199,393	312%
Sewer revenue	4,127,893	1,795,124	230%

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town has established a limited risk management program of these types of risks.

The Town participates in a public-entity risk pool (The Cities Group – a Joint Power Authority) that operates a Workers' Compensation self-insured program. The pool indemnifies the membership for their Workers' Compensation losses and recovers those costs from the members through a retrospective, loss experience based contribution-rating plan. The pool's self-insured retention is \$1 million per occurrence for miscellaneous employees and \$1.5 million for safety employees. Claims in excess of these amounts are insured up to \$12.2 million. The Town has no deductible for these claims. Financial statements for the pool may be obtained from The Cities Group, P O Box 111, Burlingame, CA 94011.

The Town participates in the Pooled Liability Assurance Network (PLAN) Joint Powers Authority. The PLAN provides \$25,000,000 coverage for general and automobile liability in excess of the Town's \$50,000 deductible. The Town also participates in PLAN pool for the commercial property including boiler and machinery coverage, with \$5,000 per incident deductible and certain specified limits.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider these factors, estimated recoveries from salvage or subrogation, and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. The amount recorded as liability for known claims is based on the recommendation of the third-party administrator. No accrued liability for incurred but not reported claims (IBNRs) has been recorded, as amounts for such claims cannot be reasonably estimated. The Town's remaining exposure for claims filed under this program is minimal.

The Town is self-insured for all other insurable risk, except for excess insurance coverage provided by commercial insurance companies that are limited to the following: Employment Practices Liability in excess of \$100,000 each claim, but limited to a maximum of \$5,000,000.

There is no significant change in insurance coverage from that of the prior year and there were no settlements that exceeded coverage for each of the past three years. Below is a reconciliation of changes in the claims liability for fiscal years ending June 30, 2018 and 2017.

	2018	2017
Beginning balance	\$ 107,235	\$ 56,000
Claims incurred and changes in estimates for prior year claims	148,095	136,676
Claims paid	(75,330)	(85,441)
Ending balance	<u>\$ 180,000</u>	<u>\$ 107,235</u>

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – JOINT POWERS AGREEMENT

The Town participates in the City/County Association of Governments of San Mateo County (C/CAG), which is governed by a board consisting of a representative from each member. The board controls the operations of C/CAG, including selection of management and approval of operating budget. The association was established under a 1990 Joint Exercise of Powers Agreement between the Town, San Mateo County and a majority of cities within the County to develop State-mandated plans such as an integrated waste management plan. The Town makes annual nonrefundable contributions to C/CAG used along with other member contributions, to finance C/CAG operations. The Town's contribution during the year totaled \$34,596. Financial information related to the association may be obtained from the City of San Carlos, 600 Elm Street, San Carlos, CA 94070. The Town's share of year-end assets, liabilities or fund equity has not been calculated by C/CAG.

The Town is one of twelve members of the South Bayside Waste Management Authority (SBWMA), a joint powers authority formed for the purpose of joint ownership, financial and administration of waste management. The JPA also includes a transfer station and a recycling center as well as the planning, administration management, review, monitoring, enforcement and reporting of solid waste and recyclable material collection within Authority's service area. The Authority's financial statements are available from the SBWMA, c/of City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

Effective July 1, 2010, Town fire employees became employees of Central County Fire Department (CCFD). CCFD is a Joint Powers Authority (JPA) that provides fire, emergency medical, and disaster preparedness services to the Town and the City of Burlingame, and by contract to the City of Millbrae. CCFD's audited financial statements are available on the CCFD website. CCFD is a stand-alone employer recognized by the California Public Employees' Retirement System (CalPERS). The Town paid \$6.7 million for fire services for the year ended June 30, 2018 some of which represents pension contributions made by CCFD to CalPERS. AB 1912, which becomes effective on January 1, 2019, requires participating members of a joint powers authority ("JPA") that contracts with CalPERS for pension benefits to allocate the pension liabilities of the JPA only in the event that the JPA decides to terminate its pension contract with CalPERS. There is no indication that CCFD will terminate its CalPERS contract. As such, under current generally accounting standards, the pension liability is not reported on the member agency financial statements and instead only the contributions are reported when they are made.

NOTE 10 – FUND BALANCES

Governmental funds report fund balance in classifications based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2018, fund balances for governmental funds are comprised of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a council resolution of the City Council. Commitments may be changed or lifted only by the Council taking the same formal action that imposed the constraint originally.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – FUND BALANCES (Continued)

- *Assigned Fund Balance* – comprises amounts intended to be used by the Town for specific purposes that are neither restricted nor committed. *Intent* is expressed by an action of the City Council passing a resolution for the assignment or delegation of the authority to assign amounts to be used for specific purposes
- *Unassigned Fund Balance* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

Fund balances for all the major and nonmajor governmental funds as of June 30, 2018, are as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid items	\$ 8,571	\$ -	\$ -	\$ 8,571
Restricted:				
Streets	-	-	111,433	111,433
Public Safety - Police	-	-	434,176	434,176
Sub-total:	-	-	545,609	545,609
Committed:				
Capital projects	-	2,439,001	-	2,439,001
Unassigned	22,495,369	-	-	22,495,369
Total	<u>\$ 22,503,940</u>	<u>\$ 2,439,001</u>	<u>\$ 545,609</u>	<u>\$ 25,488,550</u>

The Town's Policy No. 409 – Budget and Fiscal Policies – includes guidelines for fund balance reporting and minimum amounts to maintain in each category. The Town will strive to maintain unassigned funds of at least 30% of operating expenditures in the General Fund – the minimum level necessary to maintain the City's creditworthiness and to adequately provide for 1) economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy; 2) contingencies for unseen operating or capital needs and 3) cash flow requirements.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

The Town is obligated through cost sharing agreements with other municipalities to pay its pro-rata share of operating expenses, capital expenses and debt service for the operation of wastewater treatment plants. The Town is billed its portion of expenses pursuant to agreements it entered into with the municipalities. The costs incurred by the Town under these agreements amounted to \$2,912,458 and \$1,755,250 as of June 30, 2018 and 2017 respectively. The increase is primarily due to increased capital contributions.

The Town is also obligated to pay a portion of the cost of operations of the local libraries, which are operated, by the Cities of Burlingame and San Mateo. The portion of these costs paid by the Town amounted to \$878,491 and \$845,149 for years ended June 30, 2018 and 2017 respectively.

At June 30, 2018, the Town has outstanding construction contracts and commitments for capital projects of \$2,396,088.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The Town is subject to litigation arising in the normal course of business. In the opinion of the Town’s management, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Town.

NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description – The Town's retiree healthcare plan (Plan) is provided through California Employers' Retirement Benefit Trust (CERBT), an agent multiple-employer defined benefit healthcare program administered by CalPERS. The Town provides postretirement health benefits to certain eligible retirees pursuant to various Town Employee Associations' Memoranda of Understanding. CalPERS issues a publicly available entity-wide financial report that includes financial statements and required supplementary information pertaining to CERBT. This report is on the CalPERS website at: <http://www.calpers.ca.gov>. The Town offers medical benefits to retired employees and employee and spouses/domestic partners for life and dependent children until age 26 unless otherwise meeting the requirements of the Social Security Administration as a continued dependent. The Plan does not offer dental, vision or life benefits to the Town’s retirees. Benefits provided are dependent on the hire date. All retired employees of the Town receive a contribution amount equal to the CalPERS Public Employee Medical and Hospital Care Act (PEMHCA) at a minimum and depending on the hire date and retirement date, retired employees may receive an additional reimbursement from the Town for their medical plan election. Employees hired prior to March 1, 2002 in the Police Unit, or January 1, 2002 for all other employees will receive reimbursement equal to the maximum health contribution given to active employees, as of the date of their retirement.

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the healthcare plan:

Active plan members	85
Inactive employees or beneficiaries currently receiving benefit payments	94
Total	<u>179</u>

Contributions – The contribution requirement of plan members and the Town are established under a funding policy approved by the Town Council, and may be amended by the Town from time to time. The Plan is currently fully funded by employer contributions with no requirement for matching or employee contributions for eligible employees. Concurrently with the implementation of GASB 75, the Town also adopted to prefund the actuarial liability. The funding policy is to contribute contributions sufficient to pay the current year's retiree premium and plan expenses, with an additional amount to pre-fund benefits as determined by the Town's actuary on a biennial basis.

**TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Significant Assumptions – The Town's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

Actuarial Assumption	June 30, 2017 Measurement Date
Actuarial Valuation Date	June 30, 2017
Contribution Policy	Pre-funded full ADC through CERBT asset allocation Strategy 1
Discount Rate	6.75%
Expected Long-Term Rate of Return on Investments	Same as discount rate. Plan assets projected to be sufficient to pay all benefits from trust.
General Inflation	2.75% per annum
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 experience study
Mortality Improvement	Mortality projected fully generational with Scale MP-17
Medical Trend	Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return ¹
Global Equity	57.00%	4.82%
Fixed Income	27.00%	1.47%
Treasury Inflation Protection Securities	5.00%	1.29%
Real Estate Investment Trusts	8.00%	3.76%
Commodities	3.00%	0.84%
Total	100.00%	

¹ An expected inflation of 2.75%

Discount Rate – The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Authority contributions would be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

**TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Changes in the OPEB Liability – The changes in the net OPEB liability for the Health Care Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 19,391,000	\$ 5,448,000	\$ 13,943,000
Changes Recognized for year:			
Service cost	321,000	-	321,000
Interest	1,298,000	-	1,298,000
Contributions:			
Employer - explicit subsidy	-	1,225,000	(1,225,000)
Employer - implicit subsidy	-	96,000	(96,000)
Net investment income	-	576,000	(576,000)
Benefit payments, including refunds of employee contributions	(982,000)	(982,000)	-
Administrative expenses	-	(5,000)	5,000
Net changes	<u>\$ 637,000</u>	<u>\$ 910,000</u>	<u>\$ (273,000)</u>
Balance at June 30, 2018	<u><u>\$ 20,028,000</u></u>	<u><u>\$ 6,358,000</u></u>	<u><u>\$ 13,670,000</u></u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and to Changes in the Health Care Cost Trend Rates – The following presents the net OPEB liability of the Town if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for year ended June 30, 2018:

Plan's Net OPEB Liability		
Discount Rate - 1% (5.25%)	Current Discount Rate (6.25%)	Discount Rate +1% (7.25%)
<u>\$ 16,101,000</u>	<u>\$ 13,670,000</u>	<u>\$ 11,649,000</u>

The following presents the net OPEB liability of the Town if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for the year ended June 30, 2018:

(Amounts in thousands) Plan's Net OPEB Liability		
Trend Rate - 1%	Healthcare Cost Trend Rates	Trend Rate +1%
<u>\$ 11,524,000</u>	<u>\$ 13,670,000</u>	<u>\$ 16,257,000</u>

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (6.0 Years at June 30, 2017)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the fiscal year ended June 30, 2018, the Town recognized OPEB expense of \$1,205,000. As of fiscal year ended June 30, 2018, the Town reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
OPEB contributions subsequent to measurement date	\$ 1,351,000	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	(157,000)
Difference between actual and projected contribution	<u>\$ 1,351,000</u>	<u>\$ (157,000)</u>

<u>Fiscal Year Ended June 30:</u>	<u>Deferred Outflows/(inflows) of resources</u>
2019	\$ (39,000)
2020	(39,000)
2021	(39,000)
2022	(40,000)
Thereafter	-

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

The CalPERS Plan (Plan) consists of a miscellaneous pool and a safety pool (referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. The risk pools are included within the Public Employees' Retirement Fund C (PERF C).

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Town's separate Safety (police) and Miscellaneous (all other) Employee Pension Plan, cost sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information can be found on the CalPERS website at: <http://www.calpers.ca.gov>.

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with full benefits for plans prior to January 1, 2013 and age 52 for Miscellaneous Plan and age 55 for Safety Plan on or after January 1, 2013. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Special Death Benefit, the 1959 Survivor Benefit (Level 4), or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members, PEPRA also effectively closed all existing active risk pools to new employees.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
	<i>Tier 1 / Tier 2 Plan</i>	
Formula	3% at 60 / 2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of annual salary	3% / 2%	2%
Required employee contribution rates	8% / 7%	6.500%
Required employer contribution rates	13.545% / 7.850%	6.908%
Required employer dollar UAL payment (annual)	\$517,848/\$923	\$560,375
	Safety - Police	
	Prior to January 1, 2013	On or after January 1, 2013
Formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	3.00%	2.70%
Required employee contribution rates	9%	12.750%
Required employer contribution rates	21.418%	12.965%
Required employer dollar UAL payment (annual)	\$470,464	\$ -

Contributions – Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

For the year ended June 30, 2018, the contributions to the Plan were as follows:

	Miscellaneous	Safety	Total
Contributions - employer	\$ 1,149,750	\$ 1,262,347	\$ 2,412,097

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

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

As of June 30, 2018, the Town's reported net pension liabilities for its proportionate share of the pension liability of each Plan as follows:

Net pension liability	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
	\$ 12,264,964	\$ 13,646,123	\$ 25,911,087

The Town's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of each Plan is measured as of June 30, 2017 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 with a roll back to calculate the beginning net pension liability. 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 plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for each Plan as of June 30, 2018 is as follows:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Proportion - June 30, 2017	0.30336%	0.22878%	0.53214%
Proportion - June 30, 2018	0.30336%	0.22838%	0.53174%
Change - Increase (decrease)	<u>0.00000%</u>	<u>-0.00040%</u>	<u>-0.00040%</u>

At the year ended June 30, 2018, the Town recognized pension expense of \$1,447,123. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Pension contributions subsequent to measurement date	\$ 2,412,097	\$ -
Changes in assumptions	4,096,717	(313,373)
Net difference between projected and actual earnings on pension plan investments	909,395	-
Change in proportion	389,864	(121,428)
Difference between expected and actual experiences	161,366	(267,556)
Difference between actual and projected contribution	-	(664,023)
	<u>\$ 7,969,439</u>	<u>\$ (1,366,380)</u>

The amount of \$2,412,097 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year ended June 30,</u>	
2019	\$ 851,488
2020	2,427,602
2021	1,447,852
2022	(535,980)
	<u>\$ 4,190,962</u>

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment Expenses, includes Inflation
Mortality Rate Table ¹	Derived using CalPERS membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study are on the CalPERS website at: <http://www.calpers.ca.gov/>.

Discount Rate – To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates are net of administrative expenses:

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	80.00%	2.27%
Inflation Sensitive	6.0%	60.00%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Fo	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	<u>100.0%</u>		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Town for the Plan, calculated using the discount rate for the Plan, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 18,821,188	\$ 20,609,235
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 12,264,964	\$ 13,646,123
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 6,834,981	\$ 7,954,127

Pension Plan Fiduciary Net Position – Detailed information about the pension plans' fiduciary net position is available in the separately issued CalPERS financial reports.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

In 2018, the Town has/will be adopting new accounting and reporting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). This Statement is effective for fiscal years (FY) beginning after June 15, 2017, or the FY 2017/2018. The Town has implemented this Statement as of July 1, 2017.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits (OPEB)). The Statement is effective for the reporting periods beginning after June 15, 2017, or FY 2017/2018 fiscal year. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the FY 2018/2019. The Town is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance related to fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the FY 2019/2020. The Town is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or FY 2020/2021. The Town is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 88 – GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018 or FY 2018/2019. The Town is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or FY 2020/2021. The Town is evaluating the impact of this Statement on the financial statements.

TOWN OF HILLSBOROUGH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objectives of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or FY 2019/2020. The Town is evaluating the impact of this Statement on the financial statements.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE

The Town adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Other Post-employment Benefits*, as of July 1, 2017. The impact of the implementation on the beginning net position is as follows:

	Governmental Activities	Business-Type Activities
Net Position at June 30, 2017, as previously reported	\$ 23,450,804	\$ 45,007,736
Deferred outflows	1,172,287	148,713
Net OPEB liability as of July 1, 2017	(12,405,041)	(1,537,960)
Balance at July 1, 2017 as restated	<u>\$ 12,218,050</u>	<u>\$ 43,618,489</u>

	Water Fund	Sewer Fund
Net Position at June 30, 2017, as previously reported	\$ 24,905,226	\$ 19,539,135
Deferred outflows	79,268	69,445
Net OPEB liability as of July 1, 2017	(819,774)	(718,186)
Balance at July 1, 2017 as restated	<u>\$ 24,164,720</u>	<u>\$ 18,890,394</u>

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REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF HILLSBOROUGH
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:				
Property taxes	\$ 15,589,355	\$ 15,589,355	\$ 15,785,068	\$ 195,713
Franchise taxes	705,151	705,151	741,207	36,056
Business license taxes	650,000	650,000	683,726	33,726
All others taxes	1,975,741	1,975,741	2,308,516	332,775
Permits	1,284,544	1,284,544	1,370,637	86,093
Intergovernmental	1,180,390	1,180,390	1,376,989	196,599
Service charges	1,157,836	1,157,836	1,090,405	(67,431)
Fines and forfeitures	34,700	34,700	159,528	124,828
Investment earnings	80,000	80,000	265,073	185,073
Miscellaneous	443,474	443,474	470,562	27,088
Total Revenues	<u>23,101,191</u>	<u>23,101,191</u>	<u>24,251,711</u>	<u>1,150,520</u>
EXPENDITURES:				
Current:				
General government	1,377,680	1,377,680	1,304,075	73,605
Public safety	16,612,155	16,612,155	16,195,735	416,420
Community services	2,703,017	2,703,017	2,729,304	(26,287)
Streets	2,484,471	2,484,471	2,029,168	455,303
Total Expenditures	<u>23,177,323</u>	<u>23,177,323</u>	<u>22,258,282</u>	<u>919,041</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(76,132)</u>	<u>(76,132)</u>	<u>1,993,429</u>	<u>2,069,561</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	2,484,611	2,484,611	2,484,503	(108)
Transfers out	<u>(2,068,000)</u>	<u>(2,068,000)</u>	<u>(2,068,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>416,611</u>	<u>416,611</u>	<u>416,503</u>	<u>(108)</u>
Net change in fund balances	340,479	340,479	2,409,932	2,069,453
Fund balances - beginning	<u>20,094,008</u>	<u>20,094,008</u>	<u>20,094,008</u>	<u>-</u>
Fund balances - ending	<u>\$ 20,434,487</u>	<u>\$ 20,434,487</u>	<u>\$ 22,503,940</u>	<u>\$ 2,069,453</u>

**TOWN OF HILLSBOROUGH
POLICE AND FIRE SPECIAL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:				
Police and Fire special tax	\$ 2,242,686	\$ 2,242,686	\$ 2,243,038	\$ 352
Total Revenues	<u>2,242,686</u>	<u>2,242,686</u>	<u>2,243,038</u>	<u>352</u>
EXPENDITURES:				
Current:				
General Government	8,075	8,075	8,535	(460)
Excess of revenues over expenditures	<u>2,234,611</u>	<u>2,234,611</u>	<u>2,234,503</u>	<u>(108)</u>
OTHER FINANCING USES:				
Transfers Out	<u>(2,234,611)</u>	<u>(2,234,611)</u>	<u>(2,234,503)</u>	<u>108</u>
Net change in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**TOWN OF HILLSBOROUGH
SCHEDULE OF PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Miscellaneous			
	2018	2017	2016	2015*
Plan's proportion of the net pension liability	0.31113%	0.30336%	0.29385%	0.28185%
Plan's proportionate share of the net pension liability	\$12,264,964	\$10,538,348	\$8,061,622	\$6,965,900
Plan's covered payroll	\$5,422,638	\$5,677,208	\$5,416,911	\$5,328,728
Plan's proportionate Share of the net pension liability as a percentage of covered payroll	226.18%	185.63%	148.82%	130.72%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	75.39%	75.87%	79.89%	81.15%
	Safety			
	2018	2017	2016	2015*
Plan's proportion of the net pension liability	0.22838%	0.22878%	0.22146%	0.20805%
Plan's proportionate share of the net pension liability	\$13,646,123	\$11,848,864	\$9,125,242	\$7,803,992
Plan's covered payroll	\$3,237,899	\$3,411,584	\$3,207,886	\$3,036,912
Plan's proportionate Share of the net pension liability as a percentage of covered payroll	421.45%	347.31%	284.46%	256.97%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	71.74%	72.69%	77.27%	78.83%

Notes to Schedule:

Benefit changes: In 2016, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead.

Changes in assumptions: The discount rate was changed from 7.5% in 2016 to 7.15% in 2017.

* Fiscal year 2015 was the first year of implementation of the pension standards.

**TOWN OF HILLSBOROUGH
SCHEDULE OF CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Miscellaneous			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Actuarially determined contributions	\$ 1,149,750	\$ 1,043,360	\$ 928,895	\$ 779,265
Contributions in relation to the actuarially determined contribution	<u>(1,149,750)</u>	<u>(1,043,360)</u>	<u>(928,895)</u>	<u>(779,265)</u>
Contribution deficiency (excess)	<u>\$ 2,299,500</u>	<u>\$ 2,086,720</u>	<u>\$ 1,857,790</u>	<u>\$ 1,558,530</u>
Covered payroll	\$6,253,017	\$5,422,638	\$5,677,208	\$ 5,416,911
Contributions as a percentage of covered payroll	-18.39%	-19.24%	-16.36%	14.39%
	Safety			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Actuarially determined contributions	\$ 1,262,347	\$ 1,114,629	\$ 964,025	\$ 825,461
Contributions in relation to the actuarially determined contribution	<u>(1,262,347)</u>	<u>(1,114,629)</u>	<u>(964,025)</u>	<u>(825,461)</u>
Contribution deficiency (excess)	<u>\$ 2,524,694</u>	<u>\$ 2,229,258</u>	<u>\$ 1,928,050</u>	<u>\$ 1,650,922</u>
Covered payroll	\$3,979,815	\$3,237,899	\$3,411,584	\$ 3,207,886
Contributions as a percentage of covered payroll	-31.72%	-34.42%	-28.26%	25.73%

* Fiscal year 2015 was the first year of implementation of the pension standards.

TOWN OF HILLSBOROUGH
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2018*
Changes in Total OPEB Liability	
Service Cost	\$ 321,000
Interest	1,298,000
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(982,000)
Changes of benefit terms	-
Net changes	<u>637,000</u>
Total OPEB Liability (beginning) at June 30, 2017	19,391,000
Total OPEB Liability (ending) at June 30, 2018	<u>\$ 20,028,000</u>
Changes in Plan Fiduciary Net Position	
Contributions - employer	\$ 1,321,000
Contributions - employee	-
Net investment income	576,000
Benefit payments, including refunds of employee contributions	(982,000)
Administrative Expenses	(5,000)
Changes of assumptions	-
Net changes	<u>910,000</u>
Total OPEB Fiduciary Net Position (beginning) at June 30, 2017	5,448,000
Total OPEB Fiduciary Net Position (ending) at June 30, 2018	<u>\$ 6,358,000</u>
Net OPEB liability	<u>\$ 13,670,000</u>
Plan fiduciary net position as a percentage of the total OPEB liability	31.7%
Covered employee payroll (measurement date June 30, 2017)	9,863,000
Net OPEB Liability as a percentage of covered employee payroll	138.6%

* Fiscal year 2018 was the first year of implementation of the OPEB standards.

**TOWN OF HILLSBOROUGH
 SCHEDULE OF OPEB CONTRIBUTIONS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	2018*
Acturially Determined Contribution (ADC)	\$ 1,351,000
Contributions in relation to the actuarially determined contribution	(1,351,000)
Contribution deficiency/(excess)	\$ -
Covered employee payroll for the period ended June 30, 2018	\$ 10,233,000
Contributions as a percentage of covered employee payroll	13.2%

* Fiscal year 2018 was the first year of implementation of the OPEB standards.

TOWN OF HILLSBOROUGH
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Budgetary Information

The Town adopts annual budgets on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All appropriations lapse at fiscal year-end. Encumbrances, which are commitments related to unperformed contracts for goods or services at year-end lapse and are automatically re-appropriated and re-encumbered in the subsequent fiscal year. There are no outstanding encumbrances in the governmental funds at June 30, 2018. Budgets are also adopted and controlled for the proprietary funds. Budget comparisons for these funds are not legally mandated and thus are not presented.

Prior to June 30, the City Manager submits to the City Council a proposed operating budget for review. The City Council holds public hearings and a final budget is adopted on or before June 30.

The appropriated budget is prepared by fund, function and department. The Town's department heads may make transfers of appropriations within a department. The City Manager may transfer budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. Budget amounts shown in these financial statements include all supplemental appropriations made during the year for the General and the Special Revenue funds.

Net Pension, Net OPEB Liability and Contributions to pension and OPEB plans

The Town's pension liabilities are administered by CalPERS cost sharing plans. The Town's pension liabilities are calculated based on the Town's proportionate share of the overall pension liabilities and related deferrals. The schedule pension liability and the schedule of contributions show a ten-year trend information, where available, about these amounts and they are changing from year to another.

The Town's OPEB liability is administered as an agent multiple employer plan, which is also administered by CalPERS. The schedule of changes in Net OPEB liability and the schedule of contributions show a ten-year trend information, where available, about these amounts and they are changing from year to another.

**COMBINING STATEMENTS AND INDIVIDUAL FUND
SCHEDULES**

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**TOWN OF HILLSBOROUGH
COMBINING STATEMENTS AND INDIVIDUAL
FUND SCHEDULES
JUNE 30, 2018**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The special revenue funds are used to account for specific revenues that are legally restricted or committed to expenditure for particular purposes.

Gas Tax Fund - This fund is used to account for receipts and disbursements of funds apportioned under Streets and Highway Code Sections 2103, 2105, 2106, 2107, 2107.5 and 2031 of the State of California for the purpose of financing major street construction projects.

Measure "A" Fund - This fund is used to account for receipts and disbursements of a San Mateo County half-cent sales tax approved by the voters in June 1988 (Measure A) and again in November 2004 extending it for an additional 25 years, beginning January 2009, for the purpose of improving local transportation including streets and roads.

Police Grants Fund - This fund is used to account for activities funded by proceeds from various police grants and programs.

**TOWN OF HILLSBOROUGH
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Gas Tax	Measure A	Police Grants	
ASSETS				
Cash and investments	\$ 56,755	\$ 926	\$ 434,176	\$ 491,857
Accounts receivable	10,220	43,532	-	53,752
Total assets	<u>\$ 66,975</u>	<u>\$ 44,458</u>	<u>\$ 434,176</u>	<u>\$ 545,609</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted for streets projects	66,975	44,458	-	111,433
Restricted for police projects	-	-	434,176	434,176
Total fund balances	<u>66,975</u>	<u>44,458</u>	<u>434,176</u>	<u>545,609</u>
Total liabilities and fund alances	<u>\$ 66,975</u>	<u>\$ 44,458</u>	<u>\$ 434,176</u>	<u>\$ 545,609</u>

**TOWN OF HILLSBOROUGH
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Special Revenue Funds</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Gas Tax</u>	<u>Measure A</u>	<u>Police Grants</u>	
REVENUES:				
Intergovernmental	\$ 313,357	\$ 604,243	\$ 169,591	\$ 1,087,191
Investment earnings	933	2,081	3,600	6,614
Total revenues	<u>314,290</u>	<u>606,324</u>	<u>173,191</u>	<u>1,093,805</u>
EXPENDITURES:				
Current:				
Streets	6,262	24,129	-	30,391
Excess of revenues over expenditures	<u>308,028</u>	<u>582,195</u>	<u>173,191</u>	<u>1,063,414</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out	<u>(255,000)</u>	<u>(543,899)</u>	<u>-</u>	<u>(798,899)</u>
Net change in fund balances	53,028	38,296	173,191	264,515
Fund balances - beginning	13,947	6,162	260,985	281,094
Fund balances - ending	<u>\$ 66,975</u>	<u>\$ 44,458</u>	<u>\$ 434,176</u>	<u>\$ 545,609</u>

**TOWN OF HILLSBOROUGH
 GAS TAX FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental	\$ 251,299	\$ 251,299	\$ 313,357	\$ 62,058
Investment earnings	600	600	933	333
Total Revenues	<u>251,899</u>	<u>251,899</u>	<u>314,290</u>	<u>62,391</u>
EXPENDITURES:				
Current:				
Streets	<u>6,262</u>	<u>6,262</u>	<u>6,262</u>	-
Excess of revenues over expenditures	245,637	245,637	308,028	62,391
OTHER FINANCING USES:				
Transfers Out	<u>(255,000)</u>	<u>(255,000)</u>	<u>(255,000)</u>	-
Net change in fund balances	(9,363)	(9,363)	53,028	62,391
Fund balances - beginning	<u>13,947</u>	<u>13,947</u>	<u>13,947</u>	-
Fund balances - ending	<u><u>\$ 4,584</u></u>	<u><u>\$ 4,584</u></u>	<u><u>\$ 66,975</u></u>	<u><u>\$ 62,391</u></u>

**TOWN OF HILLSBOROUGH
MEASURE "A" FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental	\$ 569,004	\$ 569,004	\$ 604,243	\$ 35,239
Investment earnings	600	600	2,081	1,481
Total Revenues	<u>569,604</u>	<u>569,604</u>	<u>606,324</u>	<u>36,720</u>
EXPENDITURES:				
Current:				
Streets	24,129	24,129	24,129	-
Excess of revenues over expenditures	<u>545,475</u>	<u>545,475</u>	<u>582,195</u>	<u>36,720</u>
OTHER FINANCING USES:				
Transfers Out	<u>(590,000)</u>	<u>(590,000)</u>	<u>(543,899)</u>	<u>(46,101)</u>
Net change in fund balances	(44,525)	(44,525)	38,296	(9,381)
Fund balances - beginning	6,162	6,162	6,162	-
Fund balances - ending	<u>\$ (38,363)</u>	<u>\$ (38,363)</u>	<u>\$ 44,458</u>	<u>\$ (9,381)</u>

**TOWN OF HILLSBOROUGH
POLICE GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 169,591	\$ 69,591
Investment earnings	100	100	3,600	3,500
Total Revenues	<u>100,100</u>	<u>100,100</u>	<u>173,191</u>	<u>73,091</u>
EXPENDITURES:				
Current:				
Public safety	<u>95,000</u>	<u>95,000</u>	<u>-</u>	<u>95,000</u>
Total Expenditures	<u>95,000</u>	<u>95,000</u>	<u>-</u>	<u>95,000</u>
Fund balances - beginning	260,985	260,985	260,985	-
Fund balances - ending	<u>\$ 266,085</u>	<u>\$ 266,085</u>	<u>\$ 434,176</u>	<u>\$ 168,091</u>

TOWN OF HILLSBOROUGH
CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE (1)
JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
Governmental funds capital assets:		
Land	\$ 1,456,560	\$ 1,456,560
Land improvements	3,727,468	3,632,615
Building and improvements	4,080,708	3,925,136
Machinery and equipment	1,515,888	2,603,326
Infrastructure	15,332,892	15,381,831
Total governmental funds capital assets	<u>\$ 26,113,516</u>	<u>\$ 26,999,468</u>
Investments in governmental funds capital assets by source:		
General fund	\$ 1,049,428	\$ 1,318,885
Special revenue fund	448,533	448,533
Capital projects funds	18,608,394	19,224,889
Other - unclassified	6,007,161	6,007,161
Total governmental funds capital assets	<u>\$ 26,113,516</u>	<u>\$ 26,999,468</u>

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net position.

**TOWN OF HILLSBOROUGH
CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY (1)
JUNE 30, 2018**

	Governmental Funds Capital Assets			Governmental Funds Capital Assets
	July 1, 2017	Additions	Retirements	June 30, 2018
General Government:				
Council	\$ 13,046	\$ -	\$ -	\$ 13,046
Finance	94,401	-	-	94,401
General Services	5,420,389	144,197	209,529	5,355,057
Total General Government	<u>5,527,836</u>	<u>144,197</u>	<u>209,529</u>	<u>5,462,504</u>
Public Safety:				
Police	1,912,742	369,391	755,686	1,526,447
Fire	1,494,618	-	383,750	1,110,868
Total Public Safety	<u>3,407,360</u>	<u>369,391</u>	<u>1,139,436</u>	<u>2,637,315</u>
Community Services:				
Building	107,977	-	-	107,977
Total Community Services	<u>107,977</u>	<u>-</u>	<u>-</u>	<u>107,977</u>
Public Work:				
Streets and Improvements	17,956,295	9,354	59,929	17,905,720
Total Public Work	<u>17,956,295</u>	<u>9,354</u>	<u>59,929</u>	<u>17,905,720</u>
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	<u>\$ 26,999,468</u>	<u>\$ 522,942</u>	<u>\$ 1,408,894</u>	<u>\$ 26,113,516</u>

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net position.

**TOWN OF HILLSBOROUGH
CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY (1)
JUNE 30, 2018**

<u>Function and Activity</u>	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Infrastructure</u>	<u>Total</u>
General Government:						
Council	\$ -	\$ -	\$ 6,155	\$ 6,891	\$ -	\$ 13,046
Finance	-	-	-	94,401	-	94,401
General Services	1,456,560	3,070,350	367,926	630,512	59,881	5,585,229
Total General Government	<u>1,456,560</u>	<u>3,070,350</u>	<u>374,081</u>	<u>731,804</u>	<u>59,881</u>	<u>5,692,676</u>
Public Safety:						
Police	-	49,751	690,523	556,001	-	1,296,275
Fire	-	46,734	931,453	132,681	-	1,110,868
Total Public Safety	<u>-</u>	<u>96,485</u>	<u>1,621,976</u>	<u>688,682</u>	<u>-</u>	<u>2,407,143</u>
Community Services:						
Building	-	-	5,980	101,997	-	107,977
Total Community Services	<u>-</u>	<u>-</u>	<u>5,980</u>	<u>101,997</u>	<u>-</u>	<u>107,977</u>
Public Work:						
Streets and Improvements	-	560,633	2,078,671	(6,595)	15,273,011	17,905,720
Total Public Work	<u>-</u>	<u>560,633</u>	<u>2,078,671</u>	<u>(6,595)</u>	<u>15,273,011</u>	<u>17,905,720</u>
TOTAL GOVERNMENTAL FUNDS						
CAPITAL ASSETS	<u>\$ 1,456,560</u>	<u>\$ 3,727,468</u>	<u>\$ 4,080,708</u>	<u>\$ 1,515,888</u>	<u>\$ 15,332,892</u>	<u>\$ 26,113,516</u>

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net position.

STATISTICAL SECTION

This part of the Town's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

Contents	Page
<i>Financial Trends</i>	83
These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	
<i>Revenue Capacity</i>	88
These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.	
<i>Debt Capacity</i>	93
These schedules present information to help the reader assess the affordability the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	
<i>Demographic and Economic Information</i>	98
This schedule offers demographic and economic indicators to help the reader understand the environment within which the Town's financial activities taken place.	
<i>Operating Information</i>	100
These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and activities it performs.	

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

TOWN OF HILLSBOROUGH
NET POSITION BY COMPONENT (accrual basis of accounting)
LAST TEN FISCAL YEARS

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Governmental activities:										
Net investments in										
capital assets	\$12,643,713	\$13,182,639	\$12,294,830	\$11,773,039	\$12,019,998	\$11,723,890	\$11,122,842	\$11,452,814	\$10,792,547	\$10,665,462
Restricted	156,495	98,287	295,638	372,474	482,370	328,497	483,242	280,529	281,094	545,609
Unrestricted	14,629,376	15,842,018	18,153,355	20,085,267	22,903,516	25,116,929	7,688,366	10,699,690	12,377,163	\$ 1,585,599
Total governmental activities net position	<u>27,429,584</u>	<u>29,122,944</u>	<u>30,743,823</u>	<u>32,230,780</u>	<u>35,405,884</u>	<u>37,169,316</u>	<u>19,294,450</u>	<u>22,433,033</u>	<u>23,450,804</u>	<u>12,796,670</u>
Business-type activities:										
Net investment in capital assets	8,862,867	7,656,747	7,614,556	9,188,346	10,350,088	11,592,114	14,228,241	16,043,824	25,925,584	27,303,121
Restricted	750,000	750,000	750,000	750,000	750,000	750,000	750,000	1,265,000	1,131,835	1,131,835
Unrestricted	22,530,319	23,069,322	21,729,327	20,282,628	20,935,882	23,728,010	21,534,214	20,082,986	17,950,317	19,749,223
Total business-type activities net position	<u>32,143,186</u>	<u>31,476,069</u>	<u>30,093,883</u>	<u>30,220,974</u>	<u>32,035,970</u>	<u>36,070,124</u>	<u>36,512,455</u>	<u>37,391,810</u>	<u>45,007,736</u>	<u>48,184,179</u>
Primary government:										
Net investments in										
capital assets	21,506,580	20,839,386	19,909,386	20,961,385	22,370,086	23,316,004	25,351,083	27,496,638	36,718,131	37,968,583
Restricted	906,495	848,287	1,045,638	1,122,474	1,232,370	1,078,497	1,233,242	1,545,529	1,412,929	1,677,444
Unrestricted	37,159,695	38,911,340	39,882,682	40,367,895	43,839,398	48,844,939	29,222,580	30,782,676	30,327,480	21,334,822
Total primary government net position	<u>\$59,572,770</u>	<u>\$60,599,013</u>	<u>\$60,837,706</u>	<u>\$62,451,754</u>	<u>\$67,441,854</u>	<u>\$73,239,440</u>	<u>\$55,806,905</u>	<u>\$59,824,843</u>	<u>\$68,458,540</u>	<u>\$60,980,849</u>

Governmental Activities Net Position at 6/30/2018 increased as compared to the prior year for strong property tax revenues and lower expenses due to timing of projects and open positions. This was offset by the restatement of beginning net position for implementation of GASB 75 OPEB liability. Business-Type Activities Net Position at 6/30/2018 increased primarily due to timing of revenues and capital spending.

Governmental Activities Net Position at 6/30/2017 increased as compared to the prior year primarily due to strong property tax revenues and lower expenses due to timing of projects and open positions. Business-Type Activities Net Position at 6/30/2017 increased primarily due to timing of one-time revenue contributions received in connection capital improvement projects. Business-Type Activities Net Investment in Capital Assets at 6/30/2017 increased primarily due to completion of a number of capital improvement projects for water tanks, water mains, water meters (paid for and contributed by General Fund), sewer hydraulic systems, priority sewer basins, and storm drains.

Total Primary Government Net Position at 6/30/2015 reflects implementation of GASB 68 pension liability, which decreases total net position.

TOWN OF HILLSBOROUGH
CHANGES IN NET POSITION (accrual basis of accounting)
LAST TEN FISCAL YEARS

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses:										
Governmental activities:										
General government	\$ 2,161,650	\$ 1,991,354	\$ 1,346,420	\$ 1,097,785	\$ 1,970,813	\$ 2,331,055	\$ 1,440,949	\$ 1,237,668	\$ 1,101,642	\$ 1,651,645
Public safety ⁽³⁾	13,921,296	13,732,970	13,256,947	13,164,203	12,511,099	13,013,443	13,415,141	13,934,621	16,183,032	16,711,271
Community services	2,568,084	2,546,984	2,620,744	2,843,352	2,421,753	2,540,073	2,583,821	2,668,325	2,740,114	2,447,628
Streets	1,891,315	1,427,985	1,535,351	1,888,568	1,895,336	4,158,492	2,390,733	4,253,687	2,609,530	5,086,027
Total governmental activities expenses	20,542,345	19,699,293	18,759,462	18,993,908	18,799,001	22,043,063	19,830,644	22,094,301	22,634,318	25,896,571
Business-type activities:										
Water	9,144,668	8,844,082	9,926,896	10,546,642	10,791,889	10,569,641	10,173,406	10,845,215	12,302,076	13,083,410
Sewer	6,825,407	6,648,421	6,929,061	6,434,854	7,032,593	6,925,551	8,535,762	10,122,581	8,932,190	10,704,394
Total business-type activities	15,970,075	15,492,503	16,855,957	16,981,496	17,824,482	17,495,192	18,709,168	20,967,796	21,234,266	23,787,804
Program Revenues:										
Governmental activities:										
Charges of services:										
General government	607,589	666,924	604,237	573,082	592,904	691,624	716,896	705,961	741,268	772,233
Public safety	598,627	686,989	437,669	459,365	406,742	444,598	440,242	468,667	435,396	407,497
Community services	1,348,276	1,193,681	1,183,000	1,297,315	1,568,077	1,613,213	1,830,985	1,617,138	1,810,631	1,792,327
Streets	619,353	522,791	541,580	550,600	743,363	749,237	818,772	719,496	804,199	826,645
Operating grants and functional taxes	1,908,302	1,891,169	1,234,674	1,488,792	1,353,167	1,475,280	1,292,466	1,241,798	1,204,673	1,399,235
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
Total governmental activities program revenues	5,082,147	4,961,554	4,001,160	4,369,154	4,664,253	4,973,952	5,099,361	4,753,060	4,996,167	5,197,937
Business-type activities:										
Charges for services:										
Water	8,194,641	7,865,400	8,307,044	10,002,348	11,618,904	13,349,064	11,650,371	12,290,648	13,692,123	14,702,348
Sewer	6,387,002	6,531,211	6,612,412	7,079,628	7,592,954	8,174,809	8,847,036	9,357,385	10,278,455	11,187,404
Capital grants, contributions & other non-operating revenues	-	-	495,475	-	927,137	99,572	1,117,463	-	1,409,826	-
Total business-type program revenues	14,581,643	14,396,611	15,414,931	17,081,976	20,138,995	21,623,445	21,614,870	21,648,033	25,380,404	25,889,752
	19,663,790	19,358,165	19,416,091	21,451,130	24,803,248	26,597,397	26,714,231	26,401,093	30,376,571	31,087,689
Net (Expense)/Revenue:										
Governmental activities	(15,460,198)	(14,737,739)	(14,758,302)	(14,624,754)	(14,134,748)	(17,069,111)	(14,731,283)	(17,341,241)	(17,638,151)	(20,698,634)
Business-type activities	(1,388,432)	(1,095,892)	(1,441,026)	100,480	2,314,513	4,128,253	2,905,702	680,237	4,146,138	2,101,948
Total primary government net revenue	(16,848,630)	(15,833,631)	(16,199,328)	(14,524,274)	(11,820,235)	(12,940,858)	(11,825,581)	(16,661,004)	(13,492,013)	(18,596,686)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property tax	10,059,220	10,490,219	10,502,473	10,431,696	10,943,691	11,780,737	12,629,286	13,783,039	14,872,305	15,785,068
Public Safety taxes	2,238,412	2,231,466	2,232,386	2,236,970	2,234,932	2,451,066	2,240,792	2,242,334	2,242,686	2,243,038
Property transfer tax	158,142	240,306	269,675	237,567	320,472	423,638	371,174	345,986	380,016	380,986
Franchise tax	557,077	536,772	562,941	612,218	707,497	734,990	715,352	723,843	739,249	741,207
Sales tax	72,419	76,928	48,251	79,248	168,838	14,175	65,277	73,853	98,856	100,563
Motor vehicle license tax	858,701	896,414	915,275	868,905	859,232	962,067	1,016,527	1,108,302	1,188,946	1,261,095
Business license tax	507,247	458,870	495,735	479,572	618,316	685,902	658,006	633,949	664,654	683,726
ERAF Refund	797,906	948,786	1,098,908	1,035,701	1,209,500	1,368,369	2,144,753	1,432,614	1,470,846	1,693,630
Triple flip	25,480	21,855	29,142	3,317	41,146	106,834	-	-	-	-
HOPTR	65,006	67,872	69,069	67,587	67,427	66,878	66,635	66,261	65,236	63,293
All others	368,739	154,902	36,245	37,208	32,344	12,649	76,314	54,655	212,368	190,715
Unrestricted investment earnings	303,693	306,709	119,081	21,722	106,457	65,238	72,299	109,988	196,501	363,702
Miscellaneous	-	-	-	-	-	160,000	160,000	(95,000)	(3,346,214)	(2,229,769)
Total governmental activities	16,012,042	16,431,099	16,379,181	16,111,711	17,309,852	18,832,543	20,216,415	20,479,824	18,785,449	21,277,254
Business-type activities:										
Investment earnings	432,277	428,775	58,840	26,611	55,839	65,901	76,710	104,118	123,575	233,973
Miscellaneous	-	-	-	-	-	(160,000)	(160,000)	95,000	3,346,214	2,229,769
Total business-type activities	432,277	428,775	58,840	26,611	55,839	(94,099)	(83,290)	199,118	3,469,789	2,463,742
Total primary government	16,444,319	16,859,874	16,438,021	16,138,322	17,365,691	18,738,444	20,133,125	20,678,942	22,255,238	23,740,996
Change in Net Position										
Governmental activities ⁽¹⁾	551,844	1,693,360	1,620,879	1,486,957	3,175,104	1,763,432	5,485,132	3,138,583	1,147,298	578,620
Business-type activities ⁽²⁾	(956,155)	(667,117)	(1,382,186)	127,091	2,370,352	4,034,154	2,822,412	879,355	7,615,927	4,565,690
Total primary government	\$ (404,311)	\$ 1,026,243	\$ 238,693	\$ 1,614,048	\$ 5,545,456	\$ 5,797,586	\$ 8,307,544	\$ 4,017,938	\$ 8,763,225	\$ 5,144,310

(1) The Change in Net Position for the year ended June 30, 2018 for Governmental Activities is primarily attributable to strong property tax revenue. The Change in Net Position for Business-Type Activities is the result of excess revenues over expenses of \$2.3 million and transfers of \$2.3 million from the general fund for capital projects.

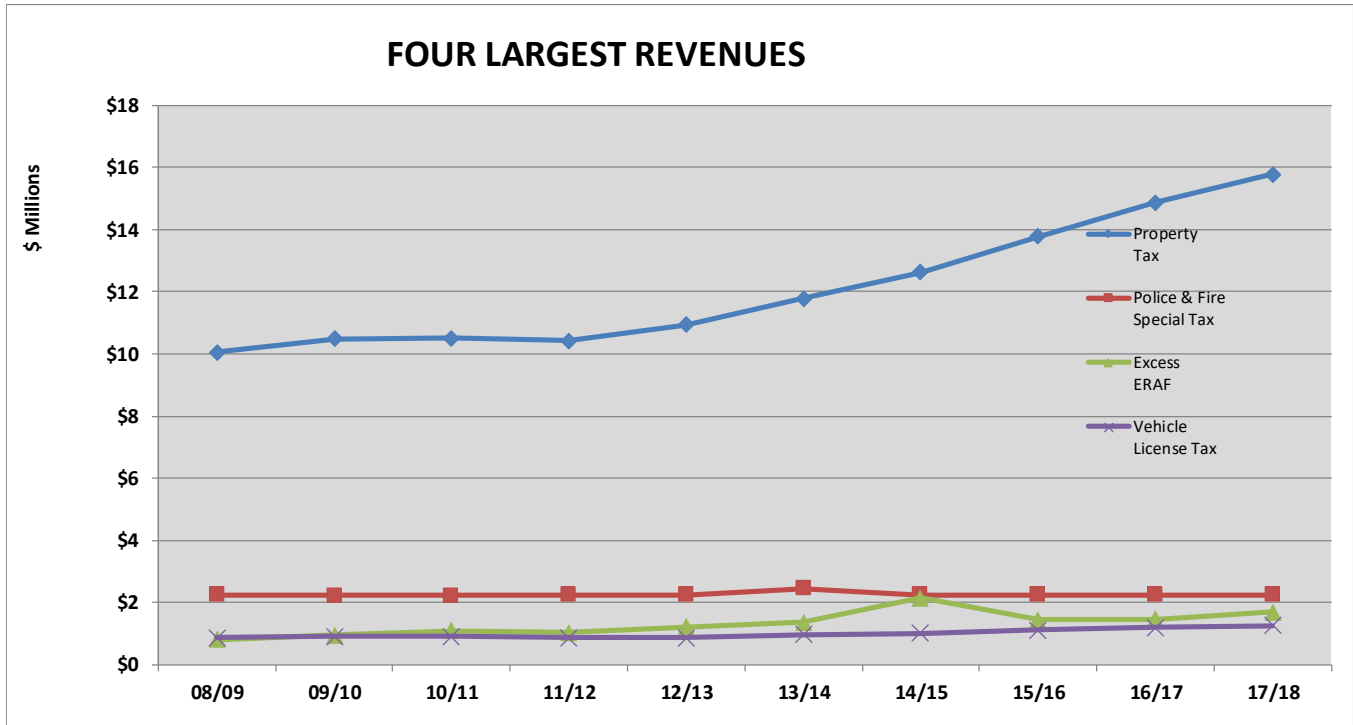
(2) The Change in Net Position for the year ended June 30, 2018 for Business-Type Activities is primarily due to an increase in operating revenues, driven by increased water unit sales, water rate increase, and sewer rate increase.

(3) Fiscal year ended June 30, 2017 Public Safety expense increased \$2.2 million over the prior year. This is attributable to salary COLA and step increases, pension rate increases, as well as the timing differences caused by GASB 68 pension expense accounting. These timing differences are accounting basis only and do not reflect cash outlay.

**TOWN OF HILLSBOROUGH
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE (accrual basis of accounting)
LAST TEN FISCAL YEARS**

Fiscal Year	Property Tax	(1)	(2)	(3)	Property Transfer Tax	Franchise Tax	Sales Tax/In-Lieu	Business License Tax
		Police & Fire Special Tax	Excess ERAF	Vehicle License Tax				
08/09	\$ 10,059,220	\$ 2,238,412	\$ 797,906	\$ 858,701	\$ 158,142	\$ 557,077	\$ 97,899	\$ 507,247
09/10	10,490,219	2,231,466	948,786	896,414	240,306	536,772	98,783	458,870
10/11	10,502,473	2,232,386	1,098,908	915,275	269,675	562,941	77,393	495,735
11/12	10,431,696	2,236,970	1,035,701	868,905	237,567	612,218	82,565	479,572
12/13	10,943,691	2,234,932	1,209,500	859,232	320,472	707,497	209,984	618,316
13/14	11,780,737	2,451,066	1,368,369	962,067	423,638	734,990	14,175	685,902
14/15	12,629,286	2,240,792	2,144,753	1,016,527	371,174	715,352	65,277	658,006
15/16	13,783,039	2,242,334	1,432,614	1,108,302	345,986	723,843	73,853	633,949
16/17	14,872,305	2,242,686	1,470,846	1,188,946	380,016	739,249	98,856	664,654
17/18	15,785,068	2,243,038	1,693,630	1,261,095	380,986	741,207	100,563	683,726

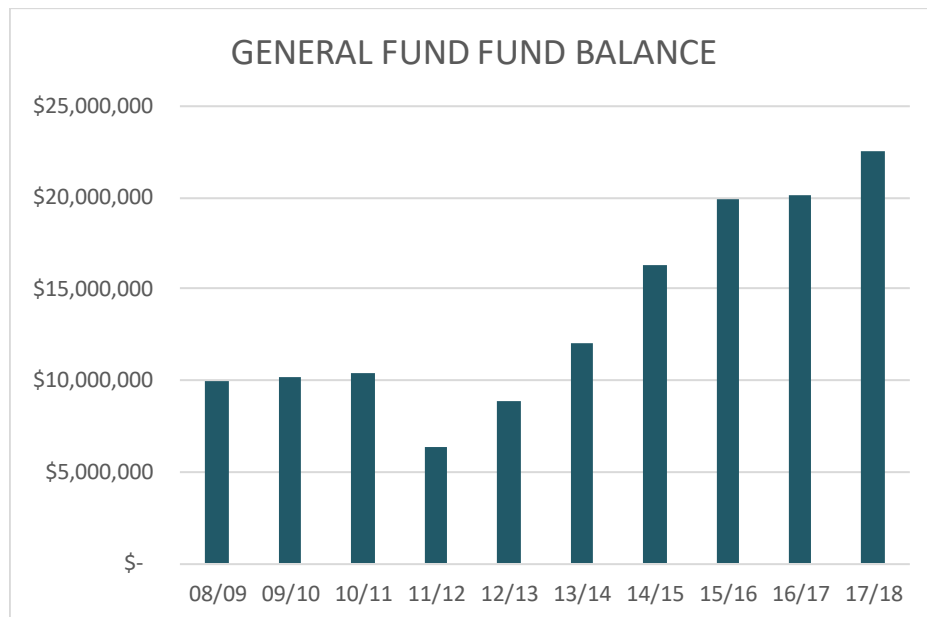
- (1) The Police and Fire Special Tax was approved by the voters on June 1998 to replace the existing General Fund Tax and used solely to help maintain and enhance police protection, fire protection and prevention services.
- (2) Starting FY 03/04, property tax contributions to the Education Revenue Augmentation Fund (ERAF) in San Mateo County reached a level where such contributions were in excess of State mandated school funding. The excess contributions are returned to the County agencies and other taxing districts.
- (3) Vehicle license fee is backfilled by the State of California starting in 1998 when the State reduced the rate from 2% to .65%.



TOWN OF HILLSBOROUGH
FUND BALANCES OF GOVERNMENTAL FUNDS (modified accrual basis of accounting)
LAST TEN FISCAL YEARS

Fiscal Year	GENERAL FUND						Unreserved - Designated		Total
	Non-Spendable	Reserved	Unreserved/Designated	Unreserved/Undesignated	Unassigned	Total	Special Revenue Funds Restricted	Capital Projects Fund Committed	
08/09		\$ 41,785		\$ 9,964,131		\$ 10,005,916	\$ 156,495	\$ 1,775,751	\$ 1,932,246
09/10		881,784	113,389	9,177,132		10,172,305	98,287	1,823,695	1,921,982
10/11	\$ 868,490				9,483,998	10,352,488	295,638	2,603,872	2,899,510
11/12	883,009				\$ 5,467,783	6,350,792 ⁽¹⁾	372,474	3,304,933	3,677,407
12/13	5,108				8,841,773	8,846,881	482,370	3,878,126	4,360,496
13/14	16,678				12,059,156	12,075,834	328,497	3,276,077	3,604,574
14/15	5,864				16,246,015	16,251,879 ⁽²⁾	483,242	4,029,620	4,512,862
15/16	5,479				19,880,416	19,885,895 ⁽³⁾	280,529	3,213,579	3,494,108
16/17	8,065				20,085,943	20,094,008 ⁽³⁾	281,094	4,237,398	4,518,492
17/18	8,571				22,495,369	22,503,940	545,609	2,439,001	2,984,610

- (1) Decrease in General Fund fund balance in FY 11/12 resulted from the transfer to internal service fund to pay off of pension side fund liability.
- (2) Increase in General Fund fund balance in FY 14/15 is primarily attributable to increase in property tax revenues and strong expense containment.
Increase in Capital Projects Fund fund balance in FY 14/15 is timing of capital spending, primarily in street repaving program, which is on a bi-annual cycle.
- (3) Increase in General Fund fund balance in FY 15/16, FY 16/17 and FY 17/18 is primarily due to strong property tax revenues, and lower expenditures due to timing of projects and hiring.
Fluctuations in the Capital Projects Fund fund balance is timing of capital spending, primarily in street repaving program, which is on a biennial cycle.



TOWN OF HILLSBOROUGH
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (modified accrual basis of accounting)
LAST TEN FISCAL YEARS

	<u>08/09</u>	<u>09/10</u>	<u>10/11</u>	<u>11/12 ⁽¹⁾</u>	<u>12/13</u>	<u>13/14</u>	<u>14/15</u>	<u>15/16</u>	<u>16/17</u>	<u>17/18</u>
Revenues:										
Taxes	\$ 15,002,379	\$ 15,478,622	\$ 15,729,537	\$ 15,621,275	\$ 16,921,691	\$ 18,022,939	\$ 19,544,649	\$ 19,381,521	\$ 20,625,423	\$ 21,761,555
Permits	966,417	997,456	995,930	1,057,122	1,257,636	1,263,697	1,293,814	1,296,528	1,382,578	1,433,876
Intergovernmental	2,180,393	2,170,119	1,816,458	2,018,786	1,918,372	2,598,876	2,307,932	2,308,153	2,331,557	2,730,058
Service charges	1,170,582	1,085,730	874,503	936,333	989,513	1,089,867	1,179,642	1,150,751	1,119,679	1,090,405
Fines and forfeitures	75,392	65,082	48,817	28,324	50,879	96,766	194,506	49,718	148,187	630,260
Other fees and charges ⁽²⁾								510,121	641,144	159,528
Investment earnings	250,582	245,814	107,654	17,772	101,741	58,428	63,256	95,590	140,791	303,068
Miscellaneous	759,294	684,066	486,025	495,112	471,909	506,369	561,125	517,858	550,205	528,962
Total revenues	<u>20,405,039</u>	<u>20,726,889</u>	<u>20,058,924</u>	<u>20,174,724</u>	<u>21,711,741</u>	<u>23,636,942</u>	<u>25,144,924</u>	<u>25,310,240</u>	<u>26,939,564</u>	<u>28,637,712</u>
Expenditures:										
General government	1,288,990	1,186,945	1,012,987	1,029,640	793,779	1,070,319	1,032,408	1,083,386	1,193,117	1,319,841
Public safety	13,949,941	14,220,644	13,046,562	13,198,691	12,464,023	12,855,768	13,682,047	14,684,875	15,689,634	16,195,735
Community services	2,550,486	2,496,590	2,619,644	2,842,819	2,406,904	2,536,784	2,561,612	2,672,549	2,719,138	2,729,304
Streets	1,498,189	1,024,313	1,133,093	1,451,621	1,482,528	1,975,604	2,292,809	3,896,794	2,392,966	5,255,841
Capital outlay	910,170	1,441,217	96,773	180,575	892,930	2,233,720	-	-	-	522,941
Total expenditures	<u>20,197,776</u>	<u>20,369,709</u>	<u>17,909,059</u>	<u>18,703,346</u>	<u>18,040,164</u>	<u>20,672,195</u>	<u>19,568,876</u>	<u>22,337,604</u>	<u>21,994,855</u>	<u>26,023,662</u>
Excess of revenues over (under) expenditures	<u>207,263</u>	<u>357,180</u>	<u>2,149,865</u>	<u>1,471,378</u>	<u>3,671,577</u>	<u>2,964,747</u>	<u>5,576,048</u>	<u>2,972,636</u>	<u>4,944,709</u>	<u>2,614,050</u>
Other Financing Sources (Uses):										
Transfers in	3,631,016	3,705,462	3,283,301	3,246,501	3,610,479	3,679,700	3,253,766	3,435,093	3,279,368	3,363,402
Transfers out ⁽³⁾	(3,459,463)	(3,906,517)	(4,275,455)	(7,941,678)	(4,102,878)	(4,171,416)	(3,745,482)	(3,792,469)	(6,991,582)	(5,101,402)
Total Other Financing Sources (Uses)	<u>171,553</u>	<u>(201,055)</u>	<u>(992,154)</u>	<u>(4,695,177)</u>	<u>(492,399)</u>	<u>(491,716)</u>	<u>(491,716)</u>	<u>(357,376)</u>	<u>(3,712,214)</u>	<u>(1,738,000)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 378,816</u>	<u>\$ 156,125</u>	<u>\$ 1,157,711</u>	<u>\$ (3,223,799)</u>	<u>\$ 3,179,178</u>	<u>\$ 2,473,031</u>	<u>\$ 5,084,332</u>	<u>\$ 2,615,260</u>	<u>\$ 1,232,495</u>	<u>\$ 876,050</u>
NET CHANGE IN FUND BALANCES - GENERAL FUND (3)	<u>\$ 11,506</u>	<u>\$ 166,389</u>	<u>\$ 180,183</u>	<u>\$ (4,001,696)</u>	<u>\$ 2,496,089</u>	<u>\$ 3,228,953</u>	<u>\$ 4,176,045</u>	<u>\$ 3,634,015</u>	<u>\$ 208,112</u>	<u>\$ 2,409,932</u>
DEBT SERVICE EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
RATIO OF DEBT SERVICE TO NONCAPITAL EXPENDITURES	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

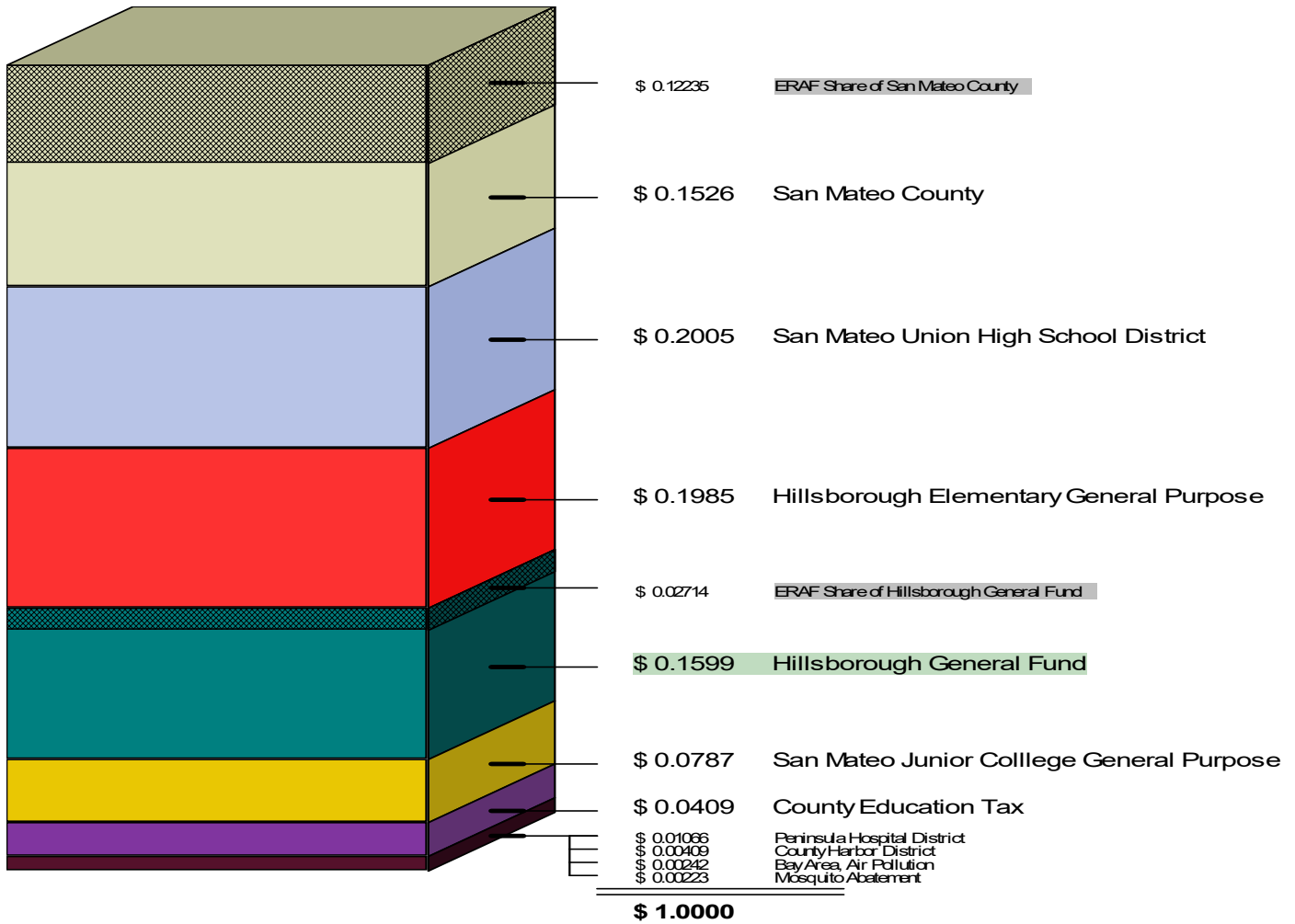
(1) Negative change in net assets in FY 11/12 resulted from the transfer to internal service fund to pay-off retirement unfunded liability.

(2) Starting in 15/16, the fees and charges for the Capital Fund street related fees are broken out separately as Other Fees and Charges. In prior years, these amounts are included in Taxes.

(3) FY 16/17 transfers out include one-time capital improvement contributions for automated meter readers and storm drains. The contributions were from the General Fund, thereby also reducing the change in fund balance of the General Fund as compared to the prior year.

(4) In FY 17/18, property taxes increased primarily for the increase in assessed valuations, and the street expenditures increased for the street repaving program.

**TOWN OF HILLSBOROUGH
PROPERTY TAX DOLLAR BREAKDOWN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

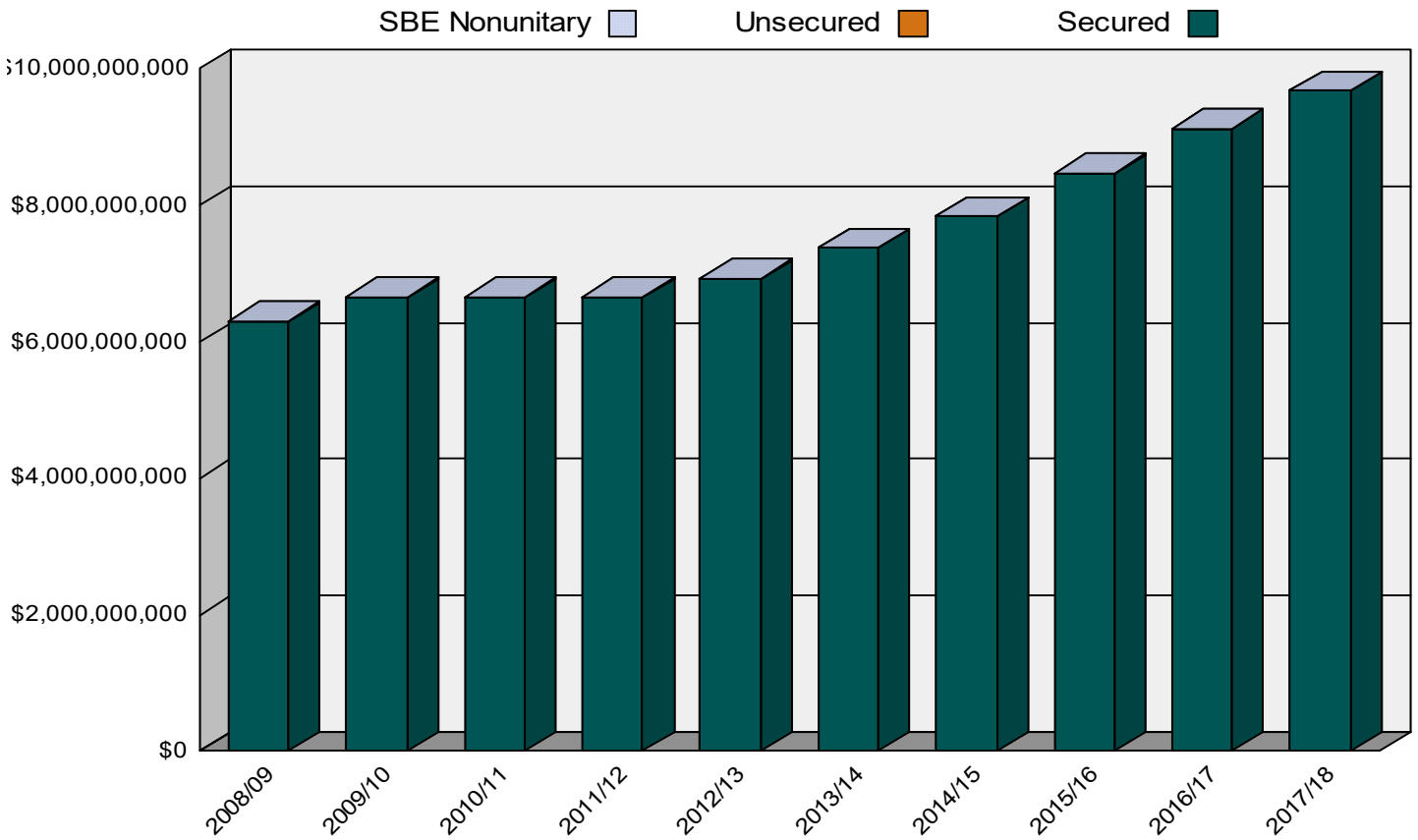


ATI (Annual Tax Increment) Ratios for Tax Rate Area 006-001, Excluding Redevelopment Factors and Additional Debt Service
Data Source: San Mateo County Assessor 2017/2018 Annual Tax Increment Tables.

This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren and Cone.

**TOWN OF HILLSBOROUGH
NET TAXABLE ASSESSED VALUE HISTORY
LAST TEN FISCAL YEARS**

<u>Lien Year</u>	<u>Secured</u>	<u>Unsecured</u>	<u>SBE Nonunitary</u>	<u>Net Total AV</u>	<u>% Change</u>	<u>Total Direct Tax Rate</u>
2008/09	\$6,301,080,652	\$ 4,766,453	\$0	\$ 6,305,847,105	6.50%	0.16012
2009/10	6,649,847,907	4,896,023	0	6,654,743,930	5.53%	0.16009
2010/11	6,647,117,625	7,862,429	0	6,654,980,054	0.00%	0.16008
2011/12	6,651,650,227	5,673,361	0	6,657,323,588	0.04%	0.16008
2012/13	6,920,302,922	5,149,053	0	6,925,451,975	4.03%	0.15739
2013/14	7,377,527,987	4,556,205	0	7,382,084,192	6.59%	0.15736
2014/15	7,833,939,940	5,908,200	0	7,839,848,140	6.20%	0.15767
2015/16	8,460,687,856	8,612,367	0	8,469,300,223	8.03%	0.15782
2016/17	9,121,371,245	6,096,108	0	9,127,467,353	7.77%	0.15781
2017/18	9,673,123,078	5,220,467	0	9,678,343,545	6.04%	0.15779



Data Source: San Mateo County Assessor 0/ - 2017/2018 Combined Tax Rolls.

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**TOWN OF HILLSBOROUGH
DIRECT AND OVERLAPPING PROPERTY TAX RATES
(RATE PER \$100 OF TAXABLE VALUE)**

Agency	Last 10 Fiscal Years									
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Basic Levy¹	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Burlingame Elementary	0.0468	0.0463	0.0420	0.0453	0.0479	0.0649	0.0744	0.0636	0.0568	0.0762
Hillsborough Elementary	0.0300	0.0300	0.0308	0.0293	0.0276	0.0274	0.0271	0.0264	0.0256	0.0276
San Mateo Junior College	0.0165	0.0182	0.0193	0.0199	0.0194	0.0194	0.0190	0.025	0.0247	0.0235
San Mateo Union High	0.0298	0.0319	0.0322	0.0383	0.0381	0.0355	0.0475	0.0466	0.0415	0.0433
Total Direct & Overlapping ² Tax Rates	1.1231	1.1264	1.1243	1.1328	1.1330	1.1472	1.1680	1.1616	1.1486	1.1706
City's Share of 1% Levy Per Prop 13³	0.1871	0.1871	0.1871	0.1871	0.1871	0.1871	0.1871	0.18706	0.18706	0.1871
Voter Approved City Debt Rate										
Redevelopment Rate⁴										
Total Direct Rate⁵	0.16015	0.16012	0.16009	0.16008	0.16008	0.15739	0.15736	0.15767	0.15782	0.1578

Notes:

¹In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

²Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

³City's Share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the City. ERAF general fund tax shifts may not be included in tax ratio figures.

⁴Redevelopment Rate is based on the largest RDA tax rate area and only includes rate(s) from indebtedness adopted prior to 1989 per California State statute. RDA direct and overlapping rates are applied only to the incremental property values. The approval of ABX1 26 eliminated Redevelopment from the State of California for the fiscal year 2012/13 and years thereafter.

⁵Total Direct Rate is the weighted average of all individual direct rates applied by the City/Agency preparing the statistical section information and excludes revenues derived from aircraft. Beginning in 2013/14 the Total Direct Rate no longer includes revenue generated from the former redevelopment tax rate areas. Challenges to recognized enforceable obligations are assumed to have been resolved during 2012/13. For the purposes of this report, residual revenue is assumed to be distributed to the City/Agency in the same proportions as general fund revenue.

Data Source: San Mateo County Assessor 2008/09 - 2017/18 Tax Rate Table.

**TOWN OF HILLSBOROUGH
 PRINCIPAL PROPERTY TAXPAYERS
 FISCAL YEAR 2017-18 COMPARED TO NINE YEARS PRIOR**

<u>Taxpayer (Number of Parcels)</u>	<u>2017-18</u>			<u>2008-09</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
CAROLANDS FOUNDATION	\$ 137,952,970	1	1.43%			
ALPHA YIELD HOLDINGS LIMITED	31,883,701	2	0.33%			
THEODORE H KRUTTSCHNITT	24,252,635	3	0.25%	12,885,000	7	0.20%
DELIGHT WISE INVESTMENTS LIMITED	23,610,654	4	0.24%			
123 NEW PLACE	18,394,866	5	0.19%			
AUGUST MOON 1971 LLC	17,111,173	6	0.18%			
CALACANIS LIVING TRUST	17,025,000	7	0.18%			
GEORGE HSU TRUST	16,708,070	8	0.17%			
PETER SPIRO STAMOS TRUST	16,000,000	9	0.17%	16,820,875	3	0.27%
BOPARDIKAR BHAVE 2017 TRUST	15,547,249	10	0.16%			
JAMES G B III DE MARTINI TRUST				23,250,000	1	0.37%
VAL E VADEN TRUST				17,735,473	2	0.28%
CHRISTOPHER R REDLICH JR				16,253,128	4	0.26%
OTTO J MILLER				14,973,500	5	0.24%
TERENCE J GARNETT TRUST				13,867,557	6	0.22%
PATRICK C TAI TRUST				11,674,249	8	0.19%
ROBERT M T AND SUSAN V CHANG TRUST				10,325,136	9	0.16%
DAVID J STEIRMAN				10,276,773	10	0.16%
	<u>\$ 318,486,318</u>		<u>3.29%</u>	<u>\$ 148,061,691</u>		<u>2.35%</u>

Source: San Mateo Tax Assessor's Office

**TOWN OF HILLSBOROUGH
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST TEN FISCAL YEARS**

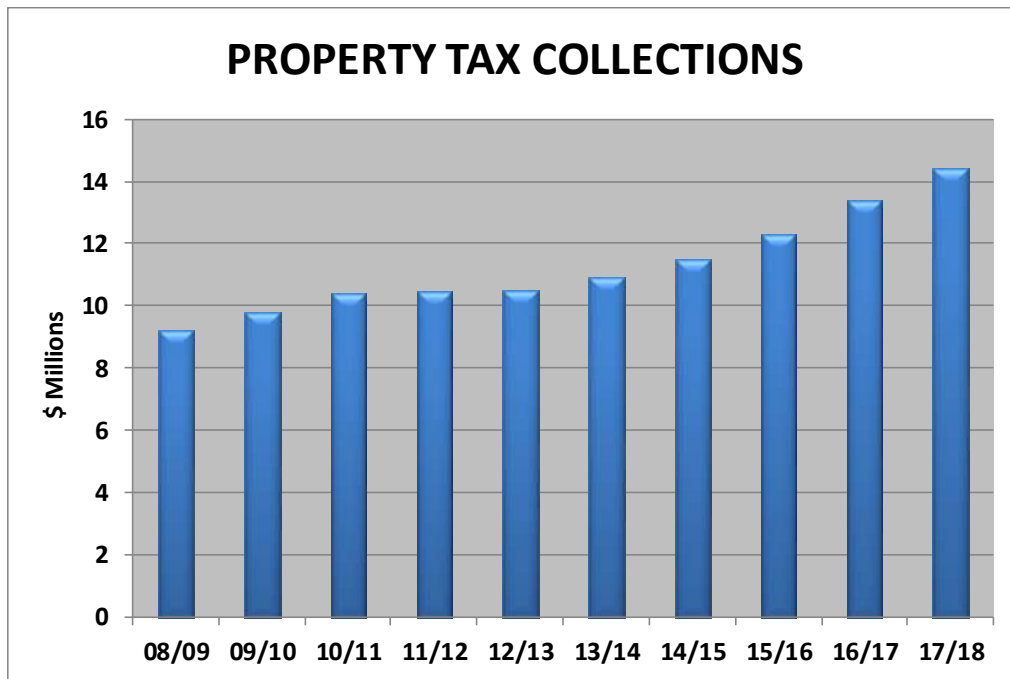
	Tax Levy ⁽²⁾	ERAF Shift	Net Levy	% of Chg	Collected within FY Amount	% of Levy	Collections Subsequent Years (3)	Total Collections to Date Amount	% of Levy
08/09	11,651,416	1,679,018	9,972,398	13%	9,833,329	99%		9,833,329	99%
09/10	12,304,037	1,773,379	10,530,658	6%	10,413,159	99%		10,413,159	99%
10/11	12,303,748	1,773,379	10,530,369	0%	10,479,740	100%		10,479,740	100%
11/12	12,309,654	1,774,088	10,535,566	0%	10,516,627	100%		10,516,627	100%
12/13	12,813,500	1,846,649	10,966,851	4%	10,943,552	100%		10,943,552	100%
13/14	13,666,852	1,970,189	11,696,663	7%	11,511,840	98%		11,511,840	98%
14/15	14,530,754	2,094,115	12,436,639	6%	12,332,000	99%		12,332,000	99%
15/16	15,630,336	2,264,366	13,365,970	7%	13,385,540	100%		13,385,540	100%
16/17	16,956,939	2,442,572	14,514,368	9%	14,445,762	100%		14,445,762	100%
17/18	17,993,645	2,591,569	15,402,076	6%	15,378,546	100%		15,378,546	100%

(1) Secured taxes are paid under the TEETER PLAN which requires full payment of the tax levy with no deductions for delinquencies. However, collections may include adjustments and refunds processed throughout the year.

(2) Includes Secured, Unsecured, HOPTR and Unitary

(3) Information regarding collections in subsequent years is not available.

Source: San Mateo County Assessor's Office and Town of Hillsborough Finance Department



**TOWN OF HILLSBOROUGH
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	Business-Type Activities	Certificates of Participation, State Revolving Fund Loan, and ECE Loan	Total Primary Government	Percentage of Estimated Net Taxable Values of Property ⁽¹⁾	Per Capita ⁽²⁾
08/09	\$	38,240,000	\$ 38,240,000	0.61%	3,356
09/10		37,370,000	37,370,000	0.56%	3,239
10/11		36,390,000	36,390,000	0.55%	3,345
11/12		36,108,700	36,108,700	0.54%	3,281
12/13		34,855,516	34,855,516	0.50%	3,136
13/14		33,588,407	33,588,407	0.45%	2,982
14/15		32,305,334	32,305,334	0.41%	2,868
15/16		37,994,330	37,994,330	0.45%	3,251
16/17		38,754,389	38,754,389	0.42%	3,297
17/18		36,982,848	36,982,848	0.38%	3,147

Source: Town of Hillsborough Finance Department.

(1) Net Taxable Assessed Values can be found in the Net Taxable Assessed Values history page.

(2) Population data can be found in the Demographic and Economic Statistic page.

**TOWN OF HILLSBOROUGH
COMPUTATION OF DIRECT AND OVERLAPPING DEBT**

Jurisdiction	6/30/2018 Total Debt	Applicable Percentage ⁽¹⁾	6/30/2018 Debt
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
San Mateo Community College District	\$ 576,424,069	4.677%	\$ 26,959,354
San Mateo Union High School District	525,549,991	13.316%	69,982,237
Hillsborough School District	69,062,002	99.847%	68,956,337
Burlingame School District	124,377,486	0.016%	19,900
Town of Hillsborough	-	100.000%	-
Total Direct and Overlapping Tax and Assessment Debt			\$ 165,917,828
OVERLAPPING GENERAL FUND DEBT:			
San Mateo County General Fund Obligations	\$ 366,157,077	4.677%	\$ 17,125,166
San Mateo County Board of Education Certificates of Participation	8,745,000	4.677%	409,004
Burlingame School District Certificates of Participation	3,443,660	0.016%	551
Total Gross Overlapping General Fund Obligation Debt			\$ 17,534,721
TOTAL DIRECT DEBT			\$0
TOTAL OVERLAPPING DEBT			\$ 183,452,549
COMBINED TOTAL DEBT			\$ 183,452,549 ⁽²⁾

(1) The percentage of overlapping debt applicable to the town is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the town divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

RATIOS TO ASSESSED VALUATION:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.71%
Combined Total Debt	1.90%

Source: California Municipal Statistics, Inc.

**TOWN OF HILLSBOROUGH
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

Fiscal Year	Assessed Value	Debt Limit 3.75% ⁽¹⁾	Total Net Debt Applicable to Limit	Legal Debt Margin
08/09	\$ 6,305,847,105	\$ 236,469,266	\$ -	\$ 236,469,266
09/10	6,654,743,930	249,552,897	-	249,552,897
10/11	6,654,980,054	249,561,752	-	249,561,752
11/12	6,657,323,588	249,649,635	-	249,649,635
12/13	6,925,451,975	259,704,449	-	259,704,449
13/14	7,382,084,192	276,828,157	-	276,828,157
14/15	7,839,848,140	293,994,305	-	293,994,305
15/16	8,469,300,223	317,598,758	-	317,598,758
16/17	9,127,467,353	342,280,026	-	342,280,026
17/18	9,678,343,545	362,937,883	-	362,937,883

(1) Pursuant to California Government Code Section 43605 (15% of 25% of full cash value).

Source: Town of Hillsborough Finance Department.

**TOWN OF HILLSBOROUGH
SCHEDULE OF ENTERPRISE FUNDS DEBT COVERAGE
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenses</u> (1)	<u>Net Revenues Available for Debt Service</u>	<u>Principal</u>	<u>Interest and Fiscal Charges</u>	<u>Total Debt Service</u>	<u>Coverage</u>
08/09	\$ 15,013,920	\$ 11,804,892	\$ 3,209,028	\$ 860,000	\$ 1,326,776	\$ 2,186,776	1.47
09/10	14,825,386	11,236,487	3,588,899	870,000	1,312,813	2,182,813	1.64
10/11	15,835,409 (3)	12,567,634	3,267,775	980,000	1,332,046	2,312,046	1.41
11/12	17,118,681	13,182,335	3,936,346	1,190,000	1,472,533	2,662,533	1.48
12/13	19,267,696	14,207,600	5,060,096	1,200,000	1,287,198	2,487,198	2.03
13/14	21,689,347	16,495,819	5,193,528	1,267,228	1,383,641	2,650,869	1.96
14/15	20,574,117 (2)	13,530,875	7,043,242	1,282,802	1,330,150	2,612,952	2.70
15/16	21,853,129 (2)	14,294,305	7,558,824	1,293,362	1,399,018	2,692,380	2.81
16/17	24,094,147 (2)	15,854,082	8,240,065	1,308,966	1,297,414	2,606,380	3.16
17/18	26,123,725	18,257,869	7,865,856	1,771,543	1,288,616	3,060,159	2.57

(1) Total expenses excludes depreciation and interest.

(2) Expenses exclusive of capital contributions for a water treatment plant and other contracts. In Fiscal Years 14/15, 15/16, and 16/17 , it is exclusive of El Cerrito sewer project contributions.

(3) Revenues in FY 10/11 included \$725,000 transfer from the Rate Stabilization Reserve and adjusted to exclude arbitrage earnings paid during the year but earned in FY 06/07.

**TOWN OF HILLSBOROUGH
WATER AND SEWER RATES
LAST TEN FISCAL YEARS**

Fiscal Year		Water		Sewer	
		1st Tier	% of Change	Residential	% of Change
08/09	(1)	\$ 3.67	5%	\$ 1,563	3%
09/10	(1)	3.88	6%	1,610	3%
10/11	(2)	4.38	13%	1,658	3%
11/12		4.95	13%	1,774	7%
12/13		5.59	13%	1,898	7%
13/14		6.32	13%	2,031	7%
14/15		7.14	13%	2,173	7%
15/16	(3)	8.74	22%	2,325	7%
16/17	(4)	5.54	n/a	2,558	10%
17/18	(1)	5.98	8%	2,814	10%

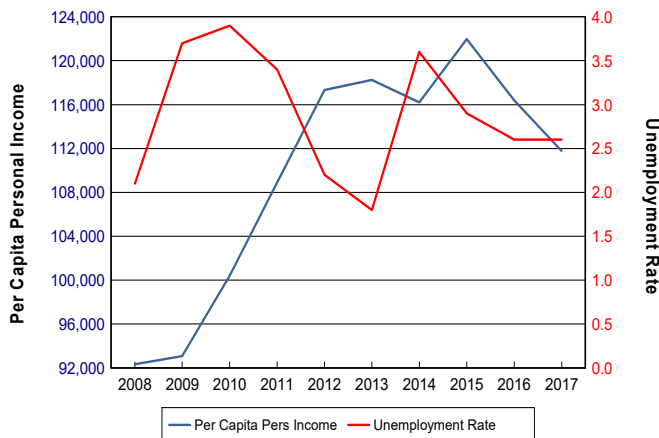
Source: Town's Finance Department

- (1) Sewer rate change effective July of each year; water rate change effective January of each year.
- (2) Water rate change effective 4/12/11; thereafter every January 1; sewer rate change effective each July 1.
- (3) Water rate change effective 2/11/16; thereafter every January 1; sewer rate change effective each July 1.
- (4) Sewer rate increase was effective July 1, 2016. A comprehensive water enterprise cost of service study was conducted and rates were implemented May 2017. The study adjusted the volumetrics tiers and charges and the service charges.

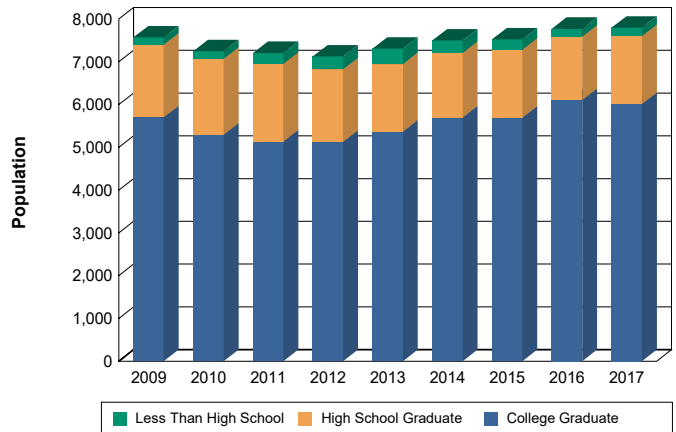
**TOWN OF HILLSBOROUGH
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Calendar Year	Population	Personal Income (Thousands)	Per Capita Personal Income	Unemployment Rate	Median Age	% of Pop 25+ with High School Degree	% of Pop 25+ with Bachelor's Degree
	<i>Note 1</i>						
2008	11,230	\$ 1,036,963	\$ 92,339	2.1%			
2009	11,390	1,060,245	93,086	3.7%	46.4	97.8%	75.3%
2010	11,537	1,158,269	100,396	3.9%	46.7	97.6%	73.1%
2011	11,006	1,198,608	108,905	3.4%	47.3	96.5%	71.3%
2012	11,115	1,304,112	117,329	2.2%	46.7	95.8%	72.0%
2013	11,260	1,331,518	118,252	1.8%	46.4	95.1%	73.5%
2014	11,266	1,309,199	116,208	3.6%	46.6	96.1%	76.0%
2015	11,687	1,425,471	121,970	2.9%	46.3	96.8%	75.7%
2016	11,753	1,367,991	116,395	2.6%	47.8	97.6%	78.6%
2017	11,543	1,314,050	113,839	2.6%	47.2	97.5%	77.1%

Personal Income and Unemployment



Education Level Attained for Population 25 and Over



Notes and Data Sources:

Population: California State Department of Finance. Unemployment Data: California Employment Development Department.

2000-2009 Income, Age, and Education Data: ESRI - Demographic Estimates are based on the last available Census. Projections are developed by incorporating all of the prior census data released to date. Demographic Data is totaled from Census Block Groups that overlap the City's boundaries.

2010 and later - Income, Age and Education Data - US Census Bureau, most recent American Community Survey.

Note 1: The above population figures as stated by the California State Department of Finance are typically higher than the actual results that are taken at census for the Town. The Department of Finance applies regional growth assumptions, yet the Town is nearly fully built out and does not grow at the same rate as the region. The Town estimates that population was 10,825 in 2010 and 10,910 in 2017.

**TOWN OF HILLSBOROUGH
COUNTY OF SAN MATEO AND NEIGHBORING CITIES
LARGEST EMPLOYERS ON THE PENINSULA**

<u>Name</u>	<u>Description</u>	<u>Total Peninsula Employees</u>	<u>Percentage of Labor Workforce San Mateo County ⁽¹⁾</u>
Stanford University	Private research university	14,328	3.14%
United Airlines	Airline	12,000	2.63%
Genentech, Inc.	Biotechnology	11,000	2.41%
Tesla, Inc.	Electric vehicle Manufacturer	10,000	2.19%
Facebook, Inc.	Social networking website	7,091	1.55%
Oracle	Cloud application and platform services	6,781	1.48%
Stanford Health Care	Academic health care system	5,000	1.09%
SAP	Enterprise software	4,329	0.95%
Gilead Sciences, Inc.	Biopharmaceuticals	3,900	0.85%
Vmware, Inc.	Cloud infrastructure and business mobilit	3,753	0.82%
Visa, Inc.	Financial technology service	3,500	0.77%
SSL	Satellite and space systems	2,600	0.57%
Electronic Arts, Inc.	Videogame developer and publisher	2,367	0.52%
Robert Half International Inc.	Professional staffing services	1,790	0.39%
HP, Inc.	Printers, PCs, mobile devices	1,730	0.38%
Youtube, LLC	Online video streaming platform	1,700	0.37%
Walmart Global eCommerce	Retail e-commerce	1,500	0.33%
Varian Medical System, Inc.	Manufacturer of medical devices	1,250	0.27%
Seton Medical Center	Hospitals	1,228	0.27%
Hewlett Packard Enterprise, Co.	IT, Technology and enterprise products	1,000	0.22%
		96,847	21.19%

Source: San Francisco Business Times, Book of Lists, 2018

(1) The table above reflects the statistical data for San Mateo County as provided by the Employment Development Department of the State of California as of January 2018.

**TOWN OF HILLSBOROUGH
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS**

Function	<u>08/09</u>	<u>09/10</u>	<u>10/11</u>	<u>11/12</u>	<u>12/13</u>	<u>13/14</u>	<u>14/15</u>	<u>15/16</u>	<u>16/17</u>	<u>17/18</u>
General Government:										
City Manager	4	4	4	4	4	4	4	4	4	5
Finance	5	5	5	5	5	5	5	5	5	6
Community Services	8	8	8	8	8	8	8	8	8	8
Public Safety:										
Police	36	36	36	31	30	31	32	34	35	36
Fire ⁽¹⁾	30.75	30.75								
Public Works:										
Administration	5	8	8	8	8	7	9	10	11	11
Maintenance:										
Streets	7	7	7	7	7	7	6	5	5	5
Water	12	12	12	12	11	10	8	9	9	9
Sewer	7	7	7	7	8	8	8	8	8	8
Total	114.75	117.75	87.00	82	81	80	80	83	85	88

(1) In FY 04/05, Town of Hillsborough and the City of Burlingame approved a Joint Powers Agreement (JPA) for combined fire services. In FY 10/11, fire operations fully merged as Central County Fire Department. In FY 14/15, CCFD started providing fire services to the City of Millbrae, and increased headcount to support these services.

(2) Starting FY 11/12, headcount reflects budgeted positions (i.e. count does not include approved unfunded positions)

Source: Town of Hillsborough's Finance Department.

**TOWN OF HILLSBOROUGH
OPERATING INDICATORS BY FUNCTION
LAST TEN YEARS (WHEN AVAILABLE)**

	<u>08/09</u>	<u>09/10</u>	<u>10/11</u>	<u>11/12</u>	<u>12/13</u>	<u>13/14</u>	<u>14/15</u>	<u>15/16</u>	<u>16/17</u>	<u>17/18</u>
Function:										
Police										
Average Response time (all calls)	4:42	0	4:58	5:27	5:20	5:50	6:09	5:35	5:15	6:10
Average Response time (urgent calls)	3:03	0	3:17	3:38	3:24	3:42	3:40	3:26	2:31	3:01
Burglar Alarm Activations	2,710	2,399	2,447	2,523	2,607	2,580	2,586	2,500	2,608	2,253
Arrests:										
Adult	133	77	58	48	36	23	36	45	62	93
Juvenile	48	14	10	5	4	9	11	3	4	7
Traffic Activity:										
Injury Accidents	9	8	8	15	6	12	8	14	7	8
Non-injury Accidents	72	64	59	37	41	57	50	36	43	52
Moving Citations	337	199	219	183	158	150	171	127	225	425
Courtesy Warning Citations	191	224	209	214	597	588	162	355	435	721
Criminal Activity:										
Crimes against persons ²	39	25	30	31	29	31	31	29	44	51
Crimes against property	191	173	164	139	81	91	121	117	79	85
Fire										
Number of calls answered ³	4,227	4,267	4,129	4,313	4,232	4,338	4,715	4,263	7,668	6,584
Inspections	1,299	1,818	1,096	1,280	814	2,017	2,201	1,179	1,454	1,528
Planning - Design Review										
New Houses Approved	17	7	12	21	16	16	23	25	20	13
Other Applications Approved	203	218	211	222	268	293	254	307	273	249
Building										
# of Permits Issued	1,073	1,174	1,375	1,311	1,421	1,513	1,410	1,493	1,402	1,452
# of Projects	539	426	361.00	314	367	386	509	526	501	511
Valuation of Permits Issued (in 000's)	\$ 64,374	\$ 54,028	\$ 51,910	\$ 54,045	\$ 63,853	\$ 73,441	\$ 77,430	\$ 72,217	\$ 84,430	\$ 78,012
Total New Dwellings	16	10	11.00	10	17	19	13	13	20	11
Streets										
Street resurfacing (miles)	4	13.7	-	-	10	1	-	-	16	22
Potholes repaired	50	45	50	62	45	65	55	51	60	47
Guardrail replacement (LF)	4,231	60	85	-	125	60	50	45	100	40
Storm drains cleaned	1,450	1,144	1,200	1,500	750	1,050	1,150	1,250	1,350	1,425
After hour callbacks	24	20	40	35	22	16	21	47	46	31
Water										
New connections	6	9	5	7	5	2	8	2	3	5
Water mains breaks	25	11	13	9	6	22	28	24	18	10
Water purchased (in thousand units)	1,675	1,447	1,544	1,587	1,609	1,600	1,226	1,050	1,139	1,214
Retail water sales (in thousand units)	1,570	1,417	1,412	1,424	1,453	1,505	1,177	981	1,027	1,149
Meter replacements ⁴	13	9	11	82	18	11	39	10	4,277	29
No of meter reads (calendar year) ⁵	25,668	25,674	25,716	25,716	26,210	26,238	28,424	40,277	51,208	32,528
After hour callbacks	110	57	60	66	33	37	67	69	120	115
Wastewater										
Average daily flow (sewer-MGD)										
San Mateo	n/a	0.39	0.63	0.55	0.60	0.53	0.53	0.46	0.82	0.47
Burlingame	0.49	0.56	0.62	0.49	0.82	0.37	0.41	0.35	0.48	0.23
Total		0.95	1.25	1.04	1.41	0.90	0.94	0.81	1.30	0.70
After hour callbacks	46	57	45	40	44	37	37	29	27	22

Source: Various Departments - Town of Hillsborough

¹ There was an increase in child protective service and adult protective service referrals in FY 2016-17.

² The total number of calls answered for CCFD include Burlingame, Hillsborough and Millbrae. The previous fiscal year was lower because Millbrae's calls were added midway during the year.

³ The number of meter reads increased in FY 15/16 and 16/17 due to a shift from bi-monthly to monthly billing in order to monitor water conservation. Bi-monthly billing was reinstated in October 2017.

⁴ In FY 2016-17, the Town replaced all of the existing water meters and installed Automated Meter Readers as part of the City Council approved capital project.

⁵ The increase in the number of citations in FY 17/18 is attributable to more officers on patrol.

**TOWN OF HILLSBOROUGH
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS (WHEN AVAILABLE)**

	<u>08/09</u>	<u>09/10</u>	<u>10/11</u>	<u>11/12</u>	<u>12/13</u>	<u>13/14</u>	<u>14/15</u>	<u>15/16</u>	<u>16/17</u>	<u>17/18</u>
Function:										
Public Safety										
Police:										
Stations	1	2	2	2	2	2	2	2	2	2
Patrol units	16	16	16	16	17	17	17	17	17	17
Patrol motorcycles	4	4	4	4	4	4	4	4	4	4
Fire:										
Fire Stations	5	5	4	4	4	4	6	6	6	6
Administrative Office			1	1	1	1	1	1	1	1
Fire Engines	5	5	4	4	4	4	7	7	7	7
Reserve Engines	2	2	3	3	2	2	3	3	3	3
Streets and Storm Drains										
Streets (miles)	81	81	81	81	81	81	81	81	81	81
Storm drains (miles)	32	34	34	34	34	34	34	34	34	34
Water										
Water mains (miles)	97	108	108	108	108	108	108	108	108	108
Fire Hydrants	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,020	1,020
Maximum daily capacity (Million Gallons)	8,325	8,325	8,325	8,325	8,325	8,325	8,325	8,325	8,325	8,325
Sewer										
Sanitary sewers (miles)	118	98	98	98	96	98	98	98	96	96

Source: Various Departments - Town of Hillsborough

(1) In FY 03/04, the Town of Hillsborough and the City of Burlingame approved a Joint Power Agreement for fire combined services in which, except for certain items, operation costs are shared 40%/60% respectively. In FY 14/15, CCFD started providing fire services to the City of Millbrae on a contractual basis, and Millbrae shares in 30% of the costs of Central County Fire Department operations. The above statistics reflect the addition of Millbrae fire stations and equipment starting in FY 14/15.

Note: No capital asset indicators are available for the general government function.

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