

# **Town of Hillsborough, North Carolina**

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**Comprehensive Annual Financial Report**

**Year Ended June 30, 2017**

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# **Comprehensive Annual Financial Report**

**Year Ended  
June 30, 2017**

## **Town of Hillsborough, North Carolina**

Tom Stevens  
Mayor

Eric J. Peterson  
Town Manager

Daphna Schwartz  
Finance Director

Town of Hillsborough Finance Department

Phillip Cordeiro, Assistant Finance Director

Keri Carnes, Financial Analyst

Sarah Kimrey, Accounting Technician

Donna Duncan, Accounts Payable Clerk

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## ***Introductory Section***

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## **List of Principal Officials**

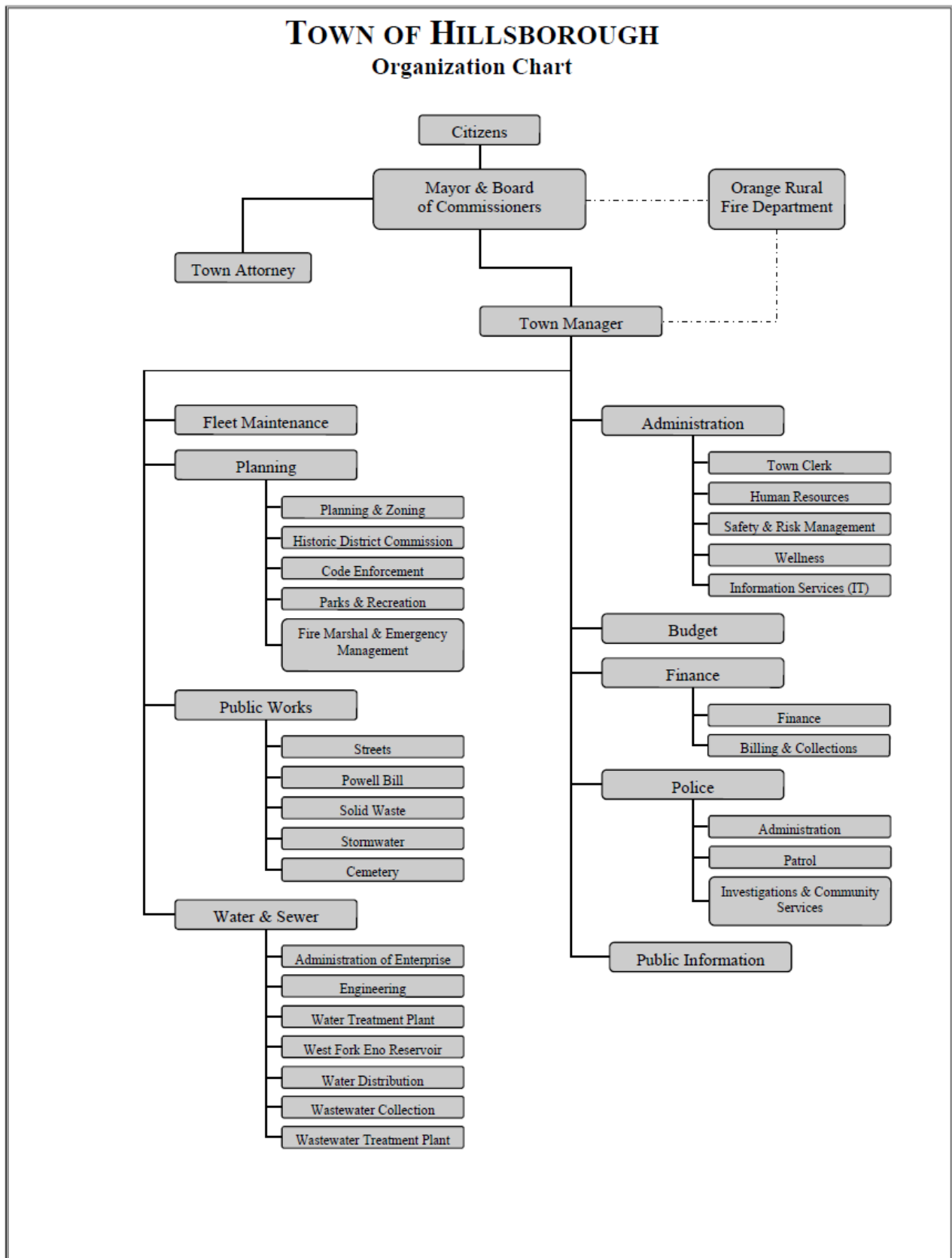
### **Board of Town Commissioners**

Tom Stevens, Mayor

Kathleen Ferguson ..... Mayor Pro Tem  
Brian J. Lowen..... Commissioner  
Mark Bell ..... Commissioner  
Evelyn P. Lloyd..... Commissioner  
Jenn Weaver ..... Commissioner

### **Town Officials**

Eric J. Peterson, Town Manager  
Daphna Schwartz, Finance Director (effective August 28, 2017)  
Phillip Cordeiro, Interim Finance Director (at June 30, 2017)  
Emily Bradford, Budget Director  
Kenneth Keel, Town Engineer/Utilities Director  
Katherine Cathey, Town Clerk/Human Resources Director  
Duane Hampton, Police Chief  
Margaret Hauth, Planning Director  
Ken Hines, Public Works Director  
Catherine Wright, Public Information Officer  
Jennifer Della Valle, Management Analyst/Assistant PIO  
Robert Hornik, Town Attorney



## Town of Hillsborough, North Carolina

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December 29, 2017

Honorable Mayor Stevens,  
Board of Town Commissioners,  
and Citizens of Hillsborough  
Hillsborough, North Carolina 27278

The Comprehensive Annual Financial Report of Hillsborough, North Carolina for the fiscal year ended June 30, 2017, is submitted for your review and use. The Town, like all other local governments in the state, is required by state law to publish a complete set of financial statements within five months of the close of each fiscal year. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. As management, we assert that, to the best of our knowledge, this financial report is complete and reliable in all material respects, and is reported in a manner designed to fairly present the financial position and results of the operations of the governmental and business-type activities. All disclosures necessary to gain the maximum understanding of the Town's financial affairs have been included.

The Town's management is responsible for establishing and maintaining an internal control structure that is designed to ensure the Town's assets are protected from loss, theft or misuse, and to ensure adequate accounting data are compiled to allow for the preparation of financial statements which conform with accounting principles generally accepted in the United States of America (GAAP). Since the cost of internal controls should not outweigh their benefits, the Town's internal control structure has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

North Carolina statutes and the Town's Ordinance require an annual audit by independent certified public accountants. The accounting firm of Dixon Hughes Goodman LLP, a firm of licensed certified public accountants, was selected and awarded the contract for Fiscal Year 2017. The goal of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. An independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and the significant estimates made by management; and evaluating the overall financial statement presentation. Generally accepted accounting principles require 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 transmittal letter is designed to complement the Management's Discussion & Analysis and should be read in conjunction with it. The Town's MD&A can be found immediately following the independent auditor's report.

### ***The Reporting Entity and Its Services***

Founded in 1754, Hillsborough, the county seat of Orange County, is located at the intersection of interstates 85 and 40, near several urban centers and universities. The small town setting is six to 30 miles from Chapel Hill, Durham, and Raleigh. Hillsborough's 6,568 residents have easy access to employment opportunities within the Research Triangle Park area. Within Hillsborough, the economy is centered on government, retail, service providers, and manufacturing. Orange County and the Town of Hillsborough are major local employers. The Town's historical sites attract a large number of tourists.

The Town is operated under the council-manager form of government. Commissioners on the five-member, nonpartisan board serve four-year staggered terms and are elected at large. The mayor, also elected at large, serves a two-year term, chairs the board meetings, and votes when a tie occurs.

The Town provides a full range of municipal services, including police, fire inspection and protection, parks, planning, public spaces, street maintenance, solid waste collection, and cemetery. The Town provides financial support to certain boards, agencies and commissions to assist their efforts in serving citizens. The Town has evaluated its relationship with each of these entities according to criteria

## **Town of Hillsborough, North Carolina**

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established by Governmental Accounting Standards Board Statement 14 and has determined that the Hillsborough Tourism Development Authority and Hillsborough Tourism Board are required to be included in the financial report.

The Town operates its own water and sanitary sewer systems. The Town's water treatment plant has a capacity of three million gallons per day (MGD) and is currently treating an average daily flow of 1.453 MGD. The Town's water system serves a total of 5,822 customers, which includes Town residents and customers from outlying areas. The sanitary sewer system has a treatment capacity of 3 MGD, with a current average daily flow of 1.032 MGD.

### ***Economic Conditions and Outlook***

The Town of Hillsborough, Orange County and the Research Triangle Park area are considered to be among the most desirable areas of the country to live and work, according to several national surveys. The economy of Hillsborough is diversified with government, manufacturing, wholesale and retail businesses, as well as numerous service providers. Approximately 40% of Hillsborough's tax base is commercial in nature - this is a strong indicator of a healthy and diverse property tax base. Local industries are involved in a range of operations, from distribution to complex manufacturing processes resulting in products such as hydraulic equipment, electronic equipment, and computerized medical diagnostic equipment.

The Town's unemployment rate has been below state and national rates throughout recent history. This trend continued during the current year in which the Town's unemployment rate, as of June 2017 was 3.7% for Orange County, while the state and national rates were 4.2% and 4.3%, respectively.

The Town's economy is expected to remain stable because of the benefits derived from a lower unemployment rate, a stable employment base, and the development of eight residential developments.

- Waterstone is comprised of single family and townhome developments as well as apartment homes. Construction began in 2014 with the final permits being issued in FY2017. When complete, the development will add over 500 residential units and more than 1,000 residents to Hillsborough.
- Corbin Creek Woods subdivision is now complete and includes 18 residential lots on 12.2 acres on Mitchell Street.
- Forest Ridge is a 233 single-family unit project on U.S. 70 A. Approximately, half of the project is completed.
- Elfin's Pond includes 118 townhomes on 24 acres at the intersection of Orange Grove Road and Eno Mountain Road. Approximately, half of the project is completed.
- 515 North Churton Street is a 24-unit condominium project on 1.49 acres in the 500 block of North Churton Street. Construction has started.
- The Fiori Hill project plan proposes 46 single-family dwellings on 17.6 acres adjacent to Forest Ridge. Construction has started.
- Bellevue Mill is a renovation project to convert the former fabric mill building into an apartment building with 114 units. The project footprint is 19.8 acres located on Nash Street. Construction has started.

## Town of Hillsborough, North Carolina

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- The Collins Ridge master plan includes 950 dwellings (houses, townhouses and apartments) and 88 affordable rental units. Construction should begin within the next one to two fiscal years.

These developments will roughly increase Hillsborough's population by 30% over the next few years. The town continues to receive commercial inquiries and experience expansion of existing businesses.

The stable outlook reflects the continued economic development within the Town and maintenance of the Town's good financial position. Reserve levels are sufficient and within the Town's adopted policy. The outlook also reflects the expectation that the Town will effectively manage its debt burden and capital needs.

### ***Long-Term Financial Planning and Major Initiatives***

Each year, the Town prepares a multiyear operational and capital improvement budget. Additionally, a balanced scorecard system is used to implement and communicate the board's mission, vision, and strategic priorities. During the year, the Town funded and managed many significant projects including the following:

- Street Repaving - This initiative is being funded without debt and uses the Town's Powell Bill (gas tax allocation) and General Fund revenues to pay for the improvements. The plan addresses (1) the highest priority street repaving and repair needs and, (2) will identify the average annual cost and lane miles for repaving, while also decreasing the life cycle costs associated with maintaining the street system.
- Public Works Facility Relocation to NC-86 North Property – current facility is in flood plain, small, old, and in poor condition, with no shelters for equipment. \$1 million is the placeholder cost figure until engineer estimates are available. A \$44,971 debt payment is allocated in FY18. That payment increases to \$89,941 in Year 2 of the plan.
- Fiber Loop – Connect all town facilities via a fiber connection creating a network that makes file sharing and communication between facilities/departments easier and significantly reduces phone and internet costs. Much of this project may be done in partnership with Orange County to share costs and save significant expenses for each organization. This project simultaneously builds a fiber backbone capable of fostering fiber to the home, or “last mile” service, by third party providers. Thus, this project helps attract a high-speed internet provider to serve Hillsborough. The feasibility study was completed in late 2016 and construction cost estimates are currently being developed. \$1.5 million and a 10-year loan with \$184,936 annual debt payments starting in Year 2 (FY19) is a placeholder figure until firmer estimates are available.
- North Campus Project – relocates the Town Hall Annex (finance and billing operations) and the Town Barn meeting room functions to the former medical offices located at 101 E. Corbin Street, purchased two years ago. The project converts the current Town Barn meeting room into much needed office space on the Town Hall Campus. Moving the Town Hall Annex allows the police department to temporarily address their needs by occupying this space until the new public safety station on North Churton Street is built. This project also includes improvements to the Town Hall Campus to improve its function as a tourist attraction and recreational space. The placeholder cost for the project is approximately \$1.25 million until design and architectural estimates can be made. Design is currently underway and expected to be completed by the Fall 2018. Annual debt services payments of \$131,133 will be shared between the Finance, Governing Body, Ruffin-Roulhac, Billing & Collections, and Stormwater operations.
- Congestion Mitigation and Air Quality (CMAQ) Grant Sidewalk, Pedestrian Safety and Accessibility Project (\$124,000) - Pedestrian and bicycle connectors for Nash, Calvin and Allison streets; sidewalk/accessibility; curb, gutter and other improvements; and connections for Gold Park and Riverwalk. This would complete the western connection from Gold Park to Allison Street and add a sidewalk with access trails near Occoneechee Mountain State Natural Area. The

## **Town of Hillsborough, North Carolina**

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project cost of \$124,000 to leverage \$496,000 of CMAQ funds was underway in FY2017 and completed in FY2018.

- To address long-term water supply needs and accommodate the type of growth that match the Town's vision, Phase 2 expansion of the West Fork Eno River Reservoir will begin construction in February 2018. Phase 2 will yield an additional 1.2 million gallons per day of water capacity. Construction must be substantially underway by the end of calendar year 2018 to comply with the current permit. Delay in construction means that new permit requirements could significantly increase the current \$16 million estimate for the project.

### ***Debt Administration***

Hillsborough's current debt burden is above the North Carolina state average and below the national average for municipalities, with net overall debt at \$3,651 per capita. The largest part of the outstanding debt is for the wastewater treatment plant and the reservoir. Additional debt incurred over recent years will support robust projected growth, provide vital services to the Town's new citizens, and is not atypical of a growing community like Hillsborough. Responsible financial planning and revenues resulting from growth will ensure the Town maintains a stable financial position. There has been no new general bonded debt over the last 19 fiscal years, and no debt service expenditures on general obligation bonded debt have been incurred in the General Fund during the last 19 fiscal years. The Town has avoided a heavy debt load, which has plagued many municipalities, in its General Fund. Debt service costs make up 10.87% of General Fund expenditures. This includes short-term debt for equipment needs like garbage trucks, leaf collection equipment, fire trucks, etc. Additionally, no bonded debt is recorded in the Water and Sewer Fund. While there is no bonded debt, other debt payments account for 26.53% of expenditures, which was a decrease over the previous fiscal year. The debt payments are a significant expense for a relatively small utility system, however, the primary reason for the higher percentage in the Water and Sewer Fund is continued emphasis on maintaining the water and sewer infrastructure of the Town.

### ***Financial Policies***

The Town of Hillsborough has adopted a policy to maintain a General Fund balance level between 20% and 60% of operating expenditures, with a target of 33% or the equivalent of four months of operating expenditures.

The Town has diversified its investment by security type and institution to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Without exception, no more than 50% of the Town's total investment portfolio will be invested in a single security type or with a single financial institution.

### ***Other Information***

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hillsborough for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial report.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report that conforms to program standards. The annual report must satisfy both generally accepted accounting principles and applicable legal requirements.



## Town of Hillsborough, North Carolina

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A Certificate of Achievement is valid for a period of one year. The Town of Hillsborough has received a Certificate of Achievement for the last 21 consecutive years (fiscal years ended 1994 through 2015). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will submit it to the GFOA.

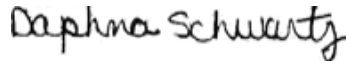
### ***Acknowledgments***

We appreciate the assistance and dedication of the Finance Department staff throughout the year, especially during the preparation of this report. We would like to thank all members of the department who contributed to its preparation and to the independent certified public accountants, Dixon Hughes Goodman LLP, for their assistance. The cooperation of each Town department is appreciated, as we work together in conducting the Town's financial operations. We also express our appreciation to the mayor and the members of the Board of Commissioners for their continued support, guidance, and advice in planning and conducting the financial activities of the Town in a responsible and progressive manner. The Town's improving financial condition in the General Fund and willingness to address the challenges facing the Water and Sewer Fund are a tribute to that involvement.

Respectfully submitted,



Eric J. Peterson  
Town Manager



Daphna Schwartz  
Finance Director



Phillip Cordeiro  
Interim Finance Director  
(at June 30, 2017)

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Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Town of Hillsborough**  
**North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

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***Financial Section***

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## **Independent Auditors' Report**

Honorable Mayor and Members  
of the Board of Town Commissioners  
Town of Hillsborough  
Hillsborough, North Carolina

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Hillsborough, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Hillsborough'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 of material misstatement. The financial statements of the Hillsborough Tourism Development Authority and the Hillsborough Tourism Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 financial statement 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 financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Hillsborough, North Carolina, as of June 30, 2017, and the respective changes in its financial position and cash flows, where appropriate, thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 6 to the financial statements, during 2017 the Town of Hillsborough implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which resulted in a cumulative effect adjustment to net position as of the beginning of the year. 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 Management's Discussion and Analysis on pages 5 through 14, the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the Other Postemployment Benefits Schedules of Funding Progress and Employer Contributions on pages 65 through 67, respectively, and the Local Government Employees' Retirement System's Schedules of Proportionate Share of Net Pension Liability (Asset) and Contributions on pages 68 and 69, respectively, 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 the 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 consist 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 provided us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hillsborough's basic financial statements. The introductory section, combining and individual fund financial statements, budgetary schedules, other schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, and is also not a required part of the financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements





themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules and other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory information and the 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 December 29, 2017, on our consideration of the Town of Hillsborough's internal control over financial reporting and on 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 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 of Hillsborough's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**High Point, North Carolina  
December 29, 2017**

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## **Management's Discussion and Analysis**

As management of the Town of Hillsborough (the "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, 2017. Readers are encouraged to consider this information in conjunction with additional information furnished in the Town's financial statements, which follow this narrative.

### **Financial Highlights**

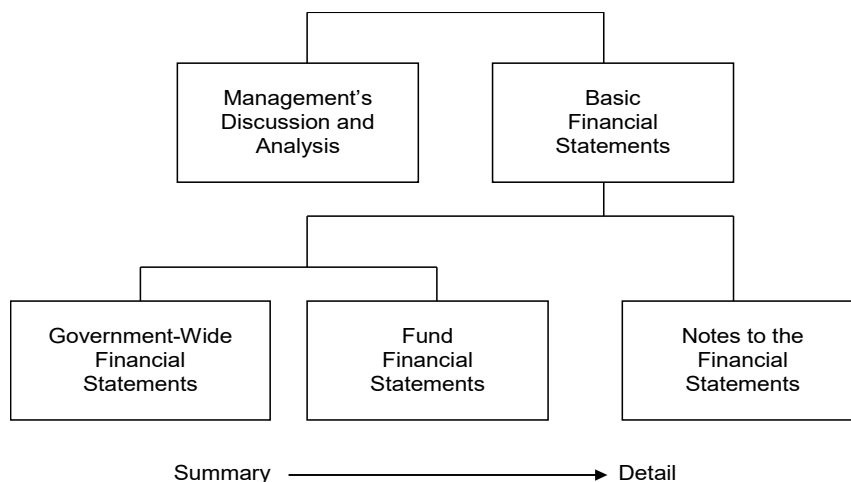
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$67,054,339.
- The Town's total net position increased by \$3,895,355 primarily due to general fund revenues coming in over budget and a number of capital expenditures being delayed into the 2018 fiscal year.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$6,926,345, a net increase of \$454,425 in comparison to the prior year. This is the result of general fund revenues coming in over budget. Approximately 39.54% of this total amount or \$2,738,426 is nonspendable, or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,049,462, or 44.80% of total General Fund expenditures, including other financing uses, for the fiscal year.
- The Town's total debt decreased by \$2,333,649 during the current fiscal year. The Town had additional borrowing on installment purchases of \$317,000. These additional borrowings were offset by retirement of \$2,650,649 in existing debt during the year.
- The Town maintained its A2 (Moody's Investor Service) and A (Standard & Poor's) bond ratings for the 22nd consecutive year.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town of Hillsborough's basic financial statements. The Town's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Hillsborough.

**Required Components of Annual Financial Report**

**Figure 1**



***Basic financial statements***

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short- and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: (1) the governmental funds statements; (2) the budgetary comparison statements; (3) the proprietary fund statements; and (4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes section**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

***Government-wide financial statements***

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to the financial statements of a private-sector business. The government-wide statements provide short-and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to evaluate the Town's financial condition.

The government-wide statements are divided into three categories: (1) governmental activities; (2) business-type activities; and (3) component units. The governmental activities include most of the Town's basic services such as public safety, fire, street maintenance, solid waste collection, planning, public spaces, parks, cemetery and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include stormwater as well as the water and sewer services offered by the Town. The final category is the component units. Although legally separate from the Town, the Tourism Development Authority and the Tourism Board are important to the Town. The Town exercises control over these entities by appointing its members and remits a percentage of taxes collected to each of these entities.

## **Town of Hillsborough, North Carolina Management's Discussion and Analysis**

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The government-wide financial statements are on pages 16 through 21 of this report.

### ***Fund financial statements***

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. 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 of Hillsborough, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds** - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Hillsborough adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current-period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: (1) the original budget as adopted by the Board; (2) the final budget as amended by the Board; (3) the actual resources, charges to appropriations, and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Proprietary Funds** - The Town of Hillsborough has one type of proprietary fund. *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 its water and sewer activity and stormwater activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. The Town of Hillsborough has one fiduciary fund, which is an agency fund. This fund accounts for the Special Assessment Revenue Bonds used to finance the construction of public infrastructure in the Waterstone District.

**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 are on pages 33 through 62 of this report.

**Other Information** - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 65 of this report.

**Town of Hillsborough, North Carolina  
Management's Discussion and Analysis**

**Interdependence with other entities** - The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations.

**Government-wide financial analysis**

**The Town of Hillsborough's Net Position  
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 7,756,712	\$ 7,236,128	\$ 13,760,520	\$ 13,643,288	\$ 21,517,232	\$ 20,879,416
Other assets	-	-	-	-	-	-
Capital assets, net	18,951,348	18,752,127	54,011,478	53,303,452	72,962,826	72,055,579
Deferred outflows of resources	1,157,884	263,121	605,747	160,615	1,763,631	423,736
Total assets and deferred outflows of resources	27,865,944	26,251,376	68,377,745	67,107,355	96,243,689	93,358,731
Long-term liabilities outstanding	6,509,295	4,602,436	21,046,268	20,376,203	27,555,563	24,978,639
Other liabilities	617,251	1,467,009	936,353	3,061,462	1,553,604	4,528,471
Total liabilities	7,126,546	6,069,445	21,982,621	23,437,665	29,109,167	29,507,110
Deferred inflows of resources	56,627	155,558	23,556	66,835	80,183	222,393
Net position:						
Net investment in capital assets	15,186,419	14,242,464	34,669,712	32,483,743	49,856,131	46,726,207
Restricted	2,518,696	1,753,856	2,605,482	2,596,324	5,124,178	4,350,180
Unrestricted	2,977,656	4,030,053	9,096,374	8,522,788	12,074,030	12,552,841
Total net position, previously reported		20,026,373		43,602,855		63,629,228
Cumulative effect Adjustment		(470,244)		-		(470,244)
Total net position, ending	\$ 20,682,771	\$ 19,556,129	\$ 46,371,568	\$ 43,602,855	\$ 67,054,339	\$ 63,158,984

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$67,054,339 as of June 30, 2017. The Town's net position increased by \$3,895,355 for the fiscal year ended June 30, 2017. However, the largest portion (74.35%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, equipment, distribution and collection systems and infrastructure, less any related debt still outstanding that was issued to acquire those items). 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 the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Hillsborough's net position, \$5,124,178 (7.64%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$12,074,030 (15.01%) is unrestricted and may be used to meet the Town's ongoing obligation to citizens and creditors.

**Town of Hillsborough, North Carolina  
Management's Discussion and Analysis**

Several particular aspects of the Town's financial operations positively influenced the total unrestricted net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage in excess of 98%.
- Numerous cost savings measures implemented by all departments.
- Many departments finishing the year with expenditures under budget.
- Continued low cost of debt due to low interest rates.

**The Town of Hillsborough's Changes in Net Position  
Figure 3**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 423,663	\$ 366,461	\$ 9,847,139	\$ 10,713,397	\$ 10,270,802	\$ 11,079,858
Operating grants and contributions	26,690	28,052	-	-	26,690	28,052
Capital grants and contributions	570,035	1,393,799	1,325,206	1,161,830	1,895,241	2,555,629
General revenues:						
Property taxes	6,044,526	5,669,640	-	-	6,044,526	5,669,640
Local option sales taxes	1,364,779	1,265,473	-	-	1,364,779	1,265,473
Gross receipts on short-term rental property	8,679	7,433	-	-	8,679	7,433
Privilege licenses	2,830	2,630	-	-	2,830	2,630
Motor vehicle license fees	345	546	-	-	345	546
Solid waste disposal	5,357	4,032	-	-	5,357	4,032
Unrestricted inter-governmental revenues	1,010,393	1,034,811	-	-	1,010,393	1,034,811
Other	96,373	59,892	19,897	12,118	116,270	72,010
<b>Total revenues</b>	<b>9,553,670</b>	<b>9,832,769</b>	<b>11,192,242</b>	<b>11,887,345</b>	<b>20,745,912</b>	<b>21,720,114</b>

**Town of Hillsborough, North Carolina  
Management's Discussion and Analysis**

**The Town of Hillsborough's Changes in Net Position  
Figure 3 (Continued)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Expenses:						
General government	\$ 1,860,970	\$ 2,010,349	\$ -	\$ -	\$ 1,860,970	\$ 2,010,349
Public safety	4,289,900	3,982,055	-	-	4,289,900	3,982,055
Transportation	666,523	615,849	-	-	666,523	615,849
Environmental protection	590,798	708,367	-	-	590,798	708,367
Economic and physical development	466,791	402,800	-	-	466,791	402,800
Community activities and projects	57,673	93,236	-	-	57,673	93,236
Parks and recreation	398,802	97,891	-	-	398,802	97,891
Interest on long-term debt	95,571	121,783	-	-	95,571	121,783
Stormwater	-	-	302,983	-	302,983	-
Water and sewer	-	-	8,120,546	7,574,032	8,120,546	7,574,032
Total expenses	<u>8,427,028</u>	<u>8,032,330</u>	<u>8,423,529</u>	<u>7,574,032</u>	<u>16,850,557</u>	<u>15,606,362</u>
Increase in net position	1,126,642	1,800,439	2,768,713	4,313,313	3,895,355	6,113,752
Net position, beginning, previously reported	20,026,373	18,225,934	43,602,855	39,289,542	63,629,228	57,515,476
Cumulative effect adjustment	<u>(470,244)</u>	-	-	-	<u>(470,244)</u>	-
Net position, beginning, adjusted	<u>19,556,129</u>	-	<u>43,602,855</u>	<u>39,289,542</u>	<u>63,158,984</u>	<u>57,515,476</u>
Net position, ending	<u>\$ 20,682,771</u>	<u>\$ 20,026,373</u>	<u>\$ 46,371,568</u>	<u>\$ 43,602,855</u>	<u>\$ 67,054,339</u>	<u>\$ 63,629,228</u>

**Governmental activities.** Governmental activities increased the Town's net position by \$1,126,642, thereby accounting for 28.92% of the total growth in the net position of the Town of Hillsborough. Key elements of this increase are as follows:

- Continued diligence in the collection of property taxes.
- Increases in property tax revenue.
- Increases in local option sales tax and solid waste disposal revenue.

**Business-type activities.** Business-type activities increased the Town's net position by \$2,768,713, accounting for 71.08% of the total growth in the government's net position. However, this is a 35.8% decrease as compared to the increase in net position for fiscal year 2016. Key elements of this increase are as follows:

- Contributions of capital assets in the amount of \$1,325,206.
- A decrease of 65.67% in other operating revenues, namely water and sewer capital facility fees, water and sewer lateral fees, engineering review fees, and water meter fees. These revenues can be sporadic from year-to-year due to a number of factors relating to when newly constructed homes are ready to be connected to the town's water and sewer system.
- Cost-cutting measures resulting in lower than expected expenses.



## **Town of Hillsborough, North Carolina Management's Discussion and Analysis**

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### ***Financial analysis of the Town of Hillsborough's funds***

As noted earlier, the Town of Hillsborough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Town's governmental funds is on providing information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town of Hillsborough's fund balance available in the General Fund was \$4,836,987, while total fund balance reached \$6,509,632. The Governing Body of the Town of Hillsborough has determined that the Town should maintain a fund balance of 20% to 60% (with a targeted or preferred goal of 33%) of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has fund balance available for appropriation of 46.17% of general fund expenditures, while total fund balance represents 74.23% of the same amount.

At June 30, 2017, the governmental funds of the Town reported a combined fund balance of \$6,926,345, with a net increase in fund balance of \$454,425. This increase is primarily related to an increase in property tax revenues over the previous fiscal year.

**General fund budgetary highlights.** During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and (3) increases in appropriations that become necessary to maintain services.

Actual operating revenues for the General Fund were more than the budgeted amount by \$497,991. Expenditures were \$1,213,030 less than budgeted, primarily due to the delaying of purchases and multiple long-term vacancies.

**Proprietary funds.** The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$8,766,619, a 2.86% or \$243,831 increase from the previous year. The increase is largely attributed to expenditures coming in lower than expected. The total growth in net position was \$2,438,958.

Unrestricted net position of the Stormwater Fund at the end of the fiscal year amounted to \$329,755. The increase is largely attributed to this being the first year the town has managed its stormwater program as a separate fund, and taking a conservative approach to expending stormwater fee revenues. The total growth in net position was also \$329,755, as the year ended June 30, 2017 was the first year of operations for this fund.

Other factors concerning the fund's finances have been addressed in the discussion of the Town's business-type activities.

**Town of Hillsborough, North Carolina  
Management's Discussion and Analysis**

**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, 2017 totals \$72,962,826 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, infrastructure, park facilities and vehicles.

Major capital asset transactions during the year include the following:

- Meter Infrastructure (\$331,101)
- Street resurfacing (\$316,492)

Major developer-dedicated capital asset transactions during the year include the following:

- Corbinton Commons Phase 2 & 3 water and sewer lines (\$1,108,517)
- Huddle and Mitchell Streets water and sewer lines (\$199,615)
- Cates Creek water and sewer lines (\$117,538)
- Strouds Creek water and sewer lines (\$99,151)

**The Town of Hillsborough's Capital Assets  
(Net of Accumulated Depreciation)  
Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 3,632,871	\$ 3,653,081	\$ 6,095,544	\$ 6,064,293	\$ 9,728,415	\$ 9,717,374
Construction in progress	619,769	293,133	3,960,184	3,466,558	4,579,954	3,759,691
Intangibles in progress	-	-	-	200,000	-	200,000
Buildings and improvements	5,011,224	5,237,514	19,193,270	19,934,037	24,204,494	25,171,551
Plant and distribution systems	-	-	23,149,532	22,459,024	23,149,532	22,459,024
Infrastructure	8,525,479	8,182,237	655,323	569,050	9,180,801	8,751,287
Equipment	257,055	189,499	470,143	442,902	727,198	632,401
Vehicles	904,950	1,196,663	288,096	167,588	1,193,046	1,364,251
Intangibles	-	-	199,386	-	199,386	-
<b>Total</b>	<b><u>\$ 18,951,348</u></b>	<b><u>\$ 18,752,127</u></b>	<b><u>\$ 54,011,478</u></b>	<b><u>\$ 53,303,452</u></b>	<b><u>\$ 72,962,826</u></b>	<b><u>\$ 72,055,579</u></b>

Additional information on the Town's capital assets can be found in Note 4.A.5. of the basic financial statements.

**Town of Hillsborough, North Carolina  
Management's Discussion and Analysis**

**Long-term debt.** As of June 30, 2017, the Town of Hillsborough had no outstanding bonded debt. The Town's debt represents revolving loans payable and installment purchases secured solely by revenues of the project or specified purchases.

**The Town of Hillsborough's Outstanding Debt  
Revolving Loans Payable and Installment Purchases  
Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revolving loan payable	\$ -	\$ -	\$ 17,443,655	\$ 18,511,848	\$ 17,443,655	\$ 18,511,848
Installment purchases	<u>4,025,201</u>	<u>4,534,728</u>	<u>2,513,821</u>	<u>3,269,750</u>	<u>6,539,022</u>	<u>7,804,478</u>
Total	<u>\$ 4,025,201</u>	<u>\$ 4,534,728</u>	<u>\$ 19,957,476</u>	<u>\$ 21,781,598</u>	<u>\$ 23,982,677</u>	<u>\$ 26,316,326</u>

The Town's total debt decreased by \$2,333,649 during the current fiscal year, primarily due to repayments exceeding additional borrowings.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Hillsborough is \$66,383,811. The Town does not have any bonds authorized but unissued at June 30, 2017.

Additional information regarding the Town's long-term debt can be found in Note 4.B.8 of the basic financial statements.

***Economic factors and next year's budgets and rates***

The following key economic indicators reflect the stability and prosperity of the Town of Hillsborough.

- *Low unemployment.* Orange County's unemployment rate of 3.7% as of June 30, 2017, is below the state average of 4.2%.
- *No increase in water/sewer rates.*
- *No increase in property tax rate.*
- *No general obligation debt in the General Fund.*

***Budget highlights for the fiscal year ending June 30, 2018***

**Governmental activities:** Fiscal year 2018, a revaluation year for property tax, will mark the fifth consecutive year without a property tax rate increase. In fact, the rate was reduced from 68 cents to 62 cents per \$100 of assessed valuation. The revenue neutral rate was 62.16 cents. Orange County projects property values will increase an average of 14.8% in Hillsborough, yet personal, motor vehicle and public service values will actually see decreases in the 1% to 7% range. Vehicle fees, which are used to pay for Hillsborough's street repaving program, will increase by \$20, to a \$30 fee. Expenditures in the General Fund are expected to rise approximately 4.18% to \$10,399,638. The majority of this increase is attributable to ad valorem taxes. Appropriated fund balance of \$753,403 was recommended to balance the FY18 budget.

## **Town of Hillsborough, North Carolina Management's Discussion and Analysis**

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Other budget highlights in brief:

- Police Radio Replacements (\$70,000).
- Street resurfacing (\$370,000).
- Expenses to increase by 5.2%.
- Merit system budgeted at 3.25% average raise for employees.

**Business-type activities:** Water rates and sewer rates will not increase in 2018.

Operational expenditures in the Water/Sewer Fund are expected to increase by 13.70% over the FY17 final budget. Many cuts and deferments were made to this year's budget to avoid a more significant rate increase and to limit additional fund balance appropriations.

Other budget highlights in brief:

- West Fork Eno Reservoir Phase II expansion will begin in March 2018 with the first debt payment in January of 2019.
- Main Control Panel Replacement at Water Plant (\$95,000).
- Design for Expansion of Old Water Plant: Line Crew & Operations Building (\$50,000)
- Replace 1971 Tanker (\$60,000)
- Sewer line repairs to continue annual "inflow and infiltration" reduction program. (\$50,000)
- Replacement of 1993 Dump Truck (\$55,000).
- Merit system budgeted at 3.25% average raise for employees.

### ***Requests for information***

This report is designed to provide an overview of the Town's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Hillsborough, 137 North Churton Street, Post Office Box 429, Hillsborough, North Carolina 27278.

***Basic Financial Statements***

**Town of Hillsborough, North Carolina**  
**Statement of Net Position**  
**June 30, 2017**

**Exhibit 1**  
**(2 pages)**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 5,762,244	\$ 8,221,044	\$ 13,983,288	\$ 226,151	\$ 229,501
Receivables:					
Taxes receivable, net	124,776	-	124,776	-	-
Accrued interest receivable, property taxes	20,848	-	20,848	-	-
Accounts receivable, net	297,929	1,343,083	1,641,012	-	-
Due from other governments	984,404	-	984,404	-	-
Due from primary government	-	-	-	12,498	70,276
Prepaid expenses	57,810	530,039	587,849	-	689
Restricted assets:					
Cash and investments	508,701	3,666,354	4,175,055	-	-
Total current assets	<u>7,756,712</u>	<u>13,760,520</u>	<u>21,517,232</u>	<u>238,649</u>	<u>300,466</u>
Noncurrent assets:					
Capital assets:					
Land and construction-in-progress	4,252,640	10,055,728	14,308,368	-	-
Other capital assets, net of depreciation	14,698,708	43,955,750	58,654,458	-	-
Total capital assets	<u>18,951,348</u>	<u>54,011,478</u>	<u>72,962,826</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>18,951,348</u>	<u>54,011,478</u>	<u>72,962,826</u>	<u>-</u>	<u>-</u>
Total assets	<u>26,708,060</u>	<u>67,771,998</u>	<u>94,480,058</u>	<u>238,649</u>	<u>300,466</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension deferrals	1,157,884	596,911	1,754,795	-	-
Deferred loss on defeasance of debt	-	8,836	8,836	-	-
	<u>1,157,884</u>	<u>605,747</u>	<u>1,763,631</u>	<u>-</u>	<u>-</u>

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 425,372	\$ 408,964	\$ 834,336	\$ 52	\$ 39,163
Payable from restricted assets - customer deposits	-	453,998	453,998	-	-
Accrued interest payable	31,108	73,391	104,499	-	-
Unearned revenue	77,997	-	77,997	-	-
Due to component units	82,774	-	82,774	-	-
Current portion of long-term liabilities	787,049	1,831,363	2,618,412	-	-
Total current liabilities	<u>1,404,300</u>	<u>2,767,716</u>	<u>4,172,016</u>	<u>52</u>	<u>39,163</u>
Long-term liabilities:					
Net pension liability	1,288,796	672,242	1,961,038	-	-
Total pension liability	566,336	-	566,336	-	-
Due in more than one year	3,867,114	18,542,663	22,409,777	-	-
Total noncurrent liabilities	<u>5,722,246</u>	<u>19,214,905</u>	<u>24,937,151</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,126,546</u>	<u>21,982,621</u>	<u>29,109,167</u>	<u>52</u>	<u>39,163</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension deferrals	<u>56,627</u>	<u>23,556</u>	<u>80,183</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets	15,186,419	34,669,712	49,856,131	-	-
Restricted for:					
Stabilization by state statute	2,270,111	-	2,270,111	12,498	70,276
Streets	33,073	-	33,073	-	-
Capital projects	215,512	-	215,512	-	-
Water and sewer projects	-	2,605,482	2,605,482	-	-
Unrestricted	<u>2,977,656</u>	<u>9,096,374</u>	<u>12,074,030</u>	<u>226,099</u>	<u>191,027</u>
Total net position	<u>\$ 20,682,771</u>	<u>\$ 46,371,568</u>	<u>\$ 67,054,339</u>	<u>\$ 238,597</u>	<u>\$ 261,303</u>

**Town of Hillsborough, North Carolina**  
**Statement of Activities**  
**Year Ended June 30, 2017**

**Exhibit 2**  
**(4 pages)**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
General government	\$ 1,860,970	\$ 214,056	\$ 16,816	\$ -
Public safety	4,289,900	13,555	-	-
Transportation	666,523	185,922	-	210,278
Environmental protection	590,798	-	9,874	-
Economic and physical development	466,791	5,000	-	335,134
Community activities and projects	57,673	-	-	-
Parks and recreation	398,802	5,130	-	24,623
Interest on long-term obligations	95,571	-	-	-
Total governmental activities	<u>8,427,028</u>	<u>423,663</u>	<u>26,690</u>	<u>570,035</u>
Business-type activities:				
Water and sewer	8,120,546	9,214,401	-	1,325,206
Stormwater	302,983	632,738	-	-
Total business-type activities	<u>8,423,529</u>	<u>9,847,139</u>	<u>-</u>	<u>1,325,206</u>
Total primary government	<u>\$ 16,850,557</u>	<u>\$ 10,270,802</u>	<u>\$ 26,690</u>	<u>\$ 1,895,241</u>
<b>Component units</b>				
Hillsborough Tourism Development Authority	\$ 48,118	\$ -	\$ -	\$ -
Hillsborough Tourism Board	344,539	-	-	-
Total component units	<u>\$ 392,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



<b>Net Revenue (Expense) and Changes in Net Position</b>				
<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Tourism Development Authority</b>	<b>Tourism Board</b>
\$ (1,630,098)	\$ -	\$ (1,630,098)	\$ -	\$ -
(4,276,345)	-	(4,276,345)	-	-
(270,323)	-	(270,323)	-	-
(580,924)	-	(580,924)	-	-
(126,657)	-	(126,657)	-	-
(57,673)	-	(57,673)	-	-
(369,049)	-	(369,049)	-	-
(95,571)	-	(95,571)	-	-
<u>(7,406,640)</u>	<u>-</u>	<u>(7,406,640)</u>	<u>-</u>	<u>-</u>
-	2,419,061	2,419,061	-	-
<u>-</u>	<u>329,755</u>	<u>329,755</u>	<u>-</u>	<u>-</u>
-	2,748,816	2,748,816	-	-
<u>(7,406,640)</u>	<u>2,748,816</u>	<u>(4,657,824)</u>	<u>-</u>	<u>-</u>
			\$ (48,118)	\$ -
			<u>-</u>	<u>(344,539)</u>
			<u>(48,118)</u>	<u>(344,539)</u>

**Town of Hillsborough, North Carolina**  
**Statement of Activities**  
**Year Ended June 30, 2017**

**Exhibit 2**  
**(4 pages)**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	General revenues:			
	Taxes:			
	Property taxes, levied for general purposes			
	Local option sales taxes			
	Gross receipts on short-term rental property			
	Privilege licenses			
	Motor vehicle license fees			
	Solid waste disposal			
	Unrestricted intergovernmental revenues			
	Investment earnings, unrestricted			
	Payment from Town of Hillsborough			
	Gain on disposal of capital assets			
	Miscellaneous			
	Total general revenues and transfers			
	Change in net position			
	Net position, beginning			
	Cumulative effect adjustment			
	Net position, beginning, adjusted			
	Net position, ending			

<b>Net Revenue (Expense) and Changes in Net Position</b>				
<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Tourism Development Authority</b>	<b>Tourism Board</b>
\$ 6,044,526	\$ -	\$ 6,044,526	\$ -	\$ -
1,364,779	-	1,364,779	-	-
8,679	-	8,679	-	-
2,830	-	2,830	-	-
345	-	345	-	-
5,357	-	5,357	-	-
1,010,393	-	1,010,393	-	-
37,562	19,897	57,459	-	-
-	-	-	69,604	346,268
1,023	-	1,023	-	-
57,788	-	57,788	-	-
<u>8,533,282</u>	<u>19,897</u>	<u>8,553,179</u>	<u>69,604</u>	<u>346,268</u>
1,126,642	2,768,713	3,895,355	21,486	1,729
20,026,373	43,602,855	63,629,228	217,111	259,574
(470,244)	-	(470,244)	-	-
<u>19,556,129</u>	<u>43,602,855</u>	<u>63,158,984</u>	<u>217,111</u>	<u>259,574</u>
<u>\$ 20,682,771</u>	<u>\$ 46,371,568</u>	<u>\$ 67,054,339</u>	<u>\$ 238,597</u>	<u>\$ 261,303</u>

**Town of Hillsborough, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

**Exhibit 3**  
**(2 pages)**

	<b>Major Funds</b>			<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Consolidated General Capital Projects Fund</b>	<b>Total Nonmajor Funds</b>	
<b>ASSETS</b>				
Cash and investments	\$ 5,431,958	\$ -	\$ 330,286	\$ 5,762,244
Taxes receivable	124,776	-	-	124,776
Accounts receivable, net	297,929	-	-	297,929
Prepaid items	219,730	-	-	219,730
Due from other governments	732,736	-	251,668	984,404
Restricted assets				
Cash and investments	293,189	215,512	-	508,701
Total assets	<u>\$ 7,100,318</u>	<u>\$ 215,512</u>	<u>\$ 581,954</u>	<u>\$ 7,897,784</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 296,287	\$ -	\$ 129,085	\$ 425,372
Unearned revenue	77,997	-	-	77,997
Due to component units	82,774	-	-	82,774
Total liabilities	<u>457,058</u>	<u>-</u>	<u>129,085</u>	<u>586,143</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>133,628</u>	<u>-</u>	<u>251,668</u>	<u>385,296</u>
<b>FUND BALANCES</b>				
Nonspendable				
Prepaid items	219,730	-	-	219,730
Restricted for:				
Stabilization by state statute	1,419,842	-	850,269	2,270,111
Streets	33,073	-	-	33,073
Capital projects	-	215,512	-	215,512
Committed for:				
Capital projects	-	-	159,314	159,314
Assigned for:				
Sidewalks	20,800	-	-	20,800
Affordable housing	46,000	-	-	46,000
Subsequent year's expenditures	720,725	-	-	720,725
Unassigned	4,049,462	-	(808,382)	3,241,080
Total fund balances	<u>6,509,632</u>	<u>215,512</u>	<u>201,201</u>	<u>6,926,345</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,100,318</u>	<u>\$ 215,512</u>	<u>\$ 581,954</u>	<u>\$ 7,897,784</u>

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

**Town of Hillsborough, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

**Exhibit 3**  
**(2 pages)**

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

Total fund balances, governmental funds	\$ 6,926,345
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	18,951,348
Deferred outflows of resources related to pensions are not reported in the funds	1,157,884
Other long-term assets (accrued interest receivable from property taxes) are not available to pay from current-period expenditures and therefore are inflows of resources in the funds	20,848
Liabilities for earned revenues considered deferred inflows of resources in the fund statements	385,296
Deferred inflows of resources related to pensions are not reported in the funds	(56,627)
Prepaid expenses in the fund statements for debt service payments that represent a reduction of long-term obligations in governmental activities.	(161,920)
Some liabilities, including accrued interest, are not due and payable in the current period, and therefore are not reported in the funds.	(4,685,271)
Total pension liability	(566,336)
Net pension liability	<u>(1,288,796)</u>
Net position of governmental activities	<u><u>\$ 20,682,771</u></u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues and Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended June 30, 2017**

**Exhibit 4**  
**(2 pages)**

	<u>Major Funds</u>		<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Consolidated General Capital Projects Fund</u>		
<b>Revenues</b>				
General revenues:				
Ad valorem taxes	\$ 6,064,137	\$ -	\$ -	\$ 6,064,137
Other taxes and licenses	1,381,990	-	-	1,381,990
Unrestricted intergovernmental revenues	1,010,393	-	-	1,010,393
Restricted intergovernmental revenues	346,496	-	28,442	374,938
Investment earnings	36,091	1,471	-	37,562
Contribution from property owners	-	18,955	-	18,955
Other general revenues	79,734	-	-	79,734
<b>Total general revenues</b>	<b>8,918,841</b>	<b>20,426</b>	<b>28,442</b>	<b>8,967,709</b>
Functionally related revenues:				
Use and rental fees	232,611	-	-	232,611
<b>Total revenues</b>	<b>9,151,452</b>	<b>20,426</b>	<b>28,442</b>	<b>9,200,320</b>
<b>Expenditures</b>				
General government	1,581,546	18,955	26,978	1,627,479
Public safety	4,084,416	-	-	4,084,416
Transportation	865,285	-	-	865,285
Environmental protection	449,935	-	4,420	454,355
Economic and physical development	442,006	-	234,141	676,147
Community activities and projects	57,673	-	-	57,673
Parks and recreation	397,672	-	30,780	428,452
Debt service:				
Principal retirement	790,345	-	-	790,345
Interest and fiscal charges	100,353	-	-	100,353
<b>Total expenditures</b>	<b>8,769,231</b>	<b>18,955</b>	<b>296,319</b>	<b>9,084,505</b>
Revenues over (under) expenditures	382,221	1,471	(267,877)	115,815
Other financing sources (uses)				
Transfer to General Fund	-	(126,053)	-	(126,053)
Transfer to Downtown Improvements Capital Project Fund	(129,737)	-	-	(129,737)
Transfer to Town Barn Improvements Capital Project Fund	(114,201)	-	-	(114,201)
Transfer to Public Works Building Capital Project Fund	(25,000)	-	-	(25,000)
Transfer from General Fund	-	-	268,938	268,938
Transfer from General Capital Projects Fund	126,053	-	-	126,053
Installment purchase obligations issued	317,000	-	-	317,000
Sale of capital assets	21,610	-	-	21,610
<b>Total other financing sources (uses)</b>	<b>195,725</b>	<b>(126,053)</b>	<b>268,938</b>	<b>338,610</b>
<b>Net change in fund balances</b>	<b>577,946</b>	<b>(124,582)</b>	<b>1,061</b>	<b>454,425</b>
Fund balances, beginning	5,931,686	340,094	200,140	6,471,920
<b>Fund balances, ending</b>	<b>\$ 6,509,632</b>	<b>\$ 215,512</b>	<b>\$ 201,201</b>	<b>\$ 6,926,345</b>

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

**Town of Hillsborough, North Carolina**  
**Statement of Revenues and Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended June 30, 2017**

**Exhibit 4**  
**(2 pages)**

**Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balance to the Statement of Activities**

Net change in fund balances - total governmental funds	\$ 454,425
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$893,524) exceeded depreciation (\$873,331) in the current period.	20,193
The net effect of transactions involving capital assets donated to the Town.	199,615
Contributions to the pension plan in the current fiscal year are not included in the statement of activities	282,223
Benefit payments paid and administrative expense for the LEOSSA are not included in the statement of activities	13,510
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in unavailable revenue for taxes	(19,611)
Proceeds received from disposal/transfer of capital assets	(21,610)
Gain on disposal/transfer of capital assets	1,023
Change in deferred revenues related to grants receivable.	191,278
The repayment of the principal of long-term debt (\$790,345) consumes the current financial resources of governmental funds. This transaction has no effect on net position.	790,345
The issuance of the principal of long-term debt (\$317,000) provides current financial resources to governmental funds. This transaction has no effect on net position.	(317,000)
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.	
Change in accrued interest on general long-term debt	4,782
Compensated absences	(18,577)
Loss on disposal of capital assets	-
Pension expense	(413,796)
Net OPEB obligation	(40,158)
Changes in net position of governmental activities	<u>\$ 1,126,642</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues and Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2017**

**Exhibit 5**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
General revenues				
Ad valorem taxes	\$ 5,904,500	\$ 5,888,500	\$ 6,064,137	\$ 175,637
Other taxes and licenses	1,261,000	1,261,000	1,381,990	120,990
Unrestricted intergovernmental revenues	883,915	946,415	1,010,393	63,978
Restricted intergovernmental revenues	180,150	186,072	346,496	160,424
Investment earnings	11,500	11,500	36,091	24,591
Other general revenues	60,000	127,363	79,734	(47,629)
Total general revenues	8,301,065	8,420,850	8,918,841	497,991
Functionally related revenues				
Use and rental fees	141,000	141,000	232,611	91,611
Total revenues	8,442,065	8,561,850	9,151,452	589,602
Expenditures				
General government	1,753,589	1,706,612	1,678,274	28,338
Public safety	4,330,334	4,566,703	4,347,248	219,455
Transportation	1,092,203	1,244,205	865,285	378,920
Environmental protection	745,912	780,635	585,339	195,296
Economic and physical development	414,295	532,866	442,006	90,860
Community activities and projects	373,043	469,936	199,090	270,846
Parks and recreation	518,166	681,304	651,989	29,315
Contingency	150,000	-	-	-
Total expenditures	9,377,542	9,982,261	8,769,231	1,213,030
Revenues under expenditures	(935,477)	(1,420,411)	382,221	1,802,632
Other financing sources (uses)				
Transfer to General Capital Reserve Fund	(78,480)	-	-	-
Transfer to Downtown Improvements Capital Project Fund	(84,673)	(129,737)	(129,737)	-
Transfer to Town Barn Improvements Capital Project Fund	-	(114,201)	(114,201)	-
Transfer to Public Works Building Capital Project Fund	(25,000)	(25,000)	(25,000)	-
Transfer from General Capital Reserve Fund	204,534	126,054	126,053	(1)
Installment purchase obligations issued	307,000	307,623	317,000	9,377
Sale of capital assets	-	-	21,610	21,610
Total other financing sources (uses)	323,381	164,739	195,725	30,986
Appropriated fund balance	612,096	1,255,672	-	(1,255,672)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	577,946	<u>\$ 577,946</u>
Fund balance, beginning			5,931,686	
Fund balance, ending			<u>\$ 6,509,632</u>	

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



**Town of Hillsborough, North Carolina**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2017**

**Exhibit 6**

	<u>Major</u> <u>Water &amp; Sewer</u> <u>Fund</u>	<u>Non-major</u> <u>Stormwater</u> <u>Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 7,950,961	\$ 270,083	\$ 8,221,044
Accounts receivable, net	1,272,035	71,048	1,343,083
Prepaid expenses	528,571	1,468	530,039
Restricted assets:			
Cash and investments	<u>3,666,354</u>	<u>-</u>	<u>3,666,354</u>
Total current assets	<u>13,417,921</u>	<u>342,599</u>	<u>13,760,520</u>
Noncurrent assets:			
Capital assets:			
Land and construction-in-progress	10,055,728	-	10,055,728
Other capital assets, net of depreciation	<u>43,955,750</u>	<u>-</u>	<u>43,955,750</u>
Total capital assets	<u>54,011,478</u>	<u>-</u>	<u>54,011,478</u>
Total noncurrent assets	<u>54,011,478</u>	<u>-</u>	<u>54,011,478</u>
Total assets	<u>67,429,399</u>	<u>342,599</u>	<u>67,771,998</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	570,271	26,640	596,911
Deferred loss on defeasance of debt	<u>8,836</u>	<u>-</u>	<u>8,836</u>
Total deferred outflows of resources	<u>579,107</u>	<u>26,640</u>	<u>605,747</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	405,295	3,669	408,964
Payable from restricted assets - customer deposits	453,998	-	453,998
Accrued interest payable	73,391	-	73,391
Current portion of long-term liabilities	<u>1,831,363</u>	<u>-</u>	<u>1,831,363</u>
Total current liabilities	<u>2,764,047</u>	<u>3,669</u>	<u>2,767,716</u>
Long-term liabilities:			
Net pension liability	642,240	30,002	672,242
Due in more than one year	<u>18,537,901</u>	<u>4,762</u>	<u>18,542,663</u>
Total noncurrent liabilities	<u>19,180,141</u>	<u>34,764</u>	<u>19,214,905</u>
Total liabilities	<u>21,944,188</u>	<u>38,433</u>	<u>21,982,621</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	<u>22,505</u>	<u>1,051</u>	<u>23,556</u>
<b>NET POSITION</b>			
Net investment in capital assets	34,669,712	-	34,669,712
Restricted for:			
Water and sewer projects	2,605,482	-	2,605,482
Unrestricted	<u>8,766,619</u>	<u>329,755</u>	<u>9,096,374</u>
Total net position	<u>\$ 46,041,813</u>	<u>\$ 329,755</u>	<u>\$ 46,371,568</u>

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

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2017**

**Exhibit 7**

	<u>Major</u> <u>Water &amp; Sewer</u> <u>Fund</u>	<u>Non-major</u> <u>Stormwater</u> <u>Fund</u>	<u>Total</u>
<b>Operating revenues</b>			
Charges for services	\$ 8,294,061	\$ 629,488	\$ 8,923,549
Other operating revenues	920,340	3,250	923,590
Total operating revenues	<u>9,214,401</u>	<u>632,738</u>	<u>9,847,139</u>
<b>Operating expenses</b>			
Personnel services	2,611,104	124,264	2,735,368
Depreciation	1,683,683	-	1,683,683
Other current charges	3,355,851	178,719	3,534,570
Total operating expenses	<u>7,650,638</u>	<u>302,983</u>	<u>7,953,621</u>
Operating income	<u>1,563,763</u>	<u>329,755</u>	<u>1,893,518</u>
<b>Nonoperating revenues (expenses)</b>			
Investment earnings	19,897	-	19,897
Loss on disposal of capital assets	(357)	-	(357)
Interest and fees	(469,551)	-	(469,551)
Total nonoperating revenues (expenses)	<u>(450,011)</u>	<u>-</u>	<u>(450,011)</u>
Income before capital contributions	<u>1,113,752</u>	<u>329,755</u>	<u>1,443,507</u>
Capital contributions and transfers:			
Capital contribution from developer	1,325,206	-	1,325,206
Total capital contributions and transfers	<u>1,325,206</u>	<u>-</u>	<u>1,325,206</u>
<b>Change in net position</b>	<b>2,438,958</b>	<b>329,755</b>	<b>2,768,713</b>
Net position, beginning of year	<u>43,602,855</u>	<u>-</u>	<u>43,602,855</u>
Net position end of year	<u><u>\$ 46,041,813</u></u>	<u><u>\$ 329,755</u></u>	<u><u>\$ 46,371,568</u></u>

**Town of Hillsborough, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2017**

**Exhibit 8**  
**(2 pages)**

	<u>Major</u> <u>Water &amp; Sewer</u> <u>Fund</u>	<u>Non-major</u> <u>Stormwater</u> <u>Fund</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 9,013,098	\$ 561,690	\$ 9,574,788
Cash paid for goods and services	(3,876,596)	(178,291)	(4,054,887)
Cash paid to or on behalf of employees for services	<u>(2,656,030)</u>	<u>(113,316)</u>	<u>(2,769,346)</u>
Net cash provided by operating activities	<u>2,480,472</u>	<u>270,083</u>	<u>2,750,555</u>
<b>Cash flows from capital and related financing activities</b>			
Acquisition and construction of capital assets	(1,193,457)	-	(1,193,457)
Principal paid on bonds, notes and installment purchases	(1,824,122)	-	(1,824,122)
Interest paid on bonds and installment purchases	<u>(463,472)</u>	<u>-</u>	<u>(463,472)</u>
Net cash used by capital and related financing activities	<u>(3,481,051)</u>	<u>-</u>	<u>(3,481,051)</u>
<b>Cash flows from investing activities</b>			
Interest on investments	<u>19,897</u>	<u>-</u>	<u>19,897</u>
Net cash provided by investing activities	<u>19,897</u>	<u>-</u>	<u>19,897</u>
Net increase in cash and cash equivalents	(980,682)	270,083	(710,599)
Cash and cash equivalents, beginning	<u>12,597,997</u>	<u>-</u>	<u>12,597,997</u>
Cash and cash equivalents, ending	<u>\$ 11,617,315</u>	<u>\$ 270,083</u>	<u>\$ 11,887,398</u>
<b>Cash and cash equivalents</b>			
Unrestricted	\$ 7,950,961	\$ 270,083	\$ 8,221,044
Restricted	<u>3,666,354</u>	<u>-</u>	<u>3,666,354</u>
Total cash and cash equivalents	<u>\$ 11,617,315</u>	<u>\$ 270,083</u>	<u>\$ 11,887,398</u>

**Town of Hillsborough, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2017**

**Exhibit 8**  
**(2 pages)**

	<u>Major</u> <u>Water &amp; Sewer</u> <u>Fund</u>	<u>Non-major</u> <u>Stormwater</u> <u>Fund</u>	<u>Total</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income	\$ 1,563,763	\$ 329,755	\$ 1,893,518
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,683,683	-	1,683,683
Provision for uncollectible accounts	178,884	-	178,884
Changes in assets and liabilities:			
Accounts receivable	(428,451)	(71,048)	(499,499)
Prepaid expense	(505,748)	(1,468)	(507,216)
Deferred outflows of resources for pensions	(433,639)	(26,640)	(460,279)
Accounts payable and accrued liabilities	(83,518)	3,669	(79,849)
Deposits	48,264	-	48,264
OPEB liability	22,848	1,385	24,233
Net pension liability	513,650	30,002	543,652
Deferred inflows of resources for pensions	(44,330)	1,051	(43,279)
Compensated absences payable	(34,934)	3,377	(31,557)
	<u>\$ 2,480,472</u>	<u>\$ 270,083</u>	<u>\$ 2,750,555</u>
<b>Supplemental schedule of noncash investing and financing activities</b>			
Capital asset additions included in accounts payable and accrued liabilities	<u>\$ 187,406</u>	<u>\$ -</u>	<u>\$ 187,406</u>
Capital contribution from developer	<u>\$ 1,325,206</u>	<u>\$ -</u>	<u>\$ 1,325,206</u>

**Town of Hillsborough, North Carolina**  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund**  
**Year Ended June 30, 2017**

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**Exhibit 9**

	<u>Agency Fund</u> <u>Special</u> <u>Assessment Debt</u>
<b>ASSETS</b>	
Cash and investments	\$ <u>25</u>
<b>LIABILITIES</b>	
Miscellaneous liabilities	\$ <u>25</u>

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## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies**

The accounting policies of the Town of Hillsborough (the "Town") conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

#### **A. Reporting entity**

The Town of Hillsborough is a municipal corporation which is governed by an elected mayor and a five-member board. As required by GAAP, these financial statements present the Town and its component units, which are legally separate entities for which the Town is financially accountable. The discretely presented component units presented below are reported in separate columns in the Town's financial statements in order to emphasize that they are legally separate from the Town.

##### Hillsborough Tourism Development Authority (the "Authority")

The Authority was created on April 9, 2012 by resolution of the Town, under the authority of the North Carolina General Assembly. The Authority is responsible for promoting travel and tourism in the Hillsborough area. The Authority receives revenue from a three percent occupancy tax, which is levied and collected by the Town and the remitted net of administration fees. The members of the Authority are appointed by the Town's Board of Commissioners.

##### Hillsborough Tourism Board ("the Board")

The Board was created on November 8, 1993, by resolution of the Town, under the authority of the North Carolina General Assembly. The Board is responsible for promoting tourism within the Town of Hillsborough. The Board receives revenues through a one percent prepared food and beverage tax, which is levied and collected by the Town and remitted net of administration fees. The Board is composed of nine members appointed by the Town's Board of Commissioners.

Requests for complete financial statements for each of the component units may be directed to the Finance Officer, c/o Hillsborough Tourism Development Authority or c/o Hillsborough Tourism Board, Hillsborough, North Carolina, or by telephone at (919) 732-2104.

#### **B. Basis of presentation**

**Government-wide statements:** The statement of net position and the statement of activities include the financial activities of the overall government. These statements distinguish between the *governmental* and *business-type* activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

## Town of Hillsborough, North Carolina Notes to Financial Statements

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**Fund financial statements:** The fund financial statements provide information about the Town's funds. Separate statements for each fund category - *governmental* and *proprietary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Town's fiduciary fund is presented in the fund financial statements as an agency fund. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The Town reports the following major governmental funds:

*General Fund.* The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state grants, and various other taxes and licenses. The primary expenditures are for general government administration, public safety, street maintenance and construction, and sanitation services.

*General Capital Projects Fund.* This fund is used to accumulate expenditures related to multiple capital projects budgeted to be completed within one year. The General Capital Reserve Fund is consolidated in the General Capital Projects Fund.

The Town reports the following nonmajor governmental funds:

*Downtown Improvements Capital Project Fund.* This fund is used to account for certain improvements to the downtown area of the Town.

*Town Barn Improvements Capital Project Fund.* The fund is used to account for various renovations and upgrades to the Town Barn, including certain data processing equipment.

*Riverwalk CMAQ Capital Project Fund.* Three important sidewalk components are grouped for funding purposes through the Congestion Mitigation and Air Quality program within the Department of Transportation. Riverwalk provides a viable alternative to driving by allowing many residents of Hillsborough to walk or bike into downtown, whether for work, shopping, or recreation. These sidewalk connections are along Eno Mountain Road and provide access into the Occoneechee State natural area (connecting to Gold Park); South Nash Street near the commercial area and the rail trestle, and Calvin Street, connecting to Gold Park and Riverwalk.

*Rail Station Capital Project Fund.* This fund will account for design, engineering, construction and construction oversight of the passenger rail station which is approximately 6,000 square foot building with about 100 parking spaces, utilities, and site access

*Public Works Building Capital Project Fund.* This fund will account for design, project management, construction, construction inspection, and water and sewer utilities for a new Public Works Building.

The Town reports the following major enterprise fund:

*Water and Sewer Fund.* This fund is used to account for the Town's water and sewer operations. For financial reporting purposes, the Water and Sewer Capital Projects Fund ("WS Capital Projects Fund") and



## **Town of Hillsborough, North Carolina**

### **Notes to Financial Statements**

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Water and Sewer Capital Reserve Fund (“WS Capital Reserve Fund”) have been consolidated with the Water and Sewer Fund.

The Town reports the following nonmajor enterprise fund:

*Stormwater Fund.* This fund is used to account for the operations of the Town’s stormwater management department.

The Town reports the following fiduciary fund:

*Special Assessment Debt Agency Fund.* This fund is used to account for proceeds that the Town has received from special assessments that have not been remitted to Regions Bank. Regions Bank is the Trustee of the Series 2013 Special Revenue Bonds.

#### ***C. Measurement focus and basis of accounting***

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

**Government-wide and proprietary fund financial statements.** The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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 a proprietary fund’s principal ongoing operations. The principal operating revenues of the Town’s enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise 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.

**Governmental fund financial statements.** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue, because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the subsequent year. Also, as of September 1, 2013, state law altered the procedures for the assessment and collection of property taxes on registered motor

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the state at year end on behalf of the Town, are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Orange County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual, because generally they are not measurable until received in cash. Grant revenues that are unearned at year end are recorded as deferred inflows of resources. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

***D. Budgetary data***

The Town's budgets are adopted by the governing board as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Water and Sewer Fund, and the Stormwater Fund. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Downtown Improvements Capital Project Fund, Town Barn Improvements Capital Project Fund, Riverwalk CMAQ Capital Project Fund, Rail Station Capital Project Fund, Public Works Building Capital Project Fund, General Capital Projects Fund, Water and Sewer Capital Projects Fund, and the Water and Sewer Capital Reserve Fund. The water and sewer enterprise fund projects and capital reserve are consolidated with the Water and Sewer Fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multiyear funds. The Town Manager is authorized by the budget ordinance to transfer appropriations and may allow any amount of money to be transferred between functional areas within a fund. The Town Manager is also authorized to effect interdepartmental transfers within the same fund, not to exceed 10% of the appropriated monies for the department whose allocation is reduced. The Finance Director may make minor adjustments to the budget without obtaining prior governing board approval by formal budget amendment. Such changes must be within a fund and not between two or more funds. The Finance Director is required to inform the board at the next meeting after the budget adjustment is made. Budget amendments typically involve larger sums of money and require the governing board's approval. During the year, several amendments to the original budget were necessary.

***E. Assets, liabilities, deferred outflows/inflows of resources and fund equity***

***(1) Deposits and investments***

All deposits of the Town are made in board-designated official depositories and are secured as required by state law (G.S. 159-31). The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) external investment pool, are measured at amortized cost, which is the NCCMT's share price.

(2) Cash and cash equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

For purposes of the statement of cash flows, the Enterprise Fund considers all short-term and long-term fixed-income investments (including restricted assets) to be cash equivalents.

(3) Restricted assets

The Water and Sewer Fund, General Fund, and General Capital Projects Fund have unexpended debt proceeds that are classified as restricted assets because their use is completely restricted to the purpose for which the debt agreements were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can only be expended for the purposes of maintaining, repairing, constructing, reconstruction or widening of local streets per G.S. 136-41.4. In addition, contributions from developers that are restricted by Town ordinance are restricted to the purpose of the donation.

**Town of Hillsborough Restricted Cash**

Governmental activities:	
General Fund	
Streets	\$ 33,073
Unspent debt proceeds	260,116
General Capital Projects Fund	
Unspent debt proceeds	950
General Capital Reserve Fund	
Developer donations - future capital projects	<u>214,562</u>
Total governmental activities	<u>508,701</u>
Business-type activities:	
Water and Sewer Fund	
Unspent debt proceeds	606,874
Customer deposits	453,998
Developer donations - perpetual maintenance	441,138
Developer donations - water and sewer needs	<u>2,164,344</u>
Total business-type activities	<u>3,666,354</u>
Total restricted cash	<u>\$ 4,175,055</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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(4) Ad valorem taxes receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2016. As allowed by state law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

(5) Allowances for doubtful accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables written off in prior years.

(6) Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund statements, and expensed as items are used.

(7) Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years.

Minimum capitalization costs are as follows:

	<u>Cost</u>
Land and easements	\$ 1
Buildings, improvements	10,000
Distribution system	15,000
Vehicles, furniture and equipment	5,000
Infrastructure	35,000

Donated capital assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after July 1, 2015 are recorded at acquisition value. All other purchased or constructed assets are recorded at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and building improvements	30 years
Infrastructure	40 years
Plant and distribution systems	50 years
Furnishings, fixtures, equipment and computers	5 to 10 years
Vehicles	3 to 5 years

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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(8) Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 so will not be recognized as an expense or expenditure until then. The Town's contributions made to the pension plan in the 2017 fiscal year, contributions made to the Law Enforcement Officers' Special Separation Allowance plan from January 1, 2017 through June 30, 2017, certain pension deferrals, and the deferred loss on defeasance of debt meet this criterion. In addition to liabilities, the statement of financial 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 so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category: taxes receivable, grants receivable and deferrals of pension expense.

(9) Long-term obligations

In the government-wide financial statements and the 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 or business-type activities, or proprietary fund-type statement of net position. Long-term debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method that approximates the effective interest method. Long-term debt is reported net of the applicable premiums or discounts. Debt issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(10) Compensated absences

The vacation policy of the Town provides for the accumulation of up to 240 hours earned vacation leave, with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability and included in the long-term liabilities due within one year on the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

(11) Net position/fund balances

**Net position**

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

**Fund balances**

In the governmental fund financial statements, fund balance is comprised of five classifications designed to disclose the hierarchy of constraints placed on how the fund balance can be spent.

## **Town of Hillsborough, North Carolina**

### **Notes to Financial Statements**

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The governmental fund types classify fund balances as follows:

*Nonspendable fund balance* - This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

*Prepaid items* - Portion of fund balance that is not available for appropriation because it represents the year-end fund balance of prepaid items, which are not expendable, available resources.

*Restricted fund balance* - This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

*Restricted for stabilization by state statute* - Portion of fund balance that is restricted by state statute [G.S. 159-8(a)].

*Restricted for streets* - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

*Restricted for capital projects* - Portion of fund balance representing unexpended contributions from developers and debt proceeds that are restricted by Town ordinance and the developers for future general capital projects.

*Committed fund balance* - Portion of fund balance that can only be used for specific purposes imposed by the government through majority vote of the Town's governing body - the Board of Town Commissioners (highest level of decision-making authority). The Board of Town Commissioners can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

*Committed for capital projects* - Portion of fund balance that can only be used for the construction of capital projects.

*Assigned fund balance* - Portion of fund balance the Town of Hillsborough intends to use for specific purposes that are considered neither restricted nor committed. Unassigned fund balances may be assigned by the Town Board, Town Manager, or Finance Director for specific purposes through the budget process or agenda items.

*Assigned for sidewalks* - Portion of fund balance that is to be used for the future construction of sidewalks.

*Assigned for affordable housing* - Portion of fund balance that is to be used for the future construction of affordable housing.

*Assigned for subsequent year's expenditures* - Portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

*Unassigned fund balance* - Portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town of Hillsborough has a revenue-spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond and installment financing proceeds, federal funds, state funds, local non-town funds, and town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, finally, unassigned fund balance. The Finance Officer has the authority to deviate from this policy, if it is in the best interest of the Town.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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The Town of Hillsborough has adopted a policy to maintain the General Fund fund balance level between 20% and 60% of operating expenditures, with a target of 33%, or the equivalent of four months of operating expenditures.

(12) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employee's Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

**2. Reconciliation of GAAP and Budgetary-Basis Expenditures**

The accompanying schedule reconciles certain General Fund transactions, which are treated differently on Exhibit 4 (GAAP basis) and Exhibit 5 (budgetary basis). These differences relate to capital lease transactions and are summarized below:

	<u>Exhibit 4</u>	<u>Increase (Decrease)</u>	<u>Exhibit 5</u>
General government	\$ 1,581,546	\$ 96,728	\$ 1,678,274
Public safety	4,084,416	262,832	4,347,248
Environmental protection	449,935	135,404	585,339
Community activities and projects	57,673	141,417	199,090
Parks and recreation	397,672	254,317	651,989
Debt service:			
Principal retirement	790,345	(790,345) <sup>(1)</sup>	-
Interest and fiscal charges	100,353	(100,353) <sup>(1)</sup>	-

(1) *Reclassification of debt service payments.*

**3. Stewardship, Compliance and Accountability**

**A. Noncompliance with North Carolina General Statutes**

During the year ended June 30, 2017, the Town entered into a contract with a vendor for services related to the implementation of an advanced metering infrastructure, including bill management and customer service related to the water and sewer utilities provided by the Town. Under the terms of the contract, a \$200,000 payment was due to the vendor during July 2017. In accordance with State law [G.S. 159-28(a)], it is required that a signed preaudit certification be included on any written contract or written agreement requiring the payment of money. The former Finance Director for the Town signed the preaudit certification and instructed that the payment be made to the vendor during July 2017, though proper budgetary authority for the payment did not exist at the time the payment was made.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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**B. Deficit in Fund Balance or Net Position of Individual Funds**

As of June 30, 2017, the Downtown Improvements Capital Project Fund has a deficit in fund balance of \$72,076. This deficit fund balance results from grant revenues the town must recognize on these financial statements as deferred due to receipt not taking place within 90 of the fiscal year-end. This deficit fund balance will be eliminated when grant funds are received in the 2018 fiscal year.

**4. Detail Notes on All Funds**

**A. Assets**

(1) Deposits

All of the deposits of the Town, the Authority, and the Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's, the Authority's, or the Board's agents in the entities' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, the Authority, and the Board, these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the Authority, the Board, or the escrow agent.

Because of the inability to measure the exact amounts of collateral pledged for the Town, the Authority, or the Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Authority and the Board have no formal policy regarding custodial credit risk for deposits.

At June 30, 2017, the Town's deposits had a carrying amount of \$5,301,864 and a bank balance of \$5,551,543. Of the bank balance, \$500,000 was covered by federal depository insurance and \$5,051,543 in interest-bearing deposits were covered under the Pooling Method. The Town had \$1,050 in petty cash on hand at June 30, 2017.

At June 30, 2017, the Authority's deposits had a carrying amount and bank balance of \$226,151. All of the bank balance was covered by federal depository insurance.

At June 30, 2017, the Board's deposits had a carrying amount and bank balance of \$229,501. All of the bank balance was covered by federal depository insurance.

Investments

At June 30, 2017, the Town had \$12,855,454 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk of its investments.

(3) Due from other governments

Amounts due from other governments consist of the following:



**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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	<u>Governmental Activities</u>
General Fund:	
Sales and use tax distribution	\$ 368,354
Utilities franchise and telecommunications tax	142,688
Other government agencies	85,114
Sales tax refunds	<u>136,580</u>
	<u>732,736</u>
 Downtown Improvements Capital Project Fund	
STP grant funds	<u>227,045</u>
 Riverwalk CMAQ Capital Project Fund	
CMAQ grant funds	<u>24,623</u>
	<u>\$ 984,404</u>

(4) Receivables - allowance for doubtful accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 is net of the following allowances for doubtful accounts, which are based on historical percentages of receivables not expected to be collected.

General Fund:	
Taxes receivable	<u>\$ 69,990</u>
 Water and Sewer Enterprise Fund	<u>\$ 30,757</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

(5) Capital assets

Governmental capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 3,653,081	\$ -	\$ (20,210)	\$ -	\$ 3,632,871
Construction-in- progress	<u>293,133</u>	<u>377,825</u>	<u>-</u>	<u>(51,189)</u>	<u>619,769</u>
Total capital assets not being depreciated	<u>3,946,214</u>	<u>\$ 377,825</u>	<u>\$ (20,210)</u>	<u>\$ (51,189)</u>	<u>4,252,640</u>
Capital assets being depreciated:					
Buildings and improvements	6,990,652	\$ -	\$ -	\$ -	6,990,652
Infrastructure	8,796,942	516,108	-	51,189	9,364,239
Equipment	671,663	113,763	(3,450)	-	781,976
Vehicles	<u>4,012,934</u>	<u>85,444</u>	<u>(56,851)</u>	<u>-</u>	<u>4,041,527</u>
Total capital assets being depreciated	<u>20,472,191</u>	<u>\$ 715,315</u>	<u>\$ (60,301)</u>	<u>\$ 51,189</u>	<u>21,178,394</u>
Less accumulated depreciation for:					
Buildings and improvements	1,753,138	\$ 226,290	\$ -	\$ -	1,979,428
Infrastructure	614,705	224,055	-	-	838,760
Equipment	482,164	45,829	(3,072)	-	524,921
Vehicles	<u>2,816,271</u>	<u>377,157</u>	<u>(56,851)</u>	<u>-</u>	<u>3,136,577</u>
Total accumulated depreciation	<u>5,666,278</u>	<u>\$ 873,331</u>	<u>\$ (59,923)</u>	<u>\$ -</u>	<u>6,479,686</u>
Total capital assets being depreciated, net	<u>14,805,913</u>				<u>14,698,708</u>
Governmental activity capital assets, net	<u>\$ 18,752,127</u>				<u>\$ 18,951,348</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 279,488
Public safety	250,507
Transportation	187,974
Economic and physical development	23,619
Environmental protection	<u>131,743</u>
	<u>\$ 873,331</u>

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Business-type capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Business-type activities:					
Capital assets not being amortized or depreciated:					
Land	\$ 6,064,293	\$ 31,251	\$ -	\$ -	\$ 6,095,544
Intangibles-in-Progress	200,000	131,101	-	(331,101)	-
Construction-in-progress	<u>3,466,558</u>	<u>493,626</u>	<u>-</u>	<u>-</u>	<u>3,960,184</u>
Total capital assets not being amortized or depreciated	<u>9,730,851</u>	<u>\$ 655,978</u>	<u>\$ -</u>	<u>\$ (331,101)</u>	<u>10,055,728</u>
Capital assets being amortized or depreciated:					
Buildings and improvements	27,783,910	\$ -	\$ -	\$ -	27,783,910
Plant and distribution systems	30,985,878	1,325,206	-	-	32,311,084
Infrastructure	637,336	102,537	-	-	739,873
Equipment	1,562,534	116,192	(3,450)	-	1,675,276
Intangible assets - Software	-	-	-	331,101	331,101
Vehicles	<u>764,403</u>	<u>192,174</u>	<u>-</u>	<u>-</u>	<u>956,577</u>
Total capital assets being amortized or depreciated	<u>61,734,061</u>	<u>\$ 1,736,109</u>	<u>\$ (3,450)</u>	<u>\$ 331,101</u>	<u>63,797,821</u>
Less accumulated depreciation and amortization for:					
Buildings and improvements	7,849,873	\$ 740,767	\$ -	\$ -	8,590,640
Plant and distribution systems	8,526,855	634,697	-	-	9,161,552
Infrastructure	68,286	16,264	-	-	84,550
Equipment	1,119,633	88,572	(3,072)	-	1,205,133
Intangible assets	-	131,715	-	-	131,715
Vehicles	<u>596,813</u>	<u>71,668</u>	<u>-</u>	<u>-</u>	<u>668,481</u>
Total accumulated depreciation and amortization	<u>18,161,460</u>	<u>\$ 1,683,683</u>	<u>\$ (3,072)</u>	<u>\$ -</u>	<u>19,842,071</u>
Depreciable assets, net	<u>43,572,601</u>				<u>43,955,750</u>
Business-type activity capital assets, net	<u>\$ 53,303,452</u>				<u>\$ 54,011,478</u>

**Town of Hillsborough, North Carolina**  
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(6) Construction commitments

The Town has active construction projects as of June 30, 2017 with the following remaining commitments:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Downtown Improvements	\$ 196,154	\$ 594,111
West Fork Eno Reservoir	1,745,554	271,791
Effluent Aeration Project	104,550	335,250
Waterstone Water Tank	<u>1,602,080</u>	<u>106,920</u>
Total	<u>\$ 3,648,338</u>	<u>\$ 1,308,072</u>

**B. Liabilities**

(1) Pension plan and postemployment obligations

(a) **Local Governmental Employees' Retirement System**

*Plan description.* The Town of Hillsborough is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the state of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the state of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Benefits provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.25% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$429,432 for the year ended June 30, 2017.

**Town of Hillsborough, North Carolina**  
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*Refunds of contributions.* Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions**

At June 30, 2017, the Town reported a liability of \$1,961,038 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.0924%, which was an increase of 0.0086% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$543,413. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 36,845	\$ 68,717
Changes of assumptions	134,314	-
Net difference between projected and actual earnings on pension plan investments	1,084,207	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	56,487	-
Town contributions subsequent to the measurement date	<u>429,432</u>	<u>-</u>
Total	<u>\$ 1,741,285</u>	<u>\$ 68,717</u>

\$429,432 of the amount reported as deferred outflows of resources related to Town contributions subsequent to the measurement date that will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

2018	\$ 199,404
2019	199,496
2020	527,005
2021	317,231
2022	-
Thereafter	-

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*Actuarial assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e., general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections 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 as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

**Town of Hillsborough, North Carolina**  
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*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 4,654,457	\$ 1,961,038	\$ (288,707)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**(b) Law Enforcement Officers' Special Separation Allowance**

*Plan description.* The Town of Hillsborough administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At the December 31, 2015 valuation date, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	<u>28</u>
Total	<u><u>30</u></u>

A separate report was not issued for the plan.

*(ii) Summary of significant accounting policies*

*Basis of accounting.* The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Town of Hillsborough, North Carolina**  
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The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

*(iii) Actuarial assumptions:*

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month for the year ending December 31, 2016.

Mortality rates are based on the RP-2014 series mortality tables with adjustments for mortality improvements based on Scale AA.

*(iv) Change in actuarial assumptions:*

On the prior measurement date (December 31, 2015), the Municipal Bond Index Rate, on which the discount rate is based, was 3.57%. Since the Prior Measurement Date, the Municipal Bond Index Rate has increased to 3.86% as of the Measurement Date (December 31, 2016). This resulted in a \$13,621 reduction in the Total Pension Liability.

*(v) Contributions:*

The Town is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$33,003 as benefits came due for the reporting period.

*(vi) Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:*

At June 30, 2017 the Town reported a total pension liability of \$566,336. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$54,755.



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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	11,466
Town benefit payments and plan administrative expense made subsequent to the measurement date	<u>13,510</u>	<u>-</u>
Total	<u>\$ 13,510</u>	<u>\$ 11,466</u>

The \$13,510 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2018	\$ (2,155)
2019	(2,155)
2020	(2,155)
2021	(2,155)
2022	(2,155)
Thereafter	<u>(691)</u>
Total	<u>\$ (11,466)</u>

(vii) *Sensitivity of the Town's total pension liability to changes in the discount rate:*

The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	<u>1% Decrease (2.86%)</u>	<u>Discount Rate (3.86%)</u>	<u>1% Increase (4.86%)</u>
Total pension liability	<u>\$ 614,638</u>	<u>\$ 566,336</u>	<u>\$ 521,761</u>
	<u>2017</u>		
Beginning balance	\$ 556,718		
Service cost	36,956		
Interest on the total pension liability	19,286		
Changes of benefit terms	-		
Differences between expected and actual experience in the measurement of the total pension liability	-		
Changes of assumptions or other inputs	(13,621)		
Benefit payments	<u>(33,003)</u>		
Ending balance of the total pension liability	<u>\$ 566,336</u>		

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

The plan currently uses mortality tables that vary by age, and health status (i.e., disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

**(c) Supplemental Retirement Income Plan**

*Plan description.* The Town of Hillsborough contributes to the Supplemental Retirement Income Plan (the “Plan”), a defined contribution pension plan administered by the Department of State Treasurer and a board of trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the CAFR for the state of North Carolina. The state’s CAFR includes the pension trust fund financial statements for the Internal Revenue Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454. Additionally, the Town has elected to include all permanent, full-time employees under this plan.

*Funding policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. The Town has elected to contribute each month an amount equal to 5.0% of each participating general employee’s salary. Also, the participants may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2017 were \$460,689, which consisted of \$286,904 from the Town and \$173,785 from employees.

**(2) Other postemployment benefit obligations**

*Plan description.* According to a Town resolution, the Town administers a single-employer defined benefit Healthcare Plan (the “HC Plan”). The HC Plan provides post-retirement healthcare benefits until they become eligible for Medicare to retirees of the Town who were hired before February 1, 2009, who have at least 20 years of creditable service, and who attain age 55 for regular employees and age 52 for law enforcement employees. Employees hired on or after February 1, 2009, must complete 30 years of service and attain age 60 for regular employees and age 57 for law enforcement employees before becoming eligible for post-retirement benefits. The Town pays the full cost of coverage for these benefits. The Town’s Board of Commissioners may amend the benefit provisions. A separate report was not issued for the HC Plan.

<u>Retired Employees’ Years of Creditable Service</u>	<u>Law Enforcement</u>		<u>Non-Law Enforcement</u>	
	<u>Hired Before February 9, 2009</u>	<u>Hired On or After February 9, 2009</u>	<u>Hired Before February 9, 2009</u>	<u>Hired On or After February 9, 2009</u>
Less than 20 years’ continuous service	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
20 or more years’ continuous service:				
Before age 52	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
Age 52 to 55	Full coverage paid for by Town	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
Age 55 until eligible for Medicare	Full coverage paid for by Town	Not eligible for coverage	Full coverage paid for by Town	Not eligible for coverage
30 or more years’ continuous service:				
Before age 57	Full coverage paid for by Town	Not eligible for coverage	Full coverage paid for by Town	Not eligible for coverage
Age 57 to 60	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town	Not eligible for coverage
Age 60 until eligible for Medicare	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town

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Membership of the HC Plan consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	2	3
Active plan members	<u>59</u>	<u>27</u>
Total	<u>61</u>	<u>30</u>

*Funding policy.* The Town pays the cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Board of Commissioners. The Town's members pay up to \$1,073 per month for full family coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current annual required contribution of the employer ("ARC") rate is 2.64% of annual covered payroll. For the current year, the Town contributed \$33,316 or 0.71% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 0.34% and 0.37% of covered payroll, respectively. The Town's contributions totaled \$33,316 in fiscal year 2017. Employees who did not meet the wellness requirements paid \$2,052 in premiums for coverage. The Town's obligation to contribute to the plan is established and may be amended by the Board of Commissioners.

*Summary of significant accounting policies.* Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

*Annual other postemployment benefits ("OPEB") cost and net OPEB obligation.* The Town's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 96,860
Interest on net OPEB obligation	18,944
Adjustment to annual required contribution	<u>(18,097)</u>
Annual OPEB cost	97,707
Contributions made	<u>(33,316)</u>
Increase in net OPEB obligation	64,391
Net OPEB obligation, beginning of year	<u>473,584</u>
Net OPEB obligation, end of year	<u>\$ 537,975</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

**Town of Hillsborough, North Carolina**  
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<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 125,284	52.1%	\$ 407,147
2016	94,039	29.4%	473,584
2017	97,707	34.4%	537,975

*Funded status and funding progress.* As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the UAAL was \$1,008,928. The covered payroll (annual payroll of active employees covered by the plan) was \$4,723,959, and the ratio of the UAAL to the covered payroll was 21.4%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated, based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.50% to 5.00% annually. The investment rate included a 3.00% inflation assumption. The assumed rate of return reflects the fact that no assets are set aside with the Town that are legally held exclusively for retiree health benefits. The UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

**(3) Other employment benefit**

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for Members of the Local Governmental Employees' Retirement System ("Death Benefit Plan"), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service, and have at least one year of contributing membership in the System at the time of death, are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

For the fiscal year ended June 30, 2017, the Town made contributions to the State for death benefits of \$5,195. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 55.0% and 45.0% of covered payroll, respectively.

(4) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities at June 30, 2017 were as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Payable to vendors and others	\$ 258,770	\$ 380,632	\$ 639,402
Accrued payroll and related liabilities	<u>166,602</u>	<u>28,332</u>	<u>194,934</u>
Total accounts payable and accrued liabilities	<u>\$ 425,372</u>	<u>\$ 408,964</u>	<u>\$ 834,336</u>

(5) Deferred outflows and inflows of resources

The Town has deferred outflows of resources, which are comprised of \$429,432 of current year LGERS pension contributions, \$13,510 of benefit payments made and administrative expenses for LEOSSA from January 1, 2017 through June 30, 2017, \$1,311,853 of pension deferrals and \$8,836 of deferred loss on defeasance of debt.

Deferred inflows of resources at year end is comprised of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Taxes receivable	\$ 124,776	\$ -
Grant receivable (General Fund)	8,852	-
Grant receivable (Riverwalk CMAQ Capital Project Fund)	24,623	-
Grant receivable (Downtown Improvements Capital Project Fund)	<u>227,045</u>	<u>-</u>
	<u>\$ 385,296</u>	<u>\$ -</u>
Pension deferrals	<u>\$ 80,183</u>	

(6) 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; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$3 million per occurrence; auto liability coverage of \$2 million per occurrence; property coverage up to the total insurance values of the property policy; and workers' compensation coverage up to statutory limits. The property/liability and workers compensation pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$1 million, property in excess of \$500,000, and \$1 million up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial insurance for all other risks of loss, including property (\$50,879,483); general liability (\$3 million per occurrence); law enforcement liability (\$2 million per occurrence); public employees scheduled bond (\$60,000 - includes \$50,000 for the finance director and \$10,000 for the deputy tax collector), public employees blanket bond/crime (\$10,000); computer equipment (\$447,500); municipal equipment (\$758,124); fine arts (\$500,000); animal mortality (\$22,800); and public officials' liability (\$1 million per occurrence). There have been no significant reductions in insurance coverage in the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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The old motor pool facility is in an area of the state that has been mapped and designated an “A” area (an area close to a river) by the Federal Emergency Management Agency. Flood coverage on the old, dilapidated facility has been discontinued since the building is now used for storage only. Other town structures are designated as “B, C and X” areas (low-risk areas) and are insured for flood damage through the Interlocal Risk Financing Fund of North Carolina pool for \$5 million per occurrence and aggregate with a \$50,000 deductible. There is no coverage through the Interlocal Fund for structures in any flood zone other than “B, C, and X.”

The Authority and the Board carried commercial coverage for Public Officials Liability with coverage of \$1,000,000 for all claims. Both the Board and the Authority do not carry flood insurance nor have any employees.

**(7) Claims and contingent liabilities**

The Town has elected to pay the direct cost of employment security benefits in lieu of paying unemployment taxes. A liability for such payments could accrue in the period following the discharge of an employee.

**(8) Long-term obligations**

**(a) Installment purchases**

Governmental activities:

Note payable to BB&T, executed April 2008, in the amount of \$1,226,000 for the construction of a Town Park and Improvements. The note is payable in 30 semi-annual payments of \$40,867 plus interest at 2.22%, and is secured by such assets.	\$ 490,400
Note payable to BB&T, executed in July 2013, in the amount of \$438,057 for the refinance of a note payable for the purchase of land for municipal operations. The note is payable in 21 semi-annual payments of \$20,860 plus interest at 2.22%, and is secured by land. The previous note payable on the land for municipal operations included interest at 3.92%.	271,178
Note payable to BB&T, executed in July 2013, in the amount of \$839,086 for the refinance of a note payable for the purchase of real property and a building to be used as the fleet maintenance facility. The note is payable in 23 semi-annual payments of \$36,482 plus interest at 2.44%, and is secured by real property and a building. The previous note payable on the fleet maintenance facility included interest at 3.79%.	547,230
Note payable to SunTrust, executed November 2011, in the amount of \$812,021 for the purchase of a fire truck. The note is payable in 14 semi-annual payments of \$63,027 with interest payable at 2.185%, and is secured by the truck.	185,022
Note payable to BB&T, executed August 2013, in the amount of \$1,450,000 for the purchase of land for Riverwalk Phases II and III. The note is payable in 20 semi-annual payments of \$72,500 plus interest and matures in August 2023. Interest is payable at 2.35% and the note payable is secured by land.	649,803

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

Note payable to BB&T, executed August 2014, in the amount of \$615,368 for the purchase of land for municipal operations. The note is payable in 30 semi-annual payments of \$20,512 plus interest and matures in August 2029. Interest is payable at 2.88% and the note payable is secured by the land.	\$ 512,807
Note payable to BB&T, executed August 2014, in the amount of \$175,000 for the purchase of a document management system. The note is payable in 10 semi-annual principal and interest payments of \$18,189 and matures in July 2019. Interest is payable at 1.5% and the note payable is secured by the document management system.	71,410
Note payable to BB&T, executed August 2014, in the amount of \$424,000 for the purchase of a garbage truck and a leaf truck. The note is payable in 10 semi-annual principal and interest payments of \$44,068 and matures in July 2019. Interest is payable at 1.5% and the note payable is secured by the trucks.	173,017
Note payable to Singer Holdings, LLC, executed in July 2015, for the purchase of land and a building for municipal operations. The note is payable in 30 semi-annual principal and interest payments of \$22,689 and matures in July 2030. Interest is payable at 3.0% and the note is secured by the land and building.	500,702
Note payable to BB&T, executed August 2015, in the amount of \$481,000 for the purchase of a fire truck. The note is payable in ten semi-annual payments of \$50,201 with interest payable at 1.57%, and is secured by the truck.	340,628
Note payable to BB&T, executed December 2016, in the amount of \$317,000 for the purchase of a dump truck and knuckle boom truck. The note is payable in nine semi-annual payments of \$36,637 with interest payable at 1.57%, and is secured by the trucks.	<u>283,004</u>
	4,025,201
Less current portion	<u>664,300</u>
	<u>\$ 3,360,901</u>

The future minimum payments on the notes payable as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 664,300	\$ 83,864	\$ 748,164
2019	826,753	74,220	900,973
2020	645,897	57,658	703,555
2021	537,551	44,436	581,987
2022	378,050	32,823	410,873
2023 - 2027	720,382	102,387	822,769
2028 - 2032	<u>252,268</u>	<u>22,782</u>	<u>275,050</u>
	<u>\$ 4,025,201</u>	<u>\$ 418,170</u>	<u>\$ 4,443,371</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

Business-type activities:

Enterprise fund - Water/Sewer Fund:

Note payable to BB&T, executed May 2009, in the amount of \$5,525,000 for the advance refunding of debt of the 1998 Water serial bonds and the Cedar Grove Reservoir installment debt. The note was payable in 20 semi-annual payments of varying amounts with interest payable at 3.69%. The note was modified on July 15, 2013. The modifications separated the debt into two tranches. The first tranche in the amount of \$1,939,000 has varying annual principal payments through October 2017 with interest at 1.66%. The second tranche in the amount of \$1,469,000 has varying annual principal payments through October 2019 with interest at 1.88%. The note is secured by improvements (a).	\$	953,000
Note payable to BB&T, executed March 2012, in the amount of \$1,051,273 for the construction of water tanks and lines. The note is payable in 20 semi-annual payments of \$52,564 plus interest at 2.26%, and is secured by the water tanks and lines.		337,642
Note payable to Singer Holdings, LLC, executed in July 2015, for the purchase of land and a building for water and sewer billing operations. The note is payable in 30 semi-annual principal and interest payments of \$13,614 and matures in July 2030. Interest is payable at 3.0% and the note is secured by the land and building.		300,421
Note payable to BB&T, executed June 2016, in the amount of \$937,747 for the design, equipping and installation of Advanced Metering Infrastructure (AMI). The note is payable in 29 semi-annual principal and interest payments of \$38,995 and matures in June 2031. Interest is payable at 2.4% and the note payable is secured by the AMI.		<u>922,758</u>
		2,513,821
Less current portion		<u>645,400</u>
		<u>\$ 1,868,421</u>

The long-term debt requirements to maturity as of June 30, 2017 for the Enterprise Fund are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 645,400	\$ 39,954	\$ 685,354
2019	405,887	40,634	446,521
2020	416,830	32,000	448,830
2021	101,959	25,772	127,731
2022	81,745	23,473	105,218
2023 - 2027	441,323	84,769	526,092
2028 - 2032	<u>420,677</u>	<u>25,578</u>	<u>446,255</u>
	<u>\$ 2,513,821</u>	<u>\$ 272,180</u>	<u>\$ 2,786,001</u>

a. The provisions of this loan agreement contain certain financial covenants related to the maintenance of fund balance. At June 30, 2017, the Town was in compliance with such covenants.



**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

**b. General obligation indebtedness**

The Town's legal debt margin at June 30, 2017 was \$66,383,811.

**c. Revolving loans payable**

On May 7, 2002, the Town was approved for a maximum loan amount of \$1,802,952 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan proceeds were used to upgrade the water plant. The loan is repayable in equal principal payments of \$76,222 plus interest of 2.66% through fiscal year ending 2026. The total amount outstanding at June 30, 2017 was \$686,002.

Annual debt service requirements to maturity for this Revolving Loan Payable as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 76,222	\$ 18,248	\$ 94,470
2019	76,222	16,220	92,442
2020	76,222	14,192	90,414
2021	76,222	12,166	88,388
2022	76,222	10,138	86,360
2023 - 2026	<u>304,892</u>	<u>20,276</u>	<u>325,168</u>
	<u>\$ 686,002</u>	<u>\$ 91,240</u>	<u>\$ 777,242</u>

On October 6, 2011, the Town was approved for a maximum loan amount of \$18,894,640 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Clean Water State Revolving Fund. The loan proceeds were used for a Wastewater Treatment Plant Upgrade and Expansion Project. The loan is repayable in equal principal payments of \$890,500 plus interest of 2.455% through fiscal year ending 2034. The total amount outstanding at June 30, 2017 was \$15,138,505.

Annual debt service requirements to maturity for this Revolving Loan Payable as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 890,500	\$ 371,650	\$ 1,262,150
2019	890,500	349,788	1,240,288
2020	890,500	327,926	1,218,426
2021	890,500	306,064	1,196,564
2022	890,500	284,204	1,174,704
2023 - 2027	4,452,500	1,093,090	5,545,590
2028 - 2032	4,452,500	546,544	4,999,044
2033 - 2034	<u>1,781,005</u>	<u>65,586</u>	<u>1,846,591</u>
	<u>\$ 15,138,505</u>	<u>\$ 3,344,852</u>	<u>\$ 18,483,357</u>

On October 6, 2014, the Town was approved for a maximum loan amount of \$2,029,398 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan proceeds are being used for the Waterstone Elevated Water Tank Project. Project-to-date drawdowns were \$1,822,088 at June 30, 2017. The loan is repayable in equal principal payments of \$101,470, with no interest, through fiscal year ending 2035. The first payment was made in April 2016. The total amount outstanding at June 30, 2017 was \$1,619,148.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

**d. Changes in long-term debt**

	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Current Portion of Long-Term Liabilities</u>
Governmental activities:					
Installment purchases	\$ 4,534,728	\$ 317,000	\$ 826,527	\$ 4,025,201	\$ 664,300
Compensated absences	287,920	141,326	122,749	306,497	122,749
Other postemployment benefits	282,307	60,936	20,778	322,465	-
Net pension liability (LGERS)	247,634	1,041,162	-	1,288,796	-
Total pension liability (LEOSSA)	<u>52,803</u>	<u>513,533</u>	<u>-</u>	<u>566,336</u>	<u>-</u>
	<u>\$ 5,405,392</u>	<u>\$ 2,073,957</u>	<u>\$ 970,054</u>	<u>\$ 6,509,295</u>	<u>\$ 787,049</u>
Business-type activities:					
Installment purchases	\$ 3,269,750	\$ -	\$ 755,929	\$ 2,513,821	\$ 645,400
Revolving loans payable	18,511,848	-	1,068,193	17,443,655	1,068,192
Other postemployment benefits	191,277	24,233	-	215,510	-
Net pension liability (LGERS)	128,590	543,652	-	672,242	-
Compensated absences	<u>232,597</u>	<u>86,214</u>	<u>117,771</u>	<u>201,040</u>	<u>117,771</u>
	<u>\$ 22,334,062</u>	<u>\$ 654,099</u>	<u>\$ 1,941,893</u>	<u>\$ 21,046,268</u>	<u>\$ 1,831,363</u>

Compensated absences, the total pension liability (LEOSSA), and net pension liability (LGERS) for governmental activities have typically been liquidated in the General Fund.

**e. Special assessment debt**

In October 2013, the Town issued \$4,630,000 of Special Assessment Revenue Bonds to finance the construction of public infrastructure in the Waterstone District. The Town is in no manner obligated to repay this special assessment debt and functions only as an agent for the property owners by remitting collections of special assessments to the Trustee. At June 30, 2017, \$3,140,000 of special assessment debt remained outstanding.

**(9) Operating leases**

The Town leases certain vehicles and office equipment under non-cancelable operating leases expiring at various times through 2022. Future minimum lease payments approximate the following:

<u>Year Ended June 30,</u>	
2018	\$ 73,091
2019	73,091
2020	72,484
2021	71,284
2022	141,306

Rent expense under operating leases for the year ended June 30, 2017 was \$71,284.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

**C. Interfund balances and activity**

Transfers to/from other funds

Transfers to/from other funds at June 30, 2017 consist of the following:

From the General Fund to the Downtown Improvements Capital Project Fund for design work	\$ 129,737
From the General Fund to the Public Works Building Capital Projects Fund for design and project management	25,000
From the General Fund to the Town Barn Renovations Fund for design work	114,201
From the General Capital Reserve Fund to the General Fund for debt service payments	<u>126,053</u>
	<u>\$ 394,991</u>

**D. Net investment in capital assets**

	<u>Governmental</u>	<u>Business-Type</u>
Capital assets	\$ 18,951,348	\$ 54,011,478
Less: related debt		
Installment purchases	(4,025,201)	(2,513,821)
Revolving loans payable	-	(17,443,655)
Add: deferred loss on defeasance of debt	-	8,836
Add: unexpended debt proceeds	<u>260,272</u>	<u>606,874</u>
Net investment in capital assets	<u>\$ 15,186,419</u>	<u>\$ 34,669,712</u>

**E. Fund balance**

The following schedule provides management and citizens with information on the portion of General Fund fund balance that is available for appropriation.

Total fund balance General Fund	\$ 6,509,632
Less:	
Prepaid items	219,730
Stabilization by state statute	1,419,842
Streets - Powell Bill	33,073
Sidewalks	20,800
Affordable housing	46,000
Appropriated fund balance in subsequent fiscal year's budget	720,725
Working capital/fund balance policy	<u>4,049,462</u>
Remaining fund balance General Fund	<u>\$ -</u>

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year end.

	<u>Encumbrances</u>
General Fund	<u>\$ 389,177</u>

**5. Jointly Governed Organization**

The Town, in conjunction with seven counties and 37 other municipalities, established the Triangle J Council of Governments (the "Council"). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$2,467 to the Council during the fiscal year ended June 30, 2017.

**6. Changes in Accounting Principles**

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period. The information necessary for full retrospective application is not available, so the accounting change was implemented in 2017 with a cumulative effect adjustment to net position as of the beginning of the year. As a result, net position for the governmental activities at July 1, 2016 decreased \$470,244.

**7. Significant Effects of Subsequent Events**

Effective September 14, 2017 the Town entered into a financing agreement for the purchase of police vehicles in the total principal amount of \$465,522. The terms of the loan agreement call for bi-annual principal and interest payments in the amount of \$54,509, commencing in July 2018 and continuing through July 2022. The loan bears interest at a rate of 1.86 percent per annum.

## ***Required Supplementary Financial Data***

This section contains additional information required by generally accepted accounting principles.

- Schedule of Changes in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance.
- Schedules of Funding Progress and Employer Contributions for Other Postemployment Benefits.
- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System

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**Town of Hillsborough, North Carolina**  
**Law Enforcement Officers' Special Separation Allowance**  
**Required Supplementary Information**  
**Schedule of Changes in Total Pension Liability**  
**June 30, 2017**

**Exhibit A**

	<u>2017</u>
Beginning balance	\$ 556,718
Service Cost	36,956
Interest on the total pension liability	19,286
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(13,621)
Benefit payments	(33,003)
Other changes	-
	<u>                    </u>
Ending balance of the total pension liability	<u>\$ 566,336</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

**Town of Hillsborough, North Carolina**  
**Law Enforcement Officers' Special Separation Allowance**  
**Required Supplementary Information**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**June 30, 2017**

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**Exhibit B**

	<u>2017</u>
Total pension liability	\$ 566,336
Covered payroll	1,650,937
Total pension liability as a percentage of covered payroll	34.30%

Notes to the schedules:

The Town of Hillsborough has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.



**Town of Hillsborough, North Carolina**  
**Schedule of Funding Progress and Schedule of Employer Contributions**  
**Other Postemployment Benefits**  
**Required Supplementary Information**

**Exhibit C**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) ÷ (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b - a)/c)</b>
12/31/2008	-	\$ 1,167,518	\$ 1,167,518	0.00%	\$ 4,590,807	25.4%
12/31/2011	-	1,169,128	1,169,128	0.00%	4,337,051	27.0%
12/31/2014	-	1,008,928	1,008,928	0.00%	4,723,959	21.4%

**Schedule of Employer Contributions**

<b>Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>Annual Percentage Contributed</b>
2011	\$ 119,002	38.34%
2012	128,907	38.10%
2013	117,508	48.37%
2014	117,508	50.04%
2015	124,664	52.40%
2016	124,664	22.14%
<b>2017</b>	<b>96,860</b>	<b>34.40%</b>

**Town of Hillsborough, North Carolina**  
**Schedule of Proportionate Share of Net Pension Liability (Asset)**  
**Local Government Employees' Retirement System**  
**Required Supplementary Information**  
**Last Four Fiscal Years\***

**Exhibit D-1**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Hillsborough's proportion of the net pension liability (asset) (%)	<b>0.0924%</b>	0.0838%	0.0809%	0.0797%
Hillsborough's proportion of the net pension liability (asset) (\$)	<b>\$ 1,961,038</b>	\$ 376,224	\$ (477,164)	\$ 960,691
Hillsborough's covered-employee payroll	<b>\$ 5,235,777</b>	\$ 4,861,624	\$ 4,672,868	\$ 4,428,097
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<b>37.45%</b>	7.74%	-10.21%	21.70%
Plan fiduciary net position as a percentage of the total pension liability	<b>91.47%</b>	98.09%	102.64%	94.35%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**Town of Hillsborough, North Carolina**  
**Schedule of Contributions**  
**Local Government Employees' Retirement System**  
**Required Supplementary Information**  
**Last Four Fiscal Years**

**Exhibit D-2**

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 429,432	\$ 356,396	\$ 357,402	\$ 333,343
Contributions in relation to the contractually required contribution	<u>429,432</u>	<u>356,396</u>	<u>357,402</u>	<u>333,343</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hillsborough's covered-employee payroll	\$ 5,750,308	\$ 5,235,777	\$ 4,861,624	\$ 4,672,868
Contributions as a percentage of covered-employee payroll	7.47%	6.81%	7.35%	7.13%

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***Supplementary Information***

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**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2017 with Comparative Actual Amounts for**  
**Year Ended June 30, 2016**

**Schedule 1**  
**(5 pages)**

	2017		Variance Positive (Negative)	2016
	Budget	Actual		Actual
<b>Revenues</b>				
General revenues:				
Ad valorem taxes:				
Current	\$ 5,869,000	\$ 6,040,414	\$ 171,414	\$ 5,629,442
Prior	500	1,307	807	4,016
Penalties and interest	19,000	22,416	3,416	35,544
	<u>5,888,500</u>	<u>6,064,137</u>	<u>175,637</u>	<u>5,669,002</u>
Other taxes and licenses:				
Local option sales tax	1,249,500	1,364,779	115,279	1,265,473
Gross receipts on short-term rental property	7,000	8,679	1,679	7,433
Privilege licenses	1,000	2,830	1,830	2,630
Motor vehicle license fees	-	345	345	546
Solid waste disposal	3,500	5,357	1,857	4,032
	<u>1,261,000</u>	<u>1,381,990</u>	<u>120,990</u>	<u>1,280,114</u>
Unrestricted intergovernmental revenues:				
Franchise tax	450,000	541,009	91,009	589,466
Beer and wine tax	27,000	29,257	2,257	27,828
Food and beverage tax	379,915	368,370	(11,545)	347,057
Occupancy tax	89,500	71,757	(17,743)	70,460
	<u>946,415</u>	<u>1,010,393</u>	<u>63,978</u>	<u>1,034,811</u>
Restricted intergovernmental revenues:				
Powell Bill	185,922	185,922	-	184,863
Federal grants	-	42,611	42,611	39,200
State grants	-	108,089	108,089	-
Other	150	9,874	9,724	38,081
	<u>186,072</u>	<u>346,496</u>	<u>160,424</u>	<u>262,144</u>
Investment earnings	11,500	36,091	24,591	15,593
Other general revenues	127,363	79,734	(47,629)	118,323
Total general revenues	<u>8,420,850</u>	<u>8,918,841</u>	<u>497,991</u>	<u>8,379,987</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2017 with Comparative Actual Amounts for**  
**Year Ended June 30, 2016**

**Schedule 1**  
**(5 pages)**

	2017		Variance Positive (Negative)	2016
	Budget	Actual		Actual
Functionally related revenues:				
Use and rental fees:				
Zoning permits	\$ 50,000	\$ 105,815	\$ 55,815	\$ 42,382
Cable franchise	50,000	80,656	30,656	51,879
Time Warner Cable PEG fees	27,000	27,585	585	27,972
Fire inspection fees	14,000	13,555	(445)	13,645
Affordable Housing	-	5,000	5,000	41,000
Total functionally related revenues	<u>141,000</u>	<u>232,611</u>	<u>91,611</u>	<u>176,878</u>
Total revenues	<u>8,561,850</u>	<u>9,151,452</u>	<u>589,602</u>	<u>8,556,865</u>
<b>Expenditures</b>				
General government:				
Governing body:				
Personnel services		48,141		48,512
Other services and charges		231,396		190,497
Reimbursement from enterprise funds		(132,774)		(119,471)
	<u>135,241</u>	<u>146,763</u>	<u>(11,522)</u>	<u>119,538</u>
Ruffin-Roulhac:				
Other services and charges		38,824		77,972
Capital outlay		10,603		-
Reimbursement from enterprise funds		(26,781)		(38,986)
	<u>(9,664)</u>	<u>22,646</u>	<u>(32,310)</u>	<u>38,986</u>
Administration:				
Personnel services		708,514		667,671
Other services and charges		424,093		414,203
Reimbursement from enterprise funds		(547,121)		(519,585)
	<u>595,321</u>	<u>585,486</u>	<u>9,835</u>	<u>562,289</u>
Finance:				
Personnel services		419,459		445,682
Other services and charges		92,535		100,572
Debt service payments		9,076		4,538
Reimbursement from enterprise funds		(271,460)		(274,244)
	<u>272,490</u>	<u>249,610</u>	<u>22,880</u>	<u>276,548</u>



**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2017 with Comparative Actual Amounts for**  
**Year Ended June 30, 2016**

**Schedule 1**  
**(5 pages)**

	2017		Variance Positive (Negative)	2016
	Budget	Actual		Actual
Planning:				
Personnel services		\$ 335,553		\$ 350,089
Other services and charges		78,088		260,337
	<u>\$ 440,575</u>	<u>413,641</u>	<u>\$ 26,934</u>	<u>610,426</u>
Motor pool:				
Personnel services		251,747		244,129
Other services and charges		157,616		173,408
Debt service payments		87,652		89,432
Capital outlay		-		68,323
Reimbursement from enterprise funds		(236,887)		(263,232)
	<u>272,649</u>	<u>260,128</u>	<u>12,521</u>	<u>312,060</u>
Total general government	<u>1,706,612</u>	<u>1,678,274</u>	<u>28,338</u>	<u>1,919,847</u>
Public safety:				
Police department:				
Personnel services		2,336,651		2,206,701
Other services and charges		300,761		296,518
Capital outlay		166,951		178,102
Debt service payments		36,377		36,377
	<u>2,962,334</u>	<u>2,840,740</u>	<u>121,594</u>	<u>2,717,698</u>
Fire inspections/code enforcement:				
Personnel services		118,736		116,959
Other services and charges		22,744		20,465
Debt service payments		226,455		176,255
	<u>374,717</u>	<u>367,935</u>	<u>6,782</u>	<u>313,679</u>
Safety:				
Personnel services		93,915		88,242
Other services and charges		352,747		164,914
Capital outlay		-		15,490
Reimbursement from enterprise funds		(245,402)		(134,232)
	<u>281,980</u>	<u>201,260</u>	<u>80,720</u>	<u>134,414</u>
Fire protection				
Other services and charges		937,313		884,741
	<u>947,672</u>	<u>937,313</u>	<u>10,359</u>	<u>884,741</u>
Total public safety	<u>4,566,703</u>	<u>4,347,248</u>	<u>219,455</u>	<u>4,050,532</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2017 with Comparative Actual Amounts for**  
**Year Ended June 30, 2016**

**Schedule 1**  
**(5 pages)**

	2017		Variance Positive (Negative)	2016
	Budget	Actual		Actual
Transportation:				
Street department/Powell Bill:				
Personnel services		\$ 250,131		\$ 243,324
Other services and charges		195,502		208,211
Capital outlay		419,652		426,698
	<u>\$ 1,244,205</u>	<u>865,285</u>	<u>\$ 378,920</u>	<u>878,233</u>
Total transportation	<u>1,244,205</u>	<u>865,285</u>	<u>378,920</u>	<u>878,233</u>
Environmental protection:				
Sanitation department:				
Personnel services		261,582		246,450
Other services and charges		124,336		120,264
Debt service payments		135,404		158,412
	<u>710,115</u>	<u>521,322</u>	<u>188,793</u>	<u>525,126</u>
Cemetery:				
Other services and charges		59,552		41,551
	<u>66,520</u>	<u>59,552</u>	<u>6,968</u>	<u>41,551</u>
Stormwater:				
Personnel services		677		92,513
Other services and charges		3,788		47,143
	<u>4,000</u>	<u>4,465</u>	<u>(465)</u>	<u>139,656</u>
Total environmental protection	<u>780,635</u>	<u>585,339</u>	<u>195,296</u>	<u>706,333</u>
Economic and physical development:				
Tourism:				
Other services and charges	-	442,006	-	397,828
	<u>532,866</u>	<u>442,006</u>	<u>90,860</u>	<u>397,828</u>
Total economic and physical development	<u>532,866</u>	<u>442,006</u>	<u>90,860</u>	<u>397,828</u>
Community activities and projects:				
Contributions		5,000		25,170
Other services and charges		52,673		68,066
Debt service payments		141,417		128,133
Capital outlay		-		728,441
Total community activities and projects	<u>469,936</u>	<u>199,090</u>	<u>270,846</u>	<u>949,810</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2017 with Comparative Actual Amounts for**  
**Year Ended June 30, 2016**

**Schedule 1**  
**(5 pages)**

	2017		Variance Positive (Negative)	2016
	Budget	Actual		Actual
Parks and recreation:				
Personnel services		\$ 72,938		\$ 17,724
Other services and charges		324,734		80,167
Debt service payments		254,317		564,831
Total parks and recreation	\$ 681,304	651,989	\$ 29,315	662,722
Total expenditures	9,982,261	8,769,231	1,213,030	9,565,305
Revenues under expenditures	(1,420,411)	382,221	1,802,632	(1,008,440)
<b>Other financing sources (uses):</b>				
Transfer to other funds:				
Downtown Improvements Capital Project Fund	(129,737)	(129,737)	-	(30,000)
Town Barn Improvements Capital Project Fund	(114,201)	(114,201)	-	-
Rail Station Capital Project Fund	-	-	-	(54,000)
Riverwalk - CMAQ Fund	-	-	-	(9,500)
Public Works Project Fund	(25,000)	(25,000)	-	(50,000)
Transfer from other funds:				
General Capital Projects Fund	-	-	-	-
General Capital Reserve Fund	126,054	126,053	(1)	126,054
Riverwalk Phase II Fund	-	-	-	173,425
Riverwalk Phase III Fund	-	-	-	22,058
Installment purchase obligations issued	307,623	317,000	9,377	544,906
Sale of capital assets	-	21,610	21,610	-
Total other financing sources (uses)	164,739	195,725	30,986	722,943
Appropriated fund balance	1,255,672	-	(1,255,672)	-
Net change in fund balance	\$ -	577,946	\$ 577,946	(285,497)
Fund balance, beginning		5,931,686		6,217,183
Fund balance, ending		\$ 6,509,632		\$ 5,931,686

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Capital Projects Fund**  
**Year Ended June 30, 2017**

**Schedule 2**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>					
Investment earnings	\$ 107	\$ 107	\$ -	\$ 107	\$ -
Total revenues	<u>107</u>	<u>107</u>	<u>-</u>	<u>107</u>	<u>-</u>
<b>Expenditures</b>					
Capital equipment	1,391,992	1,391,992	-	1,391,992	-
Fleet maintenance facility	1,117,257	1,117,257	-	1,117,257	-
Garbage truck	224,512	224,512	-	224,512	-
Municipal operations site	655,623	655,622	-	655,622	1
Construction	4,600,000	3,151,885	18,955	3,170,840	1,429,160
Total expenditures	<u>7,989,384</u>	<u>6,541,268</u>	<u>18,955</u>	<u>6,560,223</u>	<u>1,429,161</u>
Revenues under expenditures	<u>(7,989,277)</u>	<u>(6,541,161)</u>	<u>(18,955)</u>	<u>(6,560,116)</u>	<u>1,429,161</u>
<b>Other financing sources (uses):</b>					
Installment purchase obligations issued	3,319,650	3,319,650	-	3,319,650	-
Contribution from property owners	4,600,000	3,151,884	18,955	3,170,839	(1,429,161)
Transfer from General Fund	77,647	77,647	-	77,647	-
Transfer to General Fund	<u>(8,020)</u>	<u>(7,070)</u>	<u>-</u>	<u>(7,070)</u>	<u>950</u>
Total other financing sources	<u>7,989,277</u>	<u>6,542,111</u>	<u>18,955</u>	<u>6,561,066</u>	<u>(1,428,211)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 950</u>	<u>-</u>	<u>\$ 950</u>	<u>\$ 950</u>
Fund balance, beginning			<u>950</u>		
Fund balance, ending			950		

Amounts reported for Revenue, Expenditures and Changes in Fund Balance are different for the Budgeted/Actual Statement due to consolidation of the General Capital Reserve Fund

Interest on investments	1,471
Transfers out - Capital Reserve Fund	(126,053)
Fund balance, beginning (Capital Reserve Fund)	<u>339,144</u>
Fund balance, ending (Consolidated General Capital Projects Fund)	<u>\$ 215,512</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Capital Reserve Fund**  
**Year Ended June 30, 2017**

**Schedule 3**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>					
Capital contributions	\$ 1,105,000	\$ 1,105,000	\$ -	\$ 1,105,000	\$ -
Interest on investments	15,065	15,337	1,471	16,808	1,743
Total revenues	1,120,065	1,120,337	1,471	1,121,808	1,743
<b>Expenditures</b>					
	212,818	-	-	-	212,818
Revenues over expenditures	907,247	1,120,337	1,471	1,121,808	214,561
<b>Other financing uses</b>					
Transfer to General Fund	(504,216)	(378,162)	(126,053)	(504,215)	1
Transfer to Water Sewer Capital Reserve Fund	(403,031)	(403,031)	-	(403,031)	-
Total other financing uses	(907,247)	(781,193)	(126,053)	(907,246)	1
Net change in fund balance	<u>\$ -</u>	<u>\$ 339,144</u>	(124,582)	<u>\$ 214,562</u>	<u>\$ 214,562</u>
Fund balance, beginning			<u>339,144</u>		
Fund balance, ending			<u>\$ 214,562</u>		

**Town of Hillsborough, North Carolina**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

**Schedule 4**  
**(2 pages)**

	<b>Downtown Improvements Capital Projects Fund</b>	<b>Town Barn Improvements Capital Project Fund</b>	<b>Riverwalk CMAQ Capital Project Fund</b>
<b>ASSETS</b>			
Cash and investments	\$ 23,529	\$ 94,972	\$ 101,070
Due from other governments	227,045	-	24,623
<b>Total assets</b>	<b>\$ 250,574</b>	<b>\$ 94,972</b>	<b>\$ 125,693</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 95,605	\$ 2,700	\$ 30,780
<b>Total liabilities</b>	<b>95,605</b>	<b>2,700</b>	<b>30,780</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	227,045	-	24,623
<b>Total deferred inflows of resources</b>	<b>227,045</b>	<b>-</b>	<b>24,623</b>
Fund balances:			
Restricted for:			
Stabilization by state statute	736,306	89,972	16,657
Committed for:			
Capital projects	-	2,300	53,633
Unassigned	(808,382)	-	-
<b>Total fund balances</b>	<b>(72,076)</b>	<b>92,272</b>	<b>70,290</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 250,574</b>	<b>\$ 94,972</b>	<b>\$ 125,693</b>

<b>Rail Station Capital Project Fund</b>	<b>Public Works Building Capital Project Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 40,135	\$ 70,580	\$ 330,286
<u>-</u>	<u>-</u>	<u>251,668</u>
<u>\$ 40,135</u>	<u>\$ 70,580</u>	<u>\$ 581,954</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,085</u>
<u>-</u>	<u>-</u>	<u>129,085</u>
<u>-</u>	<u>-</u>	<u>251,668</u>
<u>-</u>	<u>-</u>	<u>251,668</u>
6,134	1,200	850,269
34,001	69,380	159,314
<u>-</u>	<u>-</u>	<u>(808,382)</u>
<u>40,135</u>	<u>70,580</u>	<u>201,201</u>
<u>\$ 40,135</u>	<u>\$ 70,580</u>	<u>\$ 581,954</u>

**Town of Hillsborough, North Carolina**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2017**

**Schedule 5**  
**(2 pages)**

	<b>Downtown Improvements Capital Project Fund</b>	<b>Town Barn Improvements Capital Project Fund</b>	<b>Riverwalk CMAQ Capital Project Fund</b>
<b>Revenues</b>			
Restricted intergovernmental revenues:			
Federal grants	\$ -	\$ -	\$ 28,442
Total revenues	<u>-</u>	<u>-</u>	<u>28,442</u>
<b>Expenditures</b>			
Current:			
General government	-	26,978	-
Environmental protection	-	-	-
Economic and physical development	234,141	-	-
Parks and recreation	-	-	30,780
Total expenditures	<u>234,141</u>	<u>26,978</u>	<u>30,780</u>
Revenues under expenditures	<u>(234,141)</u>	<u>(26,978)</u>	<u>(2,338)</u>
<b>Other financing sources</b>			
Transfer from General Fund	<u>129,737</u>	<u>114,201</u>	<u>-</u>
Total other financing sources	<u>129,737</u>	<u>114,201</u>	<u>-</u>
Net change in fund balances	(104,404)	87,223	(2,338)
Fund balances, beginning	<u>32,328</u>	<u>5,049</u>	<u>72,628</u>
Fund balances, ending	<u>\$ (72,076)</u>	<u>\$ 92,272</u>	<u>\$ 70,290</u>



<b>Rail Station Capital Project Fund</b>	<b>Public Works Building Capital Project Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ -	\$ 28,442
-	-	28,442
-	-	26,978
-	4,420	4,420
-	-	234,141
-	-	30,780
-	4,420	296,319
-	(4,420)	(267,877)
-	25,000	268,938
-	25,000	268,938
-	20,580	1,061
40,135	50,000	200,140
<u>\$ 40,135</u>	<u>\$ 70,580</u>	<u>\$ 201,201</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Downtown Improvements Capital Project Fund**  
**Nonmajor Capital Project Fund**  
**Year Ended June 30, 2017**

**Schedule 6**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>					
Restricted intergovernmental revenues					
State grants	\$ 731,000	\$ -	\$ -	\$ -	\$ (731,000)
Total revenues	<u>731,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(731,000)</u>
<b>Expenditures</b>					
Design	\$ 3,172	\$ 3,172	\$ -	\$ 3,172	\$ -
Construction	934,565	-	234,141	234,141	700,424
Total expenditures	<u>937,737</u>	<u>3,172</u>	<u>234,141</u>	<u>237,313</u>	<u>700,424</u>
Revenues under expenditures	(206,737)	(3,172)	(234,141)	(237,313)	(30,576)
<b>Other financing sources</b>					
Transfer from General Fund	<u>206,737</u>	<u>35,500</u>	<u>129,737</u>	<u>165,237</u>	<u>(41,500)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 32,328</u>	(104,404)	<u>\$ (72,076)</u>	<u>\$ (72,076)</u>
Fund balance, beginning			<u>32,328</u>		
Fund balance, ending			<u>\$ (72,076)</u>		

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Town Barn Improvements Capital Project Fund**  
**Nonmajor Capital Project Fund**  
**Year Ended June 30, 2017**

**Schedule 7**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>					
Design	\$ 130,500	\$ 11,250	\$ 26,978	\$ 38,228	\$ 92,272
Construction	3,701	3,701	-	3,701	-
Total expenditures	<u>134,201</u>	<u>14,951</u>	<u>26,978</u>	<u>41,929</u>	<u>92,272</u>
Revenues under expenditures	(134,201)	(14,951)	(26,978)	(41,929)	92,272
<b>Other financing sources</b>					
Transfer from General Fund	134,201	20,000	114,201	134,201	-
	<u>134,201</u>	<u>20,000</u>	<u>114,201</u>	<u>134,201</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 5,049</u>	87,223	<u>\$ 92,272</u>	<u>\$ 92,272</u>
Fund balance, beginning			<u>5,049</u>		
Fund balance, ending			<u>\$ 92,272</u>		

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Riverwalk CMAQ Capital Project Fund**  
**Nonmajor Capital Project Fund**  
**Year Ended June 30, 2017**

**Schedule 8**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>					
Restricted intergovernmental revenues:					
Federal grants	\$ 496,000	\$ 45,132	\$ 28,442	\$ 73,574	\$ (422,426)
Total revenues	<u>496,000</u>	<u>45,132</u>	<u>28,442</u>	<u>73,574</u>	<u>(422,426)</u>
<b>Expenditures</b>					
Design	121,800	100,998	30,780	131,778	(9,978)
Construction	<u>507,700</u>	<u>5,006</u>	<u>-</u>	<u>5,006</u>	<u>502,694</u>
Total expenditures	<u>629,500</u>	<u>106,004</u>	<u>30,780</u>	<u>136,784</u>	<u>492,716</u>
Revenues under expenditures	(133,500)	(60,872)	(2,338)	(63,210)	70,290
<b>Other financing sources</b>					
Transfer from General Fund	<u>133,500</u>	<u>133,500</u>	<u>-</u>	<u>133,500</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 72,628</u>	<u>(2,338)</u>	<u>\$ 70,290</u>	<u>\$ 70,290</u>
Fund balance, beginning			<u>72,628</u>		
Fund balance, ending			<u>\$ 70,290</u>		

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Rail Station Capital Project Fund**  
**Nonmajor Capital Project Fund**  
**Year Ended June 30, 2017**

**Schedule 9**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>					
Restricted intergovernmental revenues:					
State grants	\$ 120,000	\$ -	\$ -	\$ -	\$ (120,000)
Total revenues	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(120,000)</u>
<b>Expenditures</b>					
Design	<u>174,000</u>	<u>13,865</u>	<u>-</u>	<u>13,865</u>	<u>160,135</u>
Total expenditures	<u>174,000</u>	<u>13,865</u>	<u>-</u>	<u>13,865</u>	<u>160,135</u>
Revenues under expenditures	(54,000)	(13,865)	-	(13,865)	40,135
<b>Other financing sources</b>					
Transfer from General Fund	<u>54,000</u>	<u>54,000</u>	<u>-</u>	<u>54,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 40,135</u>	<u>-</u>	<u>\$ 40,135</u>	<u>\$ 40,135</u>
Fund balance, beginning			<u>40,135</u>		
Fund balance, ending			<u>\$ 40,135</u>		

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Public Works Building Capital Project Fund**  
**Nonmajor Capital Project Fund**  
**Year Ended June 30, 2017**

**Schedule 10**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>					
Design	\$ 75,000	\$ -	\$ 4,420	\$ 4,420	\$ 70,580
Total expenditures	<u>75,000</u>	<u>-</u>	<u>4,420</u>	<u>4,420</u>	<u>70,580</u>
Revenues under expenditures	(75,000)	-	(4,420)	(4,420)	70,580
<b>Other financing sources</b>					
Transfer from General Fund	<u>75,000</u>	<u>50,000</u>	<u>25,000</u>	<u>75,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 50,000</u>	20,580	<u>\$ 70,580</u>	<u>\$ 70,580</u>
Fund balance, beginning			<u>50,000</u>		
Fund balance, ending			<u>\$ 70,580</u>		

**Town of Hillsborough, North Carolina**

**Schedule of Revenues**

**Budget and Actual (Non - GAAP)**

**Water and Sewer Fund**

**Enterprise Fund**

**Year Ended June 30, 2017 with Comparative Actual Amounts for**

**Year Ended June 30, 2016**

	2017		Variance Positive (Negative)	2016
	Budget	Actual		Actual
<b>Revenues</b>				
Operating revenues:				
Water charges	\$ 3,960,000	\$ 3,897,326	\$ (62,674)	\$ 4,009,818
Sewer charges	4,000,000	4,575,619	575,619	3,978,680
Other receipts	<u>825,850</u>	<u>920,340</u>	<u>94,490</u>	<u>2,685,134</u>
	8,785,850	9,393,285	607,435	10,673,632
Nonoperating revenues:				
Interest on investments	<u>1,000</u>	<u>10,670</u>	<u>9,670</u>	<u>5,498</u>
Total revenues	<u><u>\$ 8,786,850</u></u>	<u><u>\$ 9,403,955</u></u>	<u><u>\$ 617,105</u></u>	<u><u>\$ 10,679,130</u></u>

**Town of Hillsborough, North Carolina**  
**Schedule of Expenditures**  
**Budget and Actual (Non - GAAP)**  
**Water and Sewer Fund**  
**Enterprise Fund**  
**Year Ended June 30, 2017 with Comparative Actual Amounts for**  
**Year Ended June 30, 2016**

**Schedule 12**  
**(3 pages)**

	2017		Variance Positive (Negative)	2016
	Budget	Actual		Actual
<b>Expenditures</b>				
Engineering:				
Personnel services		\$ 418,031		\$ 407,001
Other services and charges		1,493,526		1,430,359
Capital outlay		29,309		-
Total engineering	<b>\$ 2,211,750</b>	<b>1,940,866</b>	<b>\$ 270,884</b>	<b>1,837,360</b>
Billing and collection:				
Personnel services		333,932		375,500
Other services and charges		376,311		255,481
Repairs and maintenance		725		268
Capital outlay		-		326,943
Debt service payments		66,223		13,614
Total billing and collection	<b>834,082</b>	<b>777,191</b>	<b>56,891</b>	<b>971,806</b>
Water plant:				
Personnel services		571,480		487,307
Other services and charges		356,397		292,899
Repairs and maintenance		47,338		34,195
Capital outlay		-		20,385
Debt service payments		111,301		138,839
Total water plant	<b>1,435,419</b>	<b>1,086,516</b>	<b>348,903</b>	<b>973,625</b>
Water distribution:				
Personnel services		410,666		407,220
Other services and charges		238,765		238,533
Repairs and maintenance		21,057		19,850
Capital outlay		141,840		163,866
Debt service payments		124,244		163,492
Total water distribution	<b>1,158,342</b>	<b>936,572</b>	<b>221,770</b>	<b>992,961</b>
Wastewater collection:				
Personnel services		407,081		399,151
Other services and charges		322,098		233,687
Repairs and maintenance		17,820		45,183
Capital outlay		175,016		97,295
Debt service payments		76,295		255,497
Total wastewater collection	<b>1,544,557</b>	<b>998,310</b>	<b>546,247</b>	<b>1,030,813</b>



**Town of Hillsborough, North Carolina**  
**Schedule of Expenditures**  
**Budget and Actual (Non - GAAP)**  
**Water and Sewer Fund**  
**Enterprise Fund**  
**Year Ended June 30, 2017 with Comparative Actual Amounts for**  
**Year Ended June 30, 2016**

**Schedule 12**  
**(3 pages)**

	2017		Variance Positive (Negative)	2016
	Budget	Actual		Actual
Wastewater plant:				
Personnel services		\$ 446,319		\$ 458,068
Other services and charges		304,502		255,579
Repairs and maintenance		152,672		199,945
Capital outlay		86,297		-
Debt service payments		1,284,012		1,305,874
Total wastewater plant	\$ 2,415,160	2,273,802	\$ 141,358	2,219,466
Reservoir:				
Other services and charges		17,853		17,833
Repairs and maintenance		6,600		10,363
Debt service payments		640,666		649,360
Total reservoir	694,092	665,119	28,973	677,556
Total expenditures	10,293,402	8,678,376	1,615,026	8,703,587
Revenues over expenditures	(1,506,552)	725,579	2,232,131	1,975,543
<b>Other financing sources (uses)</b>				
Transfer to Water and Sewer Capital Reserve Fund	(1,409,406)	(909,406)	500,000	(1,903,442)
Transfer to Water and Sewer Capital Projects Fund	(1,263,444)	(1,263,444)	-	(1,066,117)
Transfer from Water and Sewer Capital Projects Fund	-	-	-	188,946
Transfer from Water and Sewer Capital Reserve Fund	1,510,149	1,510,149	-	1,436,060
Installment purchase obligations issued	892,572	-	(892,572)	326,943
Total other financing sources (uses)	(270,129)	(662,701)	(392,572)	(1,017,610)
Excess of revenues and other financing sources (uses) over (under) expenditures and other uses	(1,776,681)	62,878	1,839,559	957,933
Appropriated fund balance	1,776,681	-	(1,776,681)	-
Excess of revenues and other uses over expenditures and other uses	\$ -	\$ 62,878	\$ 62,878	\$ 957,933

**Town of Hillsborough, North Carolina**  
**Schedule of Expenditures**  
**Budget and Actual (Non - GAAP)**  
**Water and Sewer Fund**  
**Enterprise Fund**  
**Year Ended June 30, 2017 with Comparative Actual Amounts for**  
**Year Ended June 30, 2016**

**Schedule 12**  
**(3 pages)**

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**Reconciliation of budgetary basis (modified accrual) to full accrual basis**

Excess of revenues and other sources over expenditures and other uses	\$ 62,878
Reconciling items:	
Interest income from Water and Sewer Capital Projects Fund	69
Interest income from Water and Sewer Capital Reserve Fund	9,158
Restricted intergovernmental revenue from Water and Sewer Capital Projects Fund	-
Payment of principal on notes, bonds and installment purchases	1,839,269
Capital outlay	432,462
Noncapitalizable capital project expenditures	(187)
Depreciation	(1,683,683)
Loss on disposal of capital assets	(357)
Increase in deferred outflows of resources - pensions	433,639
Increase in net pension liability	(513,650)
Decrease in deferred inflows of resources - pensions	44,330
Interest expense accrual adjustment	9,068
Vacation pay accrual adjustment	34,934
Bad debts	(178,884)
Increase in OPEB liability	(22,848)
Capital contributions from developer	1,325,206
Amortization of deferred loss on refunding	(15,147)
Transfer to Water and Sewer Capital Projects Fund	1,263,444
Transfer from Water and Sewer Capital Reserve Fund	(1,510,149)
Transfer to Water and Sewer Capital Reserve Fund	<u>909,406</u>
Change in net position	<u>\$ 2,438,958</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non - GAAP)**  
**Water and Sewer Capital Projects Fund**  
**Enterprise Fund**  
**Year Ended June 30, 2017**

**Schedule 13**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>					
Restricted intergovernmental revenues:					
Federal grant	\$ 56,251	\$ 56,250	\$ -	\$ 56,250	\$ (1)
Interest on investments	2,271	2,275	69	2,344	73
Total revenues	<u>58,522</u>	<u>58,525</u>	<u>69</u>	<u>58,594</u>	<u>72</u>
<b>Expenditures</b>					
Capital improvements:					
Sewer Outfall Phase II	1,688,044	1,571,108	67,498	1,638,606	49,438
Lawrence Road	980,260	980,260	-	980,260	-
Lake Ben Johnson	484,119	484,119	-	484,119	-
Backwash pump replacement	83,923	83,923	-	83,923	-
Booster pump station	250,000	-	2,388	2,388	247,612
Waterstone water tank	2,039,842	1,911,020	1,062	1,912,082	127,760
Water meter replacement	750,000	711,204	-	711,204	38,796
Automatic meter reading project	937,747	200,000	131,101	331,101	606,646
Effluent aeration	585,000	37,263	116,667	153,930	431,070
Other improvements	350,000	44,190	-	44,190	305,810
	<u>8,148,935</u>	<u>6,023,087</u>	<u>318,716</u>	<u>6,341,803</u>	<u>1,807,132</u>
West Fork Eno Reservoir:					
Services and charges	2,444,117	1,055,422	288,970	1,344,392	1,099,725
Construction	7,841,468	-	-	-	7,841,468
Land acquisition	26,552	-	26,552	26,552	-
	<u>10,312,137</u>	<u>1,055,422</u>	<u>315,522</u>	<u>1,370,944</u>	<u>8,941,193</u>
Total expenditures	<u>18,461,072</u>	<u>7,078,509</u>	<u>634,238</u>	<u>7,712,747</u>	<u>10,748,325</u>
Revenues under expenditures	<u>(18,402,550)</u>	<u>(7,019,984)</u>	<u>(634,169)</u>	<u>(7,654,153)</u>	<u>10,748,397</u>
<b>Other financing sources (uses)</b>					
Proceeds from installment purchases	13,497,408	5,012,078	-	5,012,078	(8,485,330)
Transfer from Water and Sewer Capital Reserve Fund	326,553	326,553	-	326,553	-
Transfer from Water and Sewer Fund	4,967,535	3,694,052	1,263,444	4,957,496	(10,039)
Transfer to Water and Sewer Fund	(388,946)	(388,946)	-	(388,946)	-
Total other financing sources	<u>18,402,550</u>	<u>8,643,737</u>	<u>1,263,444</u>	<u>9,907,181</u>	<u>(8,495,369)</u>
Excess of revenues and other sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,623,753</u>	<u>\$ 629,275</u>	<u>\$ 2,253,028</u>	<u>\$ 2,253,028</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non - GAAP)**  
**Water and Sewer Capital Reserve Fund**  
**Enterprise Fund**  
**Year Ended June 30, 2017**

**Schedule 14**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>					
Interest on investments	\$ 264,139	\$ 269,106	\$ 9,158	\$ 278,264	\$ 14,125
<b>Expenditures</b>	<u>3,430,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,430,102</u>
Revenues over (under) expenditures	<u>(3,165,963)</u>	<u>269,106</u>	<u>9,158</u>	<u>278,264</u>	<u>3,444,227</u>
<b>Other financing sources (uses)</b>					
Transfers from Water and Sewer Fund	8,735,079	7,825,673	909,406	8,735,079	-
Transfers from General Capital Reserve Fund	403,031	403,031	-	403,031	-
Capital contributions	1,066,190	1,066,190	-	1,066,190	-
Transfers to Water and Sewer Fund	(5,738,784)	(4,228,635)	(1,510,149)	(5,738,784)	-
Transfers to Water and Sewer Capital Projects Fund	<u>(1,299,553)</u>	<u>(1,299,553)</u>	<u>-</u>	<u>(1,299,553)</u>	<u>-</u>
Total other financing sources	<u>3,165,963</u>	<u>3,766,706</u>	<u>(600,743)</u>	<u>3,165,963</u>	<u>-</u>
Excess of revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 4,035,812</u>	<u>\$ (591,585)</u>	<u>\$ 3,444,227</u>	<u>\$ 3,444,227</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non - GAAP)**  
**Stormwater Fund**  
**Enterprise Fund**  
**Year Ended June 30, 2017**

**Schedule 15**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Operating revenues:			
Stormwater charges	594,804	629,488	\$ 34,684
Other operating revenues	<u>1,000</u>	<u>3,250</u>	<u>2,250</u>
Total revenues	<u>595,804</u>	<u>632,738</u>	<u>36,934</u>
<b>Expenditures</b>			
Operating expenditures:			
Personnel services		115,089	
Other services and charges		108,160	
Repairs and maintenance		<u>70,559</u>	
Total expenditures	<u>595,804</u>	<u>293,808</u>	<u>301,996</u>
Revenues over expenditures	<u>\$ -</u>	338,930	<u>\$ 338,930</u>
<b>Reconciliation of modified accrual basis to full accrual basis:</b>			
Increase in accrued vacation pay		(3,377)	
Depreciation			
Increase in net pension liability		(30,002)	
Increase in other post employment benefits		(1,385)	
Increase in deferred outflows of resources - pensions		26,640	
Increase in deferred inflows of resources - pensions		<u>(1,051)</u>	
Change in net position		<u>\$ 329,755</u>	

**Town of Hillsborough, North Carolina**  
**Statement of Changes in Assets and Liabilities**  
**Special Assessment Debt Agency Fund**  
**Fiduciary Fund**  
**Year Ended June 30, 2017**

**Schedule 16**

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>ASSETS</b>				
Cash	<u>\$ 824</u>	<u>\$ 745,364</u>	<u>\$ (746,163)</u>	<u>\$ 25</u>
<b>LIABILITIES</b>				
Due to others	<u>\$ 824</u>	<u>\$ 745,364</u>	<u>\$ (746,163)</u>	<u>\$ 25</u>

## ***Additional Financial Data***

This section contains additional information on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

**Town of Hillsborough, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2017**

**Schedule 17**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2016</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016-2017	\$ -	\$ 6,044,907	\$ 5,995,089	\$ 49,818
2015-2016	62,310	-	31,103	31,207
2014-2015	36,427	-	12,056	24,371
2013-2014	30,402	-	8,976	21,426
2012-2013	16,612	-	-	16,612
2011-2012	16,050	-	3,562	12,488
2010-2011	9,805	-	-	9,805
2009-2010	11,836	-	1,696	10,140
2008-2009	15,344	-	7,220	8,124
2006-2007	14,203	-	3,428	10,775
2007-2008	-	-	-	-
	212,989	<u>\$ 6,044,907</u>	<u>\$ 6,063,130</u>	194,766
Less allowance for uncollectible accounts: General Fund	<u>(69,990)</u>			<u>(69,990)</u>
	<u>\$ 142,999</u>			<u>\$ 124,776</u>
<b>Reconciliation of collections and credits with revenues:</b>				
Ad valorem taxes - General Fund			\$ 6,064,137	
Motor vehicle license fees - General Fund			345	
Penalties and interest			(22,416)	
Adjustments and refunds			21,064	
			<u>\$ 6,063,130</u>	



**Town of Hillsborough, North Carolina**  
**Analysis of Current Tax Levy**  
**Year Ended June 30, 2017**

**Schedule 18**

	Town-Wide		Total Levy		
	Property Valuation**	Rate	Total Levy*	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 880,112,647	0.6800	\$ 5,984,766	\$ 5,561,955	\$ 422,811
Motor vehicle license fees	-		56,720	-	56,720
Penalties and interest	-		3,421	3,421	-
Total property valuation	<u>\$ 880,112,647</u>		6,044,907	5,565,376	479,531
Releases and abatements			-	-	-
Net levy			6,044,907	5,565,376	479,531
Uncollected taxes at June 30, 2017			49,818	49,750	68
Current year's taxes collected			<u>\$ 5,995,089</u>	<u>\$ 5,515,626</u>	<u>\$ 479,463</u>
Current levy collection percentage			<u>99.18%</u>	<u>99.11%</u>	<u>99.99%</u>

\* Total adjusted levy includes discoveries and abatements.

\*\* Property tax valuation prior to the discoveries and abatements.

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## ***Statistical Section***

This part of the Town of Hillsborough'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 say about the Town's overall financial health.

Page

**Financial Trends Information**

These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.

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**Revenue Capacity Information**

These schedules contain information to help the reader assess the Town's most significant local revenue sources, property taxes, and water and sewer charges.

115

**Debt Capacity Information**

These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.

127

**Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.

134

**Operating Information**

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 the activities it performs.

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**Sources:** *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Town implemented GASB Statement 34 in 2004; schedules presenting government-wide information include information beginning in that year.*

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***Financial Trends Information***

**Town of Hillsborough, North Carolina**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental activities:				
Net investment in capital assets	\$ 1,736,635	\$ 2,375,505	\$ 3,268,065	\$ 5,338,508
Restricted	1,660,871	563,417	806,780	2,121,546
Unrestricted	<u>3,329,482</u>	<u>4,891,494</u>	<u>5,402,272</u>	<u>3,766,961</u>
Total governmental activities net position	<u>\$ 6,726,988</u>	<u>\$ 7,830,416</u>	<u>\$ 9,477,117</u>	<u>\$ 11,227,015</u>
Business-type activities				
Net investment in capital assets	\$ 20,174,460	\$ 21,590,822	\$ 21,736,659	\$ 24,316,110
Restricted	2,011,464	2,438,955	2,128,459	1,721,067
Unrestricted	<u>4,268,347</u>	<u>3,495,837</u>	<u>4,020,580</u>	<u>3,518,417</u>
Total business-type activities net position	<u>\$ 26,454,271</u>	<u>\$ 27,525,614</u>	<u>\$ 27,885,698</u>	<u>\$ 29,555,594</u>
Primary government				
Net investment in capital assets	\$ 21,911,095	\$ 23,966,327	\$ 25,004,724	\$ 29,654,618
Restricted	3,672,335	3,002,372	2,935,239	3,842,613
Unrestricted	<u>7,597,829</u>	<u>8,387,331</u>	<u>9,422,852</u>	<u>7,285,378</u>
Total primary government net position	<u>\$ 33,181,259</u>	<u>\$ 35,356,030</u>	<u>\$ 37,362,815</u>	<u>\$ 40,782,609</u>

**Table 1**

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 5,870,981	\$ 6,723,808	\$ 10,924,631	\$ 11,870,401	\$ 14,242,464	\$ <b>15,186,419</b>
1,570,832	1,831,742	1,700,808	1,558,393	1,753,856	<b>2,518,696</b>
<u>3,984,264</u>	<u>4,390,314</u>	<u>4,433,988</u>	<u>4,797,140</u>	<u>4,030,053</u>	<u><b>2,977,656</b></u>
<u>\$ 11,426,077</u>	<u>\$ 12,945,864</u>	<u>\$ 17,059,427</u>	<u>\$ 18,225,934</u>	<u>\$ 20,026,373</u>	<u>\$ <b>20,682,771</b></u>
\$ 26,632,441	\$ 26,017,050	\$ 27,110,293	\$ 30,507,881	\$ 32,483,743	\$ <b>34,669,712</b>
1,974,677	2,590,989	2,591,211	2,591,600	2,596,324	<b>2,605,482</b>
<u>2,674,119</u>	<u>4,084,460</u>	<u>6,546,829</u>	<u>6,190,061</u>	<u>8,522,788</u>	<u><b>9,096,374</b></u>
<u>\$ 31,281,237</u>	<u>\$ 32,692,499</u>	<u>\$ 36,248,333</u>	<u>\$ 39,289,542</u>	<u>\$ 43,602,855</u>	<u>\$ <b>46,371,568</b></u>
\$ 32,503,422	\$ 32,740,858	\$ 38,034,924	\$ 42,378,282	\$ 46,726,207	\$ <b>49,856,131</b>
3,545,509	4,422,731	4,292,019	4,149,993	4,350,180	<b>5,124,178</b>
<u>6,658,383</u>	<u>8,474,774</u>	<u>10,980,817</u>	<u>10,987,201</u>	<u>12,552,841</u>	<u><b>12,074,030</b></u>
<u>\$ 42,707,314</u>	<u>\$ 45,638,363</u>	<u>\$ 53,307,760</u>	<u>\$ 57,515,476</u>	<u>\$ 63,629,228</u>	<u>\$ <b>67,054,339</b></u>

**Town of Hillsborough, North Carolina**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Expenses</b>				
Governmental activities:				
General government	\$ 1,153,096	\$ 1,341,151	\$ 1,511,119	\$ 1,353,757
Public safety	3,320,666	3,477,812	3,389,490	3,379,456
Transportation	1,217,558	435,870	390,313	486,940
Environmental protection	63,118	546,472	534,476	595,447
Economic and physical development	217,638	237,278	247,420	256,092
Community activities and projects	227,721	105,026	40,961	49,505
Parks and recreation	12,801	31,657	60,629	36,844
Unallocated interest expense	21,248	77,316	107,315	108,598
	<u>6,233,846</u>	<u>6,252,582</u>	<u>6,281,723</u>	<u>6,266,639</u>
Total governmental activities expenses				
Business-type activities:				
Water and sewer	5,472,746	5,616,181	6,093,635	5,758,760
Stormwater	-	-	-	-
	<u>5,472,746</u>	<u>5,616,181</u>	<u>6,093,635</u>	<u>5,758,760</u>
Total business-type activities expenses				
Total primary government expenses	<u>\$ 11,706,592</u>	<u>\$ 11,868,763</u>	<u>\$ 12,375,358</u>	<u>\$ 12,025,399</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General government	\$ 159,868	\$ 113,738	\$ 131,750	\$ 149,790
Public safety	15,290	14,453	10,825	10,273
Transportation	-	-	2,951	-
Economic and physical development	-	-	-	-
Parks and recreation	-	-	-	2,170
Operating grants and contributions	337,166	309,510	202,067	183,874
Capital grants and contributions	265,947	686,984	1,001,630	1,191,157
	<u>778,271</u>	<u>1,124,685</u>	<u>1,349,223</u>	<u>1,537,264</u>
Total governmental activities program revenues				



**Table 2  
(4 pages)**

<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
\$ 1,402,445	\$ 1,301,963	\$ 1,524,025	\$ 1,416,316	\$ 2,010,349	\$ <b>1,860,970</b>
2,597,911	3,395,465	3,619,529	3,929,568	3,982,055	<b>4,289,900</b>
1,510,493	497,540	500,491	130,485	615,849	<b>666,523</b>
546,612	580,312	833,623	963,296	708,367	<b>590,798</b>
243,163	485,977	367,389	387,801	402,800	<b>466,791</b>
40,996	64,878	119,251	220,890	93,236	<b>57,673</b>
51,500	36,267	55,849	74,137	97,891	<b>398,802</b>
104,518	105,022	126,250	101,260	121,783	<b>95,571</b>
<b>6,497,638</b>	<b>6,467,424</b>	<b>7,146,407</b>	<b>7,223,753</b>	<b>8,032,330</b>	<b>8,427,028</b>
6,151,253	6,279,271	6,271,311	7,383,564	7,574,032	<b>8,120,546</b>
-	-	-	-	-	<b>302,983</b>
<b>6,151,253</b>	<b>6,279,271</b>	<b>6,271,311</b>	<b>7,383,564</b>	<b>7,574,032</b>	<b>8,423,529</b>
<b>\$ 12,648,891</b>	<b>\$ 12,746,695</b>	<b>\$ 13,417,718</b>	<b>\$ 14,607,317</b>	<b>\$ 15,606,362</b>	<b>\$ 16,850,557</b>
\$ 160,990	\$ 326,565	\$ 126,909	\$ 182,109	\$ 122,233	\$ <b>214,056</b>
15,593	11,426	13,893	12,068	13,645	<b>13,555</b>
-	-	-	187,682	184,863	<b>185,922</b>
-	-	-	-	41,000	<b>5,000</b>
2,970	3,190	4,140	5,155	4,720	<b>5,130</b>
228,457	175,347	316,576	10,610	28,052	<b>26,690</b>
203,301	334,525	3,741,958	253,460	1,393,799	<b>570,035</b>
611,311	851,053	4,203,476	651,084	1,788,312	<b>1,020,388</b>

**Town of Hillsborough, North Carolina**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Business-type activities:				
Charges for services:				
Water and sewer	\$ 6,320,471	\$ 6,292,642	\$ 6,425,750	\$ 6,755,260
Stormwater	-	-	-	-
Capital grants and contributions	3,754,896	290,891	-	658,828
Total business-type activities program revenues	<u>10,075,367</u>	<u>6,583,533</u>	<u>6,425,750</u>	<u>7,414,088</u>
Total primary government program revenues	<u>\$ 10,853,638</u>	<u>\$ 7,708,218</u>	<u>\$ 7,774,973</u>	<u>\$ 8,951,352</u>
<b>Net (Expense) Revenue</b>				
Governmental activities	\$ (5,455,575)	\$ (5,127,897)	\$ (4,932,500)	\$ (4,729,375)
Business-type activities	<u>4,602,621</u>	<u>967,352</u>	<u>332,115</u>	<u>1,655,328</u>
Total primary government net expense	<u>\$ (852,954)</u>	<u>\$ (4,160,545)</u>	<u>\$ (4,600,385)</u>	<u>\$ (3,074,047)</u>
<b>General Revenues and Other Changes in Net Position</b>				
Governmental activities:				
Taxes	\$ 5,203,555	\$ 5,479,986	\$ 5,898,215	\$ 5,808,387
Unrestricted inter-governmental revenues	575,308	625,798	615,770	635,907
Investment earnings, unrestricted	196,325	109,920	29,889	10,838
Miscellaneous	<u>12,508</u>	<u>15,621</u>	<u>35,327</u>	<u>24,141</u>
Total governmental activities	<u>5,987,696</u>	<u>6,231,325</u>	<u>6,579,201</u>	<u>6,479,273</u>
Business-type activities:				
Investment earnings	233,136	107,104	27,967	14,568
Miscellaneous	<u>30,691</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>263,827</u>	<u>107,104</u>	<u>27,967</u>	<u>14,568</u>
Total primary government	<u>\$ 6,251,523</u>	<u>\$ 6,338,429</u>	<u>\$ 6,607,168</u>	<u>\$ 6,493,841</u>
<b>Change in Net Position</b>				
Governmental activities	\$ 532,121	\$ 1,103,428	\$ 1,646,701	\$ 1,749,898
Business-type activities	<u>4,866,448</u>	<u>1,074,456</u>	<u>360,084</u>	<u>1,669,896</u>
Total primary government	<u>\$ 5,398,569</u>	<u>\$ 2,177,884</u>	<u>\$ 2,006,785</u>	<u>\$ 3,419,794</u>

**Table 2**  
**(4 pages)**

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 7,366,996	\$ 7,686,356	\$ 9,025,607	\$ 8,939,712	\$ 10,713,397	\$ 9,214,401
-	-	-	-	-	632,738
100,000	-	1,028,171	1,484,316	1,161,830	1,325,206
<u>7,466,996</u>	<u>7,686,356</u>	<u>10,053,778</u>	<u>10,424,028</u>	<u>11,875,227</u>	<u>11,172,345</u>
<u>\$ 8,078,307</u>	<u>\$ 8,537,409</u>	<u>\$ 14,257,254</u>	<u>\$ 11,075,112</u>	<u>\$ 13,663,539</u>	<u>\$ 12,192,733</u>
\$ (5,886,327)	\$ (5,616,371)	\$ (2,942,931)	\$ (6,572,669)	\$ (6,244,018)	\$ (7,406,640)
1,315,743	1,407,085	3,782,467	3,040,464	4,301,195	2,748,816
<u>\$ (4,570,584)</u>	<u>\$ (4,209,286)</u>	<u>\$ 839,536</u>	<u>\$ (3,532,205)</u>	<u>\$ (1,942,823)</u>	<u>\$ (4,657,824)</u>
\$ 5,816,041	\$ 6,371,494	\$ 6,603,311	\$ 6,698,408	\$ 6,949,754	\$ 7,426,516
651,381	734,401	809,190	998,629	1,034,811	1,010,393
4,748	3,874	2,209	1,177	16,771	37,562
16,250	26,389	39,899	40,962	43,121	58,811
<u>6,488,420</u>	<u>7,136,158</u>	<u>7,454,609</u>	<u>7,739,176</u>	<u>8,044,457</u>	<u>8,533,282</u>
6,869	4,177	2,601	745	12,118	19,897
-	-	-	-	-	-
<u>6,869</u>	<u>4,177</u>	<u>2,601</u>	<u>745</u>	<u>12,118</u>	<u>19,897</u>
<u>\$ 6,495,289</u>	<u>\$ 7,140,335</u>	<u>\$ 7,457,210</u>	<u>\$ 7,739,921</u>	<u>\$ 8,056,575</u>	<u>\$ 8,553,179</u>
\$ 199,062	\$ 1,519,787	\$ 4,511,678	\$ 1,166,507	\$ 1,800,439	\$ 1,126,642
1,725,643	1,411,262	3,785,068	3,041,209	4,313,313	2,768,713
<u>\$ 1,924,705</u>	<u>\$ 2,931,049</u>	<u>\$ 8,296,746</u>	<u>\$ 4,207,716</u>	<u>\$ 6,113,752</u>	<u>\$ 3,895,355</u>

**Town of Hillsborough, North Carolina**  
**Fund Balances**  
**Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General fund:				
Reserved	\$ 852,658	\$ 904,063	\$ 1,230,710	\$ -
Unreserved	3,766,755	4,030,731	3,832,453	-
Nonspendable	-	-	-	477
Restricted	-	-	-	1,047,758
Committed	-	-	-	-
Assigned	-	-	-	215,354
Unassigned	-	-	-	3,478,868
	<u>4,619,413</u>	<u>4,934,794</u>	<u>5,063,163</u>	<u>4,742,457</u>
All other governmental funds:				
Reserved	-	-	200,000	-
Unreserved	1,566,324	575,855	639,599	-
Nonspendable	-	-	-	-
Restricted	-	-	-	1,073,788
Committed	-	-	-	204,943
Assigned	-	-	-	-
Unassigned	-	-	-	(324,964)
	<u>1,566,324</u>	<u>575,855</u>	<u>839,599</u>	<u>953,767</u>
Total fund balance	<u>\$ 6,185,737</u>	<u>\$ 5,510,649</u>	<u>\$ 5,902,762</u>	<u>\$ 5,696,224</u>

**Table 3**

<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
68,649	4,253	72,156	68,242	175,392	<b>219,730</b>
955,064	1,115,688	1,110,734	1,049,112	1,385,320	<b>1,452,915</b>
-	-	-	-	-	-
88,094	330,206	782,995	1,294,457	672,896	<b>787,525</b>
<u>3,803,076</u>	<u>4,151,725</u>	<u>4,151,581</u>	<u>3,805,372</u>	<u>3,698,078</u>	<u><b>4,049,462</b></u>
<u>4,914,883</u>	<u>5,601,872</u>	<u>6,117,466</u>	<u>6,217,183</u>	<u>5,931,686</u>	<u><b>6,509,632</b></u>
-	-	-	-	-	-
-	-	-	-	-	-
-	52	-	-	-	-
227,052	716,054	844,464	509,281	368,536	<b>1,065,781</b>
856,356	-	106,105	272,548	171,698	<b>159,314</b>
-	131,490	7,070	-	-	-
<u>(112,038)</u>	<u>(20,444)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>(808,382)</b></u>
<u>971,370</u>	<u>827,152</u>	<u>957,639</u>	<u>781,829</u>	<u>540,234</u>	<u><b>416,713</b></u>
<u>\$ 5,886,253</u>	<u>\$ 6,429,024</u>	<u>\$ 7,075,105</u>	<u>\$ 6,999,012</u>	<u>\$ 6,471,920</u>	<u><b>\$ 6,926,345</b></u>

**Town of Hillsborough, North Carolina**  
**Changes in Fund Balance**  
**Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Revenues</b>				
Ad valorem taxes	\$ 3,843,372	\$ 4,317,508	\$ 4,819,371	\$ 4,610,003
Other taxes and licenses	1,216,236	1,178,406	1,131,562	1,163,501
Unrestricted intergovernmental	575,308	625,798	615,770	635,907
Restricted intergovernmental	364,818	755,912	306,662	1,234,870
Investment earnings	195,632	109,920	29,889	10,838
Contribution from property owners	-	-	-	-
Capital contributions	235,000	235,000	200,000	200,000
Use and rental	175,158	128,191	142,575	160,063
Other general revenues	30,733	31,106	31,518	67,071
Total revenues	<u>6,636,257</u>	<u>7,381,841</u>	<u>7,277,347</u>	<u>8,082,253</u>
<b>Expenditures</b>				
Current:				
General government	1,255,061	1,986,459	2,552,912	1,232,665
Public safety	3,349,295	3,499,641	3,263,200	3,347,597
Transportation	633,474	408,258	720,627	1,718,386
Environmental protection	510,948	470,448	580,854	583,919
Economic and physical development	217,638	237,278	247,420	256,092
Community activities and projects	227,721	105,026	54,137	54,946
Parks and recreation	102,046	1,722,062	344,499	791,184
Debt service:				
Principal retirement	62,140	178,595	238,111	303,074
Interest and fiscal charges	11,938	68,762	93,874	107,928
Total expenditures	<u>6,370,261</u>	<u>8,676,529</u>	<u>8,095,634</u>	<u>8,395,791</u>
Excess of revenues over (under) expenditures	<u>265,996</u>	<u>(1,294,688)</u>	<u>(818,287)</u>	<u>(313,538)</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	43,023	628,118	717,582
Transfers out	-	(43,023)	(628,118)	(717,582)
Insurance recovery	-	-	-	-
Debt service - principal on refunding	-	-	-	-
Sale of capital assets	-	-	-	-
Proceeds from installment notes	1,349,700	619,600	1,210,400	107,000
Total other financing sources	<u>1,349,700</u>	<u>619,600</u>	<u>1,210,400</u>	<u>107,000</u>
Net change in fund balances	<u>\$ 1,615,696</u>	<u>\$ (675,088)</u>	<u>\$ 392,113</u>	<u>\$ (206,538)</u>
Capital outlay included in functional expenditures above	\$ 313,810	\$ 2,491,483	\$ 1,907,332	\$ 2,280,672
Debt service as a percentage of noncapital expenditures	1.22%	4.00%	5.36%	6.72%

**Table 4**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
\$	4,716,460	\$ 5,135,469	\$ 5,429,114	\$ 5,437,266	\$ 5,669,002	\$ <b>6,064,137</b>
	1,124,696	1,229,425	1,199,185	1,263,425	1,280,114	<b>1,381,990</b>
	651,381	734,401	809,190	998,629	1,034,811	<b>1,010,393</b>
	453,755	308,007	768,716	642,732	262,144	<b>374,938</b>
	4,748	3,874	2,209	1,177	16,771	<b>37,562</b>
	-	-	1,445,207	1,325,271	381,406	<b>18,955</b>
	100,000	-	-	-	-	-
	176,583	337,991	140,802	194,177	176,878	<b>232,611</b>
	69,669	34,079	48,337	56,727	118,323	<b>79,734</b>
	<u>7,297,292</u>	<u>7,783,246</u>	<u>9,842,760</u>	<u>9,919,404</u>	<u>8,939,449</u>	<u><b>9,200,320</b></u>
	1,235,107	1,122,514	2,799,302	2,779,807	2,207,284	<b>1,627,479</b>
	3,164,361	3,134,327	3,455,438	3,845,174	4,317,978	<b>4,084,416</b>
	1,693,664	1,011,557	851,502	1,194,204	878,233	<b>865,285</b>
	476,415	471,880	806,262	1,008,615	564,148	<b>454,355</b>
	243,163	485,977	367,389	388,611	397,828	<b>676,147</b>
	325,666	64,878	119,251	836,258	821,677	<b>57,673</b>
	239,105	430,831	1,675,156	423,813	147,350	<b>428,452</b>
	283,126	407,246	474,458	632,155	1,037,623	<b>790,345</b>
	98,896	111,265	118,711	101,228	120,355	<b>100,353</b>
	<u>7,759,503</u>	<u>7,240,475</u>	<u>10,667,469</u>	<u>11,209,865</u>	<u>10,492,476</u>	<u><b>9,084,505</b></u>
	<u>(462,211)</u>	<u>542,771</u>	<u>(824,709)</u>	<u>(1,290,461)</u>	<u>(1,553,027)</u>	<u><b>115,815</b></u>
	440,409	369,627	169,054	160,482	465,037	<b>394,991</b>
	(843,440)	(369,627)	(169,054)	(160,482)	(465,037)	<b>(394,991)</b>
	16,250	-	-	-	-	-
	-	-	(1,256,353)	-	-	-
	-	-	-	-	-	<b>21,610</b>
	<u>1,039,021</u>	<u>-</u>	<u>2,727,143</u>	<u>1,214,368</u>	<u>1,025,935</u>	<u><b>317,000</b></u>
	<u>652,240</u>	<u>-</u>	<u>1,470,790</u>	<u>1,214,368</u>	<u>1,025,935</u>	<u><b>338,610</b></u>
\$	<u>190,029</u>	<u>\$ 542,771</u>	<u>\$ 646,081</u>	<u>\$ (76,093)</u>	<u>\$ (527,092)</u>	<u><b>\$ 454,425</b></u>
\$	1,501,851	\$ 997,107	\$ 2,246,332	\$ 2,619,910	\$ 1,962,820	\$ <b>893,524</b>
	6.10%	8.30%	7.04%	8.54%	13.58%	<b>10.87%</b>

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***Revenue Capacity Information***

**Town of Hillsborough, North Carolina**  
**Program Revenues by Function/Program**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Function/program</b>				
Governmental activities:				
General government	\$ 159,868	\$ 348,738	\$ 331,750	\$ 382,843
Police	134,722	14,453	28,874	10,273
Transportation	216,544	274,275	543,741	848,978
Environmental protection	-	-	-	-
Economic and physical development	1,190	235	-	-
Community activities and projects	-	-	-	-
Parks and recreation	265,947	486,984	444,858	295,170
Subtotal governmental activities	<u>778,271</u>	<u>1,124,685</u>	<u>1,349,223</u>	<u>1,537,264</u>
Business-type activities:				
Water and sewer	10,075,367	6,583,533	6,425,750	7,414,088
Stormwater	-	-	-	-
Subtotal business-type activities	<u>10,075,367</u>	<u>6,583,533</u>	<u>6,425,750</u>	<u>7,414,088</u>
Total primary government	<u>\$ 10,853,638</u>	<u>\$ 7,708,218</u>	<u>\$ 7,774,973</u>	<u>\$ 8,951,352</u>

**Table 5**

<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
\$ 354,227	\$ 361,590	\$ 1,388,937	\$ 192,719	\$ 1,430,962	\$ 230,872
15,593	11,426	13,893	12,068	13,645	13,555
228,521	185,847	312,282	187,682	264,863	396,200
-	-	2,059,224	653	4,680	9,874
-	-	-	-	41,000	340,134
-	-	-	-	-	-
12,970	292,190	429,140	257,962	33,162	29,753
611,311	851,053	4,203,476	651,084	1,788,312	1,020,388
7,466,996	7,686,356	10,053,778	10,424,028	11,875,227	10,539,607
-	-	-	-	-	632,738
7,466,996	7,686,356	10,053,778	10,424,028	11,875,227	11,172,345
<u>\$ 8,078,307</u>	<u>\$ 8,537,409</u>	<u>\$ 14,257,254</u>	<u>\$ 11,075,112</u>	<u>\$ 13,663,539</u>	<u>\$ 12,192,733</u>

**Town of Hillsborough, North Carolina**  
**Tax Revenues by Source**  
**Governmental Funds <sup>a</sup>**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

**Table 6**

---

<u>Fiscal Year</u>	<u>Ad Valorem Taxes</u>
2008	\$ 3,843,372
2009	4,317,508
2010	4,819,371
2011	4,610,003
2012	4,716,460
2013	5,135,469
2014	5,429,114
2015	5,437,266
2016	5,669,002
2017	<b>6,064,137</b>
Change	<sup>b</sup>
2008 - 2017	57.78%

<sup>a</sup> This table presents the Town's most significant source of revenues. All other taxes and revenues are either comparatively insignificant or levied by a governmental entity other than the Town of Hillsborough.

<sup>b</sup> Ad Valorem tax revenue increased by 46.73 percent in the past ten years. This is primarily due to property values being re-evaluated every four years. During the last ten years, there were two re-evaluation periods 2005 and 2009. The four-year re-evaluation period along with increasing property values and steady growth has caused a significant increase in Ad Valorem Revenue from 2008 to 2017.

**Town of Hillsborough, North Carolina**  
**Assessed Value and Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

**Table 7**

<b>Fiscal Year</b>	<b>Real Property *</b>	<b>Personal Property</b>	<b>Public-Service Companies</b>	<b>Total Assessed Value</b>	<b>Total Direct Tax Rate</b>	<b>Assessed Value as a Percent of Actual Value</b>
2008	\$ 535,719,952	\$ 81,267,458	\$ 11,297,072	\$ 628,284,482	0.6350	100.00%
2009	552,914,553	77,727,711	11,612,614	642,254,878	0.6700	100.00%
2010	657,426,788	83,569,294	11,954,916	752,950,998	0.6200	100.00%
2011	653,238,545	84,168,694	10,825,503	748,232,742	0.6200	100.00%
2012	661,688,578	85,866,250	11,371,703	758,926,531	0.6200	100.00%
2013	667,581,857	83,022,657	11,710,268	762,314,782	0.6800	100.00%
2014	674,676,352	99,378,379	11,710,269	785,765,000	0.6800	100.00%
2015	676,291,406	98,629,989	12,462,428	787,383,823	0.6800	100.00%
2016	676,946,203	130,843,708	14,137,738	821,927,649	0.6800	100.00%
2017	<b>733,447,012</b>	<b>132,527,541</b>	<b>14,138,094</b>	<b>880,112,647</b>	<b>0.6800</b>	<b>100.00%</b>

Source: Annual County Report of Valuation and Property Tax Levies.

\* Real property values exclude tax-exempt property.

**Note:** Property in the city is reassessed each year. Property is assessed at actual value; therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

**Town of Hillsborough, North Carolina**  
**Direct and Overlapping Property Tax Rates**  
**Last Ten Fiscal Years**  
*(rate per \$100 of assessed value)*

**Table 8**

Fiscal Year	Municipality Rates		Overlapping Rates <sup>a</sup>	
	Basic Rate	Total Direct	Fire District <sup>b</sup>	County
2008	0.635	0.635	-	0.9500
2009	0.670	0.670	-	0.9980
2010	0.620	0.620	-	0.8580
2011	0.620	0.620	-	0.8580
2012	0.620	0.620	-	0.8580
2013	0.680	0.680	-	0.8580
2014	0.680	0.680	-	0.8780
2015	0.680	0.680	-	0.8780
2016	0.680	0.680	-	0.8780
2017	<b>0.680</b>	<b>0.680</b>	-	<b>0.8780</b>

**Source:** Orange County

**Note:** The Town's basic property tax rate may be increased only by a majority vote of the elected Town Board of Town Commissioners.

<sup>a</sup> Overlapping rates are those of local and county governments that apply to property owners within the Town of Hillsborough.

<sup>b</sup> The Fire District Tax applies to properties outside of the city limits.

**Town of Hillsborough, North Carolina  
Property Tax Review and Collections  
Last Ten Fiscal Years**

**Table 9**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	\$ 4,035,215	\$ 3,828,830	\$ 1	\$ 195,610	\$ 4,024,440	99.73%
2009	4,380,999	4,295,618	98.05%	77,257	4,372,875	99.81%
2010	4,732,461	4,641,581	98.09%	80,740	4,722,321	99.79%
2011	4,690,863	4,557,501	97.16%	123,557	4,681,058	99.79%
2012	4,755,200	4,641,541	97.61%	101,171	4,742,712	99.74%
2013	5,225,057	5,085,225	98.82%	123,220	5,208,445	99.68%
2014	5,418,579	5,315,921	98.11%	81,232	5,397,153	99.60%
2015	5,413,151	5,343,909	98.72%	44,871	5,388,780	99.55%
2016	5,646,239	5,583,929	98.90%	31,103	5,615,032	99.45%
2017	<b>6,044,907</b>	<b>5,995,089</b>	<b>99.18%</b>	-	<b>5,995,089</b>	<b>99.18%</b>

*Sources: Orange County Board of Equalization and Assessment, and Orange County Department of Finance.*

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**Town of Hillsborough, North Carolina  
Principal Property Taxpayers  
Current Year and Nine Years Ago**

**Table 10**

Taxpayer	2017			2008		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Sports Endeavors Inc	\$34,561,985	1	4.20%	\$ 7,731,858	6	1.23%
Hillsborough Apartments Partners LLC	16,247,601	2	1.98%	-		
Walmart Real Estate Business	14,946,866	3	1.82%	12,758,748	2	2.03%
PHE Inc	10,225,469	4	1.24%	7,608,030	7	1.21%
Home Depot/HD Development	10,125,174	5	1.23%	8,933,910	5	1.42%
Ashton Raleigh Residential LLC	8,954,000	6	1.09%	-		
Daniel Boone Ltd	8,685,094	7	1.06%	9,250,351	4	1.47%
Hillsborough Commons Ltd Ptns	8,497,192	8	1.03%	6,562,050	10	1.04%
MDCO LLC	8,376,600	9	1.02%	-		
Duke Energy Carolinas LLC	6,941,258	10	0.84%	-		
Patriots Pointe	-		-	17,322,127	1	2.76%
SLF II NC Waterstone LLC	-		-	11,566,500	3	1.84%
Meadowlands Distribution Co	-		-	6,975,686	9	1.11%
Artcraft Hillsborough LLC	-		-	7,116,719	8	1.13%
<b>Total</b>	<b>\$ 127,561,239</b>		<b>15.52%</b>	<b>\$ 95,825,979</b>		<b>15.24%</b>

**Source:** Orange County Property Assessment Division

**Town of Hillsborough, North Carolina**  
**Water Sold by Type of Customer and In and Out of Town**  
**Last Ten Fiscal Years**

<u>Type of Customer</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Gallons billed:				
In-town residential	90,776,263	88,082,088	91,194,583	103,459,804
Out-of-town residential	104,552,882	101,568,087	106,627,659	112,868,479
In-town commercial	85,878,132	88,318,823	89,569,350	74,881,598
Out-of-town commercial	<u>28,156,261</u>	<u>23,213,084</u>	<u>22,056,653</u>	<u>18,219,706</u>
Total gallons billed	<u>309,363,538</u>	<u>301,182,082</u>	<u>309,448,245</u>	<u>309,429,587</u>
Total water and sewer charges (revenue)	<u>\$ 5,743,722</u>	<u>\$ 6,043,820</u>	<u>\$ 6,194,638</u>	<u>\$ 6,405,307</u>
Total average rate per 1,000 gallons	<u>\$ 18.57</u>	<u>\$ 20.07</u>	<u>\$ 20.02</u>	<u>\$ 20.70</u>

**Source:** *Town of Hillsborough, Water Billing Office.*  
*Revenue collected includes late payment penalties.*

*Due to an issue during a software system conversion in FY 2016, some of the gallons billed data was lost and is therefore, lower than expected.*

**Table 11**

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
102,937,205	102,755,771	111,836,111	98,914,635	100,064,880	<b>131,412,141</b>
120,107,805	130,921,523	111,241,276	124,805,789	100,445,055	<b>120,756,780</b>
73,507,962	76,624,165	78,590,500	81,985,440	75,012,631	<b>85,946,109</b>
<u>18,296,584</u>	<u>18,153,125</u>	<u>17,908,575</u>	<u>29,452,224</u>	<u>18,028,437</u>	<b><u>20,781,379</u></b>
<u>314,849,556</u>	<u>328,454,584</u>	<u>319,576,462</u>	<u>335,158,088</u>	<u>293,551,003</u>	<b><u>358,896,409</u></b>
<u>\$ 6,928,835</u>	<u>\$ 7,262,510</u>	<u>\$ 7,499,183</u>	<u>\$ 7,859,823</u>	<u>\$ 7,988,498</u>	<b><u>\$ 8,294,061</u></b>
<u>\$ 22.01</u>	<u>\$ 22.11</u>	<u>\$ 23.47</u>	<u>\$ 23.45</u>	<u>\$ 27.21</u>	<u>\$ 23.11</u>

**Town of Hillsborough, North Carolina  
Water and Sewer Rates  
Last Ten Fiscal Years**

**Table 12**

Fiscal Year	In-Town Water		In-Town Sewer		Out-of-Town Water		Out-of-Town Sewer	
	Rate per 0-3000 Gallons	Rate per 1,000 Gallons	Rate per 0-3000 Gallons	Rate per 1,000 Gallons	Rate per 0-3000 Gallons	Rate per 1,000 Gallons	Rate per 0-3000 Gallons	Rate per 1,000 Gallons
2008	\$ 20.16	\$ 6.72	\$ 21.33	\$ 7.11	\$ 39.30	\$ 13.10	\$ 41.61	\$ 13.87
2009	21.75	7.25	22.74	7.58	42.40	14.13	44.36	14.79
2010	21.75	7.25	22.74	7.58	42.40	14.13	44.36	14.79
2011	21.75	7.25	23.88	7.96	42.42	14.14	46.56	15.52
2012	23.04	7.68	25.98	8.66	44.94	14.98	50.67	16.89
2013	24.21	8.07	28.26	9.42	47.22	15.74	55.11	18.37
2014	21.79	8.07	30.11	11.15	42.50	15.74	58.70	21.74
2015	21.79	8.07	30.75	10.25	47.22	15.74	59.97	27.68
2016	20.98	8.07	31.54	12.13	40.92	15.74	61.49	23.65
2017	<b>20.18</b>	<b>8.07</b>	<b>30.33</b>	<b>12.13</b>	<b>39.35</b>	<b>15.74</b>	<b>59.13</b>	<b>23.65</b>

*Rate changes are effective with July 1 water usage unless otherwise stated.*

*The construction of a reservoir in 1998 and renovations of an aging water and wastewater treatment plant have caused significant increases in water and sewer rates over the past ten years.*

*Prior to 7/1/15, a flat charge was billed for 0 to 2,700 gallons. Any usage over 2,700 gallons was billed per 1,000 gallons rate.*

*Beginning 7/1/15, a flat charge was billed for 0 to 2,600 gallons. Any usage over 2,600 gallons is billed per 1,000 gallons rate.*

*Beginning 7/1/16, a flat charge is billed for 0 to 2,500 gallons. Any usage over 2,500 gallons is billed per 1,000 gallons rate.*

## ***Debt Capacity Information***

**Town of Hillsborough, North Carolina**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

**Table 13**

Fiscal Year	Governmental Activities	Business-Type Activities			Total Primary Government	Per Capita <sup>a</sup>
	Installment Loans	General Obligation Bonds	Revolving Loans	Installment Loans		
2008	\$ 1,518,923	\$ 3,803,000	\$ 1,372,001	\$ 2,978,369	\$ 9,672,293	\$ 1,550
2009	1,959,928	122,000	1,295,779	6,172,366	9,550,073	1,450
2010	2,932,216	86,000	1,219,557	6,258,012	10,495,785	1,572
2011	2,736,142	50,000	1,143,336	5,741,602	9,671,080	1,582
2012	3,440,001	14,000	5,575,878	5,871,812	14,901,691	2,388
2013	3,084,791	-	16,247,369	4,914,368	24,246,528	3,850
2014	4,024,586	-	18,644,077	3,939,307	26,607,970	4,170
2015	4,606,799	-	18,605,655	2,970,088	26,182,542	4,161
2016	4,534,728	-	18,511,848	3,269,750	26,316,326	4,102
2017	<b>4,025,201</b>	-	<b>17,443,655</b>	<b>2,513,821</b>	<b>23,982,677</b>	<b>3,651</b>

**Note:** Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

<sup>a</sup> See Table 17 for population data. These ratios are calculated using population for the prior calendar year.

**Town of Hillsborough, North Carolina**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

**Table 14**

Fiscal Year	General Bonded Debt Outstanding		Percentage of Actual Taxable Value <sup>a</sup> of Property	Per Capita <sup>b</sup>
	General Obligation Bonds	Total		
2008	\$ 3,803,000	\$ 3,803,000	0.61%	\$ 578
2009	122,000	122,000	0.00%	18
2010	86,000	86,000	0.00%	13
2011	50,000	50,000	0.00%	8
2012	14,000	14,000	0.00%	2
2013	-	-	0.00%	-
2014	-	-	0.00%	-
2015	-	-	0.00%	-
2016	-	-	0.00%	-
2017	-	-	<b>0.00%</b>	-

**Note:** Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

<sup>a</sup> See Table 7 for property value data.

<sup>b</sup> Population data can be found in Table 17.

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**Town of Hillsborough, North Carolina**  
**Direct and Overlapping Governmental Activities Debt**  
**June 30, 2017**

**Table 15**

Governmental Unit	Orange Co. G.O. Bonds Outstanding Debt	Estimated Percentage Applicable <sup>a</sup>	Town's Estimated Share of Overlapping Debt
Debt repaid with property taxes	\$ 50,430,000	5.170%	\$ 2,607,068
Town's overlapping debt			2,607,068
Town's direct debt			4,025,201
Total direct and overlapping debt			\$ 6,632,269

**Sources:** Assessed value data used to estimate applicable percentages provided by the Orange County Property Assessment Division. Debt outstanding data provided by each governmental unit.

**Town of Hillsborough, North Carolina**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

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	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Debt limit	\$ 50,262,759	\$ 51,380,390	\$ 60,236,080	\$ 59,858,619
Total net debt applicable to to limit	<u>1,518,923</u>	<u>1,959,928</u>	<u>2,932,216</u>	<u>2,736,142</u>
Legal debt margin	<u>\$ 48,743,836</u>	<u>\$ 49,420,462</u>	<u>\$ 57,303,864</u>	<u>\$ 57,122,477</u>
Total net debt applicable to the limit as a percentabe of debt limit	<u>3.02%</u>	<u>3.81%</u>	<u>4.87%</u>	<u>4.57%</u>

**Note:** Under state finance law, the Town's outstanding general obligation debt should not exceed 8 percent of total assessed property value.

<b>Legal Debt Margin Calculation for Fiscal Year 2017</b>					
					<b><u>\$ 880,112,647</u></b>
					<b>70,409,012</b>
					<b><u>(4,025,201)</u></b>
					<b><u>\$ 66,383,811</u></b>
<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 60,714,122	\$ 60,985,183	\$ 62,861,200	\$ 62,990,706	\$ 65,754,212	<b>\$ 70,409,012</b>
<u>3,440,001</u>	<u>3,084,791</u>	<u>4,024,586</u>	<u>4,606,799</u>	<u>4,534,728</u>	<b><u>4,025,201</u></b>
<b><u>\$ 57,274,121</u></b>	<b><u>\$ 57,900,392</u></b>	<b><u>\$ 58,836,614</u></b>	<b><u>\$ 58,383,907</u></b>	<b><u>\$ 61,219,484</u></b>	<b><u>\$ 66,383,811</u></b>
<b><u>5.67%</u></b>	<b><u>5.06%</u></b>	<b><u>6.40%</u></b>	<b><u>7.31%</u></b>	<b><u>6.90%</u></b>	<b><u>5.72%</u></b>

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***Demographic and Economic Information***

**Town of Hillsborough, North Carolina  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

**Table 17**

<b>Year</b>	<b>Population</b>	<b>Personal Income</b> <i>(thousands of dollars)</i>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2007	6,240	\$ 5,772,365	\$ 46,279	33.00	1,180	3.9%
2008	6,584	6,107,990	48,100	33.10	1,272	4.6%
2009	6,677	6,186,352	47,925	33.30	1,272	7.0%
2010	6,751	6,268,886	46,713	33.18	1,279	6.6%
2011	6,113	*	*	33.42	1,305	7.3%
2012	6,239	*	*	33.62	1,420	7.1%
2013	6,298	*	*	33.99	1,433	5.3%
2014	6,381	4,905,216	34,949	33.10	1,370	4.8%
2015	6,292	5,287,926	37,658	33.50	1,393	3.9%
2016	6,415	*	27,575	35.70	1,408	4.6%
2017	<b>6,568</b>	*	<b>24,567</b>	<b>35.90</b>	<b>1,325</b>	<b>3.7%</b>

**Note:** Personal income, per capita personal income, median age, and unemployment are not available at the town level and is reported at the county level. Unemployment is reported for the month of June of each year.

\* Information not available per Orange County Economic Development

**Sources:** Population and median age information provided by the State Library of North Carolina. Personal income information provided by the Orange County Economic Development Office. Unemployment data provided by the Employment Security Commission. School enrollment data provided by the Orange County Board of Education.

**Note:** Population, median age, and education level information are based on surveys conducted during the last quarter of the calendar year. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

**Town of Hillsborough, North Carolina**  
**Principal Employers**  
**Current Year and Nine Years Ago**

**Table 18**

<b>Employer</b>	<b>2017</b>		<b>2008</b>	
	<b>Employees</b>	<b>Percentage of Total Town Population</b>	<b>Employees</b>	<b>Percentage of Total Town Population</b>
Orange County Schools	1,321	20.59%	1,322	20.08%
Orange County Government	1,115	17.38%	970	14.73%
UNC Hospital	539	8.40%		
Sports Endeavors, Inc. dba Euros	416	6.48%	336	5.10%
PHE	285	4.44%	361	5.48%
Wal-Mart Associates Inc	282	4.40%	316	4.80%
Summit Consulting-Engineering	216	3.37%		
Brookshire Inc	139	2.17%	117	1.78%
KAH Care LLC	118	1.84%		
Home Depot	104	1.62%	104	1.58%
OE Enterprises, Inc.			118	1.79%
Piedmont Electric Membership Corp			115	1.75%
Builders First Choice			71	1.08%
<b>Total</b>	<b>4,535</b>	<b>70.69%</b>	<b>3,830</b>	<b>58.17%</b>

**Source:** Town Economic Development Division and Employment Security Commission.

**Note:** Information regarding Town's total employment is not available.

\* Data not available

**Town of Hillsborough, North Carolina**  
**Full-Time Equivalent City Government Employees by Function/Program**  
**Last Ten Fiscal Years**

**Table 19**

<u>Function/Program</u>	<u>2008</u>	<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>
General government										
Administration	3	3	4	4	3	3	5	5	7	<b>9</b>
Finance	4	4	4	4	4	4	4	4	5	<b>5</b>
Planning	3	4	3	3	3	3	4	4	5	<b>5</b>
Public Space										<b>1</b>
Safety	1	1	1	1	1	1	1	1	1	<b>1</b>
Stormwater	-	-	-	-	-	-	1	1	1	<b>2</b>
Police										
Officers	29	29	26	26	25	27	24	28	26	<b>28</b>
Civilians	2	3	2	2	-	-	-		-	-
Public works										
Streets	4	4	4	4	3	3	3	4	4	<b>4</b>
Sanitation	5	4	4	4	4	4	4	4	4	<b>3</b>
Motor pool	3	3	3	3	3	3	3	3	3	<b>3</b>
Utilities										
Engineering	3	4	4	4	4	4	4	4	4	<b>4</b>
Billing and collection	6	7	6	5	5	5	5	6	6	<b>6</b>
Water	6	6	6	6	6	6	6	6	6	<b>6</b>
Wastewater	9	10	10	8	8	8	7	6	6	<b>8</b>
Water distribution/ wastewater collection	11	7	8	8	11	11	11	11	12	<b>10</b>
Fire inspections	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<b>1.5</b>
Total	<u>90</u>	<u>90</u>	<u>86</u>	<u>83</u>	<u>81</u>	<u>83</u>	<u>83</u>	<u>88</u>	<u>91</u>	<b>95.5</b>

**Source:** Town Finance Office. Positions reported at June 30th are positions filled.



## ***Operating Information***

**Town of Hillsborough, North Carolina**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

<b>Function/Program</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Police				
Physical arrests	562	524	546	475
Calls for service	11,181	12,490	9,619	12,889
Traffic citations	1,877	1,937	1,712	1,182
Number of policeman positions	29	29	29	29
Fire				
Number of stations	1	1	1	1
Emergency responses (EMS and fire)	1,960	1,918	1,865	1,835
Fires extinguished	6	30	75	19
Number of paid firemen	23	23	24	24
Number of volunteers	15	12	15	12
Inspections	289	269	213	211
Refuse collection				
Refuse collected (tons per day)	6.3	6.7	6.1	5.95
Recyclables collected (tons per day)	*	*	*	*
Other public works				
Street resurfacing (miles)	1.5	0.5	-	-
Potholes repaired	51	103	45	41
Parks and recreation				
Number of parks	6	6	6	6
Library				
Volumes in collection	84,465	78,770	75,506	86,526
Total volumes borrowed	184,301	209,023	203,450	287,938
Water				
New connections	841	826	939	815
Water main breaks	36	46	41	10
Average daily consumption (millions of gallons per day)	1.101	1.143	1.124	1.129
Peak daily consumption (millions of gallons)	1.770	1.938	1.626	1.653
Wastewater				
Average daily sewage treatment (millions of gallons)	0.740	0.872	0.888	0.757
Education				
Number of schools <sup>a</sup>	3	3	3	3
Number of teachers	105	105	111	111
Number of students	1,272	1,272	1,279	1,305
Number of classrooms <sup>b</sup>	95	95	95	65

**Sources:** Various city departments.

YTBD (Yet to be determined)

<sup>a</sup> Alternative school added for students who have not been successful in the traditional school setting in FY06

<sup>b</sup> Core classes only reported in FY11, FY12 and FY13

**Table 20**

<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
560	538	521	553	492	<b>611</b>
15,039	14,569	12,279	15,975	16,674	<b>10,599</b>
1,134	1,651	1,212	725	557	<b>567</b>
29	26	26.5	27	29	<b>29</b>
1	1	1	1	1	<b>1</b>
1,770	1,866	1,950	1,978	1,949	<b>1,954</b>
78	70	45	107	80	<b>109</b>
25	24	24	27	22	<b>23</b>
14	19	15	12	12	<b>12</b>
258	177	132	171	163	<b>138</b>
-	6.34	5.90	5.54	6	<b>6</b>
*	*	0.02	0.48	1	<b>1</b>
-	2.25	2.13	4.7	2	<b>2</b>
36	30	36	30	25	<b>15</b>
6	6	6	6	7	<b>7</b>
97,536	93,421	93,886	93,656	96,393	<b>101,177</b>
351,216	397,379	396,164	412,416	446,499	<b>382,740</b>
767	736	799	840	946	
30	20	15	11	27	<b>33</b>
1.048	0.913	1.103	1071	1,401	<b>1,453</b>
1.576	1.653	1.685	1.815	1.983	<b>2.431</b>
0.765	0.902	1.133	0.895	1.185	<b>1.000</b>
3	3	3	3	3	<b>3</b>
113	113	112	112	112	<b>112</b>
1,420	1,433	1,370	1,393	1,408	<b>1,325</b>
65	65	65	65	65	<b>65</b>

**Town of Hillsborough, North Carolina**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

<b>Function/Program</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Police				
Stations	2	2	2	2
Patrol units	23	26	26	28
Fire stations	1	1	1	1
Refuse collection				
Collection trucks >	3	6	6	6
Other public works				
Streets (miles) - paved	32.89	36.15	36.15	36.15
Streets (miles) - unpaved	0.86	0.73	0.73	0.73
Streetlights	623	623	633	633
Traffic signals (all state-owned)	-	-	-	-
Parks and recreation				
Acreage <sup>b</sup>	72.62	72.62	72.62	72.62
Playgrounds	4	4	4	4
Water				
Water mains (miles)	146.8	146.8	147.0	147.0
Fire hydrants	<sup>^</sup> 622	<sup>^</sup> 656	<sup>^</sup> 597	<sup>^</sup> 614
Storage capacity (thousands of gallons)	3,000	3,000	3,000	3,000
Wastewater				
Sanitary sewers (miles)	86.4	86.4	86.4	86.4
Storm sewers (miles) <sup>a</sup>	36.0	36.0	73.0	73.0
Treatment capacity (millions of gallons)	3.0	3.0	3.0	3.0
Area (square miles)	5.530	5.740	5.740	5.740

**Sources:** Various city departments.

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

<sup>a</sup> Storm sewer data not available.

<sup>b</sup> Includes two parks owned by the Town but are located outside of the city limits.

<sup>c</sup> 2012 figure included private hydrants - 2013 actual number of hydrants from GIS

<sup>^</sup> Estimated

> Includes brush and leaf trucks 2009 forward

**Table 21**

<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
2	2	2	2	2	<b>2</b>
27	26	27	27	25	<b>24</b>
1	1	1	1	1	
7	7	8	8	8	<b>8</b>
36.15	36.15	36.15	37.63	33.96	<b>33.96</b>
0.73	0.73	0.91	0.69	0.68	<b>0.68</b>
633	633	678	679	709	<b>709</b>
-	-	-			
74.10	74.10	74.10	74.10	74.1	<b>74.1</b>
4	4	4	4	5	<b>5</b>
148.0	148.0	150.0	151.0	149.0	<b>151.0</b>
663 <sup>c</sup>	621	619	628	628	<b>705</b>
3,000	3,000	3,000	3,000	3,500	<b>2,450</b>
89.0	93.0	93	94.0	96.5	<b>80.5</b>
73.0	73.0	75	75.0	75.0	<b>75.0</b>
-	3.0	3	3.0	3.0	<b>3.0</b>
5.740	5.760	5.80	5.800	6	<b>6</b>

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***Compliance Section***

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## **Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Honorable Mayor, Members of the Board  
of Town Commissioners, and the Town Manager  
Town of Hillsborough, North Carolina

We have audited, 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, the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Town of Hillsborough (the "Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 29, 2017. The financial statements of the Hillsborough Tourism Development Authority and the Hillsborough Tourism Board were not audited in accordance with *Government Auditing Standards*.

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 that we consider to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town of Hillsborough's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-003.

***Town of Hillsborough's Responses to Findings***

The Town of Hillsborough's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**High Point, North Carolina  
December 29, 2017**

## **Independent Auditors' Report on Compliance for the Major State Program and on Internal Control over Compliance in Accordance with Applicable Sections of OMB Uniform Guidance and the State Single Audit Implementation Act**

Honorable Mayor, Members of the Board  
of Town Commissioners, and the Town Manager  
Town of Hillsborough, North Carolina

### ***Report on Compliance for the Major State Program***

We have audited Town of Hillsborough, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on its major state program for the year ended June 30, 2017. The Town of Hillsborough's major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state program.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance of the Town of Hillsborough's major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as described in the *Audit Manual for Governmental Auditors in North Carolina* and the State Single Audit Implementation Act. Those standards, applicable sections of the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Hillsborough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state program. However, our audit does not provide a legal determination on the Town of Hillsborough's compliance.

### ***Opinion on the Major State Program***

In our opinion, the Town of Hillsborough complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2017.

***Report on Internal Control over Compliance***

Management of the Town of Hillsborough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Hillsborough's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with applicable sections of the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Hillsborough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on applicable sections of Uniform Guidance and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**High Point, North Carolina  
December 29, 2017**

## Schedule of Findings and Questioned Costs

### I. Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses  Yes  None reported

Noncompliance material to financial statements noted?

Yes  No

#### State Awards

Internal control over major state programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses  Yes  None reported
- Noncompliance material to state award  Yes  No

Type of auditors' report issued on compliance for major state program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

Yes  No

Identification of major state program:

Powell Bill

## **II. Financial Statement Findings**

### ***Finding 2017-001: Financial Accounting Closing Procedures***

#### **MATERIAL WEAKNESS**

*Criteria:* Certain asset and liability accounts were not properly reconciled and adjusted as of June 30.

*Condition:* Monthly, quarterly, and annual account reconciliations were not being performed and reviewed in a timely manner on certain balance sheet accounts.

*Cause:* The Town did not follow proper review and reconciliation processes for certain balance sheet accounts.

*Effect:* The lack of reconciliation, or inaccurate reconciliation, of certain asset and liability accounts resulted in the identification of several adjusting journal entries during the audit process.

*Identification of a repeat finding:* This is a repeat finding from the immediate previous audit, 2016-001.

*Recommendation:* We recommend the Town establish more effective review procedures surrounding the account reconciliation policies and procedures, including the review of reconciliations of all accounts on a routine basis, whether monthly, quarterly or annually, based on the specific accounts and the nature of activity during the year. Certain areas where we noted the need for more effective review and reconciliation policies and procedures include the following balance sheet accounts:

- Cash
- Prepaid expenses
- Customer accounts receivable
- Due from other governments
- Capital assets
- Accrued liabilities
- Deferred revenues

*View of responsible official and planned corrective action:* The Town agrees with this finding. Please refer to the correction action plan on page 154.

### ***Finding 2017-002: Preparation of Schedule of Expenditures of Federal and State Awards***

*Criteria:* The Schedule of Expenditures of Federal and State Awards is the basis for determining the need for a single audit conducted in accordance with the Uniform Guidance, as well as the State Single Audit Implementation Act. Internal controls should be in place to ensure a complete and accurate Schedule of Expenditures of Federal and State Awards be prepared at the end of each fiscal year.

*Condition:* During the course of the audit, it was discovered that the grant schedule initially provided by management was not accurate and complete.

*Cause:* Internal controls were not in place to ensure that all grant activity was communicated to the finance department in a timely manner.

*Effect:* The auditor discovered material adjustments to the Schedule of Expenditures of Federal and State Awards that were necessary in order for the schedule to properly reconcile to the underlying accounting records, which also resulted in a change in the determination of the necessity of a single audit for fiscal year 2017.

**Town Of Hillsborough, North Carolina  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017**

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*Recommendation:* We recommend that management establish internal controls surrounding the communication and recording of grant related expenses and the preparation of the grants schedule by an individual knowledgeable of the grant activity and status of each grant within the Town.

*View of responsible official and planned corrective action:* The Town agrees with this finding. Please refer to the correction action plan on page 154

***Finding 2017-003: Preaudit Certification***

*Criteria:* All written contracts that the Town enters into for payment of money should be conducted in accordance with G.S. 159-28(a), which requires a signed preaudit certification to be included on such contracts.

*Condition:* The Town entered into a contract for utility billing services and made the first payment in the amount of \$200,000 without having proper budgetary authority to do so.

*Cause:* The previous finance director instructed staff to make the payment despite not yet having budgetary authority to do so.

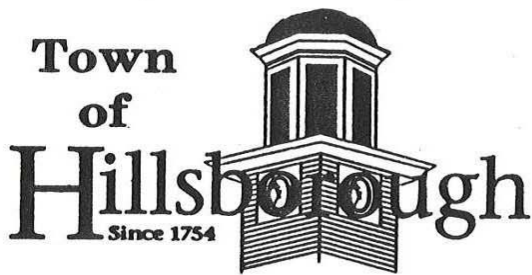
*Effect:* The payment made by the Town was not properly preaudited, and was therefore in violation of North Carolina State law.

*Recommendation:* We recommend that management review monthly budget to actual reports to determine whether budget amendments need to be approved before incurring additional expenditures related to any expenditures purchased through financing arrangements.

*View of responsible official and planned corrective action:* The Town agrees with this finding. Please refer to the correction action plan on page 154.

**III. State Award Findings and Questioned Costs**

There were no findings related to state awards for the fiscal year ended June 30, 2017.



## CORRECTIVE ACTION PLAN

### **Financial Statement Findings**

#### ***Finding: 2017-001***

*Name of contact person:* Daphna Schwartz, Finance Director

*Corrective action:* To address this finding, the town has recently recruited a new Finance Director with the level of experience and proficiency in the field of governmental accounting required to serve as a mentor to all departmental staff. Further, staff has expended significant effort to create new policy manuals for positions recently added to the department and to institutionalize procedures. We have also collaborated heavily with the town's independent auditors and third-party accounting firms to identify and incorporate industry best-practices into the department's day-to-day operations.

*Proposed completion date:* 06/30/2018.

#### ***Finding: 2017-002***

*Name of contact person:* Daphna Schwartz, Finance Director

*Corrective action:* To address this finding, the town will conduct a thorough evaluation of all Expenditures of Federal and State Awards. Further, it will (through its new Finance Director) adopt policies to ensure increased oversight and centralized management of all Federal and State Awards—from application through completion. New internal controls will be formulated and implemented to ensure a complete and accurate Schedule of Expenditures of Federal and State Awards is prepared at the end of each fiscal year.

*Proposed completion date:* 06/30/2018.

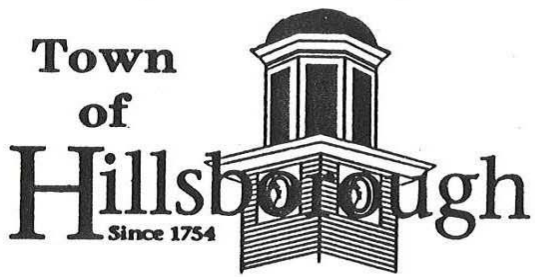
#### ***Finding: 2017-003***

*Name of contact person:* Daphna Schwartz, Finance Director

*Corrective action:* To address this finding, town staff will thoroughly review the requirements for spending promulgated by G.S. 159-28(a): budgetary accounting for appropriations. Further, the cause of this finding was immediately addressed by management and town staff was appropriately admonished for its deviation from standard operating procedures. Lastly, the town's new Finance Director will emphasize the importance of budgetary accounting for appropriations with all appropriate town staff.

*Proposed completion date:* 06/30/2018.





## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### ***Finding 2016-001: Financial Accounting Closing Procedures***

Finding 2016-001 repeated as Finding 2017-001.

### ***Finding 2016-002: Excess of Expenditures over Appropriations***

Status: Corrected

**Town of Hillsborough, North Carolina**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2017**

**Schedule 22**

Grantor/Program Title	Federal CFDA/ State Number	Grant Number	Federal (Direct and Pass-Through) Expenditures	State Expenditures
<b>Federal grants:</b>				
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction Cluster: Passed through the NC Department of Transportation:				
Highway Planning and Construction (Federal Aid Highway Program)				
Riverwalk Trail	20.205	46243.1.1	\$ 24,624	\$ -
Total Passed through NC Department of Transportation			<u>24,624</u>	<u>-</u>
Passed through the Durham-Chapel Hill-Carrboro Metropolitan Planning Organization				
Highway Planning and Construction (Federal Aid Highway Program)				
Riverwalk Trail	20.205	46243.1.1	10,663	-
Total Highway Planning and Construction Cluster			<u>35,287</u>	<u>-</u>
<u>U.S. Department of the Interior</u>				
Historic Preservation Fund Grants-In-Aid Passed through the NC Department of Natural and Cultural Resources				
Hillsborough Architectural Survey Update	15.904	N/A	5,000	-
Old Town Cemetary Workshop	15.904	N/A	2,441	-
Total Historic Preservation Fund Grants-In-Aid			<u>7,441</u>	<u>-</u>
<b>Total assistance - federal programs</b>			<u>42,728</u>	<u>-</u>
<b>State grants:</b>				
<u>NC Department of Transportation</u>				
Direct Programs				
Churton Street Downtown Access Improvements	DOT-18	50153.3.F1	-	227,045
Powell Bill	DOT-4	2000005097	-	253,491
Total NC Department of Transportation			<u>-</u>	<u>480,536</u>
<u>NC Department of Commerce</u>				
Direct Programs				
Special Appropriations				
Downtown Revitalization Grant	COM-2	2017-022-1257-1534	-	94,340
Total NC Department of Transportation			<u>-</u>	<u>94,340</u>
<u>NC Department of Environmental Quality</u>				
Direct Programs				
Community Waste Reduction and Recycling	DEQ-14	6856	-	13,749
Total NC Department of Environmental Quality			<u>-</u>	<u>13,749</u>
<b>Total assistance - state programs</b>			<u>-</u>	<u>588,625</u>
<b>Total assistance</b>			<u>\$ 42,728</u>	<u>\$ 588,625</u>

## **Note to Schedule of Expenditures of Federal and State Awards**

### **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Hillsborough under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. The information in this SEFSA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

### **2. Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Town of Hillsborough has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.