

Town of Hillsborough, North Carolina

Comprehensive Annual Financial Report

Year Ended June 30, 2018

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Comprehensive Annual Financial Report

**Year Ended
June 30, 2018**

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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Table of Contents

Introductory Section

List of Principal Officials	i
Organization Chart	ii
Letter of Transmittal	iii
GFOA Certificate of Achievement	vii

Financial Section

Independent Auditors' Report	1
Management's Discussion and Analysis	5

Basic Financial Statements

Exhibit

Government-Wide Financial Statements:

1	Statement of Net Position	16
2	Statement of Activities	18

Fund Financial Statements:

3	Balance Sheet - Governmental Funds	22
4	Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	24
5	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	26
6	Statement of Net Position - Proprietary Funds	27
7	Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	28
8	Statement of Cash Flows - Proprietary Funds	29
9	Statement of Fiduciary Net Position - Fiduciary Fund	31

Notes to Financial Statements	33
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Required Supplementary Financial Data

Exhibit

Law Enforcement Officers' Special Separation Allowance Required Supplementary Information:

A	Schedules of Changes in Total Pension Liability	66
---	---	----

Law Enforcement Officers' Special Separation Allowance Required Supplementary Information:

B	Schedules of Total Pension Liability as a Percentage of Covered Payroll	67
---	---	----

C	Schedule of Changes in the Total OPEB Liability and Related Ratios	68
---	--	----

Local Government Employees' Retirement System Required Supplementary Information:

D-1	Schedules of Proportionate Share of Net Pension Liability (Asset)	69
D-2	Schedules of Contributions	70

Town of Hillsborough, North Carolina

Supplementary Information:

Combining and Individual Fund Financial Statements Section

Schedule		Governmental Funds:	
1	Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund.....		72
2	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Town Barn Improvements Capital Project Fund		77
3	Combining Balance Sheet - Nonmajor Governmental Funds.....		78
4	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Nonmajor Governmental Funds.....		80
5	Statement of Revenues, Expenditures, and Changes in Fund Balance -Budget and Actual - General Capital Projects Fund – Nonmajor Capital Project Fund		82
6	Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Capital Reserve Fund – Nonmajor Capital Project Fund.....		83
7	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Downtown Improvements Capital Project Fund - Nonmajor Capital Project Fund.....		84
8	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Riverwalk CMAQ Capital Project Fund - Nonmajor Capital Project Fund.....		85
9	Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Rail Station Capital Project Fund - Nonmajor Capital Project Fund		86
10	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Public Works Building Capital Project Fund - Nonmajor Capital Project Fund		87
		Enterprise Funds:	
11	Schedule of Revenues - Budget and Actual (Non-GAAP) - Water and Sewer Fund.....		88
12	Schedule of Expenditures - Budget and Actual (Non-GAAP) - Water and Sewer Fund.....		89
13	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) - Water and Sewer Capital Projects Fund.....		92
14	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) - Water and Sewer Capital Reserve Fund		93
15	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) - Stormwater Fund		94
		Fiduciary Fund:	
16	Statement of Changes in Assets and Liabilities - Special Assessment Debt Agency Fund.....		95
Other Schedules			
17	Schedule of Ad Valorem Taxes Receivable		98
18	Analysis of Current Tax Levy		99

Statistical Section

Table	Financial Trends Information:	
1	Net Position by Component.....	104
2	Changes in Net Position... ..	106
3	Fund Balances, Governmental Funds	110
4	Changes in Fund Balance, Governmental Funds	112
	Revenue Capacity Information:	
5	Program Revenues by Function/Program	116
6	Tax Revenues by Source, Governmental Funds	118
7	Assessed Value and Actual Value of Taxable Property.....	119
8	Direct and Overlapping Property Tax Rates	120
9	Property Tax Revenue and Collections	121
10	Principal Property Taxpayers	123
11	Water Sold by Type of Customer and In and Out of Town	124
12	Water and Sewer Rates	126
	Debt Capacity Information:	
13	Ratios of Outstanding Debt by Type	128
14	Ratios of General Bonded Debt Outstanding	129
15	Direct and Overlapping Governmental Activities Debt	131
16	Legal Debt Margin Information	132
	Demographic and Economic Information:	
17	Demographic and Economic Statistics	135
18	Principal Employers	136
19	Full-Time Equivalent City Government Employees by Function/Program	137
	Operating Information:	
20	Operating Indicators by Function/Program	140
21	Capital Asset Statistics by Function/Program.....	142
	Other Disclosures	
	Continuing Disclosure Information Related to Utility Revenue Bonds	146
	Compliance Section	
	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 <i>Government Auditing Standards</i>	153
Schedule		
19	Schedule of Findings and Responses	155

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Introductory Section

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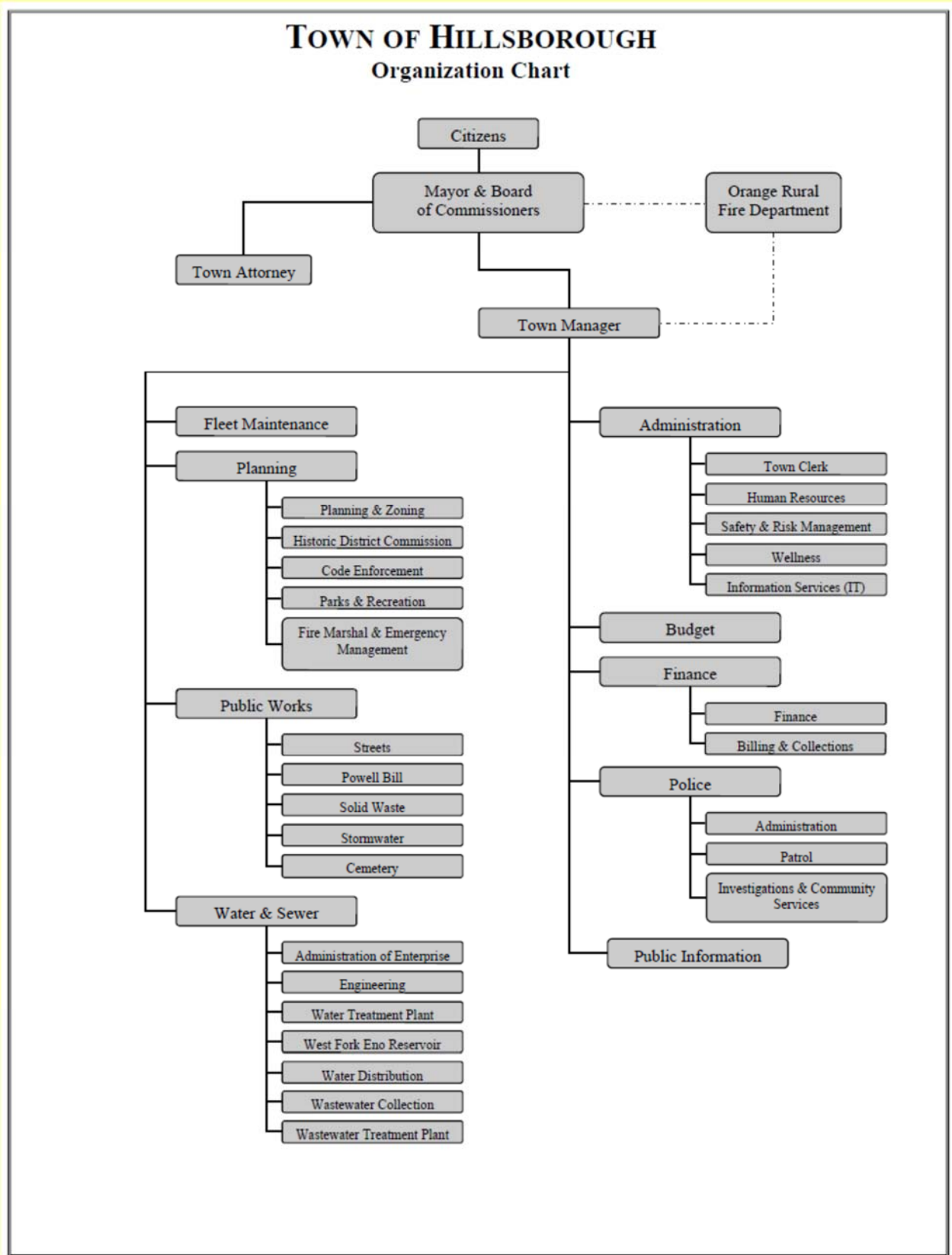
List of Principal Officials

Board of Town Commissioners

Tom Stevens, Mayor
Jenn Weaver Mayor Pro Tem
Matt Hughes Commissioner
Mark Bell Commissioner
Evelyn P. Lloyd Commissioner
Kathleen Ferguson Commissioner

Town Officials

Eric J. Peterson, Town Manager
Daphna Schwartz, Finance Director
Emily Bradford, Budget Director
Marie Strandwitz, 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
Robert Hornik, Town Attorney



Town of Hillsborough, North Carolina

January 31, 2019

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, 2018 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 2018. 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 7,364 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, stormwater 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 established

Town of Hillsborough, North Carolina

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 1.543 MGD. The Town's water system serves a total of 6,410 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 1.109 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 2018 was 3.0% 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 is almost complete.
- 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. Half of the project is completed.
- 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 significantly over the next few years. The town continues to receive commercial inquiries and experience expansion of existing businesses.

Town of Hillsborough, North Carolina

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.
- 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 105 E. Corbin Street, purchased three years ago. The project converted 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 is built. The cost for the project, which includes refinancing the first loan for the building, is \$2.0 million. Annual debt services payments of \$239,296 will be shared between the Finance, Governing Body, Ruffin-Roulhac, and Billing & Collections.
- 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 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 began construction in April 2018. The first series of two revenue bonds were sold on May 9 providing over \$11.1 million in funding for the project. The remaining funds will be raised through another revenue bond sale in early 2019 to pay for the remaining two road projects required to finish the project. Debt payments for the project are estimated at \$563,038 for FY19, \$849,550 in FY20 and \$1,011,640 in FY21. Phase 2 will yield an additional 1.2 million gallons per day of water capacity.

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 \$4,612 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 20 fiscal years, and no debt service expenditures on general obligation bonded debt have been incurred in the General Fund during the last 20 fiscal years. The Town has avoided a heavy debt load, which has plagued many municipalities, in its General Fund. Debt service costs make up 13.77% of General Fund expenditures. This includes short-term debt for equipment needs like garbage trucks, leaf collection equipment, fire trucks, etc. Revenue bonds were issued for the first time to fund the expansion of the West Fork Eno Reservoir for \$11.1 million. Debt payments account for 37.43% of expenditures, which was an increase over the previous fiscal year. The debt payments are a significant expense for a relatively small

Town of Hillsborough, North Carolina

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, 2017. 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. 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 22 consecutive years (fiscal years ended 1994 through 2017). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will submit it to the GFOA.

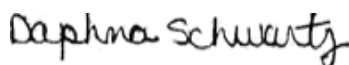
Acknowledgments

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



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, 2017

Christopher P. Morrill

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, 2018, 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, 2018, 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 2018 the Town of Hillsborough implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, 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 Schedule of Changes in the Total OPEB Liability and Related Ratios on pages 66 through 68, respectively, and the Local Government Employees' Retirement System's Schedules of Proportionate Share of Net Pension Liability (Asset) and Contributions on pages 69 and 70, 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 provide 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 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, based on our audit, the procedures performed as described above, the combining and individual fund statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2019, 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
January 31, 2019**

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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, 2018. 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

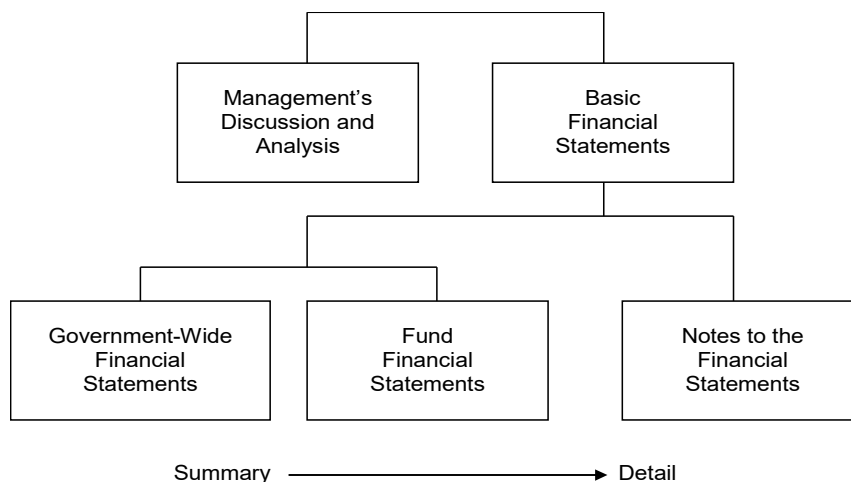
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$70,769,398.
- The Town's total net position increased by \$4,764,914 primarily due to general fund revenues coming in over budget.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$8,311,286, a net increase of \$1,384,941 from the prior year. This is the result of general fund revenues coming in over budget. Approximately 28.55% of this total amount or \$3,091,714 is nonspendable, or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,090,432, or 39.27% of total General Fund expenditures, including other financing uses, for the fiscal year.
- The Town's total debt decreased by \$9,978,306 during the current fiscal year. The Town had additional borrowing on installment purchases of \$3,235,552 and a revenue bond issue of \$10,155,000 with a \$1,025,846 premium. These additional borrowings were offset by retirement of \$4,491,240 in existing debt during the year.
- The Town obtained an AA bond rating from S&P (Standard & Poors) on May 2, 2018.

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

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 64 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, as well as information related to the total OPEB liability and related ratios. Required supplementary information can be found beginning on page 66 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	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 9,600,900	\$ 7,756,712	\$ 23,275,801	\$ 13,760,520	\$ 32,876,701	\$ 21,517,232
Other assets	-	-	-	-	-	-
Capital assets, net	22,473,237	18,951,348	54,999,537	54,011,478	77,472,774	72,962,826
Deferred outflows of resources	821,829	1,157,884	373,375	605,747	1,195,204	1,763,631
Total assets and deferred outflows of resources	32,895,966	27,865,944	78,648,713	68,377,745	11,544,679	96,243,689
Long-term liabilities outstanding	8,770,244	6,509,295	29,407,519	21,046,268	38,177,763	27,555,563
Other liabilities	917,451	617,251	1,568,633	936,353	2,486,084	1,553,604
Total liabilities	9,687,695	7,126,546	30,976,152	21,982,621	40,663,847	29,109,167
Deferred inflows of resources	72,040	56,627	39,394	23,556	111,434	80,183
Net position:						
Net investment in capital assets	18,580,077	15,186,419	36,693,299	34,669,712	55,273,376	49,856,131
Restricted	3,089,866	2,518,696	2,631,171	2,605,482	5,721,037	5,124,178
Unrestricted	1,466,288	2,977,656	8,308,697	9,096,374	9,774,985	12,074,030
Total net position, previously reported		20,682,771		46,371,568		67,054,339
Cumulative effect Adjustment		(669,929)		(379,926)		(1,049,855)
Total net position, ending	\$ 23,136,231	\$ 20,012,842	\$ 47,633,167	\$ 46,371,568	\$ 70,769,398	\$ 66,004,484

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 \$70,769,398 as of June 30, 2018. The Town's net position increased by \$4,764,914 for the fiscal year ended June 30, 2018. However, the largest portion (78.10%) 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, \$5,721,037 (8.08%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,774,985 (13.82%) 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%.
- 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 595,400	\$ 423,663	\$ 10,887,711	\$ 9,847,139	\$ 11,483,111	\$ 10,270,802
Operating grants and contributions	197,119	26,690	-	-	197,119	26,690
Capital grants and contributions	1,634,422	570,035	363,598	1,325,206	1,998,020	1,895,241
General revenues:						
Property taxes	6,700,510	6,044,526	-	-	6,700,510	6,044,526
Local option sales taxes	1,486,817	1,364,779	-	-	1,486,817	1,364,779
Gross receipts on short-term rental property	9,657	8,679	-	-	9,657	8,679
Privilege licenses	1,160	2,830	-	-	1,160	2,830
Motor vehicle license fees	260	345	-	-	260	345
Solid waste disposal	4,465	5,357	-	-	4,465	5,357
Unrestricted inter-governmental revenues	1,080,184	1,010,393	-	-	1,080,184	1,010,393
Other	192,778	96,373	(202,014)	19,897	(9,236)	116,270
Total revenues	<u>11,902,772</u>	<u>9,553,670</u>	<u>11,049,295</u>	<u>11,192,242</u>	<u>22,952,067</u>	<u>20,745,912</u>

**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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Expenses:						
General government	\$ 1,865,408	\$ 1,860,970	\$ -	\$ -	\$ 1,865,408	\$ 1,860,970
Public safety	4,666,798	4,289,900	-	-	4,666,798	4,289,900
Transportation	684,226	666,523	-	-	684,226	666,523
Environmental protection	478,122	590,798	-	-	478,122	590,798
Economic and physical development	498,150	466,791	-	-	498,150	466,791
Community activities and projects	42,038	57,673	-	-	42,038	57,673
Parks and recreation	429,684	398,802	-	-	429,684	398,802
Interest on long-term debt	114,957	95,571	-	-	114,957	95,571
Stormwater	-	-	458,118	302,983	458,118	302,983
Water and sewer	-	-	8,949,652	8,120,546	8,949,652	8,120,546
Total expenses	<u>8,779,383</u>	<u>8,427,028</u>	<u>9,407,770</u>	<u>8,423,529</u>	<u>18,187,153</u>	<u>16,850,557</u>
Increase in net position	3,123,389	1,126,642	1,641,525	2,768,713	4,764,914	3,895,355
Net position, beginning, previously reported	20,682,771	20,682,771	46,371,568	46,371,568	67,054,339	67,054,339
Cumulative effect adjustment	<u>(669,929)</u>	<u>-</u>	<u>(379,926)</u>	<u>-</u>	<u>(1,049,855)</u>	<u>-</u>
Net position, beginning, adjusted	<u>20,012,842</u>	<u>20,682,771</u>	<u>45,991,642</u>	<u>46,371,568</u>	<u>66,004,484</u>	<u>67,054,339</u>
Net position, ending	<u>\$ 23,136,231</u>	<u>\$ 20,682,771</u>	<u>\$ 47,633,167</u>	<u>\$ 46,371,568</u>	<u>\$ 70,769,398</u>	<u>\$ 67,054,339</u>

Governmental activities. Governmental activities increased the Town's net position by \$3,123,389, thereby accounting for 65.55% 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 revenue.

Business-type activities. Business-type activities increased the Town's net position by \$1,641,525, accounting for 34.45% of the total growth in the government's net position. Key elements of this increase are as follows:

- Increase in charges for services due in part to population growth.
- Capital contributions.

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.

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

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 \$5,076,161, while total fund balance reached \$7,445,095. 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 40.19% of general fund expenditures, while total fund balance represents 73.16% of the same amount.

At June 30, 2018, the governmental funds of the Town reported a combined fund balance of \$8,311,286, with a net increase in fund balance of \$1,384,941. 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 \$726,495. Expenditures were \$548,301 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 \$7,540,562, a 13.99% or \$1,226,057 decrease from the previous year. The Town had appropriated fund balance in the amount of \$2,475,005, so the decrease was less than expected. The total growth in net position was \$1,461,202.

Unrestricted net position of the Stormwater Fund at the end of the fiscal year amounted to \$478,383, a 45.07% or \$148,628 increase from the previous year. The increase is largely attributed to expenditures being 29.5% less than expected. The total growth in net position was \$180,323.

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

Capital asset and debt administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018 totals \$77,472,774 (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:

- Police vehicles (\$465,522)
- Street resurfacing (\$435,840)

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

- Orange Grove Way (\$213,095)
- Elfin's pond subdivision water lines (\$175,564)
- Elfin's pond subdivision sewer lines (\$166,886)

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

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,690,474	\$ 3,632,871	\$ 6,132,444	\$ 6,095,544	\$ 10,822,918	\$ 9,728,415
Construction in progress	2,629,713	619,769	3,565,187	3,960,184	6,194,900	4,579,954
Buildings and improvements	4,784,933	5,011,224	18,383,299	19,193,270	23,168,232	24,204,494
Plant and distribution systems	-	-	25,753,841	23,149,532	25,753,841	23,149,532
Infrastructure	8,724,883	8,525,479	638,278	655,323	9,363,161	9,180,801
Equipment	409,043	257,055	261,559	470,143	670,602	727,198
Vehicles	1,234,191	904,950	264,204	288,096	1,498,395	1,193,046
Intangibles	-	-	725	199,386	725	199,386
Total	<u>\$ 22,473,237</u>	<u>\$ 18,951,348</u>	<u>\$ 54,999,537</u>	<u>\$ 54,011,478</u>	<u>\$ 77,472,774</u>	<u>\$ 72,962,826</u>

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

Long-term debt. As of June 30, 2018, the Town of Hillsborough had outstanding bonded debt of \$10,155,000, which represents bonds secured solely by specified revenue sources (revenue bonds). The remainder of 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	
	2018	2017	2018	2017	2018	2017
Revolving loan payable	\$ -	\$ -	\$ 16,435,811	\$ 17,443,655	\$ 16,435,811	\$ 17,443,655
Special revenue bonds	-	-	10,155,000	-	10,155,000	-
Premium on bonds	-	-	1,018,674	-	1,018,674	-
Installment purchases	5,829,231	4,025,201	522,267	2,513,821	6,351,498	6,539,022
Total	<u>\$ 5,829,231</u>	<u>\$ 4,025,201</u>	<u>\$ 28,131,752</u>	<u>\$ 19,957,476</u>	<u>\$ 33,960,983</u>	<u>\$ 23,982,677</u>

The Town's total debt increased by \$9,978,306 during the current fiscal year, primarily due to additional borrowing exceeding repayments.

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 \$78,369,659. The Town does not have any bonds authorized but unissued at June 30, 2018.

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

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

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 3.0% as of June 30, 2018 is below the state average of 4.2%.
- *No increase in property tax rate.*
- *No general obligation debt in the General Fund.*

Budget highlights for the fiscal year ending June 30, 2019

Governmental activities: The property tax rate remains at 62 cents for FY19. This will be the sixth consecutive year without a property tax rate increase. In FY18, the property tax rate was slightly reduced, even below the "revenue neutral" rate as part of the countywide revaluation process. Expenses will increase by 6.7% in FY19.

Other budget highlights in brief:

- Police radio replacements (\$70,000)
- Street resurfacing (\$350,000)
- Stamped crosswalks at downtown intersections (\$95,000)
- Police additional overtime (\$12,000)
- Public space enhancements (\$36,000)
- Sidewalk and Riverwalk connections (\$221,062)
- Sustainability efforts (\$10,000)

Business-type activities:

Water and Sewer Fund

Due to the revenue bonds issue, water and sewer rates will increase by 9.25% and 7.5%, respectively. Water rates were last raised six years ago, in July 2012. Sewer rates were last raised two years ago, in July 2016.

Operational expenditures in the Water/Sewer Fund are expected to decrease by 10.9% over the FY18 final budget. Many cuts and deferrals 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 started in April 2018. Debt payments in FY19 are estimated at \$563,038
- Master plan/preliminary design for old water plant: line crew and operations buildings (\$40,000)
- Churton Street water main replacements (\$230,000)
- Design for I-40 water main - place in casting (\$100,000)

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

- Sewer line repairs to continue annual "inflow and infiltration" reduction program. (\$60,000)
- Sewer camera video inspection system (\$140,000)
- Wastewater collection system - modeling/evaluation and capacity study (\$100,000)
- Sewer main replacement project (\$440,000)
- Water and sewer fees rate study (\$30,000)

Stormwater Fund

Stormwater rates will not increase, and expenses will decrease by 6.9% in FY19

Other budget highlights in brief:

- Stormwater infrastructure (\$32,500)
- Capital projects (\$64,622)
- Valley Forge Stormwater Project (\$120,000)

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, 2018

Exhibit 1
(2 pages)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
ASSETS					
Current assets:					
Cash and investments	\$ 5,940,645	\$ 9,855,429	\$ 15,796,074	\$ 236,762	\$ 266,037
Receivables:					
Taxes receivable, net	125,209	-	125,209	-	-
Accrued interest receivable, property taxes	19,077	-	19,077	-	-
Accounts receivable, net	76,683	1,431,364	1,508,047	-	-
Due from other governments	1,098,728	-	1,098,728	-	-
Due from primary government	-	-	-	14,116	74,224
Prepaid expenses	1,848	215	2,063	-	689
Restricted assets:					
Cash and investments	2,338,710	11,988,793	14,327,503	-	-
Total current assets	9,600,900	23,275,801	32,876,701	250,878	340,950
Noncurrent assets:					
Capital assets:					
Land and construction-in-progress	7,320,187	9,697,631	17,017,818	-	-
Other capital assets, net of depreciation	15,153,050	45,301,906	60,454,956	-	-
Total capital assets	22,473,237	54,999,537	77,472,774	-	-
Total noncurrent assets	22,473,237	54,999,537	77,472,774	-	-
Total assets	32,074,137	78,275,338	110,349,475	250,878	340,950
DEFERRED OUTFLOWS OF RESOURCES					
Pension deferrals	801,694	346,527	1,148,221	-	-
OPEB deferrals	20,135	26,848	46,983	-	-
	821,829	373,375	1,195,204	-	-

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 740,499	\$ 953,630	\$ 1,694,129	\$ -	\$ 6,922
Payable from restricted assets - customer deposits	-	506,421	506,421	-	-
Accrued interest payable	48,606	108,582	157,188	-	-
Unearned revenue	40,006	-	40,006	-	-
Due to component units	88,340	-	88,340	-	-
Current portion of long-term liabilities	1,179,048	1,283,211	2,462,259	-	-
Total current liabilities	2,096,499	2,851,844	4,948,343	-	6,922
Long-term liabilities:					
Net pension liability	962,314	442,122	1,404,436	-	-
Total pension liability	641,574	-	641,574	-	-
Total OPEB liability	1,011,621	606,973	1,618,594	-	-
Due in more than one year	4,975,687	27,075,213	32,050,900	-	-
Total noncurrent liabilities	7,591,196	28,124,308	35,715,504	-	-
Total liabilities	9,687,695	30,976,152	40,663,847	-	6,922
DEFERRED INFLOWS OF RESOURCES					
Pension deferrals	27,240	12,514	39,754	-	-
OPEB deferrals	44,800	26,880	71,680	-	-
Total deferred inflows	72,040	39,394	111,434	-	-
NET POSITION					
Net investment in capital assets	18,580,077	36,693,299	55,273,376	-	-
Restricted for:					
Stabilization by state statute	2,752,815	-	2,752,815	14,116	74,224
Streets	59,838	-	59,838	-	-
Capital projects	277,213	-	277,213	-	-
Water and sewer projects	-	2,631,171	2,631,171	-	-
Unrestricted	1,466,288	8,308,697	9,774,985	236,762	259,804
Total net position	\$ 23,136,231	\$ 47,633,167	\$ 70,769,398	\$ 250,878	\$ 334,028

Town of Hillsborough, North Carolina
Statement of Activities
Year Ended June 30, 2018

Exhibit 2
(4 pages)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 1,865,408	\$ 208,837	\$ 7,376	\$ 42,181
Public safety	4,666,798	19,938	-	105,619
Transportation	684,226	245	189,743	224,095
Environmental protection	478,122	-	-	-
Economic and physical development	498,150	360,440	-	494,695
Community activities and projects	42,038	-	-	-
Parks and recreation	429,684	5,940	-	767,832
Interest on long-term obligations	114,957	-	-	-
Total governmental activities	<u>8,779,383</u>	<u>595,400</u>	<u>197,119</u>	<u>1,634,422</u>
Business-type activities:				
Water and sewer	8,949,652	10,249,270	-	363,598
Stormwater	<u>458,118</u>	<u>638,441</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>9,407,770</u>	<u>10,887,711</u>	<u>-</u>	<u>363,598</u>
Total primary government	<u>\$ 18,187,153</u>	<u>\$ 11,483,111</u>	<u>\$ 197,119</u>	<u>\$ 1,998,020</u>
Component units				
Hillsborough Tourism Development Authority	\$ 56,455	\$ -	\$ -	\$ -
Hillsborough Tourism Board	<u>299,335</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 355,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Net Revenue (Expense) and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Tourism Development Authority	Tourism Board
\$ (1,607,014)	\$ -	\$ (1,607,014)	\$ -	\$ -
(4,541,241)	-	(4,541,241)	-	-
(270,143)	-	(270,143)	-	-
(478,122)	-	(478,122)	-	-
356,985	-	356,985	-	-
(42,038)	-	(42,038)	-	-
344,088	-	344,088	-	-
(114,957)	-	(114,957)	-	-
<u>(6,352,442)</u>	<u>-</u>	<u>(6,352,442)</u>	<u>-</u>	<u>-</u>
-	1,663,216	1,663,216	-	-
-	180,323	180,323	-	-
-	1,843,539	1,843,539	-	-
<u>(6,352,442)</u>	<u>1,843,539</u>	<u>(4,508,903)</u>	<u>-</u>	<u>-</u>
			(56,455)	-
			<u>-</u>	<u>(299,335)</u>
			<u>(56,455)</u>	<u>(299,335)</u>

Town of Hillsborough, North Carolina
Statement of Activities
Year Ended June 30, 2018

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 (loss) 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			

Net Revenue (Expense) and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Tourism Development Authority	Tourism Board
\$ 6,700,510	\$ -	\$ 6,700,510	\$ -	\$ -
1,486,817	-	1,486,817	-	-
9,657	-	9,657	-	-
1,160	-	1,160	-	-
260	-	260	-	-
4,465	-	4,465	-	-
1,080,184	-	1,080,184	-	-
120,273	44,935	165,208	-	-
-	-	-	68,736	372,060
32,262	(254,121)	(221,859)	-	-
40,243	7,172	47,415	-	-
<u>9,475,831</u>	<u>(202,014)</u>	<u>9,273,817</u>	<u>68,736</u>	<u>372,060</u>
3,123,389	1,641,525	4,764,914	12,281	72,725
20,682,771	46,371,568	67,054,339	238,597	261,303
(669,929)	(379,926)	(1,049,855)	-	-
<u>20,012,842</u>	<u>45,991,642</u>	<u>66,004,484</u>	<u>238,597</u>	<u>261,303</u>
<u>\$ 23,136,231</u>	<u>\$ 47,633,167</u>	<u>\$ 70,769,398</u>	<u>\$ 250,878</u>	<u>\$ 334,028</u>

Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds
June 30, 2018

Exhibit 3
(2 pages)

	Major Funds			Total Governmental Funds
	General Fund	Town Barn Improvements Capital Project Fund	Total Nonmajor Funds	
ASSETS				
Cash and investments	\$ 5,727,128	\$ -	\$ 213,517	\$ 5,940,645
Taxes receivable	125,209	-	-	125,209
Accounts receivable, net	76,683	-	-	76,683
Prepaid items	1,848	-	-	1,848
Due from other governments	822,245	-	276,483	1,098,728
Due from other funds	1,246,954	-	-	1,246,954
Restricted assets				
Cash and investments	59,838	1,997,329	281,543	2,338,710
Total assets	<u>\$ 8,059,905</u>	<u>\$ 1,997,329</u>	<u>\$ 771,543</u>	<u>\$ 10,828,777</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 361,255	\$ 319,209	\$ 60,035	\$ 740,499
Due to other funds	-	1,080,562	166,392	1,246,954
Unearned revenue	40,006	-	-	40,006
Due to component units	88,340	-	-	88,340
Total liabilities	<u>489,601</u>	<u>1,399,771</u>	<u>226,427</u>	<u>2,115,799</u>
DEFERRED INFLOWS OF RESOURCES	<u>125,209</u>	<u>-</u>	<u>276,483</u>	<u>401,692</u>
FUND BALANCES				
Nonspendable				
Prepaid items	1,848	-	-	1,848
Restricted for:				
Stabilization by state statute	2,307,248	304,991	140,576	2,752,815
Streets	59,838	-	-	59,838
Capital projects	-	-	277,213	277,213
Committed for:				
Capital projects	-	292,567	92,953	385,520
Assigned for:				
Sidewalks	46,526	-	-	46,526
Affordable housing	46,000	-	-	46,000
Subsequent year's expenditures	885,388	-	-	885,388
Other	7,815	-	-	7,815
Unassigned	4,090,432	-	(242,109)	3,848,323
Total fund balances	<u>7,445,095</u>	<u>597,558</u>	<u>268,633</u>	<u>8,311,286</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,059,905</u>	<u>\$ 1,997,329</u>	<u>\$ 771,543</u>	<u>\$ 10,828,777</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, 2018

Exhibit 3
(2 pages)

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

Total fund balances, governmental funds	\$ 8,311,286
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	22,473,237
Deferred outflows of resources related to pensions and OPEB are not reported in the funds	821,829
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	19,077
Liabilities for earned revenues considered deferred inflows of resources in the fund statements	401,692
Deferred inflows of resources related to pensions and OPEB are not reported in the funds	(72,040)
Some liabilities, including accrued interest and accrued claims and judgments, are not due and payable in the current period, and therefore are not reported in the funds.	(6,203,341)
Total pension liability	(641,574)
Net pension liability	<u>(962,314)</u>
Total OPEB liability	<u>(1,011,621)</u>
Net position of governmental activities	<u>\$ 23,136,231</u>

Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2018

Exhibit 4
(2 pages)

	Major Funds			Total Governmental Funds
	General Fund	Town Barn Improvements Capital Project Fund	Total Nonmajor Funds	
Revenues				
General revenues:				
Ad valorem taxes	\$ 6,701,848	\$ -	\$ -	\$ 6,701,848
Other taxes and licenses	1,502,359	-	-	1,502,359
Unrestricted intergovernmental revenues	1,080,184	-	-	1,080,184
Restricted intergovernmental revenues	215,624	-	510,570	726,194
Investment earnings	118,484	-	1,789	120,273
Contribution from property owners	-	-	22,434	22,434
Other general revenues	53,804	-	-	53,804
Total general revenues	9,672,303	-	534,793	10,207,096
Functionally related revenues:				
Use and rental fees	583,186	-	-	583,186
Total revenues	10,255,489	-	534,793	10,790,282
Expenditures				
General government	1,511,583	1,492,043	22,434	3,026,060
Public safety	4,811,024	-	-	4,811,024
Transportation	1,014,932	-	-	1,014,932
Environmental protection	495,348	-	21,562	516,910
Economic and physical development	473,177	-	630,936	1,104,113
Community activities and projects	42,038	-	-	42,038
Parks and recreation	427,724	-	50,861	478,585
Debt service:				
Principal retirement	1,296,056	-	-	1,296,056
Interest and fiscal charges	105,063	-	-	105,063
Total expenditures	10,176,945	1,492,043	725,793	12,394,781
Revenues over (under) expenditures	78,544	(1,492,043)	(191,000)	(1,604,499)
Other financing sources (uses)				
Transfer to General Fund	-	-	(104,808)	(104,808)
Transfer to Downtown Improvements Capital Project Fund	(41,500)	-	-	(41,500)
Transfer to Rail Station Capital Projects Fund	(5,000)	-	-	(5,000)
Transfer to Riverwalk CMAQ Capital Projects Fund	(24,450)	-	-	(24,450)
Transfer to General Capital Projects Fund	(169,050)	-	-	(169,050)
Transfer from General Fund	-	-	240,000	240,000
Transfer from General Capital Projects Fund	104,808	-	-	104,808
Installment purchase obligations issued	948,441	1,997,329	-	2,945,770
Sale of capital assets	43,670	-	-	43,670
Total other financing sources (uses)	856,919	1,997,329	135,192	2,989,440
Net change in fund balances	935,463	505,286	(55,808)	1,384,941
Fund balances, beginning	6,509,632	92,272	324,441	6,926,345
Fund balances, ending	<u>\$ 7,445,095</u>	<u>\$ 597,558</u>	<u>\$ 268,633</u>	<u>\$ 8,311,286</u>

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, 2018

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	\$ 1,384,941
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 (\$3,336,241) exceeded depreciation (\$868,547) in the current period.	2,467,694
The net effect of transactions involving capital assets donated to the Town.	1,065,603
Contributions to the pension plan in the current fiscal year are not included in the statement of activities	301,534
Benefit payments paid and administrative expense for the LEOWSA are not included in the statement of activities	18,734
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	(1,338)
Proceeds received from disposal/transfer of capital assets	(43,670)
Gain on disposal/transfer of capital assets	32,262
Change in deferred revenues related to grants receivable.	15,963
The repayment of the principal of long-term debt (\$1,296,056) consumes the current financial resources of governmental funds. This transaction has no effect on net position.	1,296,056
The issuance of the principal of long-term debt (\$2,945,770) provides current financial resources to governmental funds. This transaction has no effect on net position.	(2,945,770)
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	(17,498)
Compensated absences	(19,007)
Pension expense	(363,750)
OPEB expense	(68,365)
Changes in net position of governmental activities	<u>\$ 3,123,389</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, 2018

Exhibit 5

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
General revenues				
Ad valorem taxes	\$ 6,286,298	\$ 6,286,298	\$ 6,701,848	\$ 415,550
Other taxes and licenses	1,466,330	1,466,330	1,502,359	36,029
Unrestricted intergovernmental revenues	884,980	969,980	1,080,184	110,204
Restricted intergovernmental revenues	180,150	180,150	215,624	35,474
Investment earnings	15,000	15,000	118,484	103,484
Other general revenues	<u>107,480</u>	<u>28,050</u>	<u>53,804</u>	<u>25,754</u>
Total general revenues	8,940,238	8,945,808	9,672,303	726,495
Functionally related revenues				
Use and rental fees	<u>159,000</u>	<u>159,000</u>	<u>583,186</u>	<u>424,186</u>
Total revenues	<u>9,099,238</u>	<u>9,104,808</u>	<u>10,255,489</u>	<u>1,150,681</u>
Expenditures				
General government	1,815,676	1,873,421	1,703,114	170,307
Public safety	5,100,777	5,343,170	5,073,856	269,314
Transportation	1,045,146	1,351,422	1,060,494	290,928
Environmental protection	579,555	704,088	619,312	84,776
Economic and physical development	415,014	545,989	473,177	72,812
Community activities and projects	281,681	194,876	567,683	(372,807)
Parks and recreation	700,863	712,182	679,309	32,873
Contingency	<u>150,000</u>	<u>98</u>	<u>-</u>	<u>98</u>
Total expenditures	<u>10,088,712</u>	<u>10,725,246</u>	<u>10,176,945</u>	<u>548,301</u>
Revenues under expenditures	<u>(989,474)</u>	<u>(1,620,438)</u>	<u>78,544</u>	<u>1,698,982</u>
Other financing sources (uses)				
Transfer to General Capital Reserve Fund	(248,480)	(169,050)	(169,050)	-
Transfer to Downtown Improvements				
Capital Project Fund	(41,500)	(41,500)	(41,500)	-
Transfer to Rail Station Capital Project Fund	(5,000)	(5,000)	(5,000)	-
Transfer to Riverwalk - CMAQ Fund	-	(24,450)	(24,450)	-
Transfer from General Capital Projects Fund	103,729	104,808	104,808	-
Installment purchase obligations issued	460,000	460,000	948,441	488,441
Sale of capital assets	<u>-</u>	<u>-</u>	<u>43,670</u>	<u>43,670</u>
Total other financing sources (uses)	<u>268,749</u>	<u>324,808</u>	<u>856,919</u>	<u>532,111</u>
Appropriated fund balance	<u>720,725</u>	<u>1,295,630</u>	<u>-</u>	<u>(1,295,630)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>935,463</u>	<u>\$ 935,463</u>
Fund balance, beginning			<u>6,509,632</u>	
Fund balance, ending			<u>\$ 7,445,095</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, 2018

Exhibit 6

	<u>Major</u> <u>Water & Sewer</u> <u>Fund</u>	<u>Nonmajor</u> <u>Stormwater</u> <u>Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 9,315,727	\$ 539,702	\$ 9,855,429
Accounts receivable, net	1,403,660	27,704	1,431,364
Prepaid expenses	215	-	215
Restricted assets:			
Cash and investments	11,988,793	-	11,988,793
Total current assets	<u>22,708,395</u>	<u>567,406</u>	<u>23,275,801</u>
Noncurrent assets:			
Capital assets:			
Land and construction-in-progress	9,697,631	-	9,697,631
Other capital assets, net of depreciation	45,301,906	-	45,301,906
Total capital assets	<u>54,999,537</u>	<u>-</u>	<u>54,999,537</u>
Total noncurrent assets	<u>54,999,537</u>	<u>-</u>	<u>54,999,537</u>
Total assets	<u>77,707,932</u>	<u>567,406</u>	<u>78,275,338</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	317,322	29,205	346,527
OPEB deferrals	26,848	-	26,848
Total deferred outflows of resources	<u>344,170</u>	<u>29,205</u>	<u>373,375</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	915,171	38,459	953,630
Payable from restricted assets - customer deposits	506,421	-	506,421
Accrued interest payable	108,582	-	108,582
Current portion of long-term liabilities	1,276,974	6,237	1,283,211
Total current liabilities	<u>2,807,148</u>	<u>44,696</u>	<u>2,851,844</u>
Long-term liabilities:			
Net pension liability	404,858	37,264	442,122
Total OPEB liability	573,252	33,721	606,973
Due in more than one year	27,075,213	-	27,075,213
Total noncurrent liabilities	<u>28,053,323</u>	<u>70,985</u>	<u>28,124,308</u>
Total liabilities	<u>30,860,471</u>	<u>115,681</u>	<u>30,976,152</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	11,460	1,054	12,514
OPEB deferrals	25,387	1,493	26,880
Total deferred inflows of resources	<u>36,847</u>	<u>2,547</u>	<u>39,394</u>
NET POSITION			
Net investment in capital assets	36,693,299	-	36,693,299
Restricted for:			
Water and sewer projects	2,631,171	-	2,631,171
Unrestricted	7,830,314	478,383	8,308,697
Total net position	<u>\$ 47,154,784</u>	<u>\$ 478,383</u>	<u>\$ 47,633,167</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, 2018

Exhibit 7

	<u>Major</u> <u>Water & Sewer</u> <u>Fund</u>	<u>Nonmajor</u> <u>Stormwater</u> <u>Fund</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 8,487,053	\$ 633,191	\$ 9,120,244
Other operating revenues	1,762,217	5,250	1,767,467
Total operating revenues	<u>10,249,270</u>	<u>638,441</u>	<u>10,887,711</u>
Operating expenses			
Personnel services	2,491,538	215,782	2,707,320
Depreciation	1,800,117	-	1,800,117
Other current charges	3,506,887	242,336	3,749,223
Total operating expenses	<u>7,798,542</u>	<u>458,118</u>	<u>8,256,660</u>
Operating income	<u>2,450,728</u>	<u>180,323</u>	<u>2,631,051</u>
Nonoperating revenues (expenses)			
Investment earnings	44,935	-	44,935
Amortization of premium on bonds payable	7,172	-	7,172
Loss on disposal of capital assets	(254,121)	-	(254,121)
Bond issuance costs	(361,573)	-	(361,573)
Claims and judgments	(300,000)	-	(300,000)
Interest and fees	(489,537)	-	(489,537)
Total nonoperating revenues (expenses)	<u>(1,353,124)</u>	<u>-</u>	<u>(1,353,124)</u>
Income before capital contributions	<u>1,097,604</u>	<u>180,323</u>	<u>1,277,927</u>
Capital contributions and transfers:			
Capital contributions from developers	363,598	-	363,598
Total capital contributions and transfers	<u>363,598</u>	<u>-</u>	<u>363,598</u>
Change in net position	1,461,202	180,323	1,641,525
Net position, beginning of year	46,041,813	329,755	46,371,568
Cumulative effect adjustment	(348,231)	(31,695)	(379,926)
Net position, beginning of year, adjusted	<u>45,693,582</u>	<u>298,060</u>	<u>45,991,642</u>
Net position end of year	<u>\$ 47,154,784</u>	<u>\$ 478,383</u>	<u>\$ 47,633,167</u>

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

Town of Hillsborough, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

Exhibit 8
(2 pages)

	<u>Major</u> <u>Water & Sewer</u> <u>Fund</u>	<u>Nonmajor</u> <u>Stormwater</u> <u>Fund</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers	\$ 10,170,068	\$ 681,785	\$ 10,851,853
Cash paid for goods and services	(3,518,784)	(207,045)	(3,725,829)
Cash paid to or on behalf of employees for services	<u>(2,456,455)</u>	<u>(205,121)</u>	<u>(2,661,576)</u>
Net cash provided by operating activities	<u>4,194,829</u>	<u>269,619</u>	<u>4,464,448</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(1,946,686)	-	(1,946,686)
Proceeds from sale of capital assets	19,762	-	19,762
Proceeds from issuance of long-term debt	10,505,102	-	10,505,102
Premium received on issuance of bonds	1,025,846	-	1,025,846
Principal paid on bonds, notes and installment purchases	(3,349,500)	-	(3,349,500)
Payment of bond issuance costs	(361,573)	-	(361,573)
Interest paid on bonds and installment purchases	<u>(445,510)</u>	<u>-</u>	<u>(445,510)</u>
Net cash used by capital and related financing activities	<u>5,447,441</u>	<u>-</u>	<u>5,447,441</u>
Cash flows from investing activities			
Interest on investments	<u>44,935</u>	<u>-</u>	<u>44,935</u>
Net cash provided by investing activities	<u>44,935</u>	<u>-</u>	<u>44,935</u>
Net increase in cash and cash equivalents	9,687,205	269,619	9,956,824
Cash and cash equivalents, beginning	<u>11,617,315</u>	<u>270,083</u>	<u>11,887,398</u>
Cash and cash equivalents, ending	<u>\$ 21,304,520</u>	<u>\$ 539,702</u>	<u>\$ 21,844,222</u>
Cash and cash equivalents			
Unrestricted	\$ 9,315,727	\$ 539,702	\$ 9,855,429
Restricted	<u>11,988,793</u>	<u>-</u>	<u>11,988,793</u>
Total cash and cash equivalents	<u>\$ 21,304,520</u>	<u>\$ 539,702</u>	<u>\$ 21,844,222</u>

Town of Hillsborough, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

Exhibit 8
(2 pages)

	<u>Major</u> <u>Water & Sewer</u> <u>Fund</u>	<u>Nonmajor</u> <u>Stormwater</u> <u>Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 2,450,728	\$ 180,323	\$ 2,631,051
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,800,117	-	1,800,117
Provision for uncollectible accounts	33,435	-	33,435
Changes in assets and liabilities:			
Accounts receivable	(165,060)	43,344	(121,716)
Prepaid expense	28,356	1,468	29,824
Deferred outflows of resources for pensions	252,949	(2,565)	250,384
Deferred outflows of resources for OPEB	(9,597)	1,017	(8,580)
Accounts payable and accrued liabilities	(41,898)	34,788	(7,110)
Deposits	52,423	-	52,423
OPEB liability	(6,356)	(374)	(6,730)
Net pension liability	(237,382)	7,262	(230,120)
Deferred inflows of resources for pensions	(11,045)	3	(11,042)
Deferred inflows of resources for OPEB	25,387	1,493	26,880
Compensated absences payable	22,772	2,860	25,632
Net cash provided by operating activities	<u>\$ 4,194,829</u>	<u>\$ 269,619</u>	<u>\$ 4,464,448</u>
Supplemental schedule of noncash investing and financing activities			
Capital asset additions included in accounts payable and accrued liabilities	<u>\$ 439,181</u>	<u>\$ -</u>	<u>\$ 439,181</u>
Capital contribution from developer	<u>\$ 363,598</u>	<u>\$ -</u>	<u>\$ 363,598</u>
Capital asset additions included in prepaid expenses in prior year	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>

Town of Hillsborough, North Carolina
Statement of Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2018

Exhibit 9

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

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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

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.

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

The Town reports the following nonmajor governmental funds:

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.

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

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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

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 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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

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 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

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. The NCCMT Term Portfolio's securities are valued at fair value.

(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	\$ 59,838
Unspent debt proceeds	1,997,329
General Capital Projects Fund	
Unspent debt proceeds	170,000
General Capital Reserve Fund	
Developer donations - future capital projects	<u>111,543</u>
Total governmental activities	<u>2,338,710</u>
Business-type activities:	
Water and Sewer Fund	
Unspent debt proceeds	8,851,201
Customer deposits	506,421
Developer donations - perpetual maintenance	441,138
Developer donations - water and sewer needs	<u>2,190,033</u>
Total business-type activities	<u>11,988,793</u>
Total restricted cash	<u>\$ 14,327,503</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(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, 2017. 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

(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 has two items that meet this criterion: pension deferrals for the 2018 fiscal year, and OPEB deferrals for the 2018 fiscal year. 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, pension deferrals and OPEB deferrals.

(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, as are premiums received on debt issuances, 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

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.

Assigned for other expenditures - Portion of fund balance that is to be used for future projects that relate to various purposes for which the funds were received.

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

Town of Hillsborough, North Carolina
Notes to Financial Statements

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.

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	\$ 1,511,583	\$ 191,531	\$ 1,703,114
Public safety	4,811,024	262,832	5,073,856
Transportation	1,014,932	45,562	1,060,494
Environmental protection	495,348	123,964	619,312
Community activities and projects	42,038	525,645	567,683
Parks and recreation	427,724	251,585	679,309
Debt service:			
Principal retirement	1,296,056	(1,296,056) ⁽¹⁾	-
Interest and fiscal charges	105,063	(105,063) ⁽¹⁾	-

(1) Reclassification of debt service payments.

3. Stewardship, Compliance and Accountability

A. Deficit in Fund Balance or Net Position of Individual Funds

As of June 30, 2018, the Downtown Improvements Capital Project Fund has a deficit in fund balance of \$175,566. 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 days of the fiscal year end. This deficit fund balance will be eliminated when grant funds are received in the 2019 fiscal year.

Town of Hillsborough, North Carolina
Notes to Financial Statements

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2018, the expenditures made in the Town's General Fund exceeded the authorized appropriations by the governing board in various functions, including: Ruffin-Roulhac (general government) by \$9,731; Finance (general government) by \$35,327; Safety (public safety) by \$39,494; and community activities and projects by \$372,807. In addition, the expenditures made in the Town's Water and Sewer Fund exceeded the authorized appropriations by the governing board in the billing and collection function by \$147,425. These over-expenditures were largely due to journal entries that were made after the final budget amendment. In the future, the Town is committed to more timely booking of journal entries and coordination with budget staff for known outstanding journal entries as of June 30th.

4. Detail Notes on All Funds

A. Assets

(1) Deposits and Investments

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, 2018, the Town's deposits had a carrying amount of \$6,810,065 and a bank balance of \$7,153,974. Of the bank balance, \$2,497,329 was covered by federal depository insurance and \$4,656,645 in interest-bearing deposits were covered under the Pooling Method. The Town had \$1,050 in petty cash on hand at June 30, 2018.

At June 30, 2018, the Authority's deposits had a carrying amount and bank balance of \$236,762. All of the bank balance was covered by federal depository insurance.

At June 30, 2018, the Board's deposits had a carrying amount and bank balance of \$266,037. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$17,635 of demand deposits were covered under the Pooling Method.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Investments

At June 30, 2018, the Town's investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2018	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Amortized Cost	\$ 14,461,417	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	<u>8,851,045</u>	0.09 years	Unrated
Total		<u>\$ 23,312,462</u>		

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets of a group of assets.

Level of fair value hierarchy:

Level 1 - Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

The Town does not have a formal investment policy.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2018. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments permitted under G.S. 159-30 as amended.

(3) Due from other governments

Amounts due from other governments consist of the following:

	Governmental Activities
General Fund:	
Sales and use tax distribution	\$ 409,267
Utilities franchise and telecommunications tax	147,106
Other government agencies	92,298
Sales tax refunds	<u>173,574</u>
	<u>822,245</u>
Downtown Improvements Capital Project Fund	
STP grant funds	<u>235,794</u>
Riverwalk CMAQ Capital Project Fund	
CMAQ grant funds	<u>40,689</u>
	<u>\$ 1,098,728</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(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, 2018 are 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>58,633</u>
Water and Sewer Enterprise Fund	\$ <u>64,192</u>

(5) Capital assets

Governmental capital asset activity for the year ended June 30, 2018 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	\$ 3,632,871	\$ 1,065,603	\$ (8,000)	\$ -	\$ 4,690,474
Construction-in-progress	<u>619,769</u>	<u>2,195,402</u>	<u>-</u>	<u>(185,458)</u>	<u>2,629,713</u>
Total capital assets not being depreciated	<u>4,252,640</u>	<u>\$ 3,261,005</u>	<u>\$ (8,000)</u>	<u>\$ (185,458)</u>	<u>7,320,187</u>
Capital assets being depreciated:					
Buildings and improvements	6,990,652	\$ -	\$ -	\$ -	6,990,652
Infrastructure	9,364,239	435,837	-	-	9,800,076
Equipment	781,976	18,523	(108,074)	199,448	891,873
Vehicles	<u>4,041,527</u>	<u>686,479</u>	<u>(397,892)</u>	<u>23,700</u>	<u>4,353,814</u>
Total capital assets being depreciated	<u>21,178,394</u>	<u>\$ 1,140,839</u>	<u>\$ (505,966)</u>	<u>\$ 223,148</u>	<u>22,036,415</u>
Less accumulated depreciation for:					
Buildings and improvements	1,979,428	\$ 226,291	\$ -	\$ -	2,205,719
Infrastructure	838,760	236,433	-	-	1,075,193
Equipment	524,921	48,585	(104,666)	13,990	482,830
Vehicles	<u>3,136,577</u>	<u>357,238</u>	<u>(397,892)</u>	<u>23,700</u>	<u>3,119,623</u>
Total accumulated depreciation	<u>6,479,686</u>	<u>\$ 868,547</u>	<u>\$ (502,558)</u>	<u>\$ 37,690</u>	<u>6,883,365</u>
Total capital assets being depreciated, net	<u>14,698,708</u>				<u>15,153,050</u>
Governmental activity capital assets, net	<u>\$ 18,951,348</u>				<u>\$ 22,473,237</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

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

General government	\$ 280,893
Public safety	237,533
Transportation	213,629
Economic and physical development	23,619
Environmental protection	<u>112,873</u>
	<u>\$ 868,547</u>

Business-type capital asset activity for the year ended June 30, 2018 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	\$ 6,095,544	\$ 36,900	\$ -	\$ -	\$ 6,132,444
Construction-in-progress	<u>3,960,184</u>	<u>2,498,107</u>	<u>(77,661)</u>	<u>(2,815,443)</u>	<u>3,565,187</u>
Total capital assets not being amortized or depreciated	<u>10,055,728</u>	<u>\$ 2,535,007</u>	<u>\$ (77,661)</u>	<u>\$ (2,815,443)</u>	<u>9,697,631</u>
Capital assets being amortized or depreciated:					
Buildings and improvements	27,783,910	\$ -	\$ (12,492)	\$ -	27,771,418
Plant and distribution systems	32,311,084	453,490	(577,730)	2,815,443	35,002,287
Infrastructure	739,873	-	-	-	739,873
Equipment	1,675,276	85,294	(146,059)	(13,990)	1,600,521
Intangible assets - software	331,101	-	-	-	331,101
Vehicles	<u>956,577</u>	<u>65,929</u>	<u>(106,936)</u>	<u>(23,700)</u>	<u>891,870</u>
Total capital assets being amortized or depreciated	<u>63,797,821</u>	<u>\$ 604,713</u>	<u>\$ (843,217)</u>	<u>\$ 2,777,753</u>	<u>66,337,070</u>
Less accumulated depreciation and amortization for:					
Buildings and improvements	8,590,640	\$ 807,264	\$ (9,785)	\$ -	9,388,119
Plant and distribution systems	9,161,552	393,448	(306,554)	-	9,248,446
Infrastructure	84,550	17,045	-	-	101,595
Equipment	1,205,133	293,878	(146,059)	(13,990)	1,338,962
Intangible assets	131,715	198,661	-	-	330,376
Vehicles	<u>668,481</u>	<u>89,821</u>	<u>(106,936)</u>	<u>(23,700)</u>	<u>627,666</u>
Total accumulated depreciation and amortization	<u>19,842,071</u>	<u>\$ 1,800,117</u>	<u>\$ (569,334)</u>	<u>\$ (37,690)</u>	<u>21,035,164</u>
Depreciable assets, net	<u>43,955,750</u>				<u>45,301,906</u>
Business-type activity capital assets, net	<u>\$ 54,011,478</u>				<u>\$ 54,999,537</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(6) Construction commitments

The Town has active construction projects as of June 30, 2018 with the following remaining commitments:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Downtown Improvements	\$ 556,514	\$ 233,752
West Fork Eno Reservoir	829,451	4,407,590
Town Barn Renovations	<u>1,163,898</u>	<u>365,909</u>
Total	<u>\$ 2,549,863</u>	<u>\$ 5,007,251</u>

B. Liabilities

(1) Pension plans 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, 2018 was 8.25% of compensation for law enforcement officers and 7.50% 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 \$440,572 for the year ended June 30, 2018.

Town of Hillsborough, North Carolina
Notes to Financial Statements

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, 2018, the Town reported a liability of \$1,404,436 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the Town's proportion was 0.0919%, which was an increase of 0.0005% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$495,515. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 80,909	\$ 39,320
Changes of assumptions	200,573	-
Net difference between projected and actual earnings on pension plan investments	340,998	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	37,724	-
Town contributions subsequent to the measurement date	<u>440,572</u>	<u>-</u>
Total	<u>\$ 1,100,776</u>	<u>\$ 39,320</u>

\$440,572 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:

2019	\$ 94,039
2020	419,842
2021	211,107
2022	(104,104)
2023	-
Thereafter	-

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	7.20 percent, net of pension plan investment expense, including inflation

Town of Hillsborough, North Carolina
Notes to Financial Statements

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, 2016 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, 2017 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	<u>6.0%</u>	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.

Discount rate. The discount rate used to measure the total pension liability was 7.20%. 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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

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 7.20 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 (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 4,216,148	\$ 1,404,436	\$ (942,456)

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, 2016 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.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(iii) *Actuarial assumptions:*

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

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, 2016), the Municipal Bond Index Rate, on which the discount rate is based, was 3.86%. Since the Prior Measurement Date, the Municipal Bond Index Rate has increased to 3.16% as of the Measurement Date (December 31, 2017). This resulted in a \$45,993 increase 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 \$34,115 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, 2018, the Town reported a total pension liability of \$641,574. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$64,723.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 434
Changes of assumptions	29,055	-
Town benefit payments and plan administrative expense made subsequent to the measurement date	<u>18,390</u>	<u>-</u>
Total	<u>\$ 47,445</u>	<u>\$ 434</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

The \$18,390 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 Ending June 30,</u>		
2019	\$	5,386
2020		5,386
2021		5,386
2022		5,386
2023		6,850
Thereafter		<u>227</u>
Total	\$	<u>28,621</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 (2.16%)</u>	<u>Discount Rate (3.16%)</u>	<u>1% Increase (4.16%)</u>
Total pension liability	\$ 698,325	\$ 641,574	\$ 589,463
		<u>2018</u>	
Beginning balance		\$ 566,336	
Service cost		37,358	
Interest on the total pension liability		21,303	
Changes of benefit terms		-	
Differences between expected and actual experience in the measurement of the total pension liability		(520)	
Changes of assumptions or other inputs		45,993	
Benefit payments		<u>(28,896)</u>	
Ending balance of the total pension liability		<u>\$ 641,574</u>	

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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(c) Total expense, liabilities and deferred outflows and inflows of resources related to pensions

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 495,515	\$ 64,723	\$ 560,238
Pension liability	1,404,436	641,574	2,046,010
Proportionate share of net pension liability	0.0919%	N/A	N/A
Deferred outflows of resources			
Differences between expected and actual experience	\$ 80,909	\$ -	\$ 80,909
Changes of assumptions	200,573	29,055	229,628
Net difference between projected and actual earnings on plan investments	340,998	-	340,998
Changes in proportion and differences between contributions and proportionate share of contributions	37,724	-	37,724
Benefit payments and administrative costs paid subsequent to the measurement date	440,572	18,390	458,962
Deferred inflows of resources			
Differences between expected and actual experience	39,320	434	39,754

(d) 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, 2018 were \$428,931, which consisted of \$271,828 from the Town and \$157,103 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 9, 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 9, 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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

<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

Membership of the HC Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	3	2
Active plan members	65	26
Total	<u>68</u>	<u>28</u>

Total OPEB liability

The Town's total OPEB liability of \$1,618,594 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	3.50 percent, including real wage growth
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Discount rate	3.56 percent
Healthcare cost trend rates	7.50% decreasing to an ultimate rate of 5.00% by 2023

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Changes in the total OPEB liability

	<u>2018</u>
Beginning balance	\$ 1,636,540
Service cost	60,886
Interest on the total OPEB liability	48,566
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total OPEB liability	(2,065)
Changes of assumptions or other inputs	(78,864)
Benefit payments	<u>(46,470)</u>
Ending balance of the total OPEB liability	<u>\$ 1,618,593</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.01% to 3.56%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014, adopted by the LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56 percent) or 1 percentage point higher (4.56 percent) than the current rate:

	<u>1% Decrease (2.56%)</u>	<u>Discount Rate (3.56%)</u>	<u>1% Increase (4.56%)</u>
Total OPEB liability	<u>\$ 1,764,811</u>	<u>\$ 1,618,593</u>	<u>\$ 1,484,721</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Healthcare Trend Rate</u>	<u>1% Increase</u>
Total OPEB liability	<u>\$ 1,450,450</u>	<u>\$ 1,618,593</u>	<u>\$ 1,813,034</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended June 30, 2018, the Town recognized OPEB expense of \$102,443. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,829
Changes of assumptions	-	69,851
Benefit payments and administrative costs made subsequent to the measurement date	<u>46,983</u>	<u>-</u>
Total	<u>\$ 46,983</u>	<u>\$ 71,680</u>

\$46,983 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	
2019	\$ (9,249)
2020	(9,249)
2021	(9,249)
2022	(9,249)
2023	(9,249)
Thereafter	<u>(25,435)</u>
Total	<u>\$ (71,680)</u>

(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.

For the fiscal year ended June 30, 2018, 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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(4) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities at June 30, 2018 were as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Payable to vendors and others	\$ 550,964	\$ 29,426	\$ 580,390
Accrued claims and judgments	-	300,000	300,000
Accrued payroll and related liabilities	<u>189,535</u>	<u>624,204</u>	<u>813,739</u>
Total accounts payable and accrued liabilities	<u>\$ 740,499</u>	<u>\$ 953,630</u>	<u>\$ 1,694,129</u>

(5) Deferred outflows and inflows of resources

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

	<u>Deferred Outflows</u>
Contributions to pension plan in current fiscal year	\$ 440,572
Benefit payments and administrative expenses for LEOSA made subsequent to measurement date	18,390
Benefit payments made for OPEB subsequent to measurement date	46,983
Differences between actual and expected experience	80,909
Changes in proportion and differences between contributions and proportionate share of contributions	37,724
Changes of assumptions	229,628
Net difference between projected and actual earnings on pension plan investments	<u>340,998</u>
Total	<u>\$ 1,195,204</u>

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

	<u>Statement of Net Position</u>	<u>Governmental Funds Balance Sheet</u>
Taxes receivable, less penalties	\$ -	\$ 125,209
Capital grant funds receivable but unavailable	-	276,483
Changes in assumptions	69,851	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	-
Differences between expected and actual experience	<u>41,583</u>	<u>-</u>
Total	<u>\$ 111,434</u>	<u>\$ 401,692</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(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.

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.

The Town has accrued a loss contingency of \$300,000 related to a lawsuit that names the Town as a defendant, whereby a developer that previously performed construction work in the Town is seeking reimbursement for certain fees charged to the developer by the Town during construction. The maximum potential loss is believed to be \$570,000.

(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.

\$ 408,667

Town of Hillsborough, North Carolina
Notes to Financial Statements

<p>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%.</p>	<p>\$ 229,458</p>
<p>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%.</p>	<p>474,266</p>
<p>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.</p>	<p>124,017</p>
<p>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.</p>	<p>504,804</p>
<p>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.</p>	<p>471,782</p>
<p>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.</p>	<p>53,757</p>
<p>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.</p>	<p>130,246</p>
<p>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.</p>	<p>245,201</p>
<p>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.</p>	<p>241,263</p>

Town of Hillsborough, North Carolina
Notes to Financial Statements

Note payable to BB&T, executed September 2017, in the amount of \$465,522 for the purchase of police vehicles. The note is payable in nine semi-annual payments of \$54,509 with interest payable at 1.86%, and is secured by the vehicles. \$ 465,522

Note payable to Capital One, executed April 2018, in the amount of \$2,770,000 to finance renovations for the Town's North Campus location and the Town Barn. The note is payable in fifteen annual payments of \$239,296 with interest payable at 3.56%, and is secured by the mortgaged property. This note is allocated 83.65% to governmental activities, and 16.35% to business-type activities, and accordingly, the annual payments made out of the general fund will be \$200,171, which commenced on January 1, 2019. 2,480,248

5,829,231

Less current portion (1,043,658)

\$ 4,785,573

The future minimum payments on the notes payable as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,043,658	\$ 135,217	\$ 1,178,875
2020	847,516	133,941	981,457
2021	744,783	115,107	859,890
2022	582,459	97,774	680,233
2023	437,275	84,029	521,304
2024 - 2028	1,146,229	288,527	1,434,756
2029 - 2033	<u>1,027,311</u>	<u>107,318</u>	<u>1,134,629</u>
	<u>\$ 5,829,231</u>	<u>\$ 961,913</u>	<u>\$ 6,791,144</u>

Business-type activities:

Enterprise fund - Water/Sewer Fund:

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. \$ 232,514

Note payable to Capital One, executed April 2018, in the amount of \$2,770,000 to finance renovations for the Town's North Campus location and the Town Barn. The note is payable in fifteen annual payments of \$239,296 with interest payable at 3.56%, and is secured by the mortgaged property. This note is allocated 83.65% to governmental activities, and 16.35% to business-type activities, and accordingly, the annual payments made out of the general fund will be \$200,171, which commenced on January 1, 2019. 289,752

522,266

Less current portion (122,622)

\$ 399,644

Town of Hillsborough, North Carolina
Notes to Financial Statements

The long-term debt requirements to maturity as of June 30, 2018 for the Enterprise Fund are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 122,622	\$ 12,197	\$ 134,819
2020	120,466	11,977	132,443
2021	38,145	9,398	47,543
2022	16,450	8,581	25,031
2023	17,036	7,995	25,031
2024 - 2028	94,722	30,433	125,155
2029 - 2033	<u>112,825</u>	<u>12,330</u>	<u>125,155</u>
	<u>\$ 522,266</u>	<u>\$ 92,911</u>	<u>\$ 615,177</u>

a. The provisions of this loan agreement contain certain financial covenants related to the maintenance of fund balance. At June 30, 2018, the Town was in compliance with such covenants.

b. General obligation indebtedness

The Town's legal debt margin at June 30, 2018 was \$78,369,659.

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, 2018 was \$609,779.

Annual debt service requirements to maturity for this Revolving Loan Payable as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	76,222	8,110	84,332
2024 - 2026	<u>228,669</u>	<u>12,166</u>	<u>240,835</u>
	<u>\$ 609,779</u>	<u>\$ 72,992</u>	<u>\$ 682,771</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, 2018 was \$14,248,005.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Annual debt service requirements to maturity for this Revolving Loan Payable as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	890,500	262,342	1,152,842
2024 - 2028	4,452,500	983,780	5,436,280
2029 - 2033	4,452,500	437,236	4,889,736
2034	890,505	21,862	912,367
	<u>\$ 14,248,005</u>	<u>\$ 2,973,202</u>	<u>\$ 17,221,207</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 \$1,882,438 at June 30, 2018. The first payment was made on the note in April 2016. During the year ended June 30, 2018, the loan was re-amortized following a final drawdown in the amount of \$60,350. The loan is repayable in a principal payment of \$72,078 due on May 1, 2019, followed by equal principal payments of \$94,122 annually on May 1st, with no interest, through fiscal year ending 2035. The total amount outstanding at June 30, 2018 was \$1,578,028.

Annual debt service requirements to maturity for this Revolving Loan Payable as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 72,078	\$ -	\$ 72,078
2020	94,122	-	94,122
2021	94,122	-	94,122
2022	94,122	-	94,122
2023	94,122	-	94,122
2024 - 2028	470,610	-	470,610
2029 - 2033	470,610	-	470,610
2034	188,242	-	188,242
	<u>\$ 1,578,028</u>	<u>\$ -</u>	<u>\$ 1,578,028</u>

d. Special revenue bonds payable

On May 24, 2018, the City issued \$10,155,000 of special revenue bonds secured by water and sewer utility revenues for improvements to the water and sewer system, including renovation and expansion of the Town's West Fork of the Eno Reservoir; \$6,500,000 were issued as serial bonds and \$3,655,000 were issued as term bonds. The purchase price of the bonds was \$11,180,846, resulting in a premium upon issuance of \$1,025,846. The serial bonds carry interest rates of 4.00% to 5.00% and mature between October 1, 2020, and October 1, 2038. The term bonds were divided into two lots with \$1,765,000 paying 3.375% due between October 1, 2039 and October 1, 2040, and \$1,890,000 paying 3.50% due between October 1, 2041 and October 1, 2042. All term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates. \$10,155,000 remains outstanding at June 30, 2018.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Annual debt service requirements to maturity for these special revenue bonds payable as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 384,150	\$ 384,150
2020	-	450,469	450,469
2021	25,000	449,969	474,969
2022	25,000	448,844	473,844
2023	30,000	447,469	477,469
2024 - 2028	160,000	2,214,344	2,374,344
2029 - 2033	1,840,000	2,048,344	3,888,344
2034 - 2038	3,590,000	1,302,594	4,892,594
2039 - 2043	4,485,000	405,434	4,890,434
	<u>\$ 10,155,000</u>	<u>\$ 8,151,617</u>	<u>\$ 18,306,617</u>

e. Changes in long-term debt

	<u>Balance July 1, 2017, as Adjusted</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>	<u>Current Portion of Long-Term Liabilities</u>
Governmental activities:					
Installment purchases	\$ 4,025,201	\$ 2,945,770	\$ 1,141,740	\$ 5,829,231	\$ 1,043,658
Compensated absences	306,497	154,397	135,390	325,504	135,390
Other postemployment benefits	1,022,837	-	11,216	1,011,621	-
Net pension liability (LGERS)	1,288,796	-	326,482	962,314	-
Total pension liability (LEOSSA)	<u>566,336</u>	<u>75,238</u>	<u>-</u>	<u>641,574</u>	<u>-</u>
	<u>\$ 7,209,667</u>	<u>\$ 3,175,405</u>	<u>\$ 1,614,828</u>	<u>\$ 8,770,244</u>	<u>\$ 1,179,048</u>
Business-type activities:					
Installment purchases	\$ 2,513,821	\$ 289,752	\$ 2,281,307	\$ 522,266	\$ 122,622
Revolving loans payable	17,443,655	60,350	1,068,193	16,435,812	1,038,800
Special revenue bonds payable	-	10,155,000	-	10,155,000	-
Premium on bonds payable	-	1,025,846	7,172	1,018,674	7,172
Other postemployment benefits	613,704	-	6,731	606,973	-
Net pension liability (LGERS)	672,242	-	230,120	442,122	-
Compensated absences	<u>201,040</u>	<u>148,227</u>	<u>122,595</u>	<u>226,672</u>	<u>121,789</u>
	<u>\$ 21,444,462</u>	<u>\$ 11,679,175</u>	<u>\$ 3,716,118</u>	<u>\$ 29,407,519</u>	<u>\$ 1,290,383</u>

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

Town of Hillsborough, North Carolina
Notes to Financial Statements

f. 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, 2018, \$2,775,000 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 Ending</u> <u>June 30,</u>		
2019	\$	79,770
2020		72,484
2021		71,284
2022		141,306

Rent expense under operating leases for the year ended June 30, 2018 was \$79,770.

C. Interfund balances and activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2018 consist of the following:

From the General Fund to the Downtown Improvements Capital Project Fund for design work	\$	41,500
From the General Fund to the Rail Station Capital Projects Fund for design work		5,000
From the General Fund to the Riverwalk CMAQ Capital Projects Fund for grant matching funds		24,450
From the General Fund to the General Capital Projects Fund for future connectivity projects		169,050
From the General Capital Projects Fund to the General Fund for debt service payments		<u>104,808</u>
	<u>\$</u>	<u>344,808</u>

D. Net investment in capital assets

	<u>Governmental</u>	<u>Business-Type</u>
Capital assets	\$ 22,473,237	\$ 54,999,537
Less: related debt		
Installment purchases	(5,829,231)	(522,266)
Revolving loans payable	-	(16,435,812)
Special revenue bonds payable	-	(10,155,000)
Construction retainage payable	(61,258)	(44,361)
Add: unexpended debt proceeds	<u>1,997,329</u>	<u>8,851,201</u>
Net investment in capital assets	<u>\$ 18,580,077</u>	<u>\$ 36,693,299</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

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	\$ 7,445,095
Less:	
Prepaid items	1,848
Stabilization by state statute	2,307,248
Streets - Powell Bill	59,838
Sidewalks	46,526
Affordable housing	46,000
Appropriated fund balance in subsequent fiscal year's budget	885,388
Other assignments	7,815
Working capital/fund balance policy	<u>4,090,432</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.

Encumbrances

General Fund	<u>\$ 161,366</u>
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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 \$2,521 to the Council during the fiscal year ended June 30, 2018.

6. Changes in Accounting Principles

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record a beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town towards the plan during the measurement period. The information necessary for full retrospective application is not available, so the accounting change was implemented in fiscal year 2018 with a cumulative effect adjustment to net position as of the beginning of the year. As a result, government-wide net position at July 1, 2017 decreased \$1,049,855 (\$669,929 for governmental activities, and \$379,926 for business-type activities).

7. Significant Effects of Subsequent Events

Subsequent to year-end, it was discovered that Orange County was being sued by a local business that operates in Hillsborough which claims that the County had overcharged property taxes in prior years. The Town believes that the maximum potential exposure in this matter is \$480,000, which is the portion of the taxes that were distributed to the Town by Orange County. No liability has been recorded as the likelihood of a loss is still being evaluated.

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 Changes in the Total OPEB Liability and Related Ratios.
- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System

Town of Hillsborough, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedules of Changes in Total Pension Liability
Last Two Fiscal Years

Exhibit A

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 566,336	\$ 556,718
Service cost	37,358	36,956
Interest on the total pension liability	21,303	19,286
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(520)	-
Changes of assumptions or other inputs	45,993	(13,621)
Benefit payments	(28,896)	(33,003)
Other changes	-	-
Ending balance of the total pension liability	<u>\$ 641,574</u>	<u>\$ 566,336</u>

Notes to the Schedules:

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

Town of Hillsborough, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedules of Total Pension Liability as a Percentage of Covered Payroll
Last Two Fiscal Years

Exhibit B

	2018	2017
Total pension liability	\$ 641,574	\$ 566,336
Covered payroll	1,670,805	1,650,937
Total pension liability as a percentage of covered payroll	38.40%	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 Changes in the Total OPEB Liability and Related Ratios
Required Supplementary Information
June 30, 2018

Exhibit C

Total OPEB Liability	
Service cost	\$ 60,886
Interest	48,567
Changes of benefit terms	-
Differences between expected and actual experience	(2,065)
Changes of assumptions or other inputs	(78,864)
Benefit payments	<u>(46,470)</u>
Net change in total OPEB liability	(17,946)
Total OPEB liability, beginning	<u>1,636,540</u>
Total OPEB liability, ending	<u><u>\$ 1,618,594</u></u>
Covered-employee payroll	\$ 5,180,570
Total OPEB liability as a percentage of covered-employee payroll	31.24%

Notes to the Schedule:

**Changes of assumption and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period.*

<u>Fiscal Year</u>	<u>Rate</u>
2018	3.56%

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

Exhibit D-1

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Hillsborough's proportion of the net pension liability (asset) (%)	0.0919%	0.0924%	0.0838%	0.0809%	0.0797%
Hillsborough's proportion of the net pension liability (asset) (\$)	\$ 1,404,436	\$ 1,961,038	\$ 376,224	\$ (477,164)	\$ 960,691
Hillsborough's covered-employee payroll	5,750,308	5,235,777	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	24.42%	37.45%	7.74%	-10.21%	21.70%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	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
Schedules of Contributions
Local Government Employees' Retirement System
Required Supplementary Information
Last Five Fiscal Years

Exhibit D-2

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 440,572	\$ 429,432	\$ 356,396	\$ 357,402	\$ 333,343
Contributions in relation to the contractually required contribution	<u>440,572</u>	<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>	<u>\$ -</u>
Hillsborough's covered-employee payroll	\$ 5,695,125	\$ 5,750,308	\$ 5,235,777	\$ 4,861,624	\$ 4,672,868
Contributions as a percentage of covered-employee payroll	7.74%	7.47%	6.81%	7.35%	7.13%

Supplementary Information

Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018 with Comparative Actual Amounts for
Year Ended June 30, 2017

Schedule 1
(5 pages)

	2018		Variance Positive (Negative)	2017
	Budget	Actual		Actual
Revenues				
General revenues:				
Ad valorem taxes:				
Current	\$ 6,267,798	\$ 6,669,987	\$ 402,189	\$ 6,040,414
Prior	500	481	(19)	1,307
Penalties and interest	18,000	31,380	13,380	22,416
	<u>6,286,298</u>	<u>6,701,848</u>	<u>415,550</u>	<u>6,064,137</u>
Other taxes and licenses:				
Local option sales tax	1,296,650	1,486,817	190,167	1,364,779
Gross receipts on short-term rental property	8,000	9,657	1,657	8,679
Privilege licenses	-	1,160	1,160	2,830
Motor vehicle license fees	157,680	260	(157,420)	345
Solid waste disposal	4,000	4,465	465	5,357
	<u>1,466,330</u>	<u>1,502,359</u>	<u>36,029</u>	<u>1,381,990</u>
Unrestricted intergovernmental revenues:				
Franchise tax	410,000	584,681	174,681	541,009
Beer and wine tax	27,000	29,106	2,106	29,257
Food and beverage tax	436,171	395,535	(40,636)	368,370
Occupancy tax	96,809	70,862	(25,947)	71,757
	<u>969,980</u>	<u>1,080,184</u>	<u>110,204</u>	<u>1,010,393</u>
Restricted intergovernmental revenues:				
Powell Bill	180,000	189,743	9,743	185,922
Federal grants	-	8,852	8,852	42,611
State grants	-	11,000	11,000	108,089
Other	150	6,029	5,879	9,874
	<u>180,150</u>	<u>215,624</u>	<u>35,474</u>	<u>346,496</u>
Investment earnings	15,000	118,484	103,484	36,091
Other general revenues	28,050	53,804	25,754	79,734
Total general revenues	<u>8,945,808</u>	<u>9,672,303</u>	<u>726,495</u>	<u>8,918,841</u>

Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018 with Comparative Actual Amounts for
Year Ended June 30, 2017

Schedule 1
(5 pages)

	2018		Variance Positive (Negative)	2017
	Budget	Actual		Actual
Functionally related revenues:				
Use and rental fees:				
Zoning permits	\$ 70,000	\$ 127,308	\$ 57,308	\$ 105,815
Cable franchise	50,000	54,636	4,636	80,656
Time Warner Cable PEG fees	27,000	26,893	(107)	27,585
Fire inspection fees	12,000	13,909	1,909	13,555
Affordable Housing	-	360,440	360,440	5,000
Total functionally related revenues	<u>159,000</u>	<u>583,186</u>	<u>424,186</u>	<u>232,611</u>
Total revenues	<u>9,104,808</u>	<u>10,255,489</u>	<u>1,150,681</u>	<u>9,151,452</u>
Expenditures				
General government:				
Governing body:				
Personnel services		47,915		48,141
Other services and charges		215,891		231,396
Reimbursement from enterprise funds		(133,607)		(132,774)
	<u>187,506</u>	<u>130,199</u>	<u>57,307</u>	<u>146,763</u>
Ruffin-Roulhac:				
Other services and charges		32,965		38,824
Capital outlay		-		10,603
Reimbursement from enterprise funds		(20,296)		(26,781)
	<u>2,938</u>	<u>12,669</u>	<u>(9,731)</u>	<u>22,646</u>
Administration:				
Personnel services		741,841		708,514
Other services and charges		437,005		424,093
Reimbursement from enterprise funds		(603,246)		(547,121)
	<u>650,551</u>	<u>575,600</u>	<u>74,951</u>	<u>585,486</u>
Finance:				
Personnel services		473,506		419,459
Other services and charges		108,549		92,535
Debt service payments		105,660		9,076
Reimbursement from enterprise funds		(339,045)		(271,460)
	<u>313,343</u>	<u>348,670</u>	<u>(35,327)</u>	<u>249,610</u>

Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018 with Comparative Actual Amounts for
Year Ended June 30, 2017

Schedule 1
(5 pages)

	2018		Variance Positive (Negative)	2017
	Budget	Actual		Actual
Planning:				
Personnel services		\$ 337,864		\$ 335,553
Other services and charges		56,577		78,088
	<u>\$ 417,249</u>	<u>394,441</u>	<u>\$ 22,808</u>	<u>413,641</u>
Motor pool:				
Personnel services		264,456		251,747
Other services and charges		186,495		157,616
Debt service payments		85,871		87,652
Reimbursement from enterprise funds		(295,287)		(236,887)
	<u>301,834</u>	<u>241,535</u>	<u>60,299</u>	<u>260,128</u>
Total general government	<u>1,873,421</u>	<u>1,703,114</u>	<u>170,307</u>	<u>1,678,274</u>
Public safety:				
Police department:				
Personnel services		2,601,203		2,336,651
Other services and charges		341,622		300,761
Capital outlay		436,967		166,951
Debt service payments		36,377		36,377
	<u>3,692,799</u>	<u>3,416,169</u>	<u>276,630</u>	<u>2,840,740</u>
Fire inspections/code enforcement:				
Personnel services		125,126		118,736
Other services and charges		9,120		22,744
Debt service payments		226,455		226,455
	<u>383,195</u>	<u>360,701</u>	<u>22,494</u>	<u>367,935</u>
Safety:				
Personnel services		100,052		93,915
Other services and charges		422,506		352,747
Capital outlay		18,523		-
Reimbursement from enterprise funds		(232,003)		(245,402)
	<u>269,584</u>	<u>309,078</u>	<u>(39,494)</u>	<u>201,260</u>
Fire protection				
Other services and charges		987,908		937,313
	<u>997,592</u>	<u>987,908</u>	<u>9,684</u>	<u>937,313</u>
Total public safety	<u>5,343,170</u>	<u>5,073,856</u>	<u>269,314</u>	<u>4,347,248</u>

Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018 with Comparative Actual Amounts for
Year Ended June 30, 2017

Schedule 1
(5 pages)

	2018		Variance Positive (Negative)	2017
	Budget	Actual		Actual
Transportation:				
Street department/Powell Bill:				
Personnel services		\$ 279,093		\$ 250,131
Other services and charges		184,766		195,502
Capital outlay		551,073		419,652
Debt service payments		45,562		-
	<u>\$ 1,351,422</u>	<u>1,060,494</u>	<u>\$ 290,928</u>	<u>865,285</u>
Total transportation	<u>1,351,422</u>	<u>1,060,494</u>	<u>290,928</u>	<u>865,285</u>
Environmental protection:				
Sanitation department:				
Personnel services		222,475		261,624
Other services and charges		128,559		124,294
Capital outlay		134,276		-
Debt service payments		123,964		135,404
	<u>688,213</u>	<u>609,274</u>	<u>78,939</u>	<u>521,322</u>
Cemetery:				
Other services and charges		10,038		59,552
	<u>15,875</u>	<u>10,038</u>	<u>5,837</u>	<u>59,552</u>
Stormwater:				
Personnel services		-		677
Other services and charges		-		3,788
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,465</u>
Total environmental protection	<u>704,088</u>	<u>619,312</u>	<u>84,776</u>	<u>585,339</u>
Economic and physical development:				
Tourism:				
Other services and charges		473,177	-	442,006
	<u>545,989</u>	<u>473,177</u>	<u>72,812</u>	<u>442,006</u>
Total economic and physical development	<u>545,989</u>	<u>473,177</u>	<u>72,812</u>	<u>442,006</u>
Community activities and projects:				
Contributions		5,000		5,000
Other services and charges		37,038		52,673
Debt service payments		525,645		141,417
Total community activities and projects	<u>194,876</u>	<u>567,683</u>	<u>(372,807)</u>	<u>199,090</u>

Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018 with Comparative Actual Amounts for
Year Ended June 30, 2017

Schedule 1
(5 pages)

	2018		Variance Positive (Negative)	2017
	Budget	Actual		Actual
Parks and recreation:				
Personnel services		\$ 117,990		\$ 73,325
Other services and charges		333,816		324,347
Debt service payments		251,585		254,317
Reimbursement from enterprise funds		(24,082)		-
Total parks and recreation	\$ 712,182	679,309	\$ 32,873	651,989
Contingency:				
Other services and charges		-		-
	98	-	98	-
Total expenditures	10,725,246	10,176,945	548,301	8,769,231
Revenues over (under) expenditures	(1,620,438)	78,544	1,698,982	382,221
Other financing sources (uses):				
Transfer to other funds:				
General Capital Projects Fund	(169,050)	(169,050)	-	-
Downtown Improvements Capital Project Fund	(41,500)	(41,500)	-	(129,737)
Town Barn Improvements Capital Project Fund	-	-	-	(114,201)
Rail Station Capital Project Fund	(5,000)	(5,000)	-	-
Riverwalk - CMAQ Fund	(24,450)	(24,450)	-	-
Public Works Project Fund	-	-	-	(25,000)
Transfer from other funds:				
General Capital Reserve Fund	104,808	104,808	-	126,053
Installment purchase obligations issued	460,000	948,441	488,441	317,000
Sale of capital assets	-	43,670	43,670	21,610
Total other financing sources (uses)	324,808	856,919	532,111	195,725
Appropriated fund balance	1,295,630	-	(1,295,630)	-
Net change in fund balance	\$ -	935,463	\$ 935,463	577,946
Fund balance, beginning		6,509,632		5,931,686
Fund balance, ending		\$ 7,445,095		\$ 6,509,632

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Town Barn Improvements Capital Project Fund
Year Ended June 30, 2018

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>
Expenditures					
Design	\$ 144,000	\$ 38,228	\$ 101,997	\$ 140,225	\$ 3,775
Construction	1,635,444	3,701	1,196,404	1,200,105	435,339
Miscellaneous capital items	352,086	-	193,642	193,642	158,444
	<u>2,131,530</u>	<u>41,929</u>	<u>1,492,043</u>	<u>1,533,972</u>	<u>597,558</u>
Total expenditures					
Revenues under expenditures	(2,131,530)	(41,929)	(1,492,043)	(1,533,972)	597,558
Other financing sources					
Installment purchase obligations issued	1,997,329	-	1,997,329	1,997,329	-
Transfer from General Fund	134,201	134,201	-	134,201	-
	<u>2,131,530</u>	<u>134,201</u>	<u>1,997,329</u>	<u>2,131,530</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 92,272</u>	<u>505,286</u>	<u>\$ 597,558</u>	<u>\$ 597,558</u>
Fund balance, beginning			<u>92,272</u>		
Fund balance, ending			<u>\$ 597,558</u>		

Town of Hillsborough, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

Schedule 3
(2 pages)

	Consolidated General Capital Projects Fund	Downtown Improvements Capital Projects Fund	Riverwalk CMAQ Capital Project Fund
ASSETS			
Cash and investments	\$ -	\$ -	\$ 119,364
Due from other governments	-	235,794	40,689
Restricted assets:			
Cash and investments	281,543	-	-
Total assets	<u>\$ 281,543</u>	<u>\$ 235,794</u>	<u>\$ 160,053</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ 9,174	\$ 50,861
Due to other funds	-	166,392	-
Total liabilities	<u>-</u>	<u>175,566</u>	<u>50,861</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	235,794	40,689
Total deferred inflows of resources	<u>-</u>	<u>235,794</u>	<u>40,689</u>
Fund balances:			
Restricted for:			
Stabilization by state statute	4,330	51,674	83,372
Capital projects	277,213	-	-
Committed for:			
Capital projects	-	-	-
Unassigned	-	(227,240)	(14,869)
Total fund balances (deficit)	<u>281,543</u>	<u>(175,566)</u>	<u>68,503</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 281,543</u>	<u>\$ 235,794</u>	<u>\$ 160,053</u>

Rail Station Capital Project Fund	Public Works Building Capital Project Fund	Total Nonmajor Governmental Funds
\$ 45,135	\$ 49,018	\$ 213,517
-	-	276,483
-	-	281,543
<u>\$ 45,135</u>	<u>\$ 49,018</u>	<u>\$ 771,543</u>
\$ -	\$ -	\$ 60,035
-	-	166,392
-	-	226,427
-	-	276,483
-	-	276,483
-	1,200	140,576
-	-	277,213
45,135	47,818	92,953
-	-	(242,109)
<u>45,135</u>	<u>49,018</u>	<u>268,633</u>
<u>\$ 45,135</u>	<u>\$ 49,018</u>	<u>\$ 771,543</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, 2018

Schedule 4
(2 pages)

	Consolidated General Capital Projects Fund	Downtown Improvements Capital Project Fund	Riverwalk CMAQ Capital Project Fund
Revenues			
Restricted intergovernmental revenues:			
Federal grants	\$ -	\$ 120,946	\$ 24,624
State grants	-	365,000	-
Contributions from property owners	22,434	-	-
Investment earnings	1,789	-	-
	<u>24,223</u>	<u>485,946</u>	<u>24,624</u>
Total revenues			
Expenditures			
Current:			
General government	22,434	-	-
Environmental protection	-	-	-
Economic and physical development	-	630,936	-
Parks and recreation	-	-	50,861
	<u>22,434</u>	<u>630,936</u>	<u>50,861</u>
Total expenditures			
Revenues under expenditures	<u>1,789</u>	<u>(144,990)</u>	<u>(26,237)</u>
Other financing sources			
Transfer from General Fund	169,050	41,500	24,450
Transfer to General Fund	<u>(104,808)</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>64,242</u>	<u>41,500</u>	<u>24,450</u>
Net change in fund balances	66,031	(103,490)	(1,787)
Fund balances (deficit), beginning	<u>215,512</u>	<u>(72,076)</u>	<u>70,290</u>
Fund balances (deficit), ending	<u>\$ 281,543</u>	<u>\$ (175,566)</u>	<u>\$ 68,503</u>

Rail Station Capital Project Fund	Public Works Building Capital Project Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 145,570
-	-	365,000
-	-	22,434
-	-	1,789
<u>-</u>	<u>-</u>	<u>534,793</u>
-	-	22,434
-	21,562	21,562
-	-	630,936
-	-	50,861
<u>-</u>	<u>21,562</u>	<u>725,793</u>
<u>-</u>	<u>(21,562)</u>	<u>(191,000)</u>
5,000	-	240,000
<u>-</u>	<u>-</u>	<u>(104,808)</u>
5,000	-	135,192
5,000	(21,562)	(55,808)
40,135	70,580	324,441
<u>\$ 45,135</u>	<u>\$ 49,018</u>	<u>\$ 268,633</u>

Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Capital Projects Fund
Nonmajor Capital Project Fund
Year Ended June 30, 2018

Schedule 5

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
Revenues					
Contributions from property owners	\$ 4,600,000	\$ 3,170,839	\$ 22,434	\$ 3,193,273	\$ (1,406,727)
Investment earnings	107	107	-	107	-
Total revenues	<u>4,600,107</u>	<u>3,170,946</u>	<u>22,434</u>	<u>3,193,380</u>	<u>(1,406,727)</u>
Expenditures					
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
Connectivity projects	20,000	-	-	-	20,000
Fiber loop	150,000	-	-	-	150,000
Construction	4,600,000	3,170,840	22,434	3,193,274	1,406,726
Total expenditures	<u>8,159,384</u>	<u>6,560,223</u>	<u>22,434</u>	<u>6,582,657</u>	<u>1,576,727</u>
Revenues under expenditures	<u>(3,559,277)</u>	<u>(3,389,277)</u>	<u>-</u>	<u>(3,389,277)</u>	<u>170,000</u>
Other financing sources (uses):					
Installment purchase obligations issued	3,319,650	3,319,650	-	3,319,650	-
Transfer from General Fund	246,697	77,647	169,050	246,697	-
Transfer to General Fund	<u>(7,070)</u>	<u>(7,070)</u>	<u>-</u>	<u>(7,070)</u>	<u>-</u>
Total other financing sources	<u>3,559,277</u>	<u>3,390,227</u>	<u>169,050</u>	<u>3,559,277</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 950</u>	<u>169,050</u>	<u>\$ 170,000</u>	<u>\$ 170,000</u>
Fund balance, beginning			<u>950</u>		
Fund balance, ending			<u>170,000</u>		
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			1,789		
Transfers out - Capital Reserve Fund			(104,808)		
Fund balance, beginning (Capital Reserve Fund)			<u>214,562</u>		
Fund balance, ending (Consolidated General Capital Projects Fund)			<u>\$ 281,543</u>		

Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Capital Reserve Fund
Nonmajor Capital Project Fund
Year Ended June 30, 2018

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>
Revenues					
Capital contributions	\$ 1,105,000	\$ 1,105,000	\$ -	\$ 1,105,000	\$ -
Interest on investments	15,065	16,808	1,789	18,597	3,532
Total revenues	1,120,065	1,121,808	1,789	1,123,597	3,532
Expenditures					
	108,010	-	-	-	108,010
Revenues over expenditures	1,012,055	1,121,808	1,789	1,123,597	111,542
Other financing uses					
Transfer to General Fund	(609,024)	(504,215)	(104,808)	(609,023)	1
Transfer to Water Sewer Capital Reserve Fund	(403,031)	(403,031)	-	(403,031)	-
Total other financing uses	(1,012,055)	(907,246)	(104,808)	(1,012,054)	1
Net change in fund balance	<u>\$ -</u>	<u>\$ 214,562</u>	<u>(103,019)</u>	<u>\$ 111,543</u>	<u>\$ 111,543</u>
Fund balance, beginning			<u>214,562</u>		
Fund balance, ending			<u>\$ 111,543</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, 2018

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>
Revenues					
Restricted intergovernmental revenues					
State grants	\$ 365,000	\$ -	\$ 365,000	\$ 365,000	\$ -
Federal grants	366,000	-	120,946	120,946	(245,054)
Total revenues	<u>731,000</u>	<u>-</u>	<u>485,946</u>	<u>485,946</u>	<u>(245,054)</u>
Expenditures					
Design	3,172	3,172	-	3,172	-
Construction	934,565	234,141	630,936	865,077	69,488
Total expenditures	<u>937,737</u>	<u>237,313</u>	<u>630,936</u>	<u>868,249</u>	<u>69,488</u>
Revenues under expenditures	(206,737)	(237,313)	(144,990)	(382,303)	(175,566)
Other financing sources					
Transfer from General Fund	<u>206,737</u>	<u>165,237</u>	<u>41,500</u>	<u>206,737</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (72,076)</u>	<u>(103,490)</u>	<u>\$ (175,566)</u>	<u>\$ (175,566)</u>
Fund deficit, beginning			<u>(72,076)</u>		
Fund deficit, ending			<u>\$ (175,566)</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, 2018

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>
Revenues					
Restricted intergovernmental revenues:					
Federal grants	\$ 1,014,850	\$ 73,574	\$ 24,624	\$ 98,198	\$ (916,652)
Total revenues	<u>1,014,850</u>	<u>73,574</u>	<u>24,624</u>	<u>98,198</u>	<u>(916,652)</u>
Expenditures					
Design	132,800	131,778	-	131,778	1,022
Construction	920,000	5,006	48,192	53,198	866,802
Administration	120,000	-	2,669	2,669	117,331
Total expenditures	<u>1,172,800</u>	<u>136,784</u>	<u>50,861</u>	<u>187,645</u>	<u>985,155</u>
Revenues under expenditures	(157,950)	(63,210)	(26,237)	(89,447)	68,503
Other financing sources					
Transfer from General Fund	157,950	133,500	24,450	157,950	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 70,290</u>	<u>(1,787)</u>	<u>\$ 68,503</u>	<u>\$ 68,503</u>
Fund balance, beginning			<u>70,290</u>		
Fund balance, ending			<u>\$ 68,503</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, 2018

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>
Revenues					
Restricted intergovernmental revenues:					
State grants	\$ 870,000	\$ -	\$ -	\$ -	\$ (870,000)
Total revenues	<u>870,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(870,000)</u>
Expenditures					
Design	<u>1,045,000</u>	<u>13,865</u>	<u>-</u>	<u>13,865</u>	<u>1,031,135</u>
Total expenditures	<u>1,045,000</u>	<u>13,865</u>	<u>-</u>	<u>13,865</u>	<u>1,031,135</u>
Revenues under expenditures	(175,000)	(13,865)	-	(13,865)	161,135
Other financing sources					
Transfer from General Fund	<u>175,000</u>	<u>54,000</u>	<u>5,000</u>	<u>59,000</u>	<u>(116,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 40,135</u>	<u>5,000</u>	<u>\$ 45,135</u>	<u>\$ 45,135</u>
Fund balance, beginning			<u>40,135</u>		
Fund balance, ending			<u>\$ 45,135</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, 2018

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>
Expenditures					
Design	\$ 75,000	\$ 4,420	\$ 21,562	\$ 25,982	\$ 49,018
Construction	1,000,000	-	-	-	1,000,000
Total expenditures	<u>1,075,000</u>	<u>4,420</u>	<u>21,562</u>	<u>25,982</u>	<u>1,049,018</u>
Revenues under expenditures	(1,075,000)	(4,420)	(21,562)	(25,982)	1,049,018
Other financing sources					
Installment purchase obligations issued	1,000,000	-	-	-	(1,000,000)
Transfer from General Fund	<u>75,000</u>	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>-</u>
	<u>1,075,000</u>	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>(1,000,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 70,580</u>	<u>(21,562)</u>	<u>\$ 49,018</u>	<u>\$ 49,018</u>
Fund balance, beginning			<u>70,580</u>		
Fund balance, ending			<u>\$ 49,018</u>		

Town of Hillsborough, North Carolina
Schedule of Revenues
Budget and Actual (Non-GAAP)
Water and Sewer Fund
Enterprise Fund
Year Ended June 30, 2018 with Comparative Actual Amounts
for Year Ended June 30, 2017

Schedule 11

	2018		Variance Positive (Negative)	2017
	Budget	Actual		Actual
Revenues				
Operating revenues:				
Water charges	\$ 3,950,000	\$ 4,092,154	\$ 142,154	\$ 3,897,326
Sewer charges	4,010,000	4,428,334	418,334	4,575,619
Other receipts	<u>1,583,356</u>	<u>1,744,469</u>	<u>161,113</u>	<u>920,340</u>
	9,543,356	10,264,957	721,601	9,393,285
Nonoperating revenues:				
Interest on investments	<u>3,030</u>	<u>15,745</u>	<u>12,715</u>	<u>10,670</u>
Total revenues	<u><u>\$ 9,546,386</u></u>	<u><u>\$ 10,280,702</u></u>	<u><u>\$ 734,316</u></u>	<u><u>\$ 9,403,955</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, 2018 with Comparative Actual Amounts
for Year Ended June 30, 2017

Schedule 12
(3 pages)

	2018		Variance Positive (Negative)	2017
	Budget	Actual		Actual
Expenditures				
Engineering:				
Personnel services		\$ 300,579		\$ 418,031
Other services and charges		1,678,247		1,493,526
Capital outlay		-		29,309
Total engineering	<u>\$ 2,374,678</u>	<u>1,978,826</u>	<u>\$ 395,852</u>	<u>1,940,866</u>
Billing and collection:				
Personnel services		268,690		333,932
Other services and charges		418,495		376,311
Repairs and maintenance		245		725
Debt service payments		1,270,205		66,223
Total billing and collection	<u>1,810,210</u>	<u>1,957,635</u>	<u>(147,425)</u>	<u>777,191</u>
Water plant:				
Personnel services		582,644		571,480
Other services and charges		280,721		356,397
Repairs and maintenance		35,610		47,338
Capital outlay		31,762		-
Debt service payments		109,051		111,301
Total water plant	<u>1,440,198</u>	<u>1,039,788</u>	<u>400,410</u>	<u>1,086,516</u>
Water distribution:				
Personnel services		420,977		410,666
Other services and charges		254,334		238,765
Repairs and maintenance		5,314		21,057
Capital outlay		175,124		141,840
Debt service payments		123,903		124,244
Total water distribution	<u>1,212,463</u>	<u>979,652</u>	<u>232,811</u>	<u>936,572</u>
Wastewater collection:				
Personnel services		415,539		407,081
Other services and charges		279,854		322,098
Repairs and maintenance		34,158		17,820
Capital outlay		174,713		175,016
Debt service payments		75,150		76,295
Total wastewater collection	<u>1,300,229</u>	<u>979,414</u>	<u>320,815</u>	<u>998,310</u>

Town of Hillsborough, North Carolina
Schedule of Expenditures
Budget and Actual (Non-GAAP)
Water and Sewer Fund
Enterprise Fund
Year Ended June 30, 2018 with Comparative Actual Amounts
for Year Ended June 30, 2017

Schedule 12
(3 pages)

	2018		Variance Positive (Negative)	2017
	Budget	Actual		Actual
Wastewater plant:				
Personnel services		\$ 466,381		\$ 446,319
Other services and charges		314,788		304,502
Repairs and maintenance		167,736		152,672
Capital outlay		28,232		86,297
Debt service payments		1,262,151		1,284,012
Total wastewater plant	\$ 2,411,897	2,239,288	\$ 172,609	2,273,802
Reservoir:				
Other services and charges		23,985		17,853
Repairs and maintenance		13,400		6,600
Debt service payments		970,558		640,666
Total reservoir	1,130,045	1,007,943	122,102	665,119
Total expenditures	11,679,720	10,182,546	1,497,174	8,678,376
Revenues over (under) expenditures	(2,133,334)	98,156	2,231,490	725,579
Other financing sources (uses)				
Transfer to Water and Sewer Capital Reserve Fund	(1,349,656)	(1,349,656)	-	(909,406)
Transfer to Water and Sewer Capital Projects Fund	(552,488)	(552,488)	-	(1,263,444)
Transfer from Water and Sewer Capital Projects Fund	-	2,815,211	2,815,211	-
Transfer from Water and Sewer Capital Reserve Fund	1,560,473	1,560,473	-	1,510,149
Installment purchase obligations issued	-	289,752	289,752	-
Sale of capital assets	-	19,762	19,762	-
Total other financing sources (uses)	(341,671)	2,783,054	3,124,725	(662,701)
Excess of revenues and other financing sources (uses) over (under) expenditures and other uses	(2,475,005)	2,881,210	5,356,215	62,878
Appropriated fund balance	2,475,005	-	(2,475,005)	-
Excess of revenues and other uses over expenditures and other uses	\$ -	\$ 2,881,210	\$ 2,881,210	\$ 62,878

Town of Hillsborough, North Carolina
Schedule of Expenditures
Budget and Actual (Non-GAAP)
Water and Sewer Fund
Enterprise Fund
Year Ended June 30, 2018 with Comparative Actual Amounts
for Year Ended June 30, 2017

Schedule 12
(3 pages)

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

Excess of revenues and other sources over expenditures and other uses	\$ 2,881,210
Reconciling items:	
Interest income from Water and Sewer Capital Projects Fund	3,502
Interest income from Water and Sewer Capital Reserve Fund	25,688
Other revenue from Water and Sewer Capital Projects Fund	17,748
Payment of principal on notes, bonds and installment purchases	3,365,508
Decrease in deferred outflows of resources - pensions	(252,949)
Decrease in net pension liability	237,382
Decrease in deferred inflows of resources - pensions	11,045
Increase in deferred outflows of resources - OPEB	9,597
Decrease in total OPEB liability	6,356
Increase in deferred inflows of resources - OPEB	(25,387)
Capital outlay	409,831
Noncapitalizable capital project expenditures	(361,573)
Depreciation	(1,800,117)
Loss on disposal of capital assets	(254,121)
Proceeds from the sale of capital assets	(19,762)
Interest expense accrual adjustment	(35,191)
Vacation pay accrual adjustment	(22,772)
Bad debts	(33,435)
Accrued claims and judgements	(300,000)
Capital contributions from developer	363,598
Amortization of deferred loss on refunding	(8,836)
Amortization of premium on bonds payable	7,172
Installment purchase obligations issued	(289,752)
Transfer from Water and Sewer Capital Projects Fund	(2,815,211)
Transfer to Water and Sewer Capital Projects Fund	552,488
Transfer from Water and Sewer Capital Reserve Fund	(1,560,473)
Transfer to Water and Sewer Capital Reserve Fund	1,349,656
	<u>1,349,656</u>
Change in net position	<u>\$ 1,461,202</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, 2018

Schedule 13

	Project Authorization	Actual			Total to Date	Variance Positive (Negative)
		Prior Years	Current Year	Closed Out Projects		
Revenues						
Restricted intergovernmental revenues:						
Federal grant	\$ -	\$ 56,250	\$ -	\$ (56,250)	\$ -	\$ -
Interest on investments	2,271	2,344	3,502	(112)	5,734	3,463
Other receipts	-	-	17,748	-	17,748	17,748
Total revenues	2,271	58,594	21,250	(56,362)	23,482	21,211
Expenditures						
Capital improvements:						
Sewer Outfall Phase II	-	1,638,606	-	(1,638,606)	-	-
Lawrence Road	-	980,260	-	(980,260)	-	-
Lake Ben Johnson	-	484,119	-	(484,119)	-	-
Backwash pump replacement	-	83,923	-	(83,923)	-	-
Booster pump station	182,387	2,388	9,278	-	11,666	170,721
Waterstone water tank	1,971,370	1,912,269	-	-	1,912,269	59,101
Water meter replacement	-	711,017	-	(711,017)	-	-
Automatic meter reading project	-	331,101	-	(331,101)	-	-
Effluent aeration	585,000	153,930	372,240	-	526,170	58,830
Churton Street Sewer	260,000	-	16,745	-	16,745	243,255
Other improvements	250,000	44,190	-	(44,190)	-	250,000
	3,248,757	6,341,803	398,263	(4,273,216)	2,466,850	781,907
West Fork Eno Reservoir:						
Design	2,098,717	1,344,392	298,947	-	1,643,339	455,378
Construction	10,350,250	-	1,921,279	-	1,921,279	8,428,971
Land acquisition	42,304	26,552	15,752	-	42,304	-
	12,491,271	1,370,944	2,235,978	-	3,606,922	8,884,349
Total expenditures	15,740,028	7,712,747	2,634,241	(4,273,216)	6,073,772	9,666,256
Revenues over (under) expenditures	(15,737,757)	(7,654,153)	(2,612,991)	4,216,854	(6,050,290)	9,687,467
Other financing sources (uses)						
Proceeds from installment purchases	12,125,592	5,012,078	10,215,350	(3,189,990)	12,037,438	(88,154)
Premium on bonds issuance	-	-	1,025,846	-	1,025,846	1,025,846
Transfer from Water and Sewer Capital Reserve Fund	-	326,553	-	(326,553)	-	-
Transfer from Water and Sewer Fund	3,786,380	4,957,496	552,488	(1,710,221)	3,799,763	13,383
Transfer to Water and Sewer Fund	(174,215)	(388,946)	(2,815,211)	1,009,910	(2,194,247)	(2,020,032)
Total other financing sources	15,737,757	9,907,181	8,978,473	(4,216,854)	14,668,800	(1,068,957)
Excess of revenues and other sources over expenditures and other financing uses	\$ -	\$ 2,253,028	\$ 6,365,482	\$ -	\$ 8,618,510	\$ 8,618,510

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, 2018

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>
Revenues					
Interest on investments	\$ 300,868	\$ 278,264	\$ 25,688	\$ 303,952	\$ 3,084
Expenditures	<u>3,256,014</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,256,014</u>
Revenues over (under) expenditures	<u>(2,955,146)</u>	<u>278,264</u>	<u>25,688</u>	<u>303,952</u>	<u>3,259,098</u>
Other financing sources (uses)					
Transfers from Water and Sewer Fund	10,084,735	8,735,079	1,349,656	10,084,735	-
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	(7,299,257)	(5,738,784)	(1,560,473)	(7,299,257)	-
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>2,955,146</u>	<u>3,165,963</u>	<u>(210,817)</u>	<u>2,955,146</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 3,444,227</u>	<u>\$ (185,129)</u>	<u>\$ 3,259,098</u>	<u>\$ 3,259,098</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, 2018

Schedule 15

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Operating revenues:			
Stormwater charges	600,750	633,191	\$ 32,441
Other operating revenues	<u>35,761</u>	<u>5,250</u>	<u>(30,511)</u>
Total revenues	<u>636,511</u>	<u>638,441</u>	<u>1,930</u>
Expenditures			
Operating expenditures:			
Personnel services		206,086	
Other services and charges		149,874	
Repairs and maintenance		<u>92,462</u>	
Total expenditures	<u>636,511</u>	<u>448,422</u>	<u>188,089</u>
Revenues over expenditures	<u>\$ -</u>	190,019	<u>\$ 190,019</u>
Reconciliation of modified accrual basis to full accrual basis:			
Increase in accrued vacation pay		(2,860)	
Increase in net pension liability		(7,262)	
Decrease in total OPEB liability		374	
Increase in deferred outflows of resources - pensions		2,565	
Decrease in deferred outflows of resources - OPEB		(1,017)	
Increase in deferred inflows of resources - pensions		(3)	
Increase in deferred inflows of resources - OPEB		<u>(1,493)</u>	
Change in net position		<u>\$ 180,323</u>	

Town of Hillsborough, North Carolina
Statement of Changes in Assets and Liabilities
Special Assessment Debt Agency Fund
Fiduciary Fund
Year Ended June 30, 2018

Schedule 16

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash	<u>\$ 25</u>	<u>\$ 745,272</u>	<u>\$ (745,297)</u>	<u>\$ -</u>
LIABILITIES				
Due to others	<u>\$ 25</u>	<u>\$ 745,272</u>	<u>\$ (745,297)</u>	<u>\$ -</u>

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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, 2018

Schedule 17

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2017</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2018</u>
2017-2018	\$ -	\$ 6,676,687	\$ 6,618,458	\$ 58,229
2016-2017	49,818	-	22,432	27,386
2015-2016	31,207	-	10,334	20,873
2014-2015	24,371	-	9,417	14,954
2013-2014	21,426	-	6,099	15,327
2012-2013	16,612	-	2,016	14,596
2011-2012	12,488	-	3,282	9,206
2010-2011	9,805	-	-	9,805
2009-2010	10,140	-	2,266	7,874
2008-2009	8,124	-	2,532	5,592
2007-2008	10,775	-	10,775	-
	194,766	<u>\$ 6,676,687</u>	<u>\$ 6,687,611</u>	183,842
Less allowance for uncollectible accounts:				
General Fund	<u>(69,990)</u>			<u>(58,633)</u>
	<u>\$ 124,776</u>			<u>\$ 125,209</u>
Reconciliation of collections and credits with revenues:				
Ad valorem taxes - General Fund			\$ 6,701,848	
Motor vehicle license fees - General Fund			260	
Penalties and interest			(31,380)	
Adjustments and refunds			16,883	
			<u>\$ 6,687,611</u>	

Town of Hillsborough, North Carolina
Analysis of Current Tax Levy
Year Ended June 30, 2018

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	\$ 1,052,486,129	0.6200	\$ 6,525,414	\$ 6,092,972	\$ 432,442
Motor vehicle license fees	-		152,610	-	152,610
Penalties and interest	-		6,998	6,998	
Total property valuation	<u>\$ 1,052,486,129</u>		6,685,022	6,099,970	585,052
Releases and abatements			<u>(8,335)</u>	<u>(8,335)</u>	<u>-</u>
Net levy			6,676,687	6,091,635	585,052
Uncollected taxes at June 30, 2018			<u>58,229</u>	<u>58,229</u>	<u>-</u>
Current year's taxes collected			<u>\$ 6,618,458</u>	<u>\$ 6,033,406</u>	<u>\$ 585,052</u>
Current levy collection percentage			<u>99.13%</u>	<u>99.04%</u>	<u>100.00%</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.

103

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.

139

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities:				
Net investment in capital assets	\$ 2,375,505	\$ 3,268,065	\$ 5,338,508	\$ 5,870,981
Restricted	563,417	806,780	2,121,546	1,570,832
Unrestricted	<u>4,891,494</u>	<u>5,402,272</u>	<u>3,766,961</u>	<u>3,984,264</u>
Total governmental activities net position	<u>\$ 7,830,416</u>	<u>\$ 9,477,117</u>	<u>\$ 11,227,015</u>	<u>\$ 11,426,077</u>
Business-type activities				
Net investment in capital assets	\$ 21,590,822	\$ 21,736,659	\$ 24,316,110	\$ 26,632,441
Restricted	2,438,955	2,128,459	1,721,067	1,974,677
Unrestricted	<u>3,495,837</u>	<u>4,020,580</u>	<u>3,518,417</u>	<u>2,674,119</u>
Total business-type activities net position	<u>\$ 27,525,614</u>	<u>\$ 27,885,698</u>	<u>\$ 29,555,594</u>	<u>\$ 31,281,237</u>
Primary government				
Net investment in capital assets	\$ 23,966,327	\$ 25,004,724	\$ 29,654,618	\$ 32,503,422
Restricted	3,002,372	2,935,239	3,842,613	3,545,509
Unrestricted	<u>8,387,331</u>	<u>9,422,852</u>	<u>7,285,378</u>	<u>6,658,383</u>
Total primary government net position	<u>\$ 35,356,030</u>	<u>\$ 37,362,815</u>	<u>\$ 40,782,609</u>	<u>\$ 42,707,314</u>

Table 1

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 6,723,808	\$ 10,924,631	\$ 11,870,401	\$ 14,242,464	\$ 15,186,419	\$ 18,580,077
1,831,742	1,700,808	1,558,393	1,753,856	2,518,696	3,089,866
<u>4,390,314</u>	<u>4,433,988</u>	<u>4,797,140</u>	<u>4,030,053</u>	<u>2,977,656</u>	<u>1,466,288</u>
<u>\$ 12,945,864</u>	<u>\$ 17,059,427</u>	<u>\$ 18,225,934</u>	<u>\$ 20,026,373</u>	<u>\$ 20,682,771</u>	<u>\$ 23,136,231</u>
\$ 26,017,050	\$ 27,110,293	\$ 30,507,881	\$ 32,483,743	\$ 34,669,712	\$ 36,693,299
2,590,989	2,591,211	2,591,600	2,596,324	2,605,482	2,631,171
<u>4,084,460</u>	<u>6,546,829</u>	<u>6,190,061</u>	<u>8,522,788</u>	<u>9,096,374</u>	<u>8,308,697</u>
<u>\$ 32,692,499</u>	<u>\$ 36,248,333</u>	<u>\$ 39,289,542</u>	<u>\$ 43,602,855</u>	<u>\$ 46,371,568</u>	<u>\$ 47,633,167</u>
\$ 32,740,858	\$ 38,034,924	\$ 42,378,282	\$ 46,726,207	\$ 49,856,131	\$ 55,273,376
4,422,731	4,292,019	4,149,993	4,350,180	5,124,178	5,721,037
<u>8,474,774</u>	<u>10,980,817</u>	<u>10,987,201</u>	<u>12,552,841</u>	<u>12,074,030</u>	<u>9,774,985</u>
<u>\$ 45,638,363</u>	<u>\$ 53,307,760</u>	<u>\$ 57,515,476</u>	<u>\$ 63,629,228</u>	<u>\$ 67,054,339</u>	<u>\$ 70,769,398</u>

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Expenses				
Governmental activities:				
General government	\$ 1,341,151	\$ 1,511,119	\$ 1,353,757	\$ 1,402,445
Public safety	3,477,812	3,389,490	3,379,456	2,597,911
Transportation	435,870	390,313	486,940	1,510,493
Environmental protection	546,472	534,476	595,447	546,612
Economic and physical development	237,278	247,420	256,092	243,163
Community activities and projects	105,026	40,961	49,505	40,996
Parks and recreation	31,657	60,629	36,844	51,500
Unallocated interest expense	77,316	107,315	108,598	104,518
	<u>6,252,582</u>	<u>6,281,723</u>	<u>6,266,639</u>	<u>6,497,638</u>
Total governmental activities expenses				
Business-type activities:				
Water and sewer	5,616,181	6,093,635	5,758,760	6,151,253
Stormwater	-	-	-	-
	<u>5,616,181</u>	<u>6,093,635</u>	<u>5,758,760</u>	<u>6,151,253</u>
Total business-type activities expenses				
Total primary government expenses	<u>\$ 11,868,763</u>	<u>\$ 12,375,358</u>	<u>\$ 12,025,399</u>	<u>\$ 12,648,891</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 113,738	\$ 131,750	\$ 149,790	\$ 160,990
Public safety	14,453	10,825	10,273	15,593
Transportation	-	2,951	-	-
Economic and physical development	-	-	-	-
Parks and recreation	-	-	2,170	2,970
Operating grants and contributions	309,510	202,067	183,874	228,457
Capital grants and contributions	686,984	1,001,630	1,191,157	203,301
	<u>1,124,685</u>	<u>1,349,223</u>	<u>1,537,264</u>	<u>611,311</u>
Total governmental activities program revenues				

**Table 2
(4 pages)**

2013	2014	2015	2016	2017	2018
\$ 1,301,963	\$ 1,524,025	\$ 1,416,316	\$ 2,010,349	\$ 1,860,970	\$ 1,865,408
3,395,465	3,619,529	3,929,568	3,982,055	4,289,900	4,666,798
497,540	500,491	130,485	615,849	666,523	684,226
580,312	833,623	963,296	708,367	590,798	478,122
485,977	367,389	387,801	402,800	466,791	498,150
64,878	119,251	220,890	93,236	57,673	42,038
36,267	55,849	74,137	97,891	398,802	429,684
105,022	126,250	101,260	121,783	95,571	114,957
6,467,424	7,146,407	7,223,753	8,032,330	8,427,028	8,779,383
6,279,271	6,271,311	7,383,564	7,574,032	8,120,546	8,949,652
-	-	-	-	302,983	458,118
6,279,271	6,271,311	7,383,564	7,574,032	8,423,529	9,407,770
\$ 12,746,695	\$ 13,417,718	\$ 14,607,317	\$ 15,606,362	\$ 16,850,557	\$ 18,187,153
\$ 326,565	\$ 126,909	\$ 182,109	\$ 122,233	\$ 214,056	\$ 208,837
11,426	13,893	12,068	13,645	13,555	19,938
-	-	187,682	184,863	185,922	245
-	-	-	41,000	5,000	360,440
3,190	4,140	5,155	4,720	5,130	5,940
175,347	316,576	10,610	28,052	26,690	197,119
334,525	3,741,958	253,460	1,393,799	570,035	1,634,422
851,053	4,203,476	651,084	1,788,312	1,020,388	2,426,941

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Business-type activities:				
Charges for services:				
Water and sewer	\$ 6,292,642	\$ 6,425,750	\$ 6,755,260	\$ 7,366,996
Stormwater	-	-	-	-
Capital grants and contributions	290,891	-	658,828	100,000
Total business-type activities program revenues	<u>6,583,533</u>	<u>6,425,750</u>	<u>7,414,088</u>	<u>7,466,996</u>
Total primary government program revenues	<u>\$ 7,708,218</u>	<u>\$ 7,774,973</u>	<u>\$ 8,951,352</u>	<u>\$ 8,078,307</u>
Net (Expense) Revenue				
Governmental activities	\$ (5,127,897)	\$ (4,932,500)	\$ (4,729,375)	\$ (5,886,327)
Business-type activities	<u>967,352</u>	<u>332,115</u>	<u>1,655,328</u>	<u>1,315,743</u>
Total primary government net expense	<u>\$ (4,160,545)</u>	<u>\$ (4,600,385)</u>	<u>\$ (3,074,047)</u>	<u>\$ (4,570,584)</u>
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes	\$ 5,479,986	\$ 5,898,215	\$ 5,808,387	\$ 5,816,041
Unrestricted inter-governemental revenues	625,798	615,770	635,907	651,381
Investment earnings, unrestricted	109,920	29,889	10,838	4,748
Miscellaneous	<u>15,621</u>	<u>35,327</u>	<u>24,141</u>	<u>16,250</u>
Total governmental activities	<u>6,231,325</u>	<u>6,579,201</u>	<u>6,479,273</u>	<u>6,488,420</u>
Business-type activities:				
Investment earnings	107,104	27,967	14,568	6,869
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>107,104</u>	<u>27,967</u>	<u>14,568</u>	<u>6,869</u>
Total primary government	<u>\$ 6,338,429</u>	<u>\$ 6,607,168</u>	<u>\$ 6,493,841</u>	<u>\$ 6,495,289</u>
Change in Net Position				
Governmental activities	\$ 1,103,428	\$ 1,646,701	\$ 1,749,898	\$ 199,062
Business-type activities	<u>1,074,456</u>	<u>360,084</u>	<u>1,669,896</u>	<u>1,725,643</u>
Total primary government	<u>\$ 2,177,884</u>	<u>\$ 2,006,785</u>	<u>\$ 3,419,794</u>	<u>\$ 1,924,705</u>

Table 2
(4 pages)

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 7,686,356	\$ 9,025,607	\$ 8,939,712	\$ 10,713,397	\$ 9,214,401	\$ 10,249,270
-	-	-	-	632,738	638,441
-	1,028,171	1,484,316	1,161,830	1,325,206	363,598
<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>11,251,309</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>	<u>\$ 13,678,250</u>
\$ (5,616,371)	\$ (2,942,931)	\$ (6,572,669)	\$ (6,244,018)	\$ (7,406,640)	\$ (6,352,442)
1,407,085	3,782,467	3,040,464	4,301,195	2,748,816	1,843,539
<u>\$ (4,209,286)</u>	<u>\$ 839,536</u>	<u>\$ (3,532,205)</u>	<u>\$ (1,942,823)</u>	<u>\$ (4,657,824)</u>	<u>\$ (4,508,903)</u>
\$ 6,371,494	\$ 6,603,311	\$ 6,698,408	\$ 6,949,754	\$ 7,426,516	\$ 8,187,327
734,401	809,190	998,629	1,034,811	1,010,393	1,080,184
3,874	2,209	1,177	16,771	37,562	120,273
26,389	39,899	40,962	43,121	58,811	88,047
<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>	<u>9,475,831</u>
4,177	2,601	745	12,118	19,897	44,935
-	-	-	-	-	(246,949)
<u>4,177</u>	<u>2,601</u>	<u>745</u>	<u>12,118</u>	<u>19,897</u>	<u>(202,014)</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>	<u>\$ 9,273,817</u>
\$ 1,519,787	\$ 4,511,678	\$ 1,166,507	\$ 1,800,439	\$ 1,126,642	\$ 3,123,389
1,411,262	3,785,068	3,041,209	4,313,313	2,768,713	1,641,525
<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>	<u>\$ 4,764,914</u>

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General fund:				
Reserved	\$ 904,063	\$ 1,230,710	\$ -	\$ -
Unreserved	4,030,731	3,832,453	-	-
Nonspendable	-	-	477	68,649
Restricted	-	-	1,047,758	955,064
Committed	-	-	-	-
Assigned	-	-	215,354	88,094
Unassigned	-	-	3,478,868	3,803,076
	<u>4,934,794</u>	<u>5,063,163</u>	<u>4,742,457</u>	<u>4,914,883</u>
All other governmental funds:				
Reserved	-	200,000	-	-
Unreserved	575,855	639,599	-	-
Nonspendable	-	-	-	-
Restricted	-	-	1,073,788	227,052
Committed	-	-	204,943	856,356
Assigned	-	-	-	-
Unassigned	-	-	(324,964)	(112,038)
	<u>575,855</u>	<u>839,599</u>	<u>953,767</u>	<u>971,370</u>
Total fund balance	<u>\$ 5,510,649</u>	<u>\$ 5,902,762</u>	<u>\$ 5,696,224</u>	<u>\$ 5,886,253</u>

Table 3

2013	2014	2015	2016	2017	2018
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
4,253	72,156	68,242	175,392	219,730	1,848
1,115,688	1,110,734	1,049,112	1,385,320	1,452,915	2,367,086
-	-	-	-	-	-
330,206	782,995	1,294,457	672,896	787,525	985,729
4,151,725	4,151,581	3,805,372	3,698,078	4,049,462	4,090,432
5,601,872	6,117,466	6,217,183	5,931,686	6,509,632	7,445,095
-	-	-	-	-	-
-	-	-	-	-	-
52	-	-	-	-	-
716,054	844,464	509,281	368,536	1,065,781	722,780
-	106,105	272,548	171,698	159,314	385,520
131,490	7,070	-	-	-	-
(20,444)	-	-	-	(808,382)	(242,109)
827,152	957,639	781,829	540,234	416,713	866,191
\$ 6,429,024	\$ 7,075,105	\$ 6,999,012	\$ 6,471,920	\$ 6,926,345	\$ 8,311,286

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues				
Ad valorem taxes	\$ 4,317,508	\$ 4,819,371	\$ 4,610,003	\$ 4,716,460
Other taxes and licenses	1,178,406	1,131,562	1,163,501	1,124,696
Unrestricted intergovernmental	625,798	615,770	635,907	651,381
Restricted intergovernmental	755,912	306,662	1,234,870	453,755
Investment earnings	109,920	29,889	10,838	4,748
Contribution from property owners	-	-	-	-
Capital contributions	235,000	200,000	200,000	100,000
Use and rental	128,191	142,575	160,063	176,583
Other general revenues	31,106	31,518	67,071	69,669
Total revenues	<u>7,381,841</u>	<u>7,277,347</u>	<u>8,082,253</u>	<u>7,297,292</u>
Expenditures				
Current:				
General government	1,986,459	2,552,912	1,232,665	1,235,107
Public safety	3,499,641	3,263,200	3,347,597	3,164,361
Transportation	408,258	720,627	1,718,386	1,693,664
Environmental protection	470,448	580,854	583,919	476,415
Economic and physical development	237,278	247,420	256,092	243,163
Community activities and projects	105,026	54,137	54,946	325,666
Parks and recreation	1,722,062	344,499	791,184	239,105
Debt service:				
Principal retirement	178,595	238,111	303,074	283,126
Interest and fiscal charges	68,762	93,874	107,928	98,896
Total expenditures	<u>8,676,529</u>	<u>8,095,634</u>	<u>8,395,791</u>	<u>7,759,503</u>
Excess of revenues over (under) expenditures	<u>(1,294,688)</u>	<u>(818,287)</u>	<u>(313,538)</u>	<u>(462,211)</u>
Other financing sources (uses)				
Transfers in	43,023	628,118	717,582	440,409
Transfers out	(43,023)	(628,118)	(717,582)	(843,440)
Insurance recovery	-	-	-	16,250
Debt service - principal on refunding	-	-	-	-
Sale of capital assets	-	-	-	-
Proceeds from installment notes	619,600	1,210,400	107,000	1,039,021
Total other financing sources	<u>619,600</u>	<u>1,210,400</u>	<u>107,000</u>	<u>652,240</u>
Net change in fund balances	<u>\$ (675,088)</u>	<u>\$ 392,113</u>	<u>\$ (206,538)</u>	<u>\$ 190,029</u>
Capital outlay included in functional expenditures above	\$ 2,491,483	\$ 1,907,332	\$ 2,280,672	\$ 1,501,851
Debt service as a percentage of noncapital expenditures	4.00%	5.36%	6.72%	6.10%

Table 4

	2013	2014	2015	2016	2017	2018
	\$ 5,135,469	\$ 5,429,114	\$ 5,437,266	\$ 5,669,002	\$ 6,064,137	\$ 6,701,848
	1,229,425	1,199,185	1,263,425	1,280,114	1,381,990	1,502,359
	734,401	809,190	998,629	1,034,811	1,010,393	1,080,184
	308,007	768,716	642,732	262,144	374,938	726,194
	3,874	2,209	1,177	16,771	37,562	120,273
	-	1,445,207	1,325,271	381,406	18,955	22,434
	-	-	-	-	-	-
	337,991	140,802	194,177	176,878	232,611	583,186
	34,079	48,337	56,727	118,323	79,734	53,804
	<u>7,783,246</u>	<u>9,842,760</u>	<u>9,919,404</u>	<u>8,939,449</u>	<u>9,200,320</u>	<u>10,790,282</u>
	1,122,514	2,799,302	2,779,807	2,207,284	1,627,479	3,026,060
	3,134,327	3,455,438	3,845,174	4,317,978	4,084,416	4,811,024
	1,011,557	851,502	1,194,204	878,233	865,285	1,014,932
	471,880	806,262	1,008,615	564,148	454,355	516,910
	485,977	367,389	388,611	397,828	676,147	1,104,113
	64,878	119,251	836,258	821,677	57,673	42,038
	430,831	1,675,156	423,813	147,350	428,452	478,585
	407,246	474,458	632,155	1,037,623	790,345	1,296,056
	111,265	118,711	101,228	120,355	100,353	105,063
	<u>7,240,475</u>	<u>10,667,469</u>	<u>11,209,865</u>	<u>10,492,476</u>	<u>9,084,505</u>	<u>12,394,781</u>
	<u>542,771</u>	<u>(824,709)</u>	<u>(1,290,461)</u>	<u>(1,553,027)</u>	115,815	<u>(1,604,499)</u>
	369,627	169,054	160,482	465,037	394,991	344,808
	(369,627)	(169,054)	(160,482)	(465,037)	(394,991)	(344,808)
	-	-	-	-	-	-
	-	(1,256,353)	-	-	-	-
	-	-	-	-	21,610	43,670
	-	2,727,143	1,214,368	1,025,935	317,000	2,945,770
	-	1,470,790	1,214,368	1,025,935	338,610	2,989,440
	<u>\$ 542,771</u>	<u>\$ 646,081</u>	<u>\$ (76,093)</u>	<u>\$ (527,092)</u>	<u>\$ 454,425</u>	<u>\$ 1,384,941</u>
	\$ 997,107	\$ 2,246,332	\$ 2,619,910	\$ 1,962,820	\$ 893,524	\$ 3,336,241
	8.30%	7.04%	8.54%	13.58%	10.87%	15.47%

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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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Function/program				
Governmental activities:				
General government	\$ 348,738	\$ 331,750	\$ 382,843	\$ 354,227
Public Safety	14,453	28,874	10,273	15,593
Transportation	274,275	543,741	848,978	228,521
Environmental protection	-	-	-	-
Economic and physical development	235	-	-	-
Community activities and projects	-	-	-	-
Parks and recreation	486,984	444,858	295,170	12,970
Subtotal governmental activities	<u>1,124,685</u>	<u>1,349,223</u>	<u>1,537,264</u>	<u>611,311</u>
Business-type activities:				
Water and sewer	6,583,533	6,425,750	7,414,088	7,466,996
Stormwater	-	-	-	-
Subtotal business-type activities	<u>6,583,533</u>	<u>6,425,750</u>	<u>7,414,088</u>	<u>7,466,996</u>
Total primary government	<u>\$ 7,708,218</u>	<u>\$ 7,774,973</u>	<u>\$ 8,951,352</u>	<u>\$ 8,078,307</u>

Table 5

2013	2014	2015	2016	2017	2018
\$ 361,590	\$ 1,388,937	\$ 192,719	\$ 1,430,962	\$ 230,872	\$ 258,394
11,426	13,893	12,068	13,645	13,555	125,557
185,847	312,282	187,682	264,863	396,200	414,083
-	2,059,224	653	4,680	9,874	-
-	-	-	41,000	340,134	855,135
-	-	-	-	-	-
292,190	429,140	257,962	33,162	29,753	773,772
851,053	4,203,476	651,084	1,788,312	1,020,388	2,426,941
7,686,356	10,053,778	10,424,028	11,875,227	10,539,607	10,612,868
-	-	-	-	632,738	638,441
7,686,356	10,053,778	10,424,028	11,875,227	11,172,345	11,251,309
<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>	<u>\$ 13,678,250</u>

Town of Hillsborough, North Carolina
Tax Revenues by Source
Governmental Funds ^a
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 6

<u>Fiscal Year</u>	<u>Ad Valorem Taxes</u>
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	6,064,137
2018	6,701,848
Change	^b
2009 - 2018	55.22%

^a 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.

^b 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 2009 and 2017. The revaluation periods 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

Fiscal Year	Real Property *	Personal Property	Public-Service Companies	Total Assessed Value	Total Direct Tax Rate	Assessed Value as a Percent of Actual Value
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	733,447,012	132,527,541	14,138,094	880,112,647	0.6800	100.00%
2018	862,808,952	174,898,060	14,779,117	1,052,486,129	0.6200	100.00%

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 ^a	
	Basic Rate	Total Direct	Fire District ^b	County
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	0.680	0.680	-	0.8780
2018	0.620	0.620	-	0.8380

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.

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

^b The Fire District Tax applies to properties outside of the city limits.

**Town of Hillsborough, North Carolina
Property Tax Revenue 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
2009	\$ 4,380,999	\$ 4,295,618	98.05%	\$ 79,789	\$ 4,375,407	99.87%
2010	4,732,461	4,641,581	98.09%	83,006	4,724,587	99.83%
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%	104,453	4,745,994	99.81%
2013	5,225,057	5,085,225	98.82%	125,236	5,210,461	99.72%
2014	5,418,579	5,315,921	98.11%	87,331	5,403,252	99.72%
2015	5,413,151	5,343,909	98.72%	54,288	5,398,197	99.72%
2016	5,646,239	5,583,929	98.90%	41,437	5,625,366	99.63%
2017	6,044,907	5,995,089	99.18%	22,432	6,017,521	99.55%
2018	6,676,687	6,618,458	99.13%	-	6,618,458	99.13%

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	2018			2009		
	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	\$ 36,470,629	1	3.47%	\$ 7,066,045	8	1.10%
Cates Creek Apartments LLC	24,193,700	2	2.30%			
Hillsborough Apartments Partners LLC	21,636,182	3	2.06%			
Daniel Boone Ltd	12,345,000	4	1.17%	8,343,619	6	1.30%
Alcort Hillsborough LLC	11,269,600	5	1.07%	7,116,719	7	1.11%
Walmart Real Estate Business	10,509,400	6	1.00%	12,758,748	2	1.99%
PHE Inc	10,484,145	7	1.00%	8,539,927	5	1.33%
MDCO LLC	10,214,600	8	0.97%			
Hillsborough Commons Ltd Ptns	9,474,500	9	0.90%			
Ashton Raleigh Residential LLC	9,465,600	10	0.90%			
Patriots Pointe	-		-	17,009,726	1	2.65%
SLF II NC Waterstone LLC	-		-	11,245,000	3	1.75%
Home Depot/HD Development	-		-	8,933,910	4	1.39%
Southstar holdings Hills I LLC	-		-	7,040,030	9	1.10%
Meadowlands Distribution Co	-		-	6,975,686	10	1.09%
Total	\$ 156,063,356		14.83%	\$ 95,029,410		14.80%

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Gallons billed:				
In-town residential	88,082,088	91,194,583	103,459,804	102,937,205
Out-of-town residential	101,568,087	106,627,659	112,868,479	120,107,805
In-town commercial	88,318,823	89,569,350	74,881,598	73,507,962
Out-of-town commercial	<u>23,213,084</u>	<u>22,056,653</u>	<u>18,219,706</u>	<u>18,296,584</u>
Total gallons billed	<u>301,182,082</u>	<u>309,448,245</u>	<u>309,429,587</u>	<u>314,849,556</u>
Total water and sewer charges (revenue)	<u>\$ 6,043,820</u>	<u>\$ 6,194,638</u>	<u>\$ 6,405,307</u>	<u>\$ 6,928,835</u>
Total average rate per 1,000 gallons	<u>\$ 20.07</u>	<u>\$ 20.02</u>	<u>\$ 20.70</u>	<u>\$ 22.01</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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
102,755,771	111,836,111	98,914,635	100,064,880	131,412,141	131,845,575
130,921,523	111,241,276	124,805,789	100,445,055	120,756,780	111,132,741
76,624,165	78,590,500	81,985,440	75,012,631	85,946,109	79,996,750
18,153,125	17,908,575	29,452,224	18,028,437	20,781,379	19,695,072
<u>328,454,584</u>	<u>319,576,462</u>	<u>335,158,088</u>	<u>293,551,003</u>	<u>358,896,409</u>	<u>342,670,138</u>
<u>\$ 7,262,510</u>	<u>\$ 7,499,183</u>	<u>\$ 7,859,823</u>	<u>\$ 7,988,498</u>	<u>\$ 8,294,061</u>	<u>\$ 8,706,345</u>
<u>\$ 22.11</u>	<u>\$ 23.47</u>	<u>\$ 23.45</u>	<u>\$ 27.21</u>	<u>\$ 23.11</u>	<u>\$ 25.41</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 0-2,500 Gallons	Rate per 1,000 Gallons	Rate per 0-2,500 Gallons	Rate per 1,000 Gallons	Rate per 0-2,500 Gallons	Rate per 1,000 Gallons	Rate per 0-2,500 Gallons	Rate per 1,000 Gallons
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	20.18	8.07	30.33	12.13	39.35	15.74	59.13	23.65
2018	20.18	8.07	30.33	12.13	39.35	15.74	59.13	23.65

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 ^a
	Installment Loans	General Obligation Bonds	Special Revenue Bonds	Premium on Bonds	Revolving Loans	Installment Loans		
2009	\$ 1,959,928	\$ 122,000	\$ -	\$ -	\$ 1,295,779	\$ 6,172,366	\$ 9,550,073	\$ 1,430
2010	2,932,216	86,000	-	-	1,219,557	6,258,012	10,495,785	1,555
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	4,025,201	-	-	-	17,443,655	2,513,821	23,982,677	3,651
2018	5,829,231	-	10,155,000	1,018,674	16,435,812	522,266	33,960,983	4,612

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

^a 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 ^a of Property	Per Capita ^b
	General Obligation Bonds	Total		
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	-	-	0.00%	-
2018	-	-	0.00%	-

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

^a See Table 7 for property value data.

^b 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, 2018

Table 15

<u>Governmental Unit</u>	<u>Orange Co. G.O. Bonds Outstanding Debt</u>	<u>Estimated Percentage Applicable</u>	<u>Town's Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes	<u>\$ 71,185,000</u>	5.742%	<u>\$ 4,087,155</u>
Town's overlapping debt			4,087,155
Town's direct debt			<u>-</u>
Total direct and overlapping debt			<u><u>\$ 4,087,155</u></u>

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt limit	\$ 51,380,390	\$ 60,236,080	\$ 59,858,619	\$ 60,714,122
Total net debt applicable to limit	<u>1,959,928</u>	<u>2,932,216</u>	<u>2,736,142</u>	<u>3,440,001</u>
Legal debt margin	<u>\$ 49,420,462</u>	<u>\$ 57,303,864</u>	<u>\$ 57,122,477</u>	<u>\$ 57,274,121</u>
Total net debt applicable to the limit as a percentabe of debt limit	<u>3.81%</u>	<u>4.87%</u>	<u>4.57%</u>	<u>5.67%</u>

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

**Legal Debt Margin
Calculation for Fiscal Year 2018**

Assessed value	\$ 1,052,486,129
Debt limit (8% of assessed value)	84,198,890
Debt applicable to limit:	
Installment loans	(5,829,231)
Legal debt margin	\$ 78,369,659

2013	2014	2015	2016	2017	2018
\$ 60,985,183	\$ 62,861,200	\$ 62,990,706	\$ 65,754,212	\$ 70,409,012	\$ 84,198,890
3,084,791	4,024,586	4,606,799	4,534,728	4,025,201	5,829,231
\$ 57,900,392	\$ 58,836,614	\$ 58,383,907	\$ 61,219,484	\$ 66,383,811	\$ 78,369,659
5.06%	6.40%	7.31%	6.90%	5.72%	6.92%

Demographic and Economic Information

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

Table 17

Year	Population	Personal Income <i>(thousands of dollars)</i>	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
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	6,568	*	24,567	35.90	1,325	3.7%
2018	7,364	*	30,830	35.70	1,302	3.0%

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

Employer	2018		2009	
	Employees	Percentage of Total Town Population	Employees	Percentage of Total Town Population
Orange County Schools	1,266	17.19%	1,322	19.80%
Orange County Government	1,140	15.48%	844	12.64%
UNC Hospital	458	6.22%		
Summit Consulting-Engineering	318	4.32%		
Sports Endeavors, Inc. dba Eurosport	311	4.22%	434	6.50%
Wal-Mart Associates Inc	266	3.61%	426	6.38%
Brookshire Inc	146	1.98%	129	1.93%
Home Depot	131	1.78%		
Weaver Street Market, Inc	103	1.40%	104	1.56%
Town of Hillsborough	100	1.36%		
PHE			369	5.53%
A Southern Season			341	5.11%
OE Enterprises, Inc.			139	2.08%
Piedmont Electric Membership Corp			93	1.39%
Total	4,239	57.56%	4,201	62.92%

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General government										
Administration	3	4	4	3	3	5	5	7	9	7.3
Finance	4	4	4	4	4	4	4	5	5	6.0
Planning	4	3	3	3	3	4	4	5	5	5.0
Public space	-	-	-	-	-	-	-	-	1	2.0
Safety	1	1	1	1	1	1	1	1	1	1.0
Stormwater	-	-	-	-	-	1	1	1	2	3.0
Police										
Officers	29	26	26	25	27	24	28	26	28	29.3
Civilians	3	2	2	-	-	-	-	-	-	1.0
Public works										
Streets	4	4	4	3	3	3	4	4	4	4.0
Sanitation	4	4	4	4	4	4	4	4	3	4.0
Motor pool	3	3	3	3	3	3	3	3	3	3.0
Utilities										
Engineering	4	4	4	4	4	4	4	4	4	3.0
Billing and collection	7	6	5	5	5	5	6	6	6	4.5
Water	6	6	6	6	6	6	6	6	6	8.0
Wastewater	10	10	8	8	8	7	6	6	8	6.0
Water distribution/ wastewater collection	7	8	8	11	11	11	11	12	10	13.0
Fire inspections	1	1	1	1	1	1	1	1	1.5	1.4
Total	<u>90</u>	<u>86</u>	<u>83</u>	<u>81</u>	<u>83</u>	<u>83</u>	<u>88</u>	<u>91</u>	<u>95.5</u>	<u>101.5</u>

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

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Operating Information

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

Function/Program	2009	2010	2011	2012
Police				
Physical arrests	524	546	475	560
Calls for service	12,490	9,619	12,889	15,039
Traffic citations	1,937	1,712	1,182	1,134
Number of policeman positions	29	29	29	29
Fire				
Number of stations	1	1	1	1
Emergency responses (EMS and fire)	1,918	1,865	1,835	1,770
Fires extinguished	30	75	19	78
Number of paid firemen	23	24	24	25
Number of volunteers	12	15	12	14
Inspections	269	213	211	258
Refuse collection				
Refuse collected (tons per day)	6.7	6.1	5.95	-
Recyclables collected (tons per day)	*	*	*	*
Other public works				
Street resurfacing (miles)	0.5	-	-	-
Potholes repaired	103	45	41	36
Parks and recreation				
Number of parks	6	6	6	6
Library				
Volumes in collection	78,770	75,506	86,526	97,536
Total volumes borrowed	209,023	203,450	287,938	351,216
Water				
New connections	826	939	815	767
Water main breaks	46	41	10	30
Average daily consumption (millions of gallons per day)	1.143	1.124	1.129	1.048
Peak daily consumption (millions of gallons)	1.938	1.626	1.653	1.576
Wastewater				
Average daily sewage treatment (millions of gallons)	0.872	0.888	0.757	0.765
Education				
Number of schools ^a	3	3	3	3
Number of teachers	105	111	111	113
Number of students	1,272	1,279	1,305	1,420
Number of classrooms ^b	95	95	65	65

Sources: Various city departments.

^a Alternative school added for students who have not been successful in the traditional school setting in FY06

^b Core classes only reported in FY11, FY12 and FY13

^c Data used from previous year

Table 20

2013	2014	2015	2016	2017	2018
538	521	553	492	611	640
14,569	12,279	15,975	16,674	10,599	13,287
1,651	1,212	725	557	567	496
26	26.5	27	29	29	29
1	1	1	1	1	1
1,866	1,950	1,978	1,949	1,954	2,034
70	45	107	80	109	113
24	24	27	22	23	24
19	15	12	12	12	12
177	132	171	163	138	155
6.34	5.90	5.54	6	6	6.25
*	0.02	0.48	1	1	1.00
2.25	2.13	4.7	2	2	2.38
30	36	30	25	15	8.00
6	6	6	7	7	7
93,421	93,886	93,656	96,393	101,177	96,498
397,379	396,164	412,416	446,499	382,740	403,088
736	799	840	946	821	223
20	15	11	27	33	23
0.913	1.103	1.071	1.401	1.453	0.939
1.653	1.685	1.815	1.983	2.431	2.058
0.902	1.133	0.895	1.185	1.000	0.951
3	3	3	3	3	3
113	112	112	112	112	115
1,433	1,370	1,393	1,408	1,325	1,342
65	65	65	65	65	65 ^c

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

Function/Program	2009	2010	2011	2012
Police				
Stations	2	2	2	2
Patrol units	26	26	28	27
Fire stations	1	1	1	1
Refuse collection				
Collection trucks >	6	6	6	7
Other public works				
Streets (miles) - paved	36.15	36.15	36.15	36.15
Streets (miles) - unpaved	0.73	0.73	0.73	0.73
Streetlights	623	633	633	633
Traffic signals (all state-owned)	-	-	-	-
Parks and recreation				
Acreage ^b	72.62	72.62	72.62	74.10
Playgrounds	4	4	4	4
Water				
Water mains (miles)	146.8	147.0	147.0	148.0
Fire hydrants	[^] 656	[^] 597	614	663
Storage capacity (thousands of gallons)	3,000	3,000	3,000	3,000
Wastewater				
Sanitary sewers (miles)	86.4	86.4	86.4	89.0
Treatment capacity (millions of gallons)	3.0	3.0	3.0	-
Stormwater				
Catch basins and inlets				
Storm sewers (miles) ^a	36.0	73.0	73.0	73.0
Area (square miles)	5.740	5.740	5.740	5.740

Sources: Various city departments.

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

^a Storm sewer data not available.

^b Includes two parks owned by the Town but are located outside of the city limits.

^c 2012 figure included private hydrants - 2013 actual number of hydrants from GIS

[^] Estimated

> Includes brush and leaf trucks 2009 forward

Table 21

2013	2014	2015	2016	2017	2018
2	2	2	2	2	2
26	27	27	25	24	34
1	1	1	1		
7	8	8	8	8	8
36.15	36.15	37.63	33.96	33.96	33.96
0.73	0.91	0.69	0.68	0.68	0.68
633	678	679	709	709	711
-	-				
74.10	74.10	74.10	74.1	74.1	74.1
4	4	4	5	5	5
148.0	150.0	151.0	149.0	151.0	151.0
621	619	628	628	705	705
3,000	3,000	3,000	3,500	2,450	2,450
93.0	93	94.0	96.5	80.5	97
3.0	3	3.0	3.0	3.0	3.0
					491
73.0	75	75.0	75.0	75.0	43.6
5.760	5.80	5.800	6	6	6

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Other Disclosures

Continuing Disclosure Information Related to Utility Revenue Bonds

The Town presents the information in this section in accordance with its continuing disclosure obligations related to its Combined Utility Systems Revenue Bonds, Series 2018.

The Water System

General – Capacity and Consumption. The Town’s water distribution system currently consists of approximately 151 miles of water lines, six water storage tanks and four water distribution booster pump stations. The Town’s average daily water consumption for calendar year 2017 was approximately 1.54 million gallons per day (“MGD”). In addition, the Town owns and operates one water treatment plant (the “Water Treatment Plant”). The Water Treatment Plant currently has a 3 MGD treatment capacity with the ability to expand up to 6 MGD.

Water Rates. The Town provides water services to customers inside and outside the limits of the Town. Each utility account is charged (i) for usage of zero to 2,500 gallons, a fixed Block 1 Rate that is the same for all customers, regardless of meter size, and (ii) for usage over 2,500 gallons, a Block 2 Rate per 1,000 gallons used. It is expected that the Town’s Board of Commissioners will consider proposed rate increases as part of the Town’s normal budget-setting process in June 2019.

Current monthly water rates are set forth below:

All Customers (both non-irrigation and irrigation meters)

In Town Water Block 1	\$22.05
In Town Water Block 2	\$8.82/1,000 gallons
Outside Town Water Block 1	\$43.00
Outside Town Water Block 2	\$17.20/1,000 gallons

The Town charges a one-time \$3,864.00 water residential capital facilities fee for new development. With respect to non-residential users, the Town charges a water capital

**Town of Hillsborough
Other Disclosures**

facilities fee based on water service tap size. The fees are set forth in the table below. See “System Development Fees” below.

<u>Size</u>	<u>Fee</u>
5/8” or 3/4”	\$ 3,864
1”	6,440
1 1/2”	12,880
2”	20,608
3”	42,216
4”	64,400
6”	128,800
8”	206,080
10”	540,960

Other Fees and Charges. The Town charges other fees for various purposes, including, but not limited to, deposits for customers, late payment fees, delinquent fees, and reconnection fees.

Number of Active Customer Accounts. The following table shows the number of active water customer accounts as of June 30, 2018.

<u>Number of Inside Town Accounts</u>	<u>Number of Outside Town Accounts</u>	<u>Total</u>
3,454	2,956	6,410

As of June 30, 2018, the water system’s customers were comprised of approximately 91% residential customers (including multi-family accounts) and 9% commercial customers.

Major Water Customer Accounts. The following table provides information on the top ten customer accounts of the water system (by annual revenues from water charges) for the fiscal year ended June 30, 2018, the water consumption for each such customer account, the annual revenue generated by each such account and the percentage of the total annual revenues for the water system generated by each such account.

**Town of Hillsborough
Other Disclosures**

<u>Customer Account</u>	<u>Annual Water Revenues</u>	<u>Percentage of Total Water System Revenues</u>
UNC Central Utility Building	\$74,762	1.83%
Patriots Pointe Partners, LLC	57,837	1.41
State of North Carolina	55,766	1.36
Horizon Acquisitions 3 LLC	54,742	1.34
Cates Creek Apartments	50,418	1.23
Al Curt Hillsborough, LLC	49,846	1.22
Orange County	38,543	0.94
Orange High School	36,915	0.90
Churton Grove Center, LLC	31,034	0.76
Weaver Street Market	<u>26,230</u>	<u>0.64</u>
Total	<u>\$476,093</u>	<u>11.63%</u>

Note: Totals may not foot due to rounding.

The Sanitary Sewer System

General – Capacity and Usage. The Town’s sanitary sewer system provides wastewater collection, treatment and disposal. The Town operates one wastewater treatment plant (the “Wastewater Treatment Plant”), 96 miles of wastewater lines and 24 wastewater pump stations. The Wastewater Treatment Plant was originally built in 1977 as a 3.0 MGD treatment facility which discharges to the Eno River. The Wastewater Treatment Plant was upgraded in 2014, and its current treatment capacity of 3.0 MGD is sufficient to meet future needs of the Town. The current average daily treated discharge of the Wastewater Treatment Plant is 1.11 MGD.

Sanitary Sewer Rates. The Town provides sanitary sewer services to residents inside and outside the limits of the Town. Each utility account is charged (i) for usage of zero to 2,500 gallons, a fixed Block 1 Rate that is the same for all customers regardless of meter size, and (ii) for usage over 2,500 gallons, a Block 2 Rate per one thousand gallons used, which is based on 100% of a customer’s water consumption as set forth in the table below. It is

**Town of Hillsborough
Other Disclosures**

expected that the Town’s Board of Commissioners will consider rate increases as part of the Town’s normal budget-setting process in June 2019.

Current monthly sanitary sewer rates are set forth below:

All Customers

In Town Sewer Block 1	\$32.60
In Town Sewer Block 2	\$13.04/1,000 gallons
Outside Town Sewer Block 1	\$63.55
Outside Town Sewer Block 2	\$25.42/1,000 gallons

The Town charges a one-time \$3,243 sewer residential unit capital facilities fee for new development. With respect to non-residential users, the Town charges a sanitary sewer capacity fee based on the water service tap size. The fees are set forth in the table below. See “System Development Fees” below.

<u>Size</u>	<u>Fee</u>
5/8” or 3/4”	\$3,243
1”	5,405
1 1/2”	10,810
2”	17,296
3”	34,592
4”	54,050
6”	108,100
8”	172,960
10”	454,020

Other Fees and Charges. The Town charges other fees for various purposes, including, but not limited to, deposits for customers, late payment fees, delinquent fees, and reconnection fees.

Number of Active Customer Accounts. The following table shows the number of active sanitary sewer customer accounts as of June 30, 2018:

**Town of Hillsborough
Other Disclosures**

<u>Number of Inside Town Accounts</u>	<u>Number of Outside Town Accounts</u>	<u>Total</u>
3,332	1,309	4,641

As of June 30, 2018, the sanitary sewer system’s customer account mix was approximately 91% residential (including multi-family accounts) and 9% commercial and industrial.

Major Sanitary Sewer Customer Accounts. The following table provides information on the top ten customer accounts of the sanitary sewer system (by annual revenues from sewer charges) for fiscal year 2018, and the percentage of total annual sanitary sewer revenues generated by each such customer account. Sewer usage is not metered. Water usage is applied to the sewer rates to calculate sewer charges.

<u>Customer Account</u>	<u>Annual Sanitary Sewer Revenues</u>	<u>Percentage of Total Annual Sanitary Sewer Revenues</u>
Orange County Efland Cheeks	\$222,373	5.02%
Patriots Pointe Partners, LLC	86,934	1.96
State of North Carolina	83,822	1.89
Horizons Acquisitions 3, LLC	81,342	1.84
Cates Creek Apts.	75,784	1.71
Al Curt Hillsborough, LLC	74,877	1.69
Orange County	57,032	1.29
Orange High School	54,972	1.24
Orange County Finance Dept.	47,735	1.08
Churton Grove Center, LLC	<u>46,632</u>	<u>1.05</u>
Total	<u>\$831,502</u>	<u>18.78%</u>

Note: Totals may not foot due to rounding.

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, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 31, 2019. 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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a material weakness.

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 responses as item 2018-002.

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
January 31, 2019**

**Town of Hillsborough, North Carolina
Schedule of Findings and Responses
Year Ended June 30, 2018**

Finding 2018-001: 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, 2017-001.

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:

- Due from other governments
- Capital assets
- Long-term debt
- Deferred revenues

View of responsible official and planned corrective action: The Town agrees with this finding. The Town will create a process for managing external funding and entering journal entries in a timelier manner.

Finding 2018-002: Excess of Expenditures over Appropriations

Criteria: General Statutes state that all monies received and expended by a local government or public authority should be included in the budget ordinance.

Condition: For the fiscal year ended June 30, 2018, the expenditures made in the Town's General Fund exceeded the authorized appropriations by the governing board in various functions, including: Ruffin-Roulhac (general government) by \$9,731; Finance (general government) by \$35,327; Safety (public safety) by \$39,494; and Community Activities and Projects by \$372,807. In addition, the expenditures made in the Town's Water and Sewer Fund exceeded the authorized appropriations by the governing board in the Billing and Collection function by \$147,425.

Cause: Internal controls were not in place to ensure that budgets were amended as necessary throughout the year to account for all expenditures incurred.

Effect: Monies were spent for which budgetary authority did not exist.

Recommendation: We recommend that budget amendments should be adopted when revenues are received that exceed estimated revenues in the budget ordinance prior to expending the related funds.

View of responsible official and planned corrective action: The Town agrees with this finding. Timely booking of journal entries and coordination with budget staff for known outstanding journal entries as of June 30th will be emphasized in the future. In addition, a process for managing external funding will be developed.