

TOWN OF HILLSBOROUGH NORTH CAROLINA



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2019

PRESENTED BY THE FINANCIAL SERVICES DEPARTMENT

DAPHNA SCHWARTZ, FINANCE DIRECTOR

KERI CARNES, FINANCIAL ANALYST

Table of Contents

Introductory Section

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

Financial Section

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

Basic Financial Statements

<u>Exhibit</u>	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

Required Supplementary Financial Data

<u>Exhibit</u>	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

Supplementary Information:

Combining and Individual Fund Financial Statements Section

<u>Schedule</u>	Governmental Funds:	
1	Schedule 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 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Nonmajor Governmental Funds	80
5	Schedule of Revenues, Expenditures, and Changes in Fund Balance -Budget and Actual - General Capital Projects Fund – Nonmajor Capital Project Fund.....	82
6	Schedule 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	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Riverwalk CMAQ Capital Project Fund - Nonmajor Capital Project Fund	85
9	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Rail Station Capital Project Fund - Nonmajor Capital Project Fund.....	86
10	Schedule 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
	Independent Auditors' Report on Compliance for the Major Federal Program and on Internal Control over Compliance in Accordance with <i>OMB Uniform Guidance and the State Single Audit Implementation Act</i>	155
Schedule		
19	Schedule of Findings and Questioned Costs	157
Schedule		
20	Summary Schedule of Prior Audit Findings	159
Schedule		
21	Schedule of Expenditures of Federal and State Awards	160
	Notes to Schedule of Expenditures of Federal and State Awards	161

This page left intentionally blank.

Introductory Section

This page left intentionally blank.

Town of Hillsborough Board of Commissioners 2018-2019



From left: Commissioner Kathleen Ferguson, Mayor Pro Tem Jenn Weaver, Commissioner Matt Hughes, Mayor Tom Stevens, and commissioners Evelyn Lloyd and Mark Bell

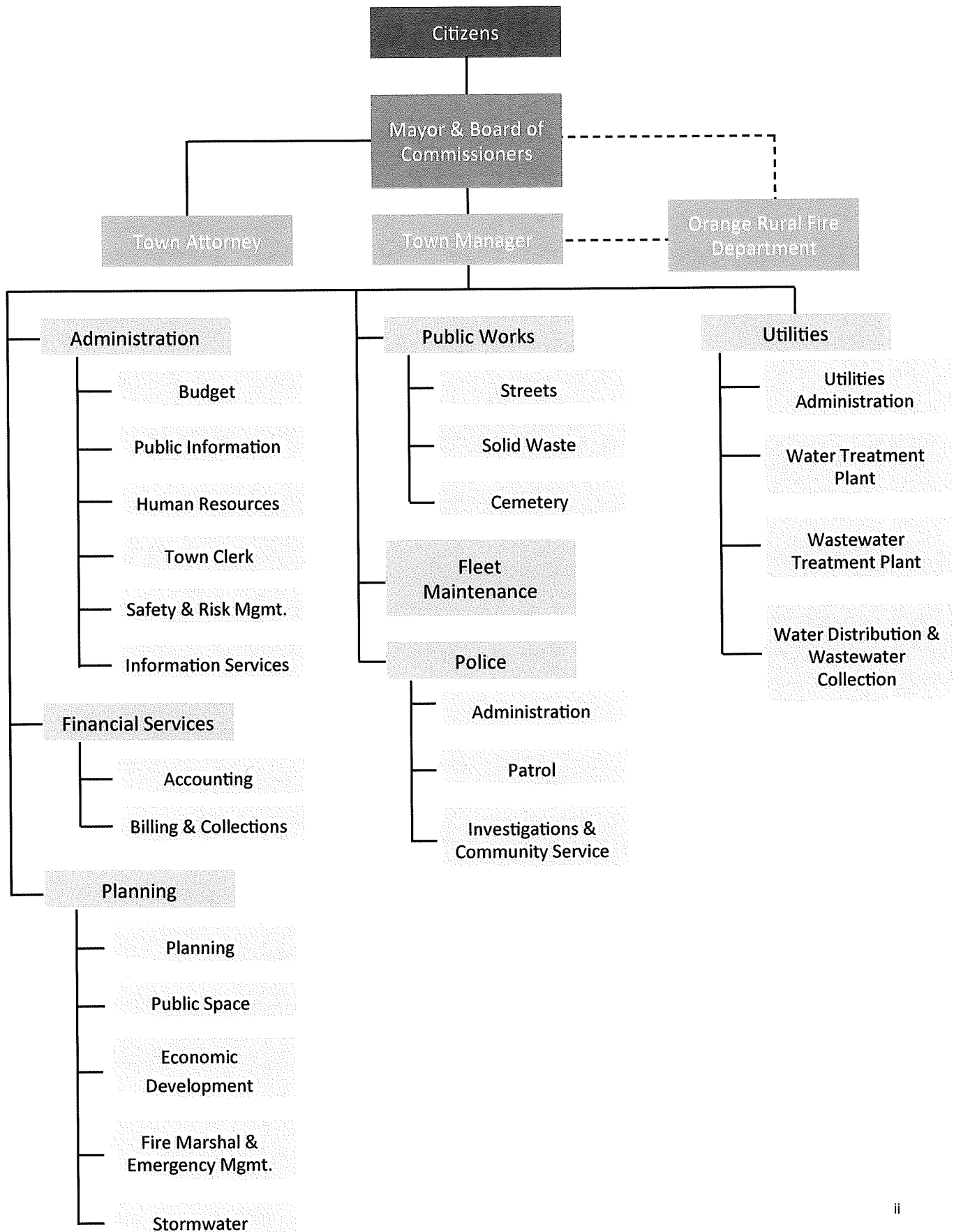
Tom Stevens – Mayor
Jenn Weaver – Mayor Pro Tem
Evelyn Lloyd – Commissioner
Mark Bell – Commissioner
Matt Hughes – Commissioner

Town Officials

Eric J. Peterson, Town Manager
Daphna Schwartz, Finance Director
Emily Bradford, Budget Director
Jen Della Valle, Assistant to the Town Manager/Deputy Budget Director
Marie Strandwitz, Utilities Director
Katherine Cathey, Town Clerk/Human Resources Director
Duane Hampton, Police Chief
Margaret Hauth, Assistant Town Manager/Planning Director
Ken Hines, Public Works Director
Catherine Wright, Public Information Officer
Robert Hornik, Town Attorney

Town of Hillsborough

Organization Chart



January 10, 2020

Honorable Mayor Weaver,
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, 2019 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 four 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 2019. 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.

Profile of the Government

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 7,239 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 Ruffin-Roulhac House (c.1821) outbuildings and reconstructed barn on the property are currently being used as Town offices.

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 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 6,133 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 treated discharge of 0.86 MGD.

The town offers a seven-week course, The Citizen's Academy, aimed at helping citizens increase their knowledge of town government, as well as their interest and ability in influencing and participating in town decisions.

Environmental Initiatives

The town government mission statement charges personnel with enhancing the quality of life for the living beings and land within our town. Strategic objectives include conserving natural resources and expanding recreation, walkability and connectivity.

Below are some of the environmental initiatives of town government.

- As a designated Tree City USA, the town's Public Space Division and Tree Board work to protect the town's trees and educate citizens about the importance of urban forestry.



The pollinator demonstration garden at Gold Park was a factor in Hillsborough earning a Bee City USA status.

- Hillsborough is a Bee City USA. The town works to raise awareness of the role pollinators play in sustaining more than 75 percent of the world's plant species and helps expand pollinator-friendly practices and environments in town. The town's Public Space Division and Tree Board are working in partnership with the Hillsborough Garden Club to develop the program and educational materials, including actions residents can take.
- The Town has adopted a resolution supporting the goal of using 100 percent clean energy by 2050 and fostering a resilient and sustainable community.
- The Town's Stormwater and Environmental Services Division was created to comply with a number of state and federal mandates for environmental stewardship.
- The town has partnered with Orange County for curbside collections of recyclables throughout town and to provide collection bins for recyclables downtown and along the Riverwalk greenway. The town has invested in a battery-powered cart for use by Public Works Department employees when collecting trash and recyclables along Riverwalk. Additionally, the town collects appliances and scrap metal for recycling.
- The Water Distribution and Wastewater Collection Division works to prevent sanitary sewer overflows and environmental damage they cause. The division's fats, oil and grease program included educational presentations at schools and public events about keeping these blockage-causing substances out of the Town's sewer system.

- As part of its efforts to make Hillsborough a more walkable community, the town has improved sidewalks and pedestrian crossings in the downtown area. It also has created new sidewalks and connections to the Riverwalk greenway in West Hillsborough.
- The town has contributed to Eno River water quality by building a wetland area in Gold Park and a BioDock in Kings Highway Park.
- Cates Creek Park is now home to a pollinator rain garden, and other pollinator gardens have been built in Gold Park and at the West King Street parking lot.
- The Town's ground maintenance contract includes environmentally friendly requirements for pruning and mulching and for limited use of chemicals.

Local Economy

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, education, healthcare, 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.

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 2019 was 3.3% for Orange County, while the state and national rates were 4.2% and 3.7%, respectively. The Town's economy is expected to remain stable because of the benefits derived from a low unemployment rate, a stable employment base, tourism, and the development of six residential neighborhoods.

Government, Education and Healthcare

Orange County government is a major employer in Hillsborough. Many of the county's administrative buildings are located within town limits. One of those buildings is the Old Orange County Courthouse (c. 1844) is a Greek-revival building designed and built by local builder John Berry. The courthouse is still in use for county judicial business and open to the public for free visits. The courthouse lawn is home to many outdoor musical performances and festivals and acts as a "town square" in many respects.

The Orange County Board of Education is located in Hillsborough and serves thirteen schools throughout the county. Three of the thirteen schools are in Hillsborough.

Durham Tech has a 20-acre campus in Hillsborough. The college occupies a 40,000 square-foot brick structure that holds 22 instructional spaces, including classrooms, computer and science labs, a library, flexible use space, instructional and student support services areas, and faculty and student lounges. The facility has many "green" building features which contribute to energy efficiency and cost savings.

University of North Carolina (UNC) Medical Center operates a UNC Health Care Hillsborough Campus, which is a 68-bed community hospital. The facility includes a Medical Office Building, Emergency Department, Outpatient Surgery and Inpatient Services. The hospital is the first in North Carolina to receive Geriatric Emergency Department Accreditation (GEDA) from the American College of Emergency Physicians (ACEP). The certifies that staff have been specially trained to assess older patients in a more comprehensive way. UNC is one of about 20 hospitals accredited nationwide. Even though the hospital recently opened in 2015, expansion plans have been submitted and going through the development review process. The expansion will add an estimated 100 jobs, 30 rehabilitation beds, 50 acute care beds, and a dialysis unit.

Recreational, Visitor and Cultural Events

The Town's three percent hotel/motel and one percent prepared food and beverage taxes have provided a dedicated resource for promoting Hillsborough as a destination for arts and culture, unique cuisine, outdoor recreation and historical landmarks.

The Tourism Development Authority (TDA), a component unit of the town, promotes travel, tourism and conventions; sponsors tourism-related events; and finances tourism-related capital projects. The Tourism Board drives economic development by promoting travel, tourism and visitor services. It sponsors programs and activities designed to improve Hillsborough's attractiveness to visitors. The Tourism Board has contracted with the Alliance

for Historic Hillsborough to operate the Hillsborough Visitors Center. The center offers a gift shop, tours, exhibits and gardens.

Hillsborough has many festivals and events throughout the year, such as:

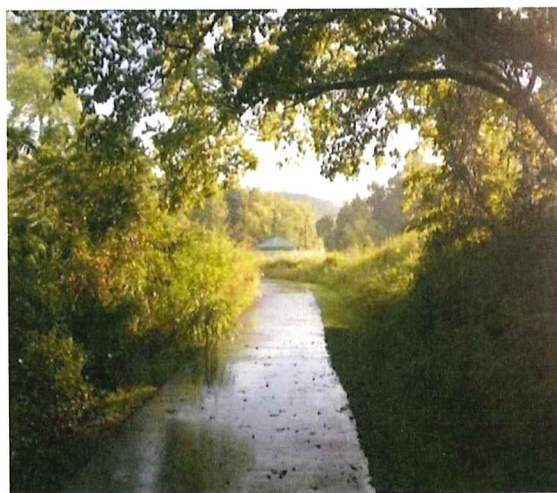
- Art in the Heart of Hillsborough
- Last Fridays Concert Series
- Hillsborough Garden Tour
- Last Fridays Artwalk
- Carolina Tarwheels Bikefest
- Farm Fare Tasting Event
- Hillsborough Hog Day BBQ Festival
- Moorefields Bluegrass Festival
- River Park Concert
- Historic Hillsborough Half Marathon & 5K
- Handmade Parade
- Hillsborough Halloween Spirits Tours
- Solstice Celebration Lantern Walk
- Hillsborough Holiday Parade and Tree Lighting
- Candlelight Holiday Home Tour



The Hillsborough Handmade Parade is a Mardi Gras style street parade.

Hillsborough is rich with museums and historical sites.

- Alexander Dickson House (late 18th-century)
- Ayr Mount (1800's Federal-era plantation house)
- Burwell School Historic Site (1800's)
- Dickerson's Chapel AME Church (1790)
- First Baptist Church (c.1860/1868)
- Hillsborough United Methodist Church (c.1860)
- Hillsborough Presbyterian Church (c.1816)
- Margaret Lane Cemetery (c.1885)
- Moorefields (c.1785)
- Occaneechi Village Replica Site
- Old Orange County Courthouse (c.1844)
- Old Town Cemetery (c.1757)
- Orange County Historical Museum
- Ruffin-Roulhac House (c.1821)
- St. Matthew's Episcopal Church (c. 1825/1826)



Riverwalk Greenway is a paved, ADA accessible, urban greenway along the Eno River that stretches nearly 2 miles from Occaneechee Speedway to Gold Park.

Recreation, sports and leisure opportunities abound in Hillsborough.

- Eno River State Park
- Exchange Club Park
- Fairview Park
- Gold Park
- Hillsborough Heights Tot Lot Park
- Kings Highway Park
- Turnip Patch Park
- Historic Occaneechee Speedway Trail
- Occaneechee Golf Club
- Occaneechee Mountain State Natural Area
- Riverwalk Greenway
- Triangle Area Polo Club & Arena
- Orange County Sportplex

Residential Growth

Hillsborough's population will increase significantly over the next few years. The Town continues to receive commercial inquiries and experience expansion of existing businesses. The following neighborhoods are under development or will be in the near future.

- 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.
- Forest Ridge is a 233 single-family unit project on U.S. 70 A.
- Elfin's Pond includes 118 townhomes on 24 acres at the intersection of Orange Grove Road and Eno Mountain Road.
- The Fiori Hill project plan proposes 46 single-family dwellings on 17.6 acres adjacent to Forest Ridge.
- 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.
- The Collins Ridge master plan includes 950 dwellings (houses, townhouses and apartments) and 88 affordable rental units. Construction is scheduled to start in 2020 with the first homes being completed by the end of the calendar year.

Long-Term Financial Planning

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. Multi-year budgeting encourages the town to look forward to identify, address, and mitigate potential problems while they are still manageable. The pressure of new development bringing more residents, businesses, and visitors to Hillsborough tests the strategy of assembling a budget that meets current and future demands. In recent years, a simple approach has been used to categorize and help balance the various wants and needs facing the Town. The following three principles are used as a guide in developing the budget and financial plan; take care of what we already have, invest in Hillsborough's future and minimize rate impacts on our community.

Take Care of What We Already Have

This strategy focuses on taking care of the current infrastructure, equipment, employees and organizational structure. The Town's mission, vision, strategic priorities and objectives can't be implemented if these basic tools of service implementation are not in working order. The longer a municipality waits to address, repair or replace these assets, the more expensive it becomes in the long term. For example, ensuring the organizational structure and resources are in place to maintain parks is equally as important as building the parks themselves. Hence, construction of new assets must be balanced with the personnel, equipment, and organization to operate and maintain them, which is critical in avoiding overextension of resources.

Invest in Hillsborough's Future

Investing in the future involves identifying specific projects, programs, services and infrastructure improvements likely to make Hillsborough a better place to live, work, visit and start a new business. Sound growth is necessary to support the improvements and services desired by the citizenry, and to make Hillsborough an affordable place to live.

Minimize Rate Impacts on the Community

If rate increases are deemed necessary, work to keep those costs on tax and rate payers as low as can reasonably be managed.

Major Initiatives

The Town's future capital plans are established in a seven-year Capital Improvement Plan which is revised during the yearly budget preparation. During the year, the Town funded and managed many significant projects including the following:

General Government

- Street Repaving - This initiative is being funded without debt and uses the Town's Powell Bill (gas tax allocation- \$165,000) and General Fund revenues (\$185,000) 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.
- Congestion Mitigation and Air Quality (CMAQ) Grant Sidewalk, Pedestrian Safety and Accessibility Project - 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 FY2019.

Water and Sewer Fund

- Reservoir Phase II -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, 2018 providing over \$11.1 million in funding for the project. The remaining funds will be raised through another revenue bond sale in early 2020 to pay for the remaining two road projects required to finish the project. Debt payments for the project are estimated at \$568,513 for FY20, \$978,089 in FY21 and \$976,924 in FY22. Phase 2 will yield an additional 1.2 million gallons per day of water capacity.

Stormwater Fund

- Valley Forge Stormwater Project – The purpose of this project is to replace three 90" pipes crossing under Valley Forge Road. The pipes have deteriorated due to age, current flow, and damage from debris.

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 \$4,380 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 21 fiscal years, and no debt service expenditures on general obligation bonded debt have been incurred in the General Fund during the last 21 fiscal years. The Town has avoided a heavy debt load, which has plagued many municipalities, in its General Fund. Debt service costs make up 12.42% of General Fund expenditures. This includes short-term debt for equipment needs like garbage trucks, leaf collection equipment, police vehicles, as well as long-term debt for building renovations and park construction. 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 21.75% of Water and Sewer Fund expenditures, which was an increase over the previous fiscal year. The debt payments are a significant expense for a relatively small utility system, however, the primary reason for the higher percentage in the Water and Sewer Fund is continued emphasis on maintaining the water and sewer infrastructure of the Town.

Financial Policies

The Town of Hillsborough has adopted a policy to maintain a General Fund balance level between 20% and 60% of operating expenditures, with a target of 33% or the equivalent of four months of operating expenditures. The Town has diversified its investment by security type to avoid incurring unreasonable risks inherent in over-investing in specific instruments, or maturities. Without exception, no more than 50% of the Town's total investment portfolio will be invested in a single security type.

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, 2018. 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 24 consecutive years (fiscal years ended 1994 through 2018). 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.

Respectfully submitted,



Eric J. Peterson
Town Manager



Daphna Schwartz, CPA
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, 2018

Christopher P. Morrell

Executive Director/CEO

This page left intentionally blank.

Financial Section

This page left intentionally blank.

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, 2019, 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, 2019, 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.

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 Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards 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, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements 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 10, 2020, 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 10, 2020**

This page left intentionally blank.

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, 2019. 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

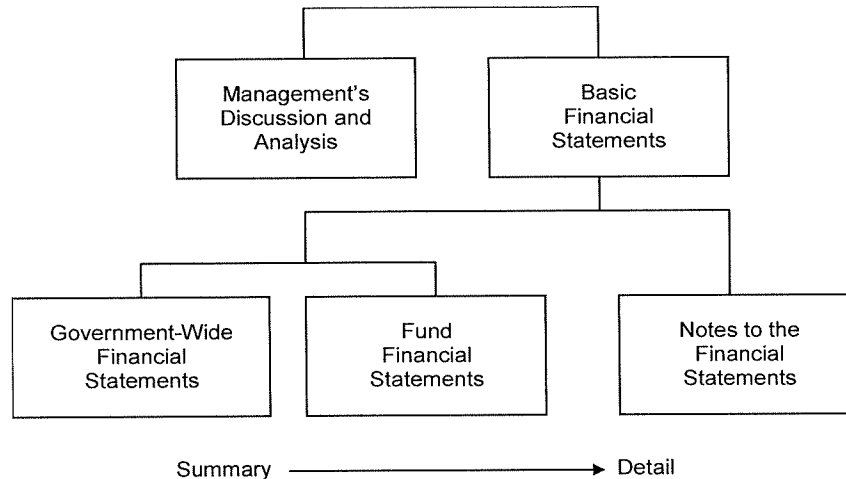
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$78,240,838.
- The Town's total net position increased by \$7,471,440 primarily due to general fund revenues coming in over budget.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$7,465,418, a net decrease of \$845,868 from the prior year. This is the result of the capital project activity. Approximately 50.32% of this total amount or \$3,757,005 is nonspendable, or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,779,628, or 39.50% of total General Fund expenditures, including other financing uses, for the fiscal year.
- The Town's total debt decreased by \$2,253,427 during the current fiscal year due to retirement of 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.

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	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 9,071,171	\$ 9,600,900	\$ 20,377,576	\$ 23,275,801	\$ 29,448,747	\$ 32,876,701
Other assets	-	-	-	-	-	-
Capital assets, net	<u>23,997,360</u>	<u>22,473,237</u>	<u>61,735,518</u>	<u>54,999,537</u>	<u>85,732,878</u>	<u>77,472,774</u>
Total assets	<u>33,068,531</u>	<u>32,074,137</u>	<u>82,113,094</u>	<u>78,275,338</u>	<u>115,181,625</u>	<u>110,349,475</u>
Deferred outflows of resources	<u>1,336,851</u>	<u>821,829</u>	<u>562,168</u>	<u>373,375</u>	<u>1,899,019</u>	<u>1,195,204</u>
Long-term liabilities outstanding	<u>8,228,935</u>	<u>8,770,244</u>	<u>28,647,755</u>	<u>29,407,519</u>	<u>36,876,690</u>	<u>38,177,763</u>
Other liabilities	<u>484,748</u>	<u>917,451</u>	<u>1,325,865</u>	<u>1,568,633</u>	<u>1,810,613</u>	<u>2,486,084</u>
Total liabilities	<u>8,713,683</u>	<u>9,687,695</u>	<u>29,973,620</u>	<u>30,976,152</u>	<u>38,687,303</u>	<u>40,663,847</u>
Deferred inflows of resources	<u>109,915</u>	<u>72,040</u>	<u>42,588</u>	<u>39,394</u>	<u>152,503</u>	<u>111,434</u>
Net position:						
Net investment in capital assets	<u>20,511,801</u>	<u>18,580,077</u>	<u>38,536,890</u>	<u>36,693,299</u>	<u>59,048,691</u>	<u>55,273,376</u>
Restricted	<u>3,757,005</u>	<u>3,089,866</u>	<u>2,677,877</u>	<u>2,631,171</u>	<u>6,434,882</u>	<u>5,721,037</u>
Unrestricted	<u>1,312,978</u>	<u>1,466,288</u>	<u>11,444,287</u>	<u>8,308,697</u>	<u>12,757,265</u>	<u>9,774,985</u>
Total net position, ending	<u>\$ 25,581,784</u>	<u>\$ 23,163,231</u>	<u>\$ 52,659,054</u>	<u>\$ 47,633,167</u>	<u>\$ 78,240,838</u>	<u>\$ 70,769,398</u>

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 \$78,240,838 as of June 30, 2019. The Town's net position increased by \$7,471,440 for the fiscal year ended June 30, 2019. However, the largest portion (75.47%) 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, \$6,434,882 (8.22%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$12,757,265 (16.31%) 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 99%.
- 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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 210,734	\$ 595,400	\$ 12,549,822	\$ 10,887,711	\$ 12,760,556	\$ 11,483,111
Operating grants and contributions	221,637	197,119	32,361	-	253,998	197,119
Capital grants and contributions	3,379,916	1,634,422	-	363,598	3,379,916	1,998,020
General revenues:						
Property taxes	6,510,109	6,700,510	-	-	6,510,109	6,700,510
Local option sales taxes	1,708,025	1,486,817	-	-	1,708,025	1,486,817
Gross receipts on short-term rental property	13,593	9,657	-	-	13,593	9,657
Privilege licenses	875	1,160	-	-	875	1,160
Motor vehicle license fees	-	260	-	-	-	260
Solid waste disposal	5,472	4,465	-	-	5,472	4,465
Unrestricted inter-governmental revenues	1,135,259	1,080,184	-	-	1,135,259	1,080,184
Other	(1,825,646)	192,778	2,365,272	(202,014)	539,626	(9,236)
Total revenues	<u>11,359,974</u>	<u>11,902,772</u>	<u>14,947,455</u>	<u>11,049,295</u>	<u>26,307,429</u>	<u>22,952,067</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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Expenses:						
General government	\$ 1,865,007	\$ 1,865,408	\$ -	\$ -	\$ 1,865,007	\$ 1,865,408
Public safety	4,705,989	4,666,798	-	-	4,705,989	4,666,798
Transportation	718,593	684,226	-	-	718,593	684,226
Environmental protection	468,057	478,122	-	-	468,057	478,122
Economic and physical development	488,592	498,150	-	-	488,592	498,150
Community activities and projects	34,311	42,038	-	-	34,311	42,038
Parks and recreation	493,868	429,684	-	-	493,868	429,684
Interest on long-term debt	140,004	114,957	-	-	140,004	114,957
Stormwater	-	-	566,231	458,118	566,231	458,118
Water and sewer	-	-	9,355,337	8,949,652	9,355,337	8,949,652
Total expenses	<u>8,914,421</u>	<u>8,779,383</u>	<u>9,921,568</u>	<u>9,407,770</u>	<u>18,835,989</u>	<u>18,187,153</u>
Increase in net position	2,445,553	3,123,389	5,025,887	1,641,525	7,471,440	4,764,914
Net position, beginning, previously reported	23,136,231	20,682,771	47,633,167	46,371,568	70,769,398	67,054,339
Cumulative effect adjustment	-	(669,929)	-	(379,926)	-	(1,049,855)
Net position, beginning, adjusted	<u>23,136,231</u>	<u>20,012,842</u>	<u>47,633,167</u>	<u>45,991,642</u>	<u>70,769,398</u>	<u>66,004,484</u>
Net position, ending	<u>\$ 25,581,784</u>	<u>\$ 23,136,231</u>	<u>\$ 52,659,054</u>	<u>\$ 47,633,167</u>	<u>\$ 78,240,838</u>	<u>\$ 70,769,398</u>

Governmental activities. Governmental activities increased the Town's net position by \$2,445,553, thereby accounting for 32.73% 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 capital grants and contributions.
- Increases in local option sales tax revenue.

Business-type activities. Business-type activities increased the Town's net position by \$5,025,887, accounting for 67.27% 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.

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 \$4,503,694, while total fund balance reached \$7,955,027. 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 47.06% of general fund expenditures, while total fund balance represents 83.13% of the same amount.

At June 30, 2019, the governmental funds of the Town reported a combined fund balance of \$7,465,418, with a net decrease in fund balance of \$845,868. This decrease is primarily related to capital project expenditures.

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 \$854,703. Expenditures were \$1,395,213 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 \$10,849,705, a 38.56% or \$3,019,391 increase from the previous year. This increase is due to the change in the net investment in capital assets (see Note 4.D). The total growth in net position was \$3,034,754.

Unrestricted net position of the Stormwater Fund at the end of the fiscal year amounted to \$594,582, a 24.29% or \$116,199 increase from the previous year. The increase is largely attributed to expenditures being 18.01% less than expected. The total growth in net position was \$1,991,133 due to the transfer of infrastructure from the general fund.

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, 2019 totals \$85,732,878 (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:

- Vehicles (\$251,568)
- Street resurfacing (\$445,497)

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

- Cates Creek Sidewalk (\$38,628)
- Empress Road (\$337,524)
- Botan Way (\$863,944)
- Aurora Way (\$485,640)

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

- Fairy Moss Lane (\$237,222)
- Papyrus Place (\$630,671)

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 4,634,594	\$ 4,690,474	\$ 6,132,444	\$ 6,132,444	\$ 10,767,038	\$ 10,822,918
Construction in progress	49,297	2,629,713	9,205,410	3,565,187	9,254,707	6,194,900
Buildings and improvements	6,286,045	4,784,933	17,915,526	18,383,299	24,201,571	23,168,232
Plant and distribution systems	-	-	25,417,324	25,753,841	25,417,324	25,753,841
Infrastructure	11,759,238	8,724,883	2,466,199	638,278	14,225,437	9,363,161
Equipment	389,865	409,043	279,668	261,559	669,533	670,602
Vehicles	878,321	1,234,191	318,947	264,204	1,197,268	1,498,395
Intangibles	-	-	-	725	-	725
Total	\$ 23,997,360	\$ 22,473,237	\$ 61,735,518	\$ 54,999,537	\$ 85,732,878	\$ 77,472,774

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, 2019, 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	
	2019	2018	2019	2018	2019	2018
Revolving loan payable	\$ -	\$ -	\$ 15,397,010	\$ 16,435,811	\$ 15,397,010	\$ 16,435,811
Special revenue bonds	-	-	10,155,000	10,155,000	10,155,000	10,155,000
Premium on bonds	-	-	970,330	1,018,674	970,330	1,018,674
Installment purchases	4,632,280	5,829,231	552,936	522,267	5,185,216	6,351,498
Total	\$ 4,632,280	\$ 5,829,231	\$ 27,075,276	\$ 28,131,752	\$ 31,707,556	\$ 33,960,983

The Town's total debt decreased by \$2,253,427 during the current fiscal year, primarily due to 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 \$82,476,174. The Town does not have any bonds authorized but unissued at June 30, 2019.

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

Economic factors and next year's budgets and rates

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

- *Low unemployment.* Orange County's unemployment rate of 3.3% as of June 30, 2019 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, 2020

Governmental activities: The property tax rate remains at 62 cents for FY20. This will be the seventh consecutive year without a property tax rate increase. Expenses will decrease by 1.2% in FY20.

Other budget highlights in brief:

- Street resurfacing (\$360,500)
- Police works relocation (\$127,000)
- Fire protection increase (\$42,905)
- Net salary adjustments resulting from an increase in the minimum wage to \$15 and aligning performance evaluations with the fiscal year (\$138,000)
- Staff restructuring (\$57,924)

Business-type activities:

Water and Sewer Fund

Due to the revenue bonds issue, both water and sewer rates will increase by 5%.

Operational expenditures in the Water/Sewer Fund are expected to decrease by 10.5% in FY20. Many cuts and deferments were made to this year's budget to avoid a more significant rate increase and to limit additional fund balance appropriations.

Other budget highlights in brief:

- West Fork Eno Reservoir Phase II expansion started in April 2018. The first series of revenue bonds for this project were issued in May 2018. The second series will be issued in the third quarter of FY20.
- Water system redundancy model (\$40,000)
- Durham pump station generator (\$110,000)
- Old water plant renovation (\$50,000)
- McAdams Road water main replacement (\$75,000)

- Collection system rehabilitation (\$220,000)
- River pump station rehabilitation (\$30,000)
- Sewer line repairs (\$70,000)
- Water and sewer fees rate study (\$30,000)

Stormwater Fund

Stormwater rates will not increase, and expenses will decrease by 7.2% in FY20.

Other budget highlights in brief:

- Stormwater infrastructure (\$172,500)
- Capital projects (\$20,257)

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, 2019

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	\$ 5,362,995	\$ 12,523,596	\$ 17,886,591	\$ 262,242	\$ 353,437
Receivables:					
Taxes receivable, net	138,093	-	138,093	-	-
Accrued interest receivable, property taxes	24,446	-	24,446	-	-
Accounts receivable, net	76,381	1,565,531	1,641,912	368	292
Due from other governments	1,942,695	-	1,942,695	-	-
Due from primary government	-	-	-	931	55,486
Prepaid expenses	-	215	215	-	689
Restricted assets:					
Cash and investments	1,526,561	6,288,234	7,814,795	-	-
Total current assets	9,071,171	20,377,576	29,448,747	263,541	409,904
Noncurrent assets:					
Capital assets:					
Land and construction-in-progress	4,683,891	15,337,854	20,021,745	-	-
Other capital assets, net of depreciation	19,313,469	46,397,664	65,711,133	-	-
Total capital assets	23,997,360	61,735,518	85,732,878	-	-
Total noncurrent assets	23,997,360	61,735,518	85,732,878	-	-
Total assets	33,068,531	82,113,094	115,181,625	263,541	409,904
DEFERRED OUTFLOWS OF RESOURCES					
Pension deferrals	1,299,777	543,840	1,843,617	-	-
OPEB deferrals	37,074	18,328	55,402	-	-
	1,336,851	562,168	1,899,019	-	-

	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	\$ 317,315	\$ 599,203	\$ 916,518	\$ 1,459	\$ 15,486
Payable from restricted assets - customer deposits	-	551,850	551,850	-	-
Accrued interest payable	57,634	174,812	232,446	-	-
Unearned revenue	27,381	-	27,381	-	-
Due to component units	82,418	-	82,418	-	-
Current portion of long-term liabilities	944,693	1,325,220	2,269,913	-	-
Total current liabilities	1,429,441	2,651,085	4,080,526	1,459	15,486
Long-term liabilities:					
Net pension liability	1,513,849	695,513	2,209,362	-	-
Total pension liability	727,333	-	727,333	-	-
Total OPEB liability	1,022,172	612,189	1,634,361	-	-
Due in more than one year	4,020,888	26,014,833	30,035,721	-	-
Total noncurrent liabilities	7,284,242	27,322,535	34,606,777	-	-
Total liabilities	8,713,683	29,973,620	38,687,303	1,459	15,486
DEFERRED INFLOWS OF RESOURCES					
Pension deferrals	44,324	5,429	49,753	-	-
OPEB deferrals	65,591	37,159	102,750	-	-
Total deferred inflows	109,915	42,588	152,503	-	-
NET POSITION					
Net investment in capital assets	20,511,801	38,536,890	59,048,691	-	-
Restricted for:					
Stabilization by state statute	3,377,165	-	3,377,165	1,299	55,778
Streets	75,919	-	75,919	-	-
Capital projects	303,921	-	303,921	-	-
Water and sewer projects	-	2,677,877	2,677,877	-	-
Unrestricted	1,312,978	11,444,287	12,757,265	260,783	338,640
Total net position	\$ 25,581,784	\$ 52,659,054	\$ 78,240,838	\$ 262,082	\$ 394,418

Town of Hillsborough, North Carolina
Statement of Activities
Year Ended June 30, 2019

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	\$ 1,865,007	\$ 158,451	\$ 15,884	\$ 2,593,628
Public safety	4,705,989	16,016	5,788	-
Transportation	718,593	730	199,965	-
Environmental protection	468,057	-	-	-
Economic and physical development	488,592	29,000	-	-
Community activities and projects	34,311	-	-	-
Parks and recreation	493,868	6,537	-	786,288
Interest on long-term obligations	140,004	-	-	-
Total governmental activities	<u>8,914,421</u>	<u>210,734</u>	<u>221,637</u>	<u>3,379,916</u>
Business-type activities:				
Water and sewer	9,355,337	11,890,751	-	-
Stormwater	566,231	659,071	32,361	-
Total business-type activities	<u>9,921,568</u>	<u>12,549,822</u>	<u>32,361</u>	<u>-</u>
Total primary government	<u>\$ 18,835,989</u>	<u>\$ 12,760,556</u>	<u>\$ 253,998</u>	<u>\$ 3,379,916</u>
Component units				
Hillsborough Tourism				
Development Authority	\$ 59,824	\$ -	\$ -	\$ -
Hillsborough Tourism Board	314,069	-	-	-
Total component units	<u>\$ 373,893</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
\$ 902,956	\$ -	\$ 902,956	\$ -	\$ -
(4,684,185)	-	(4,684,185)	-	-
(517,898)	-	(517,898)	-	-
(468,057)	-	(468,057)	-	-
(459,592)	-	(459,592)	-	-
(34,311)	-	(34,311)	-	-
298,957	-	298,957	-	-
(140,004)	-	(140,004)	-	-
(5,102,134)	-	(5,102,134)	-	-
-	2,535,414	2,535,414	-	-
-	125,201	125,201	-	-
-	2,660,615	2,660,615	-	-
(5,102,134)	2,660,615	(2,441,519)	-	-
			(59,824)	-
			-	(314,069)
			(59,824)	(314,069)

Town of Hillsborough, North Carolina
Statement of Activities
Year Ended June 30, 2019

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			
	Solid waste disposal			
	Unrestricted intergovernmental revenues			
	Investment earnings, unrestricted			
	Payment from Town of Hillsborough			
	Gain (loss) on disposal of capital assets			
	Miscellaneous			
	Transfers			
	Total general revenues and transfers			
	Change in net position			
	Net position, beginning			
	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
6,510,109	\$ -	\$ 6,510,109	\$ -	\$ -
1,708,025	-	1,708,025	-	-
13,593	-	13,593	-	-
875	-	875	-	-
5,472	-	5,472	-	-
1,135,259	-	1,135,259	-	-
261,029	243,186	504,215	-	-
-	-	-	71,028	372,848
(32,615)	-	(32,615)	-	-
19,682	48,344	68,026	-	1,611
(2,073,742)	2,073,742	-	-	-
7,547,687	2,365,272	9,912,959	71,028	374,459
2,445,553	5,025,887	7,471,440	11,204	60,390
23,136,231	47,633,167	70,769,398	250,878	334,028
<u>\$ 25,581,784</u>	<u>\$ 52,659,054</u>	<u>\$ 78,240,838</u>	<u>\$ 262,082</u>	<u>\$ 394,418</u>

Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds
June 30, 2019

Exhibit 3
(2 pages)

	Major Funds			
	General Fund	Town Barn Improvements Capital Project Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and investments	5,199,110	\$ -	\$ 163,885	\$ 5,362,995
Taxes receivable	138,093	-	-	138,093
Accounts receivable, net	76,381	-	-	76,381
Due from other governments	926,594	-	1,016,101	1,942,695
Due from other funds	2,054,296	-	-	2,054,296
Restricted assets				
Cash and investments	75,919	1,146,721	303,921	1,526,561
Total assets	<u>\$ 8,470,393</u>	<u>\$ 1,146,721</u>	<u>\$ 1,483,907</u>	<u>\$ 11,101,021</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	267,474	-	\$ 49,840	\$ 317,314
Due to other funds	-	1,080,562	973,734	2,054,296
Unearned revenue	27,381	-	-	27,381
Due to component units	82,418	-	-	82,418
Total liabilities	<u>377,273</u>	<u>1,080,562</u>	<u>1,023,574</u>	<u>2,481,409</u>
DEFERRED INFLOWS OF RESOURCES	<u>138,093</u>	<u>-</u>	<u>1,016,101</u>	<u>1,154,194</u>
FUND BALANCES				
Restricted for:				
Stabilization by state statute	3,375,414	-	1,751	3,377,165
Streets	75,919	-	-	75,919
Capital projects	-	-	303,921	303,921
Committed for:				
Capital projects	-	66,159	162,134	228,293
Assigned for:				
Sidewalks	46,526	-	-	46,526
Affordable housing	308,094	-	-	308,094
Subsequent year's expenditures	346,733	-	-	346,733
Other	22,713	-	-	22,713
Unassigned	3,779,628	-	(1,023,574)	2,756,054
Total fund balances	<u>7,955,027</u>	<u>66,159</u>	<u>(555,768)</u>	<u>7,465,418</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,470,393</u>	<u>\$ 1,146,721</u>	<u>\$ 1,483,907</u>	<u>\$ 11,101,021</u>

Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds
June 30, 2019

Exhibit 3
(2 pages)

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

Total fund balances, governmental funds	\$ 7,465,418
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	23,997,360
Deferred outflows of resources related to pensions and OPEB are not reported in the funds	1,336,851
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	24,446
Liabilities for earned revenues considered deferred inflows of resources in the fund statements	1,154,194
Deferred inflows of resources related to pensions and OPEB are not reported in the funds	(109,915)
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.	(5,023,216)
Total pension liability	(727,333)
Net pension liability	(1,513,849)
Total OPEB liability	<u>(1,022,172)</u>
Net position of governmental activities	<u><u>\$ 25,581,784</u></u>

Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2019

Exhibit 4
(2 pages)

	Major Funds			
	General Fund	Town Barn Improvements Capital Project Fund	Total Nonmajor Funds	Total Governmental Funds
Revenues				
General revenues:				
Ad valorem taxes	\$ 6,491,857	\$ -	\$ -	\$ 6,491,857
Other taxes and licenses	1,728,857	-	-	1,728,857
Unrestricted intergovernmental revenues	1,135,259	-	-	1,135,259
Restricted intergovernmental revenues	224,840	-	46,669	271,509
Investment earnings	248,824	9,827	2,378	261,029
Contribution from property owners	-	-	12,582	12,582
Other general revenues	50,176	-	-	50,176
Total general revenues	9,879,813	9,827	61,629	9,951,269
Functionally related revenues:				
Use and rental fees	199,411	-	-	199,411
Total revenues	10,079,224	9,827	61,629	10,150,680
Expenditures				
General government	1,489,003	541,226	12,582	2,042,811
Public safety	4,300,485	-	-	4,300,485
Transportation	916,097	-	-	916,097
Environmental protection	345,220	-	-	345,220
Economic and physical development	486,140	-	110,005	596,145
Community activities and projects	158,906	-	-	158,906
Parks and recreation	489,242	-	982,859	1,472,101
Debt service:				
Principal retirement	1,033,807	-	-	1,033,807
Interest and fiscal charges	130,976	-	-	130,976
Total expenditures	9,349,876	541,226	1,105,446	10,996,548
Revenues over (under) expenditures	729,348	(531,399)	(1,043,817)	(845,868)
Other financing sources (uses)				
Transfer to Downtown Improvements Capital Project Fund	(76,814)	-	-	(76,814)
Transfer to Public Works Project Fund	(79,182)	-	-	(79,182)
Transfer to Riverwalk CMAQ Capital Projects Fund	(43,420)	-	-	(43,420)
Transfer to General Capital Projects Fund	(20,000)	-	-	(20,000)
Transfer from General Fund	-	-	219,416	219,416
Total other financing sources (uses)	(219,416)	-	219,416	-
Net change in fund balances	509,932	(531,399)	(824,401)	(845,868)
Fund balances, beginning	7,445,095	597,558	268,633	8,311,286
Fund balances, ending	\$ 7,955,027	\$ 66,159	\$ (555,768)	\$ 7,465,418

Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2019

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	\$ (845,868)
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 (\$2,202,180) exceeded depreciation (\$974,619) in the current period.	1,227,561
The net effect of transactions involving capital assets donated to the Town.	2,593,628
The effect of transfers related to Capital Assets and Debt	(2,073,742)
Contributions to the pension plan in the current fiscal year are not included in the statement of activities	328,044
Benefit payments paid and administrative expense for the LEOSSA are not included in the statement of activities	33,238
Benefit payments paid and administrative expense for the OPEB are not included in the statement of activities	32,621
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	12,884
Proceeds received from disposition/transfer of capital assets	(27,326)
Loss on disposal/transfer of capital assets	(32,615)
Change in deferred revenues related to grants receivable.	739,618
The repayment of the principal of long-term debt (\$1,033,808) consumes the current financial resources of governmental funds. This transaction has no effect on net position.	1,033,808
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	(9,028)
Compensated absences	(7,797)
Pension expense	(512,581)
OPEB expense	(46,892)
Changes in net position of governmental activities	<u>\$ 2,445,553</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, 2019

Exhibit 5

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
General revenues				
Ad valorem taxes	6,983,250	\$ 6,347,146	\$ 6,491,857	\$ 144,711
Other taxes and licenses	1,415,170	1,427,156	1,728,857	301,701
Unrestricted intergovernmental revenues	955,192	974,192	1,135,259	161,067
Restricted intergovernmental revenues	212,000	202,464	224,840	22,376
Investment earnings	30,000	30,000	248,824	218,824
Other general revenues	169,980	44,152	50,176	6,024
Total general revenues	9,765,592	9,025,110	9,879,813	854,703
Functionally related revenues				
Use and rental fees	152,500	294,000	199,411	(94,589)
Total revenues	9,918,092	9,319,110	10,079,224	760,114
Expenditures				
General government	2,034,149	2,143,943	1,773,265	370,678
Public safety	5,111,390	5,249,196	4,672,335	576,861
Transportation	968,610	1,106,124	957,115	149,009
Environmental protection	612,845	558,945	465,611	93,334
Economic and physical development	443,264	545,139	486,140	58,999
Community activities and projects	308,161	324,459	259,805	64,654
Parks and recreation	1,125,061	793,019	735,605	57,414
Contingency	200,000	24,264	-	24,264
Total expenditures	10,803,480	10,745,089	9,349,876	1,395,213
Revenues under expenditures	(885,388)	(1,425,979)	729,348	2,155,327
Other financing sources (uses)				
Transfer to Downtown Improvements	-	(76,814)	(76,814)	-
Capital Project Fund	-	(79,182)	(79,182)	-
Transfer to Public Works Project Fund	-	(43,420)	(43,420)	-
Transfer to Riverwalk - CMAQ Fund	-	(20,000)	(20,000)	-
Transfer from General Capital Projects Fund	-	(20,000)	(20,000)	-
Total other financing sources (uses)	-	(219,416)	(219,416)	-
Appropriated fund balance	885,388	1,645,395	-	(1,645,395)
Net change in fund balance	\$ -	\$ -	509,932	\$ 509,932
Fund balance, beginning			7,445,095	
Fund balance, ending			<u>\$ 7,955,027</u>	

Town of Hillsborough, North Carolina
Statement of Net Position
Proprietary Funds
June 30, 2019

Exhibit 6

	Major Water and Sewer Fund	Nonmajor Stormwater Fund	Total
ASSETS			
Current assets:			
Cash and investments	11,878,148	\$ 645,448	\$ 12,523,596
Accounts receivable, net	1,530,387	35,144	1,565,531
Prepaid expenses	215	-	215
Restricted assets:			
Cash and investments	6,288,234	-	6,288,234
Total current assets	<u>19,696,984</u>	<u>680,592</u>	<u>20,377,576</u>
Noncurrent assets:			
Capital assets:			
Land and construction-in-progress	15,337,854	-	15,337,854
Other capital assets, net of depreciation	44,522,730	1,874,934	46,397,664
Total capital assets	<u>59,860,584</u>	<u>1,874,934</u>	<u>61,735,518</u>
Total noncurrent assets	<u>59,860,584</u>	<u>1,874,934</u>	<u>61,735,518</u>
Total assets	<u>79,557,568</u>	<u>2,555,526</u>	<u>82,113,094</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	502,475	41,365	543,840
OPEB deferrals	16,661	1,667	18,328
Total deferred outflows of resources	<u>519,136</u>	<u>43,032</u>	<u>562,168</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	564,869	34,334	599,203
Payable from restricted assets - customer deposits	551,850	-	551,850
Accrued interest payable	174,812	-	174,812
Current portion of long-term liabilities	1,325,220	-	1,325,220
Total current liabilities	<u>2,616,751</u>	<u>34,334</u>	<u>2,651,085</u>
Long-term liabilities:			
Net pension liability	642,633	52,880	695,513
Total OPEB liability	577,994	34,195	612,189
Due in more than one year	26,009,963	4,870	26,014,833
Total noncurrent liabilities	<u>27,230,590</u>	<u>91,945</u>	<u>27,322,535</u>
Total liabilities	<u>29,847,341</u>	<u>126,279</u>	<u>29,973,620</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	5,094	335	5,429
OPEB deferrals	34,731	2,428	37,159
Total deferred inflows of resources	<u>39,825</u>	<u>2,763</u>	<u>42,588</u>
NET POSITION			
Net investment in capital assets	36,661,956	1,874,934	38,536,890
Restricted for:			
Water and sewer projects	2,677,877	-	2,677,877
Unrestricted	10,849,705	594,582	11,444,287
Total net position	<u>\$ 50,189,538</u>	<u>\$ 2,469,516</u>	<u>\$ 52,659,054</u>

Town of Hillsborough, North Carolina
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2019

Exhibit 7

	<u>Major Water and Sewer Fund</u>	<u>Nonmajor Stormwater Fund</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 9,384,221	650,296	\$ 10,034,517
Other operating revenues	<u>2,506,530</u>	<u>8,775</u>	<u>2,515,305</u>
Total operating revenues	<u>11,890,751</u>	<u>659,071</u>	<u>12,549,822</u>
Operating expenses			
Personnel services	2,684,446	247,255	2,931,701
Depreciation	1,645,208	54,970	1,700,178
Other current charges	<u>4,192,855</u>	<u>264,006</u>	<u>4,456,861</u>
Total operating expenses	<u>8,522,509</u>	<u>566,231</u>	<u>9,088,740</u>
Operating income	<u>3,368,242</u>	<u>92,840</u>	<u>3,461,082</u>
Nonoperating revenues (expenses)			
Investment earnings	243,186	-	243,186
Amortization of premium on bonds payable	48,344	-	48,344
Gain on disposal of capital assets	32,361	-	32,361
Interest and fees	<u>(832,828)</u>	<u>-</u>	<u>(832,828)</u>
Total nonoperating revenues (expenses)	<u>(508,937)</u>	<u>-</u>	<u>(508,937)</u>
Income before capital contributions and transfers	<u>2,859,305</u>	<u>92,840</u>	<u>2,952,145</u>
Capital contributions and transfers:			
Transfers from General Fund	<u>175,449</u>	<u>1,898,293</u>	<u>2,073,742</u>
Total capital contributions and transfers	<u>175,449</u>	<u>1,898,293</u>	<u>2,073,742</u>
Change in net position	<u>3,034,754</u>	<u>1,991,133</u>	<u>5,025,887</u>
Net position, beginning of year	<u>47,154,784</u>	<u>478,383</u>	<u>47,633,167</u>
Net position end of year	<u>\$ 50,189,538</u>	<u>\$ 2,469,516</u>	<u>\$ 52,659,054</u>

Town of Hillsborough, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2019

Exhibit 8
(2 pages)

	<u>Major Water and Sewer Fund</u>	<u>Nonmajor Stormwater Fund</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers	\$ 11,764,062	\$ 652,738	\$ 12,416,800
Cash paid for goods and services	(4,523,241)	(339,603)	(4,862,844)
Cash paid to or on behalf of employees for services	(2,548,974)	(175,783)	(2,724,757)
Net cash provided by operating activities	<u>4,691,847</u>	<u>137,352</u>	<u>4,829,199</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(6,172,577)	(31,606)	(6,204,183)
Proceeds from sale of capital assets	37,279	-	37,279
Proceeds from issuance of long-term debt	-	-	-
Premium received on issuance of bonds	-	-	-
Principal paid on bonds, notes and installment purchases	(1,171,275)	-	(1,171,275)
Payment of bond issuance costs	-	-	-
Interest paid on bonds and installment purchases	(766,598)	-	(766,598)
Net cash used by capital and related financing activities	<u>(8,073,171)</u>	<u>(31,606)</u>	<u>(8,104,777)</u>
Cash flows from investing activities			
Interest on investments	<u>243,186</u>	<u>-</u>	<u>243,186</u>
Net cash provided by investing activities	<u>243,186</u>	<u>-</u>	<u>243,186</u>
Net increase (decrease) in cash and cash equivalents	(3,138,138)	105,746	(3,032,392)
Cash and cash equivalents, beginning	<u>21,304,520</u>	<u>539,702</u>	<u>21,844,222</u>
Cash and cash equivalents, ending	<u>\$ 18,166,382</u>	<u>\$ 645,448</u>	<u>\$ 18,811,830</u>
Cash and cash equivalents			
Unrestricted	\$ 11,878,148	\$ 645,448	\$ 12,523,596
Restricted	<u>6,288,234</u>	<u>-</u>	<u>6,288,234</u>
Total cash and cash equivalents	<u>\$ 18,166,382</u>	<u>\$ 645,448</u>	<u>\$ 18,811,830</u>

Town of Hillsborough, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2019

Exhibit 8
(2 pages)

	<u>Major</u> <u>Water and</u> <u>Sewer 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	\$ 3,368,242	\$ 92,840	\$ 3,461,082
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,645,208	54,970	1,700,178
Provision for uncollectible accounts	(21,265)	-	(21,265)
Changes in assets and liabilities:			
Accounts receivable	(105,465)	(7,445)	(112,910)
Prepaid expense	-	-	-
Deferred outflows of resources for pensions	(185,158)	(12,160)	(197,318)
Deferred outflows of resources for OPEB	10,187	(1,667)	8,520
Accounts payable and accrued liabilities	(350,302)	(4,125)	(354,427)
Deposits	45,433	-	45,433
OPEB liability	4,742	474	5,216
Net pension liability	237,775	15,616	253,391
Deferred inflows of resources for pensions	(6,366)	(719)	(7,085)
Deferred inflows of resources for OPEB	9,344	935	10,279
Compensated absences payable	39,472	(1,367)	38,105
Net cash provided by operating activities	<u>\$ 4,691,847</u>	<u>\$ 137,352</u>	<u>\$ 4,829,199</u>

**Town of Hillsborough, North Carolina
Statement of Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2019**

Exhibit 9

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

This page left intentionally blank.

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 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) 296-9451.

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:

Consolidated 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. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT-Term Portfolio bond fund, has no rating and is measured at fair value. As of June 30, 2019, the Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

(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	\$ 75,919
Town Barn Improvements	1,146,721
General Capital Projects Fund	190,000
General Capital Reserve Fund	
Developer donations - future capital projects	<u>113,921</u>

Total governmental activities	<u>1,526,561</u>
-------------------------------	------------------

Business-type activities:

Water and Sewer Fund	
Unspent debt proceeds	3,058,507
Customer deposits	551,850
Developer donations - perpetual maintenance	441,138
Developer donations - water and sewer needs	<u>2,236,739</u>

Total business-type activities	<u>6,288,234</u>
--------------------------------	------------------

Total restricted cash	<u>\$ 7,814,795</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, 2018. 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 2019 fiscal year, and OPEB deferrals for the 2019 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:

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 – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

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. Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance but can report negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

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 debt transactions and are summarized below:

	<u>Exhibit 4</u>	<u>Increase (Decrease)</u>	<u>Exhibit 5</u>
General government	\$ 1,489,003	\$ 284,262	\$ 1,773,265
Public safety	4,300,485	371,850	4,672,335
Transportation	916,097	41,018	957,115
Environmental protection	345,220	120,391	465,611
Community activities and projects	158,906	100,899	259,805
Parks and recreation	489,242	246,363	735,605
Debt service:			
Principal retirement	1,033,807	(1,033,807) ⁽¹⁾	-
Interest and fiscal charges	130,976	(130,976) ⁽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, 2019, the Downtown Improvements and Riverwalk CMAQ Capital Project Funds have deficit fund balances of \$199,307 and \$824,267, respectively. These deficit fund balances result from grant revenues the Town must recognize on these financial statements as deferred due to receipt not taking place within 90 of the fiscal year end. These deficit fund balances will be eliminated when grant funds are received in the 2020 fiscal year.

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, 2019, the Town's deposits had a carrying amount of \$8,256,695 and a bank balance of \$8,805,852. Of the bank balance, \$759,827 was covered by federal depository insurance and \$8,046,025 in interest-bearing deposits were covered under the Pooling Method. The Town had \$1,050 in petty cash on hand at June 30, 2019.

At June 30, 2019, the Authority's deposits had a carrying amount and bank balance of \$262,242. All of the bank balance was covered by federal depository insurance.

At June 30, 2019, the Board's deposits had a carrying amount of \$353,437 and a bank balance of \$354,837. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$104,837 of demand deposits were covered under the Pooling Method.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Investments

At June 30, 2019, the Town's investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2019	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Amortized Cost	\$ 14,084,359	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	1,008,621	0.11 years	Unrated
NC Capital Management Trust - Government Portfolio - Capital Reserve	Amortized Cost	2,236,739	N/A	AAAm
NC Capital Management Trust-Government Portfolio-General Fund Capital Reserve	Amortized Cost	<u>113,922</u>	N/A	AAAm
Total		<u>\$ 17,443,641</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, 2019. 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	\$ 476,968
Utilities franchise and telecommunications tax	150,704
Other government agencies	93,131
Sales tax refunds	<u>205,791</u>
	<u>926,594</u>
Downtown Improvements Capital Project Fund	
STP grant funds	<u>235,794</u>
Riverwalk CMAQ Capital Project Fund	
CMAQ grant funds	<u>780,307</u>
	<u>\$ 1,942,695</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, 2019 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>49,317</u>
Water and Sewer Enterprise Fund	\$ <u>42,927</u>

(5) Capital assets

Governmental capital asset activity for the year ended June 30, 2019 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	\$ 4,690,474	\$ -	\$ (55,880)	\$ -	\$ 4,634,594
Construction-in- progress	<u>2,629,713</u>	<u>1,634,090</u>	<u>(3,875,914)</u>	<u>(338,592)</u>	<u>49,297</u>
Total capital assets not being depreciated	<u>7,320,187</u>	<u>\$ 1,634,090</u>	<u>\$ (3,931,794)</u>	<u>\$ (338,592)</u>	<u>4,683,891</u>
Capital assets being depreciated:					
Buildings and improvements	6,990,652	\$ 1,732,307	\$ -	\$ -	8,722,959
Infrastructure	9,800,076	5,178,433	-	(2,133,177)	12,845,332
Equipment	891,873	69,601	(48,835)	38,835	951,474
Vehicles	<u>4,353,814</u>	<u>52,991</u>	<u>(107,665)</u>	<u>(20,762)</u>	<u>4,278,378</u>
Total capital assets being depreciated	<u>22,036,415</u>	<u>\$ 7,033,332</u>	<u>\$ (156,500)</u>	<u>\$ (2,115,104)</u>	<u>26,798,143</u>
Less accumulated depreciation for:					
Buildings and improvements	2,205,719	\$ 231,195	\$ -	\$ -	2,436,914
Infrastructure	1,075,193	245,784	-	(234,883)	1,086,094
Equipment	482,830	88,779	(48,835)	38,835	561,609
Vehicles	<u>3,119,623</u>	<u>408,861</u>	<u>(107,665)</u>	<u>(20,762)</u>	<u>3,400,057</u>
Total accumulated depreciation	<u>6,883,365</u>	<u>\$ 974,619</u>	<u>\$ (156,500)</u>	<u>\$ (216,810)</u>	<u>7,484,674</u>
Total capital assets being depreciated, net	<u>15,153,050</u>				<u>19,313,469</u>
Governmental activity capital assets, net	<u>\$ 22,473,237</u>				<u>\$ 23,997,360</u>

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

General government	\$ 227,186
Public safety	330,414
Transportation	274,667

Town of Hillsborough, North Carolina
Notes to Financial Statements

Economic and physical development	28,523
Environmental protection	<u>113,829</u>
	<u>\$ 974,619</u>

Business-type capital asset activity for the year ended June 30, 2019 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	\$ 6,132,444	\$ -	\$ -	\$ -	\$ 6,132,444
Construction-in-progress	<u>3,565,187</u>	<u>5,940,243</u>	<u>(300,020)</u>	<u>-</u>	<u>9,205,410</u>
Total capital assets not being amortized or depreciated	<u>9,697,631</u>	<u>\$ 5,940,243</u>	<u>\$ (300,020)</u>	<u>\$ -</u>	<u>15,337,854</u>
Capital assets being amortized or depreciated:					
Buildings and improvements	27,771,418	\$ -	\$ -	\$ 338,592	28,110,010
Plant and distribution systems	35,002,287	300,020	-	-	35,302,307
Infrastructure	739,873	-	-	2,133,177	2,873,050
Equipment	1,931,622	104,128	(331,301)	(38,835)	1,665,614
Vehicles	<u>891,870</u>	<u>160,020</u>	<u>(49,893)</u>	<u>20,762</u>	<u>1,022,759</u>
Total capital assets being amortized or depreciated	<u>66,337,070</u>	<u>\$ 564,168</u>	<u>\$ (381,194)</u>	<u>\$ 2,453,696</u>	<u>68,973,740</u>
Less accumulated depreciation and amortization for:					
Buildings and improvements	9,388,119	\$ 806,365	\$ -	\$ -	10,194,484
Plant and distribution systems	9,248,446	636,537	-	-	9,884,983
Infrastructure	101,595	70,373	-	234,883	406,851
Equipment	1,669,338	86,544	(331,101)	(38,835)	1,385,946
Vehicles	<u>627,666</u>	<u>100,359</u>	<u>(44,975)</u>	<u>20,762</u>	<u>703,812</u>
Total accumulated depreciation and amortization	<u>21,035,164</u>	<u>\$ 1,700,178</u>	<u>\$ (376,076)</u>	<u>\$ 216,810</u>	<u>22,576,076</u>
Depreciable assets, net	<u>45,301,906</u>				<u>46,397,664</u>
Business-type activity capital assets, net	<u>\$ 54,999,537</u>				<u>\$ 61,735,518</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(6) Construction commitments

The Town has active construction projects as of June 30, 2019 with the following remaining commitments:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
West Fork Eno Reservoir	\$ 6,260,817	\$ 608,820
Total	\$ 6,260,817	\$ 608,820

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, 2019 was 8.50% of compensation for law enforcement officers and 7.75% 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 \$478,756 for the year ended June 30, 2019.

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, 2019, the Town reported a liability of \$2,209,362 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2018, the Town's proportion was 0.09313%, which was an increase of 0.0012% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$634,380. At June 30, 2019, 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	\$ 340,852	\$ 11,437
Changes of assumptions	586,279	-
Net difference between projected and actual earnings on pension plan investments	303,280	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	18,400	5,806
Town contributions subsequent to the measurement date	<u>478,756</u>	<u>-</u>
Total	<u>\$ 1,727,567</u>	<u>\$ 17,243</u>

\$478,756 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, 2020. 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:

2020	\$ 599,792
2021	388,418
2022	68,726
2023	174,632
2024	-
Thereafter	-

Actuarial assumptions. The total pension liability in the December 31, 2017 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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 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, 2017 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, 2019 are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2017 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 7.00%. 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 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 5,307,079	\$ 2,209,362	\$ (379,139)

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, 2017 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>30</u>
Total	<u>32</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, 2017 valuation. The total pension liability in the December 31, 2017 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	3.64 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, 2017), the Municipal Bond Index Rate, on which the discount rate is based, was 3.16%. Since the Prior Measurement Date, the Municipal Bond Index Rate has increased to 3.64% as of the Measurement Date (December 31, 2018). This resulted in a \$29,947 decrease 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 \$20,169 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, 2019, the Town reported a total pension liability of \$727,333. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$83,304.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 66,921	\$ 348
Changes of assumptions	30,739	32,161
Town benefit payments and plan administrative expense made subsequent to the measurement date	<u>18,390</u>	<u>-</u>
Total	<u>\$ 116,050</u>	<u>\$ 32,509</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

The \$18,390 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2020	\$ 13,670
2021	13,670
2022	13,670
2023	15,134
2024	8,511
Thereafter	<u>496</u>
Total	<u>\$ 65,151</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 3.64 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 (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	<u>1% Decrease (2.64%)</u>	<u>Discount Rate (3.64%)</u>	<u>1% Increase (4.64%)</u>
Total pension liability	<u>\$ 791,178</u>	<u>\$ 727,333</u>	<u>\$ 668,937</u>
	<u>2019</u>		
Beginning balance		\$ 641,574	
Service cost		49,048	
Interest on the total pension liability		19,749	
Changes of benefit terms		-	
Differences between expected and actual experience in the measurement of the total pension liability		80,147	
Changes of assumptions or other inputs		(29,947)	
Benefit payments		<u>(33,238)</u>	
Ending balance of the total pension liability		<u>\$ 727,333</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	\$ 634,380	\$ 83,304	\$ 717,684
Pension liability	2,209,362	727,333	2,936,695
Proportionate share of net pension liability	0.09313%	N/A	N/A
Deferred outflows of resources			
Differences between expected and actual experience	\$ 340,852	\$ 66,921	\$ 407,773
Changes of assumptions	586,279	30,739	617,018
Net difference between projected and actual earnings on plan investments	303,280	-	303,280
Changes in proportion and differences between contributions and proportionate share of contributions	18,400	-	18,400
Benefit payments and administrative costs paid subsequent to the measurement date	478,756	18,390	497,146
Deferred inflows of resources			
Differences between expected and actual experience	11,437	348	11,785
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,806	-	5,806
Change of Assumptions	-	32,161	32,161

(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, 2019 were \$487,120, which consisted of \$297,170 from the Town and \$189,950 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

Town of Hillsborough, North Carolina
Notes to Financial Statements

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.

Retired Employees' Years of Creditable Service	Law Enforcement		Non-Law Enforcement	
	Hired Before February 9, 2009	Hired On or After February 9, 2009	Hired Before February 9, 2009	Hired On or After February 9, 2009
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:

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

Total OPEB liability

The Town's total OPEB liability of \$1,634,361 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent, including real wage growth
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Discount rate	3.89 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	\$ 1,618,593
Service cost	56,731
Interest on the total OPEB liability	56,550
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total OPEB liability	8,747
Changes of assumptions or other inputs	(45,522)
Benefit payments	<u>(60,738)</u>
Ending balance of the total OPEB liability	<u>\$ 1,634,361</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.56% to 3.89%.

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 (2.89 percent) or 1 percentage point higher (4.89 percent) than the current rate:

	<u>1% Decrease (2.89%)</u>	<u>Discount Rate (3.89%)</u>	<u>1% Increase (4.89%)</u>
Total OPEB liability	\$ 1,776,315	\$ 1,634,361	\$ 1,504,181

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	\$ 1,458,642	\$ 1,634,361	\$ 1,837,672

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 \$101,029. At June 30, 2019, 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	\$ 7,747	\$ 1,593
Changes of assumptions	-	101,157
Benefit payments and administrative costs made subsequent to the measurement date	<u>47,655</u>	<u>-</u>
Total	<u>\$ 55,402</u>	<u>\$ 102,750</u>

\$47,655 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, 2020. 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>	
2020	\$ (13,452)
2021	(13,452)
2022	(13,452)
2023	(13,452)
2024	(13,452)
Thereafter	<u>(27,743)</u>
Total	<u>\$ (95,003)</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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(4) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities at June 30, 2019 were as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Payable to vendors and others	\$ 207,578	\$ 542,707	\$ 750,285
Accrued claims and judgments	-	-	-
Accrued payroll and related liabilities	<u>109,737</u>	<u>56,496</u>	<u>166,233</u>
Total accounts payable and accrued liabilities	<u>\$ 317,315</u>	<u>\$ 599,203</u>	<u>\$ 916,518</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	\$ 478,756
Benefit payments and administrative expenses for LEOSA made subsequent to measurement date	18,390
Benefit payments made for OPEB subsequent to measurement date	47,655
Differences between actual and expected experience	415,520
Changes in proportion and differences between contributions and proportionate share of contributions	18,400
Changes of assumptions	617,018
Net difference between projected and actual earnings on pension plan investments	<u>303,280</u>
Total	<u>\$ 1,899,019</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	\$ -	\$ 138,093
Capital grant funds receivable but unavailable	-	1,016,101
Changes in assumptions	133,319	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,806	-
Differences between expected and actual experience	<u>13,378</u>	<u>-</u>
Total	<u>\$ 152,503</u>	<u>\$ 1,154,194</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 (\$53,723,568); general liability (\$5 million per occurrence); law enforcement liability (\$5 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 (\$751,424); fine arts (\$500,000); and public officials' liability (\$5 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.

(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.

\$ 326,933

Town of Hillsborough, North Carolina
Notes to Financial Statements

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%.	\$ 187,739
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%.	401,302
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.	359,803
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.	430,758
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.	18,053
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.	43,740
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.	148,269
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.	170,731

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.

\$ 367,755

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.

2,177,197

4,632,280

Less current portion

(838,880)

\$ 3,793,400

The future minimum payments on the notes payable as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 838,880	\$ 128,485	\$ 967,364
2021	735,839	109,958	845,796
2022	573,197	92,943	666,140
2023	427,683	79,528	507,212
2024	275,932	68,927	344,859
2025 - 2029	1,026,041	236,062	1,262,103
2030 - 2033	<u>754,708</u>	<u>66,781</u>	<u>821,490</u>
	<u>\$ 4,632,280</u>	<u>\$ 782,684</u>	<u>\$ 5,414,964</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.

\$ 127,387

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.

425,549

552,936

Less current portion

(129,102)

\$ 423,834

Town of Hillsborough, North Carolina
Notes to Financial Statements

The long-term debt requirements to maturity as of June 30, 2019 for the Enterprise Fund are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 129,102	\$ 17,435	\$ 146,537
2021	47,089	14,548	61,637
2022	25,713	13,412	39,125
2023	26,628	12,497	39,125
2024	27,576	11,549	39,125
2025 - 2029	153,324	42,300	195,624
2030 - 2033	<u>143,504</u>	<u>12,995</u>	<u>156,499</u>
	<u>\$ 552,936</u>	<u>\$ 124,736</u>	<u>\$ 677,672</u>

a. The provisions of this loan agreement contain certain financial covenants related to the maintenance of fund balance. At June 30, 2019, the Town was in compliance with such covenants.

b. General obligation indebtedness

The Town's legal debt margin at June 30, 2019 was \$82,476,174.

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, 2019 was \$533,555.

Annual debt service requirements to maturity for this Revolving Loan Payable as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	76,222	6,082	82,304
2025 - 2026	<u>152,445</u>	<u>6,084</u>	<u>158,529</u>
	<u>\$ 533,555</u>	<u>\$ 56,772</u>	<u>\$ 590,327</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, 2019 was \$13,357,505.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Annual debt service requirements to maturity for this Revolving Loan Payable as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	890,500	240,480	1,130,980
2025 - 2029	4,452,500	874,470	5,326,970
2030 - 2034	<u>4,452,505</u>	<u>327,928</u>	<u>4,780,433</u>
	<u>\$ 13,357,505</u>	<u>\$ 2,623,414</u>	<u>\$ 15,980,919</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. The first payment was made on the note in April 2016. 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, 2019 was \$1,505,950.

Annual debt service requirements to maturity for this Revolving Loan Payable as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 94,122	\$ -	\$ 94,122
2021	94,122	-	94,122
2022	94,122	-	94,122
2023	94,122	-	94,122
2024	94,122	-	94,122
2025 - 2029	470,610	-	470,610
2030 - 2034	<u>564,730</u>	<u>-</u>	<u>564,730</u>
	<u>\$ 1,505,950</u>	<u>\$ -</u>	<u>\$ 1,505,950</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, 2019.

Annual debt service requirements to maturity for these special revenue bonds payable as of June 30, 2019 are as follows:

Town of Hillsborough, North Carolina
Notes to Financial Statements

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	30,000	445,969	475,969
2025 - 2029	170,000	2,206,094	2,376,094
2030 - 2034	2,450,000	1,941,094	4,391,094
2035 - 2039	3,770,000	1,118,594	4,888,594
2040 - 2043	<u>3,655,000</u>	<u>258,966</u>	<u>3,913,966</u>
	<u>\$ 10,155,000</u>	<u>\$ 7,767,468</u>	<u>\$ 17,922,468</u>

The Town is in compliance with the covenants as to rates, fees, rentals and charges in Section 4 of the Master Trust Agreement, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2018. Section 4.03 of the Master Trust Agreement requires the sum of the income available for debt service and 15% of the system fund balance to be no less than 120% of the long-term debt service requirement for parity indebtedness and the income available for debt service will be not less than the sum of the long-term debt service requirement for parity indebtedness and subordinate indebtedness and the debt service on all installment debt and system general obligation debt. The debt service coverage ratio calculation is as follows:

Operating revenues	11,890,751
Operating expenses	<u>(8,451,225)</u>
Operating income	3,439,526
Nonoperating revenues (expenses)	<u>(580,221)</u>
Income available for debt service	2,859,305
15% of Unrestricted Net Position*	1,985,445
Total Balance for 120% Parity	4,844,750
Debt service, principal and interest (Revenue bond only)	384,150
Debt service coverage ratio on first-lien debt	12.61
Debt service all debt (total balance for 100%)	2,009,155
Debt service coverage ratio on all debt together	1.42

* System Fund Balance

e. Changes in long-term debt

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion of</u> <u>Long-Term</u> <u>Liabilities</u>
Governmental activities:					
Direct placement installment purchases	\$ 5,829,231	\$ -	\$ 1,196,951	\$ 4,632,280	\$ 838,880
Compensated absences	325,504	113,610	105,813	333,301	105,813
Other postemployment benefits	1,011,621	10,551	-	1,022,172	-
Net pension liability (LGERS)	962,314	551,535	-	1,513,849	-
Total pension liability (LEOSSA)	<u>641,574</u>	<u>85,759</u>	<u>-</u>	<u>727,333</u>	<u>-</u>
	<u>\$ 8,770,244</u>	<u>\$ 761,455</u>	<u>\$ 1,302,764</u>	<u>\$ 8,228,935</u>	<u>\$ 944,693</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

Business-type activities:

Direct placement installment purchases	\$ 522,266	\$ 163,143	\$ 132,473	\$ 552,936	\$ 129,102
Revolving loans payable	16,435,812	-	1,038,802	15,397,010	1,060,844
Special revenue bonds payable	10,155,000	-	-	10,155,000	-
Premium on bonds payable	1,018,674	-	48,344	970,330	48,344
Other postemployment benefits	606,973	5,216	-	612,189	-
Net pension liability (LGERS)	442,122	253,390	-	695,513	-
Compensated absences	226,672	190,809	152,704	264,777	86,930
	<u>\$ 29,407,519</u>	<u>\$ 612,558</u>	<u>\$ 1,372,323</u>	<u>\$ 28,647,755</u>	<u>\$ 1,325,220</u>

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

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, 2019, \$2,385,000 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:

Year Ending
June 30,

2020	72,484
2021	71,284
2022	141,306

Rent expense under operating leases for the year ended June 30, 2019 was \$77,786.

C. Interfund balances and activity

Transfers to/from other funds

Transfers to/from other governmental funds at June 30, 2019 consist of the following:

From the General Fund to the Downtown Improvements Capital Project Fund for design work	\$ 76,814
From the General Fund to the Riverwalk CMAQ Capital Projects Fund for grant matching funds	43,420
From the General Fund to the General Capital Projects Fund for future connectivity projects	20,000
From the General Fund to the Public Works Project Fund	<u>79,182</u>
	<u>\$ 219,416</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

Transfers from the governmental fund to the proprietary funds at June 30, 2019 consist of the following:

From the General Fund to the Water and Sewer Fund to transfer their portion of the Town Barn capital project	\$ 338,592
From the General Fund to the Storm Water fund for infrastructure - net of depreciation	1,898,293
From the General Fund to the Water and Sewer Fund for their portion Of the North Campus loan and related capital assets upon Completion of the project	<u>(163,143)</u>
	<u>\$ 2,073,742</u>

D. Net investment in capital assets

	<u>Governmental</u>	<u>Business-Type</u>
Capital assets	\$ 23,997,360	\$ 61,735,518
Less: related debt		
Installment purchases	(4,632,280)	(552,936)
Revolving loans payable	-	(15,397,010)
Special revenue bonds payable	-	(10,155,000)
Construction retainage payable	-	(152,189)
Add: unexpended debt proceeds	<u>1,146,721</u>	<u>3,058,507</u>
Net investment in capital assets	<u>\$ 20,511,801</u>	<u>\$ 38,536,890</u>

E. Fund balance

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

Total fund balance General Fund	\$ 7,955,027
Less:	
Prepaid items	-
Stabilization by state statute	3,375,414
Streets - Powell Bill	75,919
Sidewalks	46,526
Affordable housing	308,094
Appropriated fund balance in subsequent fiscal year's budget	346,733
Other assignments	22,713
Working capital/fund balance policy	<u>3,779,628</u>
Remaining fund balance General Fund	<u>\$ -</u>

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

	<u>Encumbrances</u>
General Fund	<u>\$ 318,143</u>

5. Jointly Governed Organization

The Town, in conjunction with seven counties and 37 other municipalities, established the Triangle J Council of Governments (the "Council"). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$2,602 to the Council during the fiscal year ended June 30, 2019.

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 Three Fiscal Years

Exhibit A

	2019	2018	2017
Beginning balance	\$ 641,574	\$ 566,336	\$ 556,718
Service cost	49,048	37,358	36,956
Interest on the total pension liability	19,749	21,303	19,286
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	80,147	(520)	-
Changes of assumptions or other inputs	(29,947)	45,993	(13,621)
Benefit payments	(33,238)	(28,896)	(33,003)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 727,333</u>	<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 Three Fiscal Years

Exhibit B

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 727,333	\$ 641,574	\$ 566,336
Covered payroll	<u>1,830,296</u>	<u>1,670,805</u>	<u>1,650,937</u>
Total pension liability as a percentage of covered payroll	<u>39.74%</u>	<u>38.40%</u>	<u>34.30%</u>

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, 2019
Last two fiscal years

Exhibit C

	2019	2018
Total OPEB Liability		
Service cost	\$ 56,731	\$ 60,886
Interest	56,550	48,567
Changes of benefit terms	-	-
Differences between expected and actual experience	8,747	(2,066)
Changes of assumptions or other inputs	(45,522)	(78,864)
Benefit payments	(60,738)	(46,470)
Net change in total OPEB liability	15,768	(17,947)
Total OPEB liability, beginning	1,618,593	1,636,540
Total OPEB liability, ending	<u>\$ 1,634,361</u>	<u>\$ 1,618,593</u>
Covered-employee payroll	\$ 5,180,570	\$ 5,180,570
Total OPEB liability as a percentage of covered-employee payroll	31.55%	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.*

Fiscal Year	Rate
2019	3.89%
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 Six Fiscal Years*

Exhibit D-1

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Hillsborough's proportion of the net pension liability (asset) (%)	0.0931%	0.0919%	0.0924%	0.0838%	0.0809%
Hillsborough's proportion of the net pension liability (asset) (\$)	\$ 2,209,362	\$ 1,404,436	\$ 1,961,038	\$ 376,224	\$ (477,164)
Hillsborough's covered payroll	5,695,125	5,750,308	5,235,777	4,861,624	4,672,868
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	38.79%	24.42%	37.45%	7.74%	-10.21%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%
	<u>2014</u>				
Hillsborough's proportion of the net pension liability (asset) (%)	0.0797%				
Hillsborough's proportion of the net pension liability (asset) (\$)	\$ 960,691				
Hillsborough's covered payroll	4,428,097				
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	21.70%				
Plan fiduciary net position as a percentage of the total pension liability	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 Six Fiscal Years

Exhibit D-2

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 478,756	\$ 440,572	\$ 429,432	\$ 356,396	\$ 357,402
Contributions in relation to the contractually required contribution	<u>478,756</u>	<u>440,572</u>	<u>429,432</u>	<u>356,396</u>	<u>357,402</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hillsborough's covered payroll	\$ 5,936,460	\$ 5,695,125	\$ 5,750,308	\$ 5,235,777	\$ 4,861,624
Contributions as a percentage of covered payroll	8.06%	7.74%	7.47%	6.81%	7.35%
	<u>2014</u>				
Contractually required contribution	\$ 333,343				
Contributions in relation to the contractually required contribution	<u>333,343</u>				
Contribution deficiency (excess)	<u>\$ -</u>				
Hillsborough's covered payroll	\$ 4,672,868				
Contributions as a percentage of covered payroll	7.13%				

Supplementary Information

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2019 with Comparative Actual Amounts for
Year Ended June 30, 2018

Schedule 1
(5 pages)

	2019			2018
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues				
General revenues:				
Ad valorem taxes:				
Current	\$ 6,329,060	\$ 6,472,975	\$ 143,915	\$ 6,669,987
Prior	86	86	-	481
Penalties and interest	18,000	18,796	796	31,380
	<u>6,347,146</u>	<u>6,491,857</u>	<u>144,711</u>	<u>6,701,848</u>
Other taxes and licenses:				
Local option sales tax	1,415,156	1,708,025	292,869	1,486,817
Gross receipts on short-term rental property	8,000	13,593	5,593	9,657
Privilege licenses	-	875	875	1,160
Motor vehicle license fees	-	892	892	260
Solid waste disposal	4,000	5,472	1,472	4,465
	<u>1,427,156</u>	<u>1,728,857</u>	<u>301,701</u>	<u>1,502,359</u>
Unrestricted intergovernmental revenues:				
Franchise tax	500,000	632,575	132,575	584,681
Beer and wine tax	27,000	31,819	4,819	29,106
Food and beverage tax	375,383	397,640	22,257	395,535
Occupancy tax	71,809	73,225	1,416	70,862
	<u>974,192</u>	<u>1,135,259</u>	<u>161,067</u>	<u>1,080,184</u>
Restricted intergovernmental revenues:				
Powell Bill	199,964	199,965	1	189,743
Federal grants	-	21,710	21,710	8,852
State grants	-	-	-	11,000
Other	2,500	3,165	665	6,029
	<u>202,464</u>	<u>224,840</u>	<u>22,376</u>	<u>215,624</u>
Investment earnings	<u>30,000</u>	<u>248,824</u>	<u>218,824</u>	<u>118,484</u>
Other general revenues	<u>44,152</u>	<u>50,176</u>	<u>6,024</u>	<u>53,804</u>
Total general revenues	<u>9,025,110</u>	<u>9,879,813</u>	<u>854,703</u>	<u>9,672,303</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2019 with Comparative Actual Amounts for
Year Ended June 30, 2018

Schedule 1
(5 pages)

	2019			2018
	Budget	Actual	Variance Positive (Negative)	Actual
Functionally related revenues:				
Use and rental fees:				
Zoning permits	\$ 70,000	\$ 95,363	\$ 25,363	\$ 127,308
Cable franchise	50,000	41,926	(8,074)	54,636
Time Warner Cable PEG fees	27,000	20,270	(6,730)	26,893
Fire inspection fees	10,000	12,852	2,852	13,909
Affordable Housing	137,000	29,000	(108,000)	360,440
Total functionally related revenues	294,000	199,411	(94,589)	583,186
Total revenues	9,319,110	10,079,224	760,114	10,255,489
Expenditures				
General government:				
Governing body:				
Personnel services		48,205		47,915
Other services and charges		180,976		215,891
Reimbursement from enterprise funds		(151,040)		(133,607)
Capital outlay		-		-
	139,422	78,141	61,281	130,199
Ruffin-Roulhac:				
Other services and charges		95,627		32,965
Capital outlay		-		-
Debt Service Payments		200,171		-
Reimbursement from enterprise funds		(110,388)		(20,296)
	205,008	185,410	19,598	12,669
Administration:				
Personnel services		854,957		741,841
Other services and charges		471,122		437,005
Reimbursement from enterprise funds		(756,289)		(603,246)
	716,910	569,790	147,120	575,600
Finance:				
Personnel services		472,654		473,506
Other services and charges		81,797		108,549
Debt service payments		-		105,660
Reimbursement from enterprise funds		(314,641)		(339,045)
	288,700	239,810	48,890	348,670

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2019 with Comparative Actual Amounts for
Year Ended June 30, 2018

Schedule 1
(5 pages)

	2019			2018
	Budget	Actual	Variance Positive (Negative)	Actual
Planning:				
Personnel services		\$ 378,387		\$ 337,864
Other services and charges		44,410		56,577
	<u>448,028</u>	<u>422,797</u>	<u>25,231</u>	<u>394,441</u>
Motor pool:				
Personnel services		276,961		264,456
Other services and charges		149,084		186,495
Debt service payments		84,091		85,871
Reimbursement from enterprise funds		(232,819)		(295,287)
	<u>345,875</u>	<u>277,317</u>	<u>68,558</u>	<u>241,535</u>
Total general government	<u>2,143,943</u>	<u>1,773,265</u>	<u>370,678</u>	<u>1,703,114</u>
Public safety:				
Police department:				
Personnel services		2,616,169		2,601,203
Other services and charges		332,202		341,622
Capital outlay		67,651		436,967
Debt service payments		145,395		36,377
	<u>3,340,117</u>	<u>3,161,417</u>	<u>178,700</u>	<u>3,416,169</u>
Fire inspections/code enforcement:				
Personnel services		130,636		125,126
Other services and charges		10,965		9,120
Debt service payments		226,455		226,455
	<u>385,212</u>	<u>368,056</u>	<u>17,156</u>	<u>360,701</u>
Safety:				
Personnel services		105,904		100,052
Other services and charges		432,080		422,506
Capital outlay		-		18,523
Reimbursement from enterprise funds		(476,329)		(232,003)
	<u>439,689</u>	<u>61,655</u>	<u>378,034</u>	<u>309,078</u>
Fire protection				
Other services and charges		1,081,207		987,908
	<u>1,084,178</u>	<u>1,081,207</u>	<u>2,971</u>	<u>987,908</u>
Total public safety	<u>5,249,196</u>	<u>4,672,335</u>	<u>576,861</u>	<u>5,073,856</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2019 with Comparative Actual Amounts for
Year Ended June 30, 2018

Schedule 1
(5 pages)

	2019		2018
	Budget	Actual	Variance Positive (Negative)
			Actual
Transportation:			
Street department/Powell Bill:			
Personnel services		\$ 277,642	\$ 279,093
Other services and charges		161,914	184,766
Capital outlay		476,541	551,073
Debt service payments		41,018	45,562
	<u>1,106,124</u>	<u>957,115</u>	<u>149,009</u>
Total transportation	<u>1,106,124</u>	<u>957,115</u>	<u>149,009</u>
Environmental protection:			
Sanitation department:			
Personnel services		197,024	222,475
Other services and charges		139,684	128,559
Capital outlay		-	134,276
Debt service payments		120,391	123,964
	<u>547,205</u>	<u>457,099</u>	<u>90,106</u>
Cemetery:			
Other services and charges		8,512	10,038
	<u>11,740</u>	<u>8,512</u>	<u>3,228</u>
Total environmental protection	<u>558,945</u>	<u>465,611</u>	<u>93,334</u>
Economic and physical development:			
Tourism:			
Personnel Services		33,911	29,238
Other services and charges		452,229	443,939
	<u>545,139</u>	<u>486,140</u>	<u>58,999</u>
Total economic and physical development	<u>545,139</u>	<u>486,140</u>	<u>58,999</u>
Community activities and projects:			
Contributions		-	5,000
Other services and charges		158,906	37,038
Debt service payments		100,899	525,645
Total community activities and projects	<u>324,459</u>	<u>259,805</u>	<u>64,654</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2019 with Comparative Actual Amounts for
Year Ended June 30, 2018

Schedule 1
(5 pages)

	2019			2018
	Budget	Actual	Variance Positive (Negative)	Actual
Parks and recreation:				
Personnel services		\$ 148,258		\$ 117,990
Other services and charges		342,887		333,816
Debt service payments		246,363		251,585
Reimbursement from enterprise funds		(25,800)		(24,082)
Capital Outlay		23,897		-
Total parks and recreation	<u>793,019</u>	<u>735,605</u>	<u>57,414</u>	<u>679,309</u>
Contingency:				
Other services and charges	<u>24,264</u>	<u>-</u>	<u>24,264</u>	<u>-</u>
Total expenditures	<u>10,745,089</u>	<u>9,349,876</u>	<u>1,395,213</u>	<u>10,176,945</u>
Revenues over (under) expenditures	<u>(1,425,979)</u>	<u>729,348</u>	<u>2,155,327</u>	<u>78,544</u>
Other financing sources (uses):				
Transfer to other funds:				
General Capital Projects Fund	(20,000)	(20,000)	-	(169,050)
Downtown Improvements Capital Project Fund	(76,814)	(76,814)	-	(41,500)
Rail Station Capital Project Fund	-	-	-	(5,000)
Riverwalk - CMAQ Fund	(43,420)	(43,420)	-	(24,450)
Public Works Project Fund	(79,182)	(79,182)	-	-
Transfer from other funds:				
General Capital Reserve Fund	-	-	-	104,808
Installment purchase obligations issued	-	-	-	948,441
Sale of capital assets	-	-	-	43,670
Total other financing sources (uses)	<u>(219,416)</u>	<u>(219,416)</u>	<u>-</u>	<u>856,919</u>
Appropriated fund balance	<u>1,645,395</u>	<u>-</u>	<u>(1,645,395)</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>509,932</u>	<u>\$ 509,932</u>	<u>935,463</u>
Fund balance, beginning		<u>7,445,095</u>		<u>6,509,632</u>
Fund balance, ending		<u>\$ 7,955,027</u>		<u>\$ 7,445,095</u>

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, 2019

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>
Revenues					
Investment earnings	\$ 9,233	\$ -	\$ 9,827	\$ 9,827	\$ 594
Total revenues	9,233	-	9,827	9,827	594
Expenditures					
Design	144,510	140,225	3,957	144,182	328
Construction	1,596,709	1,200,105	396,604	1,596,709	-
Miscellaneous capital items	334,307	193,642	140,665	334,307	-
Total expenditures	2,075,526	1,533,972	541,226	2,075,198	328
Revenues under expenditures	(2,066,293)	(1,533,972)	(531,399)	(2,065,371)	922
Other financing sources (uses)					
Installment purchase obligations issued	1,997,329	1,997,329	-	1,997,329	-
Transfer from General Fund	134,201	134,201	-	134,201	-
Transfer to General Fund	(65,237)	-	-	-	65,237
Total other financing sources (uses)	2,066,293	2,131,530	-	2,131,530	65,237
Net change in fund balance	\$ -	\$ 597,558	(531,399)	\$ 66,159	\$ 66,159
Fund balance, beginning			597,558		
Fund balance, ending			\$ 66,159		

Town of Hillsborough, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

Schedule 3
(2 pages)

	Consolidated General Capital Projects Fund	Downtown Improvements Capital Projects Fund	Riverwalk CMAQ Capital Project Fund
ASSETS			
Cash and investments	\$ -	\$ -	\$ -
Due from other governments	-	235,794	780,307
Restricted assets:			
Cash and investments	303,921	-	-
Total assets	\$ 303,921	\$ 235,794	\$ 780,307
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	-	-	49,840
Due to other funds	-	199,307	774,427
Total liabilities	-	199,307	824,267
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	235,794	780,307
Total deferred inflows of resources	-	235,794	780,307
Fund balances:			
Restricted for:			
Stabilization by state statute	-	-	-
Capital projects	303,921	-	-
Committed for:			
Capital projects	-	-	-
Unassigned	-	(199,307)	(824,267)
Total fund balances (deficit)	303,921	(199,307)	(824,267)
Total liabilities, deferred inflows of resources, and fund balances	\$ 303,921	\$ 235,794	\$ 780,307

Rail Station Capital Project Fund	Public Works Building Capital Project Fund	Total Nonmajor Governmental Funds
\$ 35,685	\$ 128,200	\$ 163,885
-	-	1,016,101
-	-	303,921
<u>\$ 35,685</u>	<u>\$ 128,200</u>	<u>\$ 1,483,907</u>
-	-	49,840
-	-	973,734
-	-	1,023,574
-	-	1,016,101
-	-	1,016,101
551	1,200	1,751
-	-	303,921
35,134	127,000	162,134
-	-	(1,023,574)
35,685	128,200	(555,768)
<u>\$ 35,685</u>	<u>\$ 128,200</u>	<u>\$ 1,483,907</u>

Town of Hillsborough, North Carolina
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Nonmajor Governmental Funds
Year Ended June 30, 2019

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	\$ -	\$ -	\$ 46,669
Contributions from property owners	12,582	-	-
Investment earnings	2,378	-	-
	<u>14,960</u>	<u>-</u>	<u>46,669</u>
Expenditures			
Current:			
General government	12,582	-	-
Economic and physical development	-	100,555	-
Parks and recreation	-	-	982,859
	<u>12,582</u>	<u>100,555</u>	<u>982,859</u>
Revenues over (under) expenditures	<u>2,378</u>	<u>(100,555)</u>	<u>(936,190)</u>
Other financing sources			
Transfer from General Fund	<u>20,000</u>	<u>76,814</u>	<u>43,420</u>
Total other financing sources	<u>20,000</u>	<u>76,814</u>	<u>43,420</u>
Net change in fund balances	22,378	(23,741)	(892,770)
Fund balances (deficit), beginning	<u>281,543</u>	<u>(175,566)</u>	<u>68,503</u>
Fund balances (deficit), ending	<u>\$ 303,921</u>	<u>\$ (199,307)</u>	<u>\$ (824,267)</u>

Rail Station Capital Project Fund	Public Works Building Capital Project Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 46,669
-	-	12,582
-	-	2,378
-	-	61,629
-	-	12,582
9,450	-	110,005
-	-	982,859
9,450	-	1,105,446
(9,450)	-	(1,043,817)
-	79,182	219,416
-	79,182	219,416
(9,450)	79,182	(824,401)
45,135	49,018	268,633
<u>\$ 35,685</u>	<u>\$ 128,200</u>	<u>\$ (555,768)</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Capital Projects Fund
Nonmajor Capital Project Fund
Year Ended June 30, 2019

Schedule 5

	Project Authorization	Prior Years	Actual Current Year	Closed Out Projects	Total To Date	Variance Positive (Negative)
Revenues						
Contributions from property owners	\$ 4,600,000	\$ 3,193,273	\$ 12,582	\$ -	3,205,855	\$ (1,394,145)
Investment earnings	107	107	-	(107)	-	-
Total revenues	4,600,107	3,193,380	12,582	(107)	3,205,855	(1,394,145)
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	40,000	-	-	-	-	40,000
Fiber loop	150,000	-	-	-	-	150,000
Construction	4,600,000	3,193,274	12,582	-	3,205,856	1,394,144
Total expenditures	8,179,384	6,582,657	12,582	(3,389,383)	3,205,856	1,584,145
Revenues under expenditures	(3,579,277)	(3,389,277)	-	3,389,276	(1)	190,000
Other financing sources (uses):						
Installment purchase obligations issued	3,319,650	3,319,650	-	(3,319,650)	-	-
Transfer from General Fund	266,697	246,697	20,000	(69,626)	197,071	-
Transfer to General Fund	(7,070)	(7,070)	-	-	(7,070)	-
Total other financing sources	3,579,277	3,559,277	20,000	(3,389,276)	190,001	-
Net change in fund balance	\$ -	\$ 170,000	20,000	\$ -	\$ 190,000	\$ 190,000
Fund balance, beginning			170,000			
Fund balance, ending			190,000			
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			2,378			
Transfers out - Capital Reserve Fund			-			
Fund balance, beginning (Capital Reserve Fund)			111,543			
Fund balance, ending (Consolidated General Capital Projects Fund)			\$ 303,921			

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Capital Reserve Fund
Nonmajor Capital Project Fund
Year Ended June 30, 2019

Schedule 6

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues					
Capital contributions	1,491,440	\$ 1,105,000	\$ -	\$ 1,105,000	\$ (386,440)
Interest on investments	15,065	18,597	2,378	20,975	5,910
Total revenues	1,506,505	1,123,597	2,378	1,125,975	(380,530)
Expenditures	494,450	-	-	-	494,450
Revenues over expenditures	1,012,055	1,123,597	2,378	1,125,975	113,920
Other financing uses					
Transfer to General Fund	(609,024)	(609,023)	-	(609,023)	1
Transfer to Water Sewer Capital Reserve Fund	(403,031)	(403,031)	-	(403,031)	-
Total other financing uses	(1,012,055)	(1,012,054)	-	(1,012,054)	1
Net change in fund balance	\$ -	\$ 111,543	2,378	\$ 113,921	\$ 113,921
Fund balance, beginning			111,543		
Fund balance, ending			\$ 113,921		

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, 2019

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	731,000	485,946	-	485,946	(245,054)
Expenditures					
Design	3,173	3,172	1	3,173	-
Construction	900,284	759,877	100,554	860,431	39,853
Administration	111,093	105,200	-	105,200	5,893
Total expenditures	1,014,550	868,249	100,555	968,804	45,746
Revenues under expenditures	(283,550)	(382,303)	(100,555)	(482,858)	(199,308)
Other financing sources					
Transfer from General Fund	283,550	206,737	76,814	283,551	1
Net change in fund balance	<u>\$ -</u>	<u>\$ (175,566)</u>	<u>(23,741)</u>	<u>\$ (199,307)</u>	<u>\$ (199,307)</u>
Fund deficit, beginning			<u>(175,566)</u>		
Fund deficit, ending			<u>\$ (199,307)</u>		

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Riverwalk CMAQ Capital Project Fund
Nonmajor Capital Project Fund
Year Ended June 30, 2019

Schedule 8

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues					
Restricted intergovernmental revenues:					
Federal grants	\$ 1,006,850	\$ 98,198	\$ 46,669	\$ 144,867	\$ (861,983)
Total revenues	1,006,850	98,198	46,669	144,867	(861,983)
Expenditures					
Design	131,778	131,778	-	131,778	-
Construction	970,897	53,198	886,792	939,990	30,907
Administration	105,545	2,669	96,067	98,736	6,809
Total expenditures	1,208,220	187,645	982,859	1,170,504	37,716
Revenues under expenditures	(201,370)	(89,447)	(936,190)	(1,025,637)	(824,267)
Other financing sources					
Transfer from General Fund	201,370	157,950	43,420	201,370	-
Net change in fund balance	\$ -	\$ 68,503	(892,770)	\$ (824,267)	\$ (824,267)
Fund balance, beginning			68,503		
Fund deficit, ending			\$ (824,267)		

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Rail Station Capital Project Fund
Nonmajor Capital Project Fund
Year Ended June 30, 2019

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)
Transit taxes (Article 43)	116,000	-	-	-	(116,000)
Total revenues	986,000	-	-	-	(986,000)
Expenditures					
Design	891,000	13,865	-	13,865	877,135
Legal	10,000	-	9,450	9,450	550
Miscellaneous	144,000	-	-	-	144,000
Total expenditures	1,045,000	13,865	9,450	23,315	1,021,685
Revenues under expenditures	(59,000)	(13,865)	(9,450)	(23,315)	35,685
Other financing sources					
Transfer from General Fund	59,000	59,000	-	59,000	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 45,135</u>	<u>(9,450)</u>	<u>\$ 35,685</u>	<u>\$ 35,685</u>
Fund balance, beginning			<u>45,135</u>		
Fund balance, ending			<u>\$ 35,685</u>		

Town of Hillsborough, North Carolina
Schedule 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, 2019

Schedule 10

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Expenditures					
Design	\$ 75,000	\$ 25,982	\$ -	\$ 25,982	\$ 49,018
Construction	79,182	-	-	-	79,182
Total expenditures	154,182	25,982	-	25,982	128,200
Revenues under expenditures	(154,182)	(25,982)	-	(25,982)	128,200
Other financing sources					
Transfer from General Fund	154,182	75,000	79,182	154,182	-
	154,182	75,000	79,182	154,182	-
Net change in fund balance	\$ -	\$ 49,018	79,182	\$ 128,200	\$ 128,200
Fund balance, beginning			49,018		
Fund balance, ending			\$ 128,200		

Town of Hillsborough, North Carolina

Schedule 11

Schedule of Revenues

Budget and Actual (Non-GAAP)

Water and Sewer Fund

Enterprise Fund

**Year Ended June 30, 2019 with Comparative Actual Amounts
for Year Ended June 30, 2018**

	2019			2018
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues				
Operating revenues:				
Water charges	\$ 4,350,000	\$ 4,610,474	\$ 260,474	\$ 4,092,154
Sewer charges	4,360,000	4,773,747	413,747	4,428,334
Other receipts	<u>2,326,818</u>	<u>2,506,530</u>	<u>179,712</u>	<u>1,744,469</u>
	11,036,818	11,890,751	853,933	10,264,957
Nonoperating revenues:				
Interest on investments	<u>10,000</u>	<u>29,325</u>	<u>19,325</u>	<u>15,745</u>
Total revenues	<u><u>\$ 11,046,818</u></u>	<u><u>\$ 11,920,076</u></u>	<u><u>\$ 873,258</u></u>	<u><u>\$ 10,280,702</u></u>

Town of Hillsborough, North Carolina
Schedule of Expenditures
Budget and Actual (Non-GAAP)
Water and Sewer Fund
Enterprise Fund

Schedule 12
(3 pages)

Year Ended June 30, 2019 with Comparative Actual Amounts
for Year Ended June 30, 2018

	2019			2018
	Budget	Actual	Variance Positive (Negative)	Actual
Expenditures				
Engineering:				
Personnel services		\$ 298,807		\$ 300,579
Other services and charges		2,142,364		1,678,247
Capital outlay		6,725		-
Total engineering	<u>\$ 2,827,713</u>	<u>2,447,896</u>	<u>\$ 379,817</u>	<u>1,978,826</u>
Billing and collection:				
Personnel services		258,624		268,690
Other services and charges		516,029		418,495
Repairs and maintenance		-		245
Capital outlay		28,892		
Debt service payments		39,125		1,270,205
Total billing and collection	<u>956,714</u>	<u>842,670</u>	<u>114,044</u>	<u>1,957,635</u>
Water plant:				
Personnel services		606,122		582,644
Other services and charges		298,150		280,721
Repairs and maintenance		67,650		35,610
Capital outlay		-		31,762
Debt service payments		106,715		109,051
Total water plant	<u>1,316,414</u>	<u>1,078,637</u>	<u>237,777</u>	<u>1,039,788</u>
Water distribution:				
Personnel services		471,883		420,977
Other services and charges		243,742		254,334
Repairs and maintenance		49,064		5,314
Capital outlay		83,465		175,124
Debt service payments		94,036		123,903
Total water distribution	<u>1,114,857</u>	<u>942,190</u>	<u>172,667</u>	<u>979,652</u>
Wastewater collection:				
Personnel services		462,248		415,539
Other services and charges		295,777		279,854
Repairs and maintenance		39,661		34,158
Capital outlay		94,490		174,713
Debt service payments		73,558		75,150
Total wastewater collection	<u>1,441,802</u>	<u>965,734</u>	<u>476,068</u>	<u>979,414</u>

Town of Hillsborough, North Carolina

Schedule of Expenditures

Budget and Actual (Non-GAAP)

Water and Sewer Fund

Enterprise Fund

**Year Ended June 30, 2019 with Comparative Actual Amounts
for Year Ended June 30, 2018**

Schedule 12

(3 pages)

	2019			2018
	Budget	Actual	Variance Positive (Negative)	Actual
Wastewater plant:				
Personnel services		476,767		466,381
Other services and charges		313,611		314,788
Repairs and maintenance		207,344		167,736
Capital outlay		18,766		28,232
Debt service payments		1,240,289		1,262,151
Total wastewater plant	2,425,035	2,256,777	\$ 168,258	2,239,288
Reservoir:				
Other services and charges		21,622		23,985
Repairs and maintenance		10,000		13,400
Debt service payments		384,150		970,558
Total reservoir	636,989	415,772	221,217	1,007,943
Total expenditures	10,719,524	8,949,676	1,769,848	10,182,546
Revenues over (under) expenditures	327,294	2,970,400	2,643,106	98,156
Other financing sources (uses)				
Transfer to Water and Sewer Capital Reserve Fund	(2,176,594)	(2,176,594)	-	(1,349,656)
Transfer to Water and Sewer Capital Projects Fund	(810,000)	(810,000)	-	(552,488)
Transfer from Water and Sewer Capital Projects Fund	-	-	-	2,815,211
Transfer from Water and Sewer Capital Reserve Fund	466,470	466,470	-	1,560,473
Installment purchase obligations issued	-	-	-	289,752
Insurance proceeds	-	37,279	37,279	-
Sale of capital assets	-	-	-	19,762
Total other financing sources (uses)	(2,520,124)	(2,482,845)	37,279	2,783,054
Excess of revenues and other financing sources (uses) over (under) expenditures and other uses	(2,192,830)	487,555	2,680,385	2,881,210
Appropriated fund balance	2,192,830	-	(2,192,830)	-
Excess of revenues and other uses over expenditures and other uses	\$ -	\$ 487,555	\$ 487,555	\$ 2,881,210

Town of Hillsborough, North Carolina**Schedule of Expenditures****Budget and Actual (Non-GAAP)****Water and Sewer Fund****Enterprise Fund****Year Ended June 30, 2019 with Comparative Actual Amounts
for Year Ended June 30, 2018****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	\$ 487,555
Reconciling items:	
Interest income from Water and Sewer Capital Projects Fund	167,154
Interest income from Water and Sewer Capital Reserve Fund	46,707
Payment of principal on notes, bonds and installment purchases	1,171,275
Decrease in deferred outflows of resources - pensions	185,158
Decrease in net pension liability	(237,775)
Decrease in deferred inflows of resources - pensions	6,366
Increase in deferred outflows of resources - OPEB	(10,187)
Decrease in total OPEB liability	(4,742)
Increase in deferred inflows of resources - OPEB	(9,344)
Capital outlay	232,338
Depreciation	(1,645,208)
Gain on disposal of capital assets	32,361
Insurance Proceeds	(37,279)
Interest expense accrual adjustment	(66,230)
Vacation pay accrual adjustment	(39,472)
Amortization of premium on bonds payable	48,344
Transfer from General Fund	175,449
Other receipts - capital project fund	12,160
Transfer to Water and Sewer Capital Projects Fund	810,000
Transfer from Water and Sewer Capital Reserve Fund	(466,470)
Transfer to Water and Sewer Capital Reserve Fund	2,176,594
Change in net position	<u>\$ 3,034,754</u>

Town of Hillsborough, North Carolina
Schedule 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, 2019

Schedule 13

	Project Authorization	Prior Years	Actual Current Year	Closed Out Projects	Total to Date	Variance Positive (Negative)
Revenues						
Interest on investments	\$ 2,271	\$ 5,734	\$ 167,154	\$ -	\$ 172,888	\$ 170,617
Other receipts	-	17,748	12,160	(17,748)	12,160	12,160
Total revenues	2,271	23,482	179,314	(17,748)	185,048	182,777
Expenditures						
Capital improvements:						
EDD water line extension	250,000	-	-	-	-	250,000
Churton St Main Replacement	430,000	-	-	-	-	430,000
Orange Gr/Churton sewer proj	40,000	-	295	-	295	39,705
16" Water connection under I-40	100,000	-	27,367	-	27,367	72,633
Booster pump station	182,387	11,666	-	-	11,666	170,721
Waterstone water tank	1,971,370	1,912,269	-	(1,912,269)	-	1,971,370
Water meter replacement	-	-	-	-	-	-
Automatic meter reading project	-	-	-	-	-	-
Effluent aeration	585,000	526,170	-	(526,170)	-	585,000
Churton Street Sewer	500,000	16,745	41,838	-	58,583	441,417
Other improvements	-	-	-	-	-	-
	4,058,757	2,466,850	69,500	(2,438,439)	97,911	3,960,846
West Fork Eno Reservoir:						
Design	2,698,521	1,643,339	149,425	-	1,792,764	905,757
Construction	10,667,714	1,921,279	5,721,316	-	7,642,595	3,025,119
Land acquisition	55,556	42,304	-	-	42,304	13,252
	13,421,791	3,606,922	5,870,741	-	9,477,663	3,944,128
Total expenditures	17,480,548	6,073,772	5,940,241	(2,438,439)	9,575,574	7,904,974
Revenues over (under) expenditures	(17,478,277)	(6,050,290)	(5,760,927)	2,420,691	(9,390,526)	8,087,751
Other financing sources (uses)						
Proceeds from installment purchases	13,056,112	12,037,438	-	(1,882,438)	10,155,000	(2,901,112)
Premium on bonds issuance	-	1,025,846	-	-	1,025,846	1,025,846
Transfer from Water and Sewer Capital Reserve Fund	-	-	-	-	-	-
Transfer from Water and Sewer Fund	4,596,380	3,799,763	810,000	(469,742)	4,140,021	(456,359)
Transfer to Water and Sewer Fund	(174,215)	(2,194,247)	-	(68,511)	(2,262,758)	(2,088,543)
Total other financing sources	17,478,277	14,668,800	810,000	(2,420,691)	13,058,109	(4,420,168)
Excess of revenues and other sources over expenditures and other financing uses	\$ -	\$ 8,618,510	\$ (4,950,927)	\$ -	\$ 3,667,583	\$ 3,667,583

Town of Hillsborough, North Carolina
Schedule 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, 2019

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	\$ 303,952	\$ 46,707	\$ 350,659	\$ 49,791
Expenditures					
Capital improvements- water	1,900,432	-	-	-	1,900,432
Capital improvements- sewer	2,964,453	-	-	-	2,964,453
Capital improvements- water tower	101,253	-	-	-	101,253
	<u>4,966,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,966,138</u>
Revenues over (under) expenditures	<u>(4,665,270)</u>	<u>303,952</u>	<u>46,707</u>	<u>350,659</u>	<u>5,015,929</u>
Other financing sources (uses)					
Transfers from Water and Sewer Fund	12,261,329	10,084,735	2,176,594	12,261,329	-
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	(7,765,727)	(7,299,257)	(466,470)	(7,765,727)	-
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>4,665,270</u>	<u>2,955,146</u>	<u>1,710,124</u>	<u>4,665,270</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 3,259,098</u>	<u>\$ 1,756,831</u>	<u>\$ 5,015,929</u>	<u>\$ 5,015,929</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP)
Stormwater Fund
Enterprise Fund
Year Ended June 30, 2019

Schedule 15

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Operating revenues:			
Stormwater charges	\$ 646,000	\$ 650,296	\$ 4,296
Other operating revenues	14,607	8,775	(5,832)
Total revenues	<u>660,607</u>	<u>659,071</u>	<u>(1,536)</u>
Expenditures			
Operating expenditures:			
Personnel services		246,143	
Other services and charges		184,673	
Repairs and maintenance		79,333	
Capital outlay		31,606	
Total expenditures	<u>660,607</u>	<u>541,755</u>	<u>118,852</u>
Revenues over expenditures	<u>\$ -</u>	<u>117,316</u>	<u>\$ 117,316</u>
Reconciliation of modified accrual basis to full accrual basis:			
Capital outlay		31,606	
Depreciation expense		(54,970)	
Decrease in accrued vacation pay		1,367	
Increase in net pension liability		(15,616)	
Increase in total OPEB liability		(474)	
Increase in deferred outflows of resources - pensions		12,160	
Increase in deferred outflows of resources - OPEB		1,667	
Decrease in deferred inflows of resources - pensions		719	
Increase in deferred inflows of resources - OPEB		(935)	
Transfer from General Fund		<u>1,898,293</u>	
Change in net position		<u>\$ 1,991,133</u>	

Town of Hillsborough, North Carolina
Schedule of Changes in Assets and Liabilities
Special Assessment Debt Agency Fund
Fiduciary Fund
Year Ended June 30, 2019

Schedule 16

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash	<u>\$ -</u>	<u>1,241,599</u>	<u>(1,241,599)</u>	<u>\$ -</u>
LIABILITIES				
Due to others	<u>\$ -</u>	<u>\$ 1,241,599</u>	<u>\$ (1,241,599)</u>	<u>\$ -</u>

This page left intentionally blank.

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, 2019

Schedule 17

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2018</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019	\$ -	\$ 6,952,134	\$ 6,899,076	\$ 53,058
2017-2018	58,229	-	21,157	37,072
2016-2017	27,386	-	9,197	18,189
2015-2016	20,873	-	6,088	14,785
2014-2015	14,954	-	3,610	11,344
2013-2014	15,327	-	1,198	14,129
2012-2013	14,596	-	540	14,056
2011-2012	9,206	-	943	8,263
2010-2011	9,805	-	(692)	10,497
2009-2010	7,874	-	1,857	6,017
2008-2009	5,592	-	5,592	-
	183,842	<u>\$ 6,952,134</u>	<u>\$ 6,948,566</u>	187,410
Less allowance for uncollectible accounts: General Fund				<u>(49,317)</u>
				<u>\$ 138,093</u>
Reconciliation of collections and credits with revenues:				
Ad valorem taxes - General Fund				\$ 6,491,857
Amount written off for tax year 2008-2009				5,592
Penalties and interest				(18,796)
Adjustments and refunds*				<u>469,913</u>
				<u>\$ 6,948,566</u>

*Large refund due to one taxpayer the County determined had been overbilled.

Town of Hillsborough, North Carolina
Analysis of Current Tax Levy
Year Ended June 30, 2019

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	\$ 1,088,855,671	0.6200	\$ 6,237,192	\$ 6,237,192	\$ -
Motor vehicle license fees, tax and tag	-		714,942	-	714,942
Penalties and interest	-		-	-	-
Total property valuation	<u>\$ 1,088,855,671</u>		6,952,134	6,237,192	714,942
Releases and abatements			-	-	-
Net levy			6,952,134	6,237,192	714,942
Uncollected taxes at June 30, 2019			53,058	53,058	-
Current year's taxes collected			<u>\$ 6,899,076</u>	<u>\$ 6,184,134</u>	<u>\$ 714,942</u>
Current levy collection percentage			<u>99.24%</u>	<u>99.15%</u>	<u>100.00%</u>

* Total adjusted levy includes discoveries and abatements.

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

This page left intentionally blank.

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.*

This page left blank intentionally.

Financial Trends Information

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Governmental activities:				
Net investment in capital assets	\$ 3,268,065	\$ 5,338,508	\$ 5,870,981	\$ 6,723,808
Restricted	806,780	2,121,546	1,570,832	1,831,742
Unrestricted	<u>5,402,272</u>	<u>3,766,961</u>	<u>3,984,264</u>	<u>4,390,314</u>
Total governmental activities net position	<u>\$ 9,477,117</u>	<u>\$ 11,227,015</u>	<u>\$ 11,426,077</u>	<u>\$ 12,945,864</u>
Business-type activities				
Net investment in capital assets	\$ 21,736,659	\$ 24,316,110	\$ 26,632,441	\$ 26,017,050
Restricted	2,128,459	1,721,067	1,974,677	2,590,989
Unrestricted	<u>4,020,580</u>	<u>3,518,417</u>	<u>2,674,119</u>	<u>4,084,460</u>
Total business-type activities net position	<u>\$ 27,885,698</u>	<u>\$ 29,555,594</u>	<u>\$ 31,281,237</u>	<u>\$ 32,692,499</u>
Primary government				
Net investment in capital assets	\$ 25,004,724	\$ 29,654,618	\$ 32,503,422	\$ 32,740,858
Restricted	2,935,239	3,842,613	3,545,509	4,422,731
Unrestricted	<u>9,422,852</u>	<u>7,285,378</u>	<u>6,658,383</u>	<u>8,474,774</u>
Total primary government net position	<u>\$ 37,362,815</u>	<u>\$ 40,782,609</u>	<u>\$ 42,707,314</u>	<u>\$ 45,638,363</u>

Table 1

2014	2015	2016	2017	2018	2019
\$ 10,924,631	\$ 11,870,401	\$ 14,242,464	\$ 15,186,419	\$ 18,580,077	\$ 20,511,801
1,700,808	1,558,393	1,753,856	2,518,696	3,089,866	3,757,005
4,433,988	4,797,140	4,030,053	2,977,656	1,466,288	1,312,978
<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>	<u>\$ 25,581,784</u>
\$ 27,110,293	\$ 30,507,881	\$ 32,483,743	\$ 34,669,712	\$ 36,693,299	\$ 38,536,890
2,591,211	2,591,600	2,596,324	2,605,482	2,631,171	2,677,877
6,546,829	6,190,061	8,522,788	9,096,374	8,308,697	11,444,287
<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>	<u>\$ 52,659,054</u>
\$ 38,034,924	\$ 42,378,282	\$ 46,726,207	\$ 49,856,131	\$ 55,273,376	\$ 59,048,691
4,292,019	4,149,993	4,350,180	5,124,178	5,721,037	6,434,882
10,980,817	10,987,201	12,552,841	12,074,030	9,774,985	12,757,265
<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>	<u>\$ 78,240,838</u>

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Expenses				
Governmental activities:				
General government	\$ 1,511,119	\$ 1,353,757	\$ 1,402,445	\$ 1,301,963
Public safety	3,389,490	3,379,456	2,597,911	3,395,465
Transportation	390,313	486,940	1,510,493	497,540
Environmental protection	534,476	595,447	546,612	580,312
Economic and physical development	247,420	256,092	243,163	485,977
Community activities and projects	40,961	49,505	40,996	64,878
Parks and recreation	60,629	36,844	51,500	36,267
Unallocated interest expense	107,315	108,598	104,518	105,022
Total governmental activities expenses	<u>6,281,723</u>	<u>6,266,639</u>	<u>6,497,638</u>	<u>6,467,424</u>
Business-type activities:				
Water and sewer	6,093,635	5,758,760	6,151,253	6,279,271
Stormwater	-	-	-	-
Total business-type activities expenses	<u>6,093,635</u>	<u>5,758,760</u>	<u>6,151,253</u>	<u>6,279,271</u>
Total primary government expenses	<u>\$ 12,375,358</u>	<u>\$ 12,025,399</u>	<u>\$ 12,648,891</u>	<u>\$ 12,746,695</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 131,750	\$ 149,790	\$ 160,990	\$ 326,565
Public safety	10,825	10,273	15,593	11,426
Transportation	2,951	-	-	-
Economic and physical development	-	-	-	-
Parks and recreation	-	2,170	2,970	3,190
Operating grants and contributions	202,067	183,874	228,457	175,347
Capital grants and contributions	1,001,630	1,191,157	203,301	334,525
Total governmental activities program revenues	<u>1,349,223</u>	<u>1,537,264</u>	<u>611,311</u>	<u>851,053</u>

Table 2
(4 pages)

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 1,524,025	\$ 1,416,316	\$ 2,010,349	\$ 1,860,970	\$ 1,865,408	1,865,007
3,619,529	3,929,568	3,982,055	4,289,900	4,666,798	4,705,989
500,491	130,485	615,849	666,523	684,226	718,593
833,623	963,296	708,367	590,798	478,122	468,057
367,389	387,801	402,800	466,791	498,150	488,592
119,251	220,890	93,236	57,673	42,038	34,311
55,849	74,137	97,891	398,802	429,684	493,868
126,250	101,260	121,783	95,571	114,957	140,004
7,146,407	7,223,753	8,032,330	8,427,028	8,779,383	8,914,421
6,271,311	7,383,564	7,574,032	8,120,546	8,949,652	9,355,337
-	-	-	302,983	458,118	566,231
6,271,311	7,383,564	7,574,032	8,423,529	9,407,770	9,921,568
<u>\$ 13,417,718</u>	<u>\$ 14,607,317</u>	<u>\$ 15,606,362</u>	<u>\$ 16,850,557</u>	<u>\$ 18,187,153</u>	<u>\$ 18,835,989</u>
\$ 126,909	\$ 182,109	\$ 122,233	\$ 214,056	\$ 208,837	158,451
13,893	12,068	13,645	13,555	19,938	16,016
-	187,682	184,863	185,922	245	730
-	-	41,000	5,000	360,440	29,000
4,140	5,155	4,720	5,130	5,940	6,537
316,576	10,610	28,052	26,690	197,119	221,637
3,741,958	253,460	1,393,799	570,035	1,634,422	3,379,916
4,203,476	651,084	1,788,312	1,020,388	2,426,941	3,812,287

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Business-type activities:				
Charges for services:				
Water and sewer	\$ 6,425,750	\$ 6,755,260	\$ 7,366,996	\$ 7,686,356
Stormwater	-	-	-	-
Capital grants and contributions	-	658,828	100,000	-
Total business-type activities program revenues	<u>6,425,750</u>	<u>7,414,088</u>	<u>7,466,996</u>	<u>7,686,356</u>
Total primary government program revenues	<u>\$ 7,774,973</u>	<u>\$ 8,951,352</u>	<u>\$ 8,078,307</u>	<u>\$ 8,537,409</u>
Net (Expense) Revenue				
Governmental activities	\$ (4,932,500)	\$ (4,729,375)	\$ (5,886,327)	\$ (5,616,371)
Business-type activities	<u>332,115</u>	<u>1,655,328</u>	<u>1,315,743</u>	<u>1,407,085</u>
Total primary government net expense	<u>\$ (4,600,385)</u>	<u>\$ (3,074,047)</u>	<u>\$ (4,570,584)</u>	<u>\$ (4,209,286)</u>
General Revenues and Other				
Changes in Net Position				
Governmental activities:				
Taxes	\$ 5,898,215	\$ 5,808,387	\$ 5,816,041	\$ 6,371,494
Unrestricted inter-governmental revenues	615,770	635,907	651,381	734,401
Investment earnings, unrestricted	29,889	10,838	4,748	3,874
Miscellaneous	35,327	24,141	16,250	26,389
Transfers	-	-	-	-
Total governmental activities	<u>6,579,201</u>	<u>6,479,273</u>	<u>6,488,420</u>	<u>7,136,158</u>
Business-type activities:				
Investment earnings	27,967	14,568	6,869	4,177
Miscellaneous	-	-	-	-
Transfers	-	-	-	-
Total business-type activities	<u>27,967</u>	<u>14,568</u>	<u>6,869</u>	<u>4,177</u>
Total primary government	<u>\$ 6,607,168</u>	<u>\$ 6,493,841</u>	<u>\$ 6,495,289</u>	<u>\$ 7,140,335</u>
Change in Net Position				
Governmental activities	\$ 1,646,701	\$ 1,749,898	\$ 199,062	\$ 1,519,787
Business-type activities	<u>360,084</u>	<u>1,669,896</u>	<u>1,725,643</u>	<u>1,411,262</u>
Total primary government	<u>\$ 2,006,785</u>	<u>\$ 3,419,794</u>	<u>\$ 1,924,705</u>	<u>\$ 2,931,049</u>

Table 2
(4 pages)

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 9,025,607	\$ 8,939,712	\$ 10,713,397	\$ 9,214,401	\$ 10,249,270	11,890,751
-	-	-	632,738	638,441	659,071
<u>1,028,171</u>	<u>1,484,316</u>	<u>1,161,830</u>	<u>1,325,206</u>	<u>363,598</u>	<u>32,361</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>12,582,183</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>	<u>\$ 16,394,470</u>
\$ (2,942,931)	\$ (6,572,669)	\$ (6,244,018)	\$ (7,406,640)	\$ (6,352,442)	(5,102,134)
<u>3,782,467</u>	<u>3,040,464</u>	<u>4,301,195</u>	<u>2,748,816</u>	<u>1,843,539</u>	<u>2,660,615</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>	<u>\$ (2,441,519)</u>
\$ 6,603,311	\$ 6,698,408	\$ 6,949,754	\$ 7,426,516	\$ 8,187,327	\$ 8,238,074
809,190	998,629	1,034,811	1,010,393	1,080,184	1,135,259
2,209	1,177	16,771	37,562	120,273	261,029
39,899	40,962	43,121	58,811	88,047	(12,933)
-	-	-	-	-	(2,073,742)
<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>	<u>7,547,687</u>
2,601	745	12,118	19,897	44,935	243,186
-	-	-	-	(246,949)	48,344
-	-	-	-	-	2,073,742
<u>2,601</u>	<u>745</u>	<u>12,118</u>	<u>19,897</u>	<u>(202,014)</u>	<u>2,365,272</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>	<u>\$ 9,912,959</u>
\$ 4,511,678	\$ 1,166,507	\$ 1,800,439	\$ 1,126,642	\$ 3,123,389	\$ 2,445,553
<u>3,785,068</u>	<u>3,041,209</u>	<u>4,313,313</u>	<u>2,768,713</u>	<u>1,641,525</u>	<u>5,025,887</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>	<u>\$ 7,471,440</u>

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General fund:				
Reserved	\$ 1,230,710	\$ -	\$ -	\$ -
Unreserved	3,832,453	-	-	-
Nonspendable	-	477	68,649	4,253
Restricted	-	1,047,758	955,064	1,115,688
Committed	-	-	-	-
Assigned	-	215,354	88,094	330,206
Unassigned	-	3,478,868	3,803,076	4,151,725
	<u>5,063,163</u>	<u>4,742,457</u>	<u>4,914,883</u>	<u>5,601,872</u>
All other governmental funds:				
Reserved	200,000	-	-	-
Unreserved	639,599	-	-	-
Nonspendable	-	-	-	52
Restricted	-	1,073,788	227,052	716,054
Committed	-	204,943	856,356	-
Assigned	-	-	-	131,490
Unassigned	-	(324,964)	(112,038)	(20,444)
	<u>839,599</u>	<u>953,767</u>	<u>971,370</u>	<u>827,152</u>
Total fund balance	<u>\$ 5,902,762</u>	<u>\$ 5,696,224</u>	<u>\$ 5,886,253</u>	<u>\$ 6,429,024</u>

Table 3

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
72,156	68,242	175,392	219,730	1,848	-
1,110,734	1,049,112	1,385,320	1,452,915	2,367,086	3,451,333
-	-	-	-	-	-
782,995	1,294,457	672,896	787,525	985,729	724,066
4,151,581	3,805,372	3,698,078	4,049,462	4,090,432	3,779,628
<u>6,117,466</u>	<u>6,217,183</u>	<u>5,931,686</u>	<u>6,509,632</u>	<u>7,445,095</u>	<u>7,955,027</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
844,464	509,281	368,536	1,065,781	722,780	305,672
106,105	272,548	171,698	159,314	385,520	228,293
7,070	-	-	-	-	-
-	-	-	(808,382)	(242,109)	(1,023,574)
<u>957,639</u>	<u>781,829</u>	<u>540,234</u>	<u>416,713</u>	<u>866,191</u>	<u>(489,609)</u>
<u><u>\$ 7,075,105</u></u>	<u><u>\$ 6,999,012</u></u>	<u><u>\$ 6,471,920</u></u>	<u><u>\$ 6,926,345</u></u>	<u><u>\$ 8,311,286</u></u>	<u><u>\$ 7,465,418</u></u>

Note: 2010 and earlier amounts have not been restated for the implementation of GASB Statement 54.

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

	2010	2011	2012	2013
Revenues				
Ad valorem taxes	\$ 4,819,371	\$ 4,610,003	\$ 4,716,460	\$ 5,135,469
Other taxes and licenses	1,131,562	1,163,501	1,124,696	1,229,425
Unrestricted intergovernmental	615,770	635,907	651,381	734,401
Restricted intergovernmental	306,662	1,234,870	453,755	308,007
Investment earnings	29,889	10,838	4,748	3,874
Contribution from property owners	-	-	-	-
Capital contributions	200,000	200,000	100,000	-
Use and rental	142,575	160,063	176,583	337,991
Other general revenues	31,518	67,071	69,669	34,079
Total revenues	<u>7,277,347</u>	<u>8,082,253</u>	<u>7,297,292</u>	<u>7,783,246</u>
Expenditures				
Current:				
General government	2,552,912	1,232,665	1,235,107	1,122,514
Public safety	3,263,200	3,347,597	3,164,361	3,134,327
Transportation	720,627	1,718,386	1,693,664	1,011,557
Environmental protection	580,854	583,919	476,415	471,880
Economic and physical development	247,420	256,092	243,163	485,977
Community activities and projects	54,137	54,946	325,666	64,878
Parks and recreation	344,499	791,184	239,105	430,831
Debt service:				
Principal retirement	238,111	303,074	283,126	407,246
Interest and fiscal charges	93,874	107,928	98,896	111,265
Total expenditures	<u>8,095,634</u>	<u>8,395,791</u>	<u>7,759,503</u>	<u>7,240,475</u>
Excess of revenues over (under) expenditures	<u>(818,287)</u>	<u>(313,538)</u>	<u>(462,211)</u>	<u>542,771</u>
Other financing sources (uses)				
Transfers in	628,118	717,582	440,409	369,627
Transfers out	(628,118)	(717,582)	(843,440)	(369,627)
Insurance recovery	-	-	16,250	-
Debt service - principal on refunding	-	-	-	-
Sale of capital assets	-	-	-	-
Proceeds from installment notes	<u>1,210,400</u>	<u>107,000</u>	<u>1,039,021</u>	<u>-</u>
Total other financing sources	<u>1,210,400</u>	<u>107,000</u>	<u>652,240</u>	<u>-</u>
Net change in fund balances	<u>\$ 392,113</u>	<u>\$ (206,538)</u>	<u>\$ 190,029</u>	<u>\$ 542,771</u>
Capital outlay included in functional expenditures above	\$ 1,907,332	\$ 2,280,672	\$ 1,501,851	\$ 997,107
Debt service as a percentage of noncapital expenditures	5.36%	6.72%	6.10%	8.30%

Table 4

2014	2015	2016	2017	2018	2019
\$ 5,429,114	\$ 5,437,266	\$ 5,669,002	\$ 6,064,137	\$ 6,701,848	\$ 6,491,857
1,199,185	1,263,425	1,280,114	1,381,990	1,502,359	1,728,857
809,190	998,629	1,034,811	1,010,393	1,080,184	1,135,259
768,716	642,732	262,144	374,938	726,194	271,509
2,209	1,177	16,771	37,562	120,273	261,029
1,445,207	1,325,271	381,406	18,955	22,434	-
-	-	-	-	-	12,582
140,802	194,177	176,878	232,611	583,186	199,411
48,337	56,727	118,323	79,734	53,804	50,176
9,842,760	9,919,404	8,939,449	9,200,320	10,790,282	10,150,680
2,799,302	2,779,807	2,207,284	1,627,479	3,026,060	2,042,811
3,455,438	3,845,174	4,317,978	4,084,416	4,811,024	4,300,485
851,502	1,194,204	878,233	865,285	1,014,932	916,097
806,262	1,008,615	564,148	454,355	516,910	345,220
367,389	388,611	397,828	676,147	1,104,113	596,145
119,251	836,258	821,677	57,673	42,038	158,906
1,675,156	423,813	147,350	428,452	478,585	1,472,101
474,458	632,155	1,037,623	790,345	1,296,056	1,033,807
118,711	101,228	120,355	100,353	105,063	130,976
10,667,469	11,209,865	10,492,476	9,084,505	12,394,781	10,996,548
(824,709)	(1,290,461)	(1,553,027)	115,815	(1,604,499)	(845,868)
169,054	160,482	465,037	394,991	344,808	219,416
(169,054)	(160,482)	(465,037)	(394,991)	(344,808)	(219,416)
-	-	-	-	-	-
(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	-
\$ 646,081	\$ (76,093)	\$ (527,092)	\$ 454,425	\$ 1,384,941	\$ (845,868)
\$ 2,246,332	\$ 2,619,910	\$ 1,962,820	\$ 893,524	\$ 3,336,241	\$ 2,202,180
7.04%	8.54%	13.58%	10.87%	15.47%	13.24%

This page left blank intentionally.

Revenue Capacity Information

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Function/program				
Governmental activities:				
General government	\$ 331,750	\$ 382,843	\$ 354,227	\$ 361,590
Public Safety	28,874	10,273	15,593	11,426
Transportation	543,741	848,978	228,521	185,847
Environmental protection	-	-	-	-
Economic and physical development	-	-	-	-
Community activities and projects	-	-	-	-
Parks and recreation	444,858	295,170	12,970	292,190
	<u>1,349,223</u>	<u>1,537,264</u>	<u>611,311</u>	<u>851,053</u>
Subtotal governmental activities				
Business-type activities:				
Water and sewer	6,425,750	7,414,088	7,466,996	7,686,356
Stormwater	-	-	-	-
	<u>6,425,750</u>	<u>7,414,088</u>	<u>7,466,996</u>	<u>7,686,356</u>
Subtotal business-type activities				
Total primary government	<u>\$ 7,774,973</u>	<u>\$ 8,951,352</u>	<u>\$ 8,078,307</u>	<u>\$ 8,537,409</u>

Table 5

2014	2015	2016	2017	2018	2019
\$ 1,388,937	\$ 192,719	\$ 1,430,962	\$ 230,872	\$ 258,394	\$ 2,767,963
13,893	12,068	13,645	13,555	125,557	21,804
312,282	187,682	264,863	396,200	414,083	200,695
2,059,224	653	4,680	9,874	-	-
-	-	41,000	340,134	855,135	29,000
-	-	-	-	-	-
429,140	257,962	33,162	29,753	773,772	792,825
4,203,476	651,084	1,788,312	1,020,388	2,426,941	3,812,287
10,053,778	10,424,028	11,875,227	10,539,607	10,612,868	11,890,751
-	-	-	632,738	638,441	691,432
10,053,778	10,424,028	11,875,227	11,172,345	11,251,309	12,582,183
\$ 14,257,254	\$ 11,075,112	\$ 13,663,539	\$ 12,192,733	\$ 13,678,250	\$ 16,394,470

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

Table 6

Fiscal Year	Ad Valorem Taxes
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
2019	6,491,857
Change	^b
2010-2019	34.70%

^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 34.70 percent in the past ten years. This is primarily due to property values being re-evaluated every eight years. During the last ten years, there was one re-evaluation period in 2017. The revaluation periods along with increasing property values and steady growth has caused a significant increase in Ad Valorem Revenue from 2010 to 2019.

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
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%
2019	868,656,886	212,280,396	7,918,389	1,088,855,671	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
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
2019	0.620	0.620	-	0.8504

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
2010	\$ 4,732,461	\$ 4,641,581	98.09%	\$ 84,863	\$ 4,726,444	99.87%
2011	4,690,863	4,557,501	97.16%	122,865	4,680,366	99.78%
2012	4,755,200	4,641,541	97.61%	105,396	4,746,937	99.83%
2013	5,225,057	5,085,225	98.82%	125,776	5,211,001	99.73%
2014	5,418,579	5,315,921	98.11%	88,529	5,404,450	99.74%
2015	5,413,151	5,343,909	98.72%	57,898	5,401,807	99.79%
2016	5,646,239	5,583,929	98.90%	47,525	5,631,454	99.74%
2017	6,044,907	5,995,089	99.18%	31,629	6,026,718	99.70%
2018	6,676,687	6,618,458	99.13%	-	6,639,615	99.44%
2019	6,952,134	6,899,076	99.24%	-	6,899,076	99.24%

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

This page left blank intentionally.

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

Table 10

Taxpayer	2019			2010		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
CATES CREEK APARTMENTS LLC	\$ 25,189,600	1	2.86%			
*PATRIOTS POINTE PARTNERS LLC	21,632,074	2	2.46%	\$ 16,048,910	1	2.13%
DANIEL BOONE LTD	12,345,000	3	1.40%	9,554,772	5	1.27%
ASHTON RALEIGH RESIDENTIAL LLC	11,924,590	4	1.35%			
ALCURT HILLSBOROUGH LLC	11,269,600	5	1.28%			
WALMART REAL ESTATE BUSINESS TRUST	10,509,400	6	1.19%	13,675,468	3	1.82%
PHE INC	10,226,661	7	1.16%	9,250,246	6	1.23%
MDCO LLC	10,214,600	8	1.16%			
SPORTS ENDEAVORS INC	8,321,291	9	0.95%	6,831,430	10	0.91%
**STIHL INC DBA MID ATLANTIC STIHL	8,073,965	10	0.92%			
SLF II NC WATERSTONE LLC	-		-	14,210,460	2	1.89%
HD DEVELOPMENT OF MARYLAND INC	-		-	9,560,634	4	1.27%
TELESIS CONSTRUCTION MANAGEMENT	-		-	7,816,320	7	1.04%
MEADOWLANDS	-		-	7,219,316	8	0.96%
HILLSBOROUGH COMMONS	-		-	6,987,860	9	0.93%
Total	<u>\$ 129,706,781</u>		<u>14.73%</u>	<u>\$ 101,155,416</u>		<u>13.45%</u>

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Gallons billed:				
In-town residential	91,194,583	103,459,804	102,937,205	102,755,771
Out-of-town residential	106,627,659	112,868,479	120,107,805	130,921,523
In-town commercial	89,569,350	74,881,598	73,507,962	76,624,165
Out-of-town commercial	<u>22,056,653</u>	<u>18,219,706</u>	<u>18,296,584</u>	<u>18,153,125</u>
Total gallons billed	<u>309,448,245</u>	<u>309,429,587</u>	<u>314,849,556</u>	<u>328,454,584</u>
Total water and sewer charges (revenue)	<u>\$ 6,194,638</u>	<u>\$ 6,405,307</u>	<u>\$ 6,928,835</u>	<u>\$ 7,262,510</u>
Total average rate per 1,000 gallons	<u>\$ 20.02</u>	<u>\$ 20.70</u>	<u>\$ 22.01</u>	<u>\$ 22.11</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

2014	2015	2016	2017	2018	2019
111,836,111	98,914,635	100,064,880	131,412,141	131,845,575	134,946,195
111,241,276	124,805,789	100,445,055	120,756,780	111,132,741	111,898,328
78,590,500	81,985,440	75,012,631	85,946,109	79,996,750	83,253,819
17,908,575	29,452,224	18,028,437	20,781,379	19,695,072	21,276,361
<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>351,374,703</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>\$ 9,494,939</u>
<u>\$ 23.47</u>	<u>\$ 23.45</u>	<u>\$ 27.21</u>	<u>\$ 23.11</u>	<u>\$ 25.41</u>	<u>\$ 27.02</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
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	31.54	10.25	47.22	15.74	59.97	27.68
2016	20.98	8.07	30.33	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
2019	22.05	8.82	32.60	13.04	43.00	17.20	63.55	25.42

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		
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
2019	4,632,280	-	10,155,000	970,330	15,397,010	552,936	31,707,556	4,380

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		
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%	-
2019	-	-	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.

This page left blank intentionally.

Town of Hillsborough, North Carolina
Direct and Overlapping Governmental Activities Debt
June 30, 2019

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>\$ 251,787,682</u>	2.346%	<u>\$ 5,906,348</u>
Town's overlapping debt			5,906,348
Town's direct debt			<u>4,632,280</u>
Total direct and overlapping debt			<u><u>\$ 10,538,628</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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Debt limit	\$ 60,236,080	\$ 59,858,619	\$ 60,714,122	\$ 60,985,183
Total net debt applicable to limit	<u>2,932,216</u>	<u>2,736,142</u>	<u>3,440,001</u>	<u>3,084,791</u>
Legal debt margin	<u>\$ 57,303,864</u>	<u>\$ 57,122,477</u>	<u>\$ 57,274,121</u>	<u>\$ 57,900,392</u>
Total net debt applicable to the limit as a percentabe of debt limit	<u>4.87%</u>	<u>4.57%</u>	<u>5.67%</u>	<u>5.06%</u>

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

Table 16

						Legal Debt Margin Calculation for Fiscal Year 2019	
						Assessed value	\$ 1,088,855,671
						Debt limit (8% of assessed value)	87,108,454
						Debt applicable to limit:	
						Installment loans	(4,632,280)
						Legal debt margin	\$ 82,476,174
2014	2015	2016	2017	2018	2019		
\$ 62,861,200	\$ 62,990,706	\$ 65,754,212	\$ 70,409,012	\$ 84,198,890	\$ 87,108,454		
4,024,586	4,606,799	4,534,728	4,025,201	5,829,231	4,632,280		
\$ 58,836,614	\$ 58,383,907	\$ 61,219,484	\$ 66,383,811	\$ 78,369,659	\$ 82,476,174		
6.40%	7.31%	6.90%	5.72%	6.92%	5.32%		

Demographic and Economic Information

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

Table 17

<u>Year</u>	<u>Population</u>	<u>Personal Income (thousands of dollars)</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
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	7,231	*	30,830	35.70	1,302	3.0%
2019	7,239	*	25,780	36.60	1,319	3.3%

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	2019		2010	
	Employees	Percentage of Total Town Population	Employees	Percentage of Total Town Population
Orange County Schools	1,135	17.69%	987	14.99%
Orange County Government	822	12.81%	1,224	18.59%
UNC Hospital	624	9.73%		
Summit Consulting-Engineering	352	5.49%		
Sports Endeavors, Inc. dba Eurosport	328	5.11%	531	8.07%
Wal-Mart Associates Inc	313	4.88%	287	4.36%
Brookshire Inc	153	2.39%	124	1.88%
Home Depot	123	1.92%	107	
Weaver Street Market, Inc	104	1.62%	100	1.52%
Town of Hillsborough	101	1.57%		
PHE			342	5.19%
Thalle Construction Co.			111	1.69%
Piedmont Electric Membership Corp			96	1.46%
Total	4,055	56.02%	3,909	57.75%

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

Function/Program	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General government										
Administration	4	4	3	3	5	5	7	9	7.3	9.5
Finance	4	4	4	4	4	4	5	5	6	5.3
Planning	3	3	3	3	4	4	5	5	5	5
Public space	-	-	-	-	-	-	-	1	2	2
Safety	1	1	1	1	1	1	1	1	1	1
Stormwater	-	-	-	-	1	1	1	2	3	3
Police										
Officers	26	26	25	27	24	28	26	28	29.3	27.8
Civilians	2	2	-	-	-	-	-	-	1	1
Public works										
Streets	4	4	3	3	3	4	4	4	4	4
Sanitation	4	4	4	4	4	4	4	3	4	4
Motor pool	3	3	3	3	3	3	3	3	3	3
Utilities										
Engineering	4	4	4	4	4	4	4	4	3	3
Billing and collection	6	5	5	5	5	6	6	6	4.5	4.5
Water	6	6	6	6	6	6	6	6	8	8
Wastewater	10	8	8	8	7	6	6	8	6	6
Water distribution/ wastewater collection	8	8	11	11	11	11	12	10	13	13
Fire inspections	1	1	1	1	1	1	1	1.5	1.4	1.4
Total	<u>86</u>	<u>83</u>	<u>81</u>	<u>83</u>	<u>83</u>	<u>88</u>	<u>91</u>	<u>96</u>	<u>101.5</u>	<u>101.5</u>

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

This page left intentionally blank.

Operating Information

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

Function/Program	2010	2011	2012	2013
Police				
Physical arrests	546	475	560	538
Calls for service	9,619	12,889	15,039	14,569
Traffic citations	1,712	1,182	1,134	1,651
Number of policeman positions	29	29	29	26
Fire				
Number of stations	1	1	1	1
Emergency responses (EMS and fire)	1,865	1,835	1,770	1,866
Fires extinguished	75	19	78	70
Number of paid firemen	24	24	25	24
Number of volunteers	15	12	14	19
Inspections	213	211	258	177
Refuse collection				
Refuse collected (tons per day)	6.1	5.95	-	6.34
Recyclables collected (tons per day)	*	*	*	*
Other public works				
Street resurfacing (miles)	-	-	-	2.25
Potholes repaired	45	41	36	30
Parks and recreation				
Number of parks	6	6	6	6
Library				
Volumes in collection	75,506	86,526	97,536	93,421
Total volumes borrowed	203,450	287,938	351,216	397,379
Water				
New connections	939	815	767	736
Water main breaks	41	10	30	20
Average daily consumption (millions of gallons per day)	1.124	1.129	1.048	0.913
Peak daily consumption (millions of gallons)	1.626	1.653	1.576	1.653
Wastewater				
Average daily sewage treatment (millions of gallons)	0.888	0.757	0.765	0.902
Education				
Number of schools ^a	3	3	3	3
Number of teachers	111	111	113	113
Number of students	1,279	1,305	1,420	1,433
Number of classrooms ^b	95	65	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

2014	2015	2016	2017	2018	2019
521	553	492	611	640	640
12,279	15,975	16,674	10,599	13,287	13,287
1,212	725	557	567	496	496
26.5	27	29	29	29	29
1	1	1	1	1	1
1,950	1,978	1,949	1,954	2,034	2,059
45	107	80	109	113	92
24	27	22	23	24	24
15	12	12	12	12	10
132	171	163	138	155	138
5.90	5.54	6	6	6.25	6.76
0.02	0.48	1	1	1.00	1.00
2.13	4.7	2	2	2.38	0.90
36	30	25	15	8.00	10.00
6	6	7	7	7	7
93,886	93,656	96,393	101,177	96,498	90,378
396,164	412,416	446,499	382,740	403,088	400,858
799	840	946	821	223	
15	11	27	33	23	8
1.103	1.071	1.401	1.453	0.963	1.656
1.685	1.815	1.983	2.431	2.058	3.176
1.133	0.895	1.185	1.000	0.951	1.236
3	3	3	3	3	3
112	112	112	112	115	103
1,370	1,393	1,408	1,325	1,342	1,319
65	65	65	65	65 ^c	65^c

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

Function/Program	2010	2011	2012	2013
Police				
Stations	2	2	2	2
Patrol units	26	28	27	26
Fire stations	1	1	1	1
Refuse collection				
Collection trucks	6	6	7	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	633	633	633	633
Traffic signals (all state-owned)	-	-	-	-
Parks and recreation				
Acreage ^b	72.62	72.62	74.10	74.10
Playgrounds	4	4	4	4
Water				
Water mains (miles)	147.0	147.0	148.0	148.0
Fire hydrants	[^] 597	[^] 614	663	621
Storage capacity (thousands of gallons)	3,000	3,000	3,000	3,000
Wastewater				
Sanitary sewers (miles)	86.4	86.4	89.0	93.0
Treatment capacity (millions of gallons)	3.0	3.0	-	3.0
Stormwater				
Catch basins and inlets				
Storm sewers (miles) ^a	73.0	73.0	73.0	73.0
Area (square miles)	5.740	5.740	5.740	5.760

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

Table 21

2014	2015	2016	2017	2018	2019
2	2	2	2	2	2
27	27	25	24	34	34
1	1	1			
8	8	8	8	8	8
36.15	37.63	33.96	33.96	33.96	33.52
0.91	0.69	0.68	0.68	0.68	0.68
678	679	709	709	711	726
-					
74.10	74.10	74.1	74.1	74.1	74.1
4	4	5	5	5	5
150.0	151.0	149.0	151.0	151.0	151.0
619	628	628	705	705	705
3,000	3,000	3,500	2,450	2,450	2,450
93	94.0	96.5	80.5	97	101.4
3	3.0	3.0	3.0	3.0	3.0
				491	491
75	75.0	75.0	75.0	43.6	43.6
5.80	5.800	6	6	6	6.07

This page left intentionally blank.

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, five water storage tanks and four water distribution booster pump stations. The Town’s average daily water consumption for calendar year 2018 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 2020.

Current monthly water rates are set forth below:

All Customers (both non-irrigation and irrigation meters)

In Town Water Block 1	\$23.15
In Town Water Block 2	\$9.26/1,000 gallons
Outside Town Water Block 1	\$45.15
Outside Town Water Block 2	\$18.06/1,000 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

Town of Hillsborough
Other Disclosures

water capital 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"	41,216
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, 2019.

<u>Number of Inside Town Accounts</u>	<u>Number of Outside Town Accounts</u>	<u>Total</u>
3,398	2,735	6,133

As of June 30, 2019, the water system's customers were comprised of approximately 90% residential customers (including multi-family accounts) and 10% 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, 2019, 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	\$93,685	2.03%
LHNH - Patriots Pointe Partners, LLC	72,404	1.57
State of North Carolina	66,491	1.44
Horizon Acquisitions 3 LLC	60,990	1.32
Cates Creek Apartments	58,215	1.26
Al Curt Hillsborough, LLC	53,034	1.15
VS Property Services	41,807	0.91
Orange County High School	38,862	0.84
Orange County	38,304	0.83
Orange County Finance Dept.	<u>34,512</u>	<u>0.75</u>
Total	<u>\$558,304</u>	<u>12.11%</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”), 101 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 0.86 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 expected that the Town’s Board of Commissioners will consider rate increases as part of the Town’s normal budget-setting process in June 2020.

Town of Hillsborough
Other Disclosures

Current monthly sanitary sewer rates are set forth below:

All Customers

In Town Sewer Block 1	\$34.23
In Town Sewer Block 2	\$13.69/1,000 gallons
Outside Town Sewer Block 1	\$66.73
Outside Town Sewer Block 2	\$26.69/1,000 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, 2019:

<u>Number of Inside Town Accounts</u>	<u>Number of Outside Town Accounts</u>	<u>Total</u>
3,204	1,230	4,434

Town of Hillsborough
Other Disclosures

As of June 30, 2019, 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 2019, 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	\$132,035	2.78%
LHNH -Patriots Pointe Partners, LLC	107,350	2.26
State of North Carolina	98,720	2.08
Horizons Acquisitions 3, LLC	89,929	1.89
Cates Creek Apts.	86,106	1.81
Al Curt Hillsborough, LLC	78,475	1.65
Orange County	60,693	1.28
Orange High School	60,253	1.27
Orange County Finance Dept.	51,062	1.07
Weaver Street Market	<u>45,229</u>	<u>0.95</u>
Total	<u>\$809,851</u>	<u>17.04%</u>

Note: Totals may not foot due to rounding.

Compliance Section

This page left blank intentionally.

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 and Members of
the Board of Town Commissioners
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, North Carolina (the "Town"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Hillsborough's basic financial statements, and have issued our report thereon dated January 10, 2020. The financial statements of the Hillsborough Tourism Board and Hillsborough Tourism Development Authority 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 10, 2020**

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

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

Report on Compliance for the Major Federal Program

We have audited Town of Hillsborough, North Carolina's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on its major federal program for the year ended June 30, 2019. The Town of Hillsborough's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Town of Hillsborough complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

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

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

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

Dixon Hughes Goodman LLP

**High Point, North Carolina
January 10, 2020**

Schedule of Findings and Questioned Costs

I. Summary of Auditors' Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X No
- Noncompliance material to federal award _____ Yes X No

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction Cluster

Dollar threshold used to distinguish between Type A and Type B Programs:

\$750,000

Auditee qualified as a low-risk auditee?

_____ Yes X No

II. Financial Statement Findings

There were no findings related to the financial statements for the fiscal year ended June 30, 2019.

III. Federal Awards Findings and Questioned Costs

There were no findings related to the federal awards for the fiscal year ended June 30, 2019.

Summary Schedule of Prior Audit Findings

Finding 2018-001: Financial Accounting Closing Procedures

Status: Cleared

Finding 2018-002: Excess of Expenditures over Appropriations

Status: Cleared

Town of Hillsborough, North Carolina
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2019

Schedule 21

<u>Grantor/Program Title</u>	<u>Federal CFDA/ State Number</u>	<u>Grant Number</u>	<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>
<i>Federal awards:</i>				
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction Cluster:				
Passed through the NC Department of Transportation:				
Highway Planning and Construction (Federal Aid Highway Program):				
Riverwalk Trail	20.205	46243.1.1	786,287	-
Total Passed through NC Department of Transportation			786,287	-
Total Highway Planning and Construction Cluster			786,287	-
<u>U.S. Department of Homeland Security</u>				
Passed through N.C. Department of Public Safety-Emergency Management:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)				
	97.036	72748	17,035	5,678
Total Passed through NC Department of Public Safety - Emergency Management			17,035	5,678
Total U.S. Department of Homeland Security			17,035	5,678
Total assistance - federal programs			803,322	5,678
<i>State awards:</i>				
<u>NC Department of Transportation</u>				
Direct programs:				
Powell Bill	DOT-4	2000005097	-	171,793
Total NC Department of Transportation			-	171,793
<u>NC Division of Soil and Water Conservation</u>				
Passed through Orange Soil and Water Conservation District:				
Community Conservation Assistance Program	NC-CCAP	68-2018-501	-	6,525
Total NC Division of Soil and Water Conservation			-	6,525
Total assistance - state programs			-	178,318
Total assistance			<u>\$ 803,322</u>	<u>\$ 183,996</u>

Notes to Schedule of Expenditures of Federal and State Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Hillsborough under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

2. Summary of Significant Accounting Policies

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

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