

Comprehensive Annual Financial Report

**Year Ended
June 30, 2015**

Town of Hillsborough, North Carolina

Tom Stevens
Mayor

Eric J. Peterson
Town Manager

Heidi Lamay
Finance Director

Town of Hillsborough Finance Department

Carolyn Glasgow, Assistant Finance Director
Robert TeCarr, Financial Analyst
Sarah Butcher, Accounts Payable Clerk

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Town of Hillsborough, North Carolina

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INTRODUCTORY SECTION

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Town of Hillsborough, North Carolina

LIST OF PRINCIPAL OFFICIALS

Board of Town Commissioners

Tom Stevens, Mayor

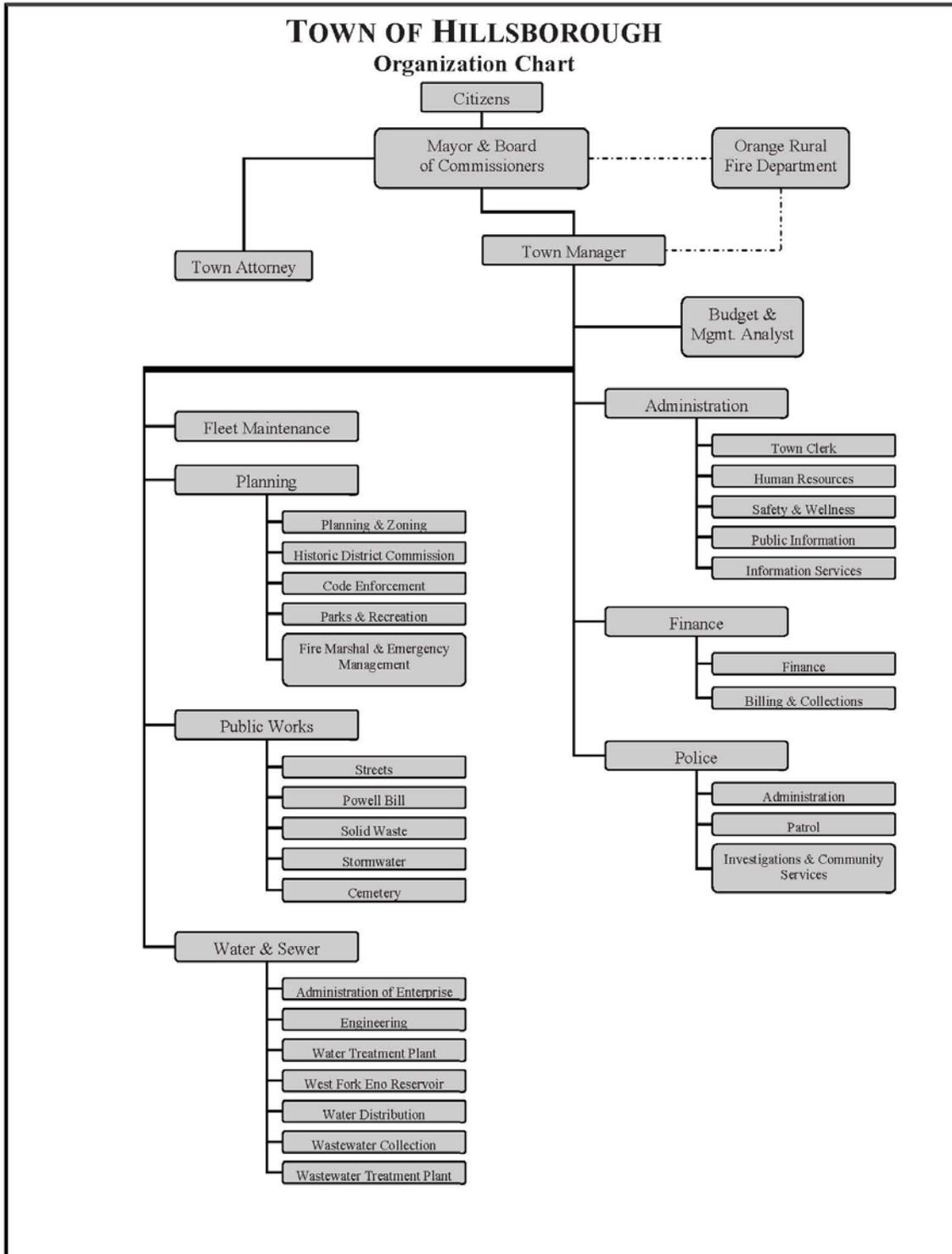
Brian J. Lowen	Mayor Pro Tem
L. Eric Hallman	Commissioner
Evelyn P. Lloyd	Commissioner
Jenn Weaver	Commissioner
Kathleen Ferguson	Commissioner

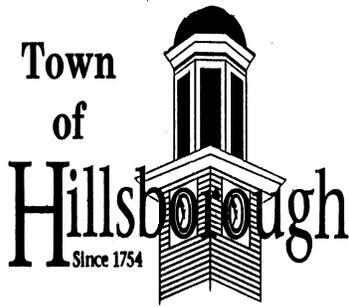
Town Officials

Eric J. Peterson, Town Manager
Heidi Lamay, Finance Director
Emily Bradford, Budget Officer
Kenneth Keel, Town Engineer/Utilities Director
Katherine Cathey, Town Clerk/Personnel Officer
Duane Hampton, Police Chief
Margaret Hauth, Planning Director
Ken Hines, Public Works Director
Catherine Wright, Public Information Officer
Jennifer Della Valle, Management Analyst/Assistant PIO
Robert Hornik, Town Attorney

Town of Hillsborough, North Carolina

ORGANIZATIONAL CHART





December 31, 2015

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

The Comprehensive Annual Financial Report of Hillsborough, North Carolina for the fiscal year ended June 30, 2015, 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 2015. The goal of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. An independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and the significant estimates made by management; and evaluating the overall financial statement presentation. Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement the Management's Discussion & Analysis and should be read in conjunction with it. The Town's MD&A can be found immediately following the independent auditor's report.

THE REPORTING ENTITY AND ITS SERVICES

Founded in 1754, Hillsborough, the county seat of Orange County, is located at the intersection of interstates 85 and 40, near several urban centers and universities. The small town setting is six to 30 miles from Chapel Hill, Durham, and Raleigh. Hillsborough's 6,398 residents have easy access to employment opportunities within the Research Triangle Park area. Within Hillsborough, the economy is centered on government, retail, service providers, and manufacturing. Orange County and the Town of Hillsborough are major local employers. The Town's historical sites attract a large number of tourists.

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

The Town provides a full range of municipal services, including police, fire inspection and protection, parks, street maintenance, solid waste collection, and cemetery. The Town provides financial support to certain boards, agencies and commissions to assist their efforts in serving citizens. The Town has evaluated its relationship with each of these entities according to criteria 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 1.161 MGD. The Town's water system serves a total population of 14,709, which includes Town residents and customers from outlying areas. The sanitary sewer system has a treatment capacity of 3 MGD, with a current average daily flow of 0.950 MGD.

ECONOMIC CONDITIONS AND OUTLOOK

The Town of Hillsborough, Orange County and the Research Triangle Park area are considered to be among the most desirable areas of the country to live and work, according to several national surveys. The economy of Hillsborough is diversified with government, manufacturing, wholesale and retail businesses, as well as numerous service providers. Approximately 42.00% of Hillsborough's tax base is commercial in nature - this is a strong indicator of a healthy and diverse property tax base. Local industries are involved in a range of operations, from simple assembly to complex manufacturing processes resulting in products such as hydraulic equipment, electronic equipment, and computerized medical diagnostic equipment.

The Town's unemployment rate has been below state and national rates over the past 18 years. This trend continued during the current year in which the Town's unemployment rate, as of June 2015 was 3.9% for Orange County, while the state and national rates were 5.3% and 5.9%, respectively.

The Town's economy is expected to remain stable because of the benefits derived from a lower unemployment rate, a stable employment base, and the March 2004 annexation of a 337-acre mixed-use development called Waterstone. While taking longer to develop than expected, Waterstone is expected to increase the Town's population by 25% and increase the tax base by 25% over the next seven years. The single-family and townhome developments started construction in 2014 and sales have been brisk in 2015. Work on the apartment complex also began in 2015. These three residential projects alone will add over 500 residential units and more than 1,000 residents to Hillsborough. U.N.C. Hospitals officially opened in July of 2015. The medical office section opened in 2013 and this includes administrative offices and a variety of medical services.

In addition to the Waterstone development, Hillsborough is seeing growth throughout town. Current projects which are in the process of construction include: Corbin Creek Woods (18 units), Forrest Ridge (233 units), and Elfin Pond Townhomes (104 units). The combination of these developments and growth in Waterstone will roughly increase Hillsborough's population by 30% over the next four years. Other projects, commercial and residential, are currently in the planning stages by various developers throughout town.

The Town's investment several years ago in the 20-acre lot primarily obtained as a rail station site is strategically located adjacent to both of the rail lines, downtown, Daniel Boone Villages, and the Collins property (138 acres of undeveloped land). This is the planned site for a rail station and potential public-private partnership for development in this area. The Sustainable Cities Design Academy grant was awarded to the Town in early 2014 and provided a concept plan in 2015 to help with economic development efforts in this area. This encourages the type of infill development that is congruent with the Town's long-term vision, as well as being more sustainable and affordable from a municipal service provision perspective. NCDOT has included approximately \$7-8 million in its Transportation Improvement Plan for this project in FY2019. Environmental and risk planning will start in early 2016.

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

LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES

Each year, the Town prepares a multiyear operational and capital improvement budget. While this is the eighteenth year a multiyear financial planning format has been used; FY08 was the first year that a balanced scorecard system was used to implement and communicate the board's mission, vision, and strategic priorities. During the year, the Town funded and managed many significant projects including the following:

- The Wastewater Plant upgrade began in September 2011. The project is to be completed in two phases. Phase I was substantially completed by June of 2014. Final close-out on the project was completed in 2015. Phase II is estimated to begin construction 7 to 12 years from now. The upgrade was needed due to the limitations in hydraulic capacity and to meet the new Falls Lake nutrient reduction criteria, which go into effect in 2016.
- Completed the third year of a four-year \$2.0 million street repaving and repair plan. The plan is being funded without debt and uses the Town's Powell Bill (gas tax allocation) and General Fund revenues to pay for the four-year project. 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.
- Riverwalk Phases II and III were completed and a grand opening celebration was held in October of 2014 (\$2.24 million with annual debt payments of about \$128,000 starting in FY14). The Riverwalk runs from Allison Street near Occoneechee Mountain east, through downtown, and connects with Orange County's River Park, passing just south of Cameron Street, and extending west until connection with the Classical American Homes Preservation Trust property near the Historic Occoneechee Speedway and its trail system, ending near Cameron Street. The Trust plans to complete trail and bridge work in 2016 that will extend the connection to the Speedway, as well as the Mountains to Sea Trail.
- Congestion Mitigation and Air Quality (CMAQ) Grant Sidewalk, Pedestrian Safety and Accessibility Project (\$124,000) - Pedestrian and bicycle connectors for Nash, Calvin and Allison streets; sidewalk/accessibility; curb, gutter and other improvements; and connections for Gold Park and Riverwalk. This would complete the western connection from Gold Park to Allison Street and add a sidewalk with access trails near Occoneechee Mountain State Natural Area. The project cost of \$124,000 to leverage \$496,000 of CMAQ funds is scheduled for 2016.
- The Town is in the process of addressing future capital facility needs that will be critical in serving Hillsborough's growing population. Land and buildings have been acquired near the current Town Hall that can eventually be used to relocate the Town Hall Annex, Police Department headquarters, and Fire Station that are currently located downtown. All three facilities are outdated, in need of upgrade, and are occupying property that would be better used to compliment current business uses in the downtown district. Town staff worked on a space study in early 2015 to help plan for operational facility needs over the next 20 years. An RFP for Architectural Design will be issued early in 2016. It is likely that a second fire station will soon be needed in the southern part of town. In addition, the current public works facilities are in exceptionally poor shape and located adjacent to the Eno River in the flood plain.

- 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 is currently in the design stage. Phase 2 will yield an additional 1.2 million gallons per day of water capacity. Construction must be completed by the end of calendar year 2018 to comply with the current permit. Delay in construction means that new permit requirements could more than double the current \$8.6 million estimate for the project. Construction is projected to start in 2016.

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 \$4,161 per capita. 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 17 fiscal years, and no debt service expenditures on general obligation bonded debt have been incurred in the General Fund during the last 17 fiscal years. The Town has avoided a heavy debt load, which has plagued many municipalities, in its General Fund. Debt service costs make up 7.70% of General Fund expenditures. This includes short-term debt for equipment needs like garbage trucks, leaf collection equipment, fire trucks, etc. Additionally, no bonded debt is recorded in the Water and Sewer Fund. While there is no bonded debt, other debt payments account for 31.11% of expenditures, which is an increase over the previous fiscal year. The primary reason for this increase is a new wastewater treatment plant (\$1.5 million in debt to the fund) and continued emphasis on maintaining the water and sewer infrastructure of the Town.

FINANCIAL POLICIES

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

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

OTHER INFORMATION

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hillsborough for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2014. 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 20 consecutive years (fiscal years ended 1994 through 2014). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will submit it to the GFOA.

ACKNOWLEDGMENTS

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

Respectfully submitted,



Eric J. Peterson
Town Manager



Heidi Lamay
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, 2014

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the 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, 2015, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, 2015, and the respective changes in its financial position and cash flows, where appropriate, thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 7 to the financial statements, beginning balances were restated due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in 2015 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these changes.

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 15, the Law Enforcement Officers' Special Separation Allowance and the Other Postemployment Benefits Schedules of Funding Progress and Employer Contributions on pages 81 through 82 and pages 83 through 84, respectively and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions on pages 85 and 86 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provided us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hillsborough's basic financial statements. The introductory section, combining and individual fund financial statements, budgetary schedules, other schedules, and the statistical section, as well as the schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules 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, the combining and individual fund financial 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 taken as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2015, on our consideration of the Town of Hillsborough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Hillsborough's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

***High Point, North Carolina
December 31, 2015***

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**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

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, 2015. 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 \$57,515,476.
- The Town's total net position increased by \$4,207,716 primarily due to infrastructure improvements, an increase in the sewer rates and developer-paid capital facility fees in the business-type activities net position.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$6,999,012, a net decrease of \$76,093 in comparison to the prior year. This is the result of increased capital project investment. Approximately 23.24% of this total amount or \$1,626,635 is nonspendable, or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,805,372, or 39.86% of total General Fund expenditures, including other financing uses, for the fiscal year.
- The Town's total debt decreased by \$425,428 during the current fiscal year. The Town had additional borrowing on revolving loans payable of \$928,301 and installment purchases of \$1,214,368. These additional borrowings were offset by retirement of \$2,568,097 in existing debt during the year.
- The Town maintained its A2 (Moody's Investor Service) and A (Standard & Poor's) bond ratings for the 20th consecutive year.

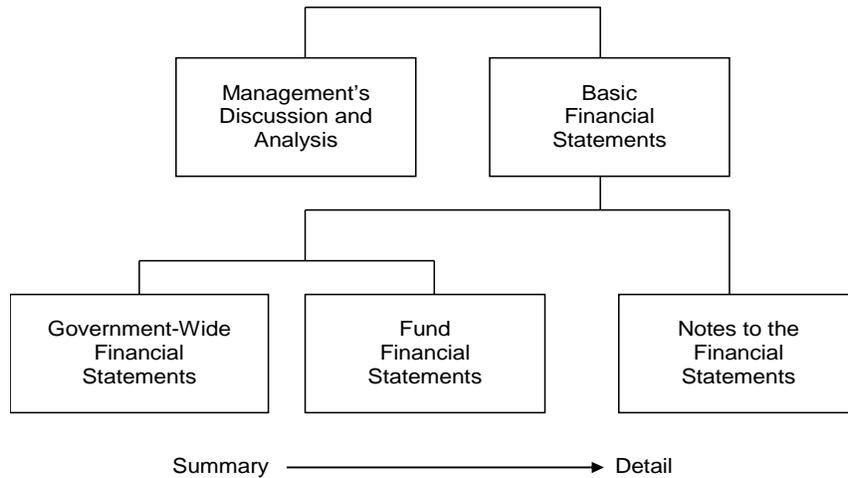
Overview of the Financial Statements

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

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

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.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

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, 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 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 19 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.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

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. 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.

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 31 through 77 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 81 of this report.

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.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

Government-Wide Financial Analysis

The Town of Hillsborough's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 8,034,257	\$ 8,346,930	\$ 10,895,848	\$ 10,566,525	\$ 18,930,105	\$ 18,913,455
Other assets	302,808	19,673	174,356	-	477,164	19,673
Capital assets, net	16,404,558	14,504,644	51,857,285	49,452,191	68,261,843	63,956,835
Deferred outflows of resources	241,287	211,525	178,067	121,817	419,354	333,342
Total assets and deferred outflows of resources	<u>24,982,910</u>	<u>23,082,772</u>	<u>63,105,556</u>	<u>60,140,533</u>	<u>88,088,466</u>	<u>83,223,305</u>
Long-term liabilities outstanding	4,356,104	4,434,736	20,089,420	22,027,085	24,445,524	26,461,821
Other liabilities	1,635,422	1,560,803	3,301,647	1,865,115	4,937,069	3,425,918
Total liabilities	<u>5,991,526</u>	<u>5,995,539</u>	<u>23,391,067</u>	<u>23,892,200</u>	<u>29,382,593</u>	<u>29,887,739</u>
Deferred inflows of resources	<u>765,450</u>	<u>27,806</u>	<u>424,947</u>	<u>-</u>	<u>1,190,397</u>	<u>27,806</u>
Net position:						
Net investment in capital asset	11,870,401	10,924,631	30,507,881	27,110,293	42,378,282	38,034,924
Restricted	1,558,393	1,700,808	2,591,600	2,591,211	4,149,993	4,292,019
Unrestricted	<u>4,797,140</u>	<u>4,433,988</u>	<u>6,190,061</u>	<u>6,546,829</u>	<u>10,987,201</u>	<u>10,980,817</u>
Total net position	<u>\$ 18,225,934</u>	<u>\$ 17,059,427</u>	<u>\$ 39,289,542</u>	<u>\$ 36,248,333</u>	<u>\$ 57,515,476</u>	<u>\$ 53,307,760</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 \$57,515,476 as of June 30, 2015. The Town's net position increased by \$4,207,716 for the fiscal year ended June 30, 2015. However, the largest portion (73.68%) 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, \$4,149,993 (7.22%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,987,201 (19.10%) is unrestricted and may be used to meet the Town's ongoing obligation to citizens and creditors.

Also, the Town of Hillsborough implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$627,349. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Hillsborough's management.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

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 of 98.72%.
- Numerous cost savings measures implemented by all departments.
- Many departments finishing the year with expenditures under budget.
- Increase to the sewer rate yielding higher than expected revenues.
- Continued low cost of debt due to the Town's good bond rating and low interest rates.

The Town of Hillsborough's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 387,014	\$ 144,942	\$ 8,939,712	\$ 9,025,607	\$ 9,326,726	\$ 9,170,549
Operating grants and contributions	10,610	316,576	-	-	10,610	316,576
Capital grants and contributions	253,460	3,741,958	1,484,316	1,028,171	1,737,776	4,770,129
General revenues:						
Property taxes	5,434,983	5,404,126	-	-	5,434,983	5,404,126
Local option sales taxes	1,215,819	1,114,306	-	-	1,215,819	1,114,306
Gross receipts on short-term rental property	9,163	7,117	-	-	9,163	7,117
Privilege licenses	30,902	43,891	-	-	30,902	43,891
Motor vehicle license fees	3,477	31,420	-	-	3,477	31,420
Solid waste disposal	4,064	2,451	-	-	4,064	2,451
Unrestricted intergovernmental revenues	998,629	809,190	-	-	998,629	809,190
Other	42,139	42,108	745	2,601	42,139	42,108
Total revenues	8,390,260	11,658,085	10,424,773	10,056,379	18,815,033	21,714,464
Expenses:						
General government	1,416,316	1,524,025	-	-	1,416,316	1,524,025
Public safety	3,929,568	3,619,529	-	-	3,929,568	3,619,529
Transportation	130,485	\$500,491	-	-	130,485	500,491
Environmental protection	963,296	833,623	-	-	963,296	833,623
Economic and physical development	387,801	367,389	-	-	387,801	367,389
Community activities and projects	220,890	119,251	-	-	220,890	119,251
Parks and recreation	74,137	55,849	-	-	74,137	55,849
Interest on long-term debt	101,260	126,250	-	-	101,260	126,250
Water and sewer	-	-	7,383,564	6,271,311	6,271,311	6,271,311
Total expenses	7,223,753	7,146,407	7,383,564	6,271,311	14,607,317	13,417,718
Increase in net position	1,166,507	4,511,678	3,041,209	3,785,068	4,207,716	8,296,746
Net position - beginning, previously reported	17,457,542	12,945,864	36,477,567	32,692,499	53,935,109	45,638,363
Restatement	(398,115)	-	(229,234)	-	(627,349)	-
Net position - beginning, restated	17,059,427	12,945,864	36,248,333	32,692,499	53,307,760	45,638,363
Net position - ending	\$18,225,934	\$ 17,457,542	\$39,289,542	\$ 36,477,567	\$57,515,476	\$53,935,109

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

Governmental Activities. Governmental activities increased the Town's net position by \$1,166,507, thereby accounting for 27.72% 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.
- Maintaining consistent levels of expenses.
- Increases in unrestricted intergovernmental revenues.

Business-Type Activities. Business-type activities increased the Town's net position by \$3,041,209, accounting for 72.28% of the total growth in the government's net position. Key elements of this increase are as follows:

- An increase in sewer revenue resulting from a sewer rate increase of 8.8%.
- Contributions of capital assets in the amount of \$1,484,316.
- Cost-cutting measures resulting in lower than expected expenses.

Financial Analysis of the Town of Hillsborough's Funds

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town of Hillsborough's fund balance available in the General Fund was \$5,199,235, while total fund balance reached \$6,217,183. 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 62.4% of general fund expenditures, while total fund balance represents 74.62% of the same amount.

At June 30, 2015, the governmental funds of the Town reported a combined fund balance of \$6,999,012, with a net decrease in fund balance of \$76,093. This decrease is partially related to increased investment in capital projects. This investment was driven mostly by increased demand for housing and development within the Town of Hillsborough and surrounding geographic areas.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

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.

The difference between the original budget and the final budget is attributed in part to the following:

- \$600,000 to conduct improvements on West Fork-Eno River infrastructure.
- \$612,054 to purchase real property for the planning and development of the Town's new administrative, police, and fire complex.

Actual operating revenues for the General Fund were more than the budgeted amount by \$788,474. Expenditures were \$566,495 less than budgeted, primarily due to the delaying of purchases and bids coming in lower than anticipated.

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 \$6,190,061, a 5.45% or \$356,768 decrease from the previous year. The decrease is largely attributed to investments in the Town's water and sewer capital infrastructure. The total growth in net position was \$3,041,209. 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, 2015 totals \$68,261,843 (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:

- The continued construction of the Wastewater Treatment Plant (\$62,274)
- The continued development of Riverwalk Phase II and III (\$387,637)
- Street resurfacing (\$264,921)

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

- Corbin Creek Woods water and sewer lines (\$205,000)
- Waterstone Estates Subdivision Phase I water and sewer lines (\$157,619)
- Waterstone Estates Subdivision Phase IV water and sewer lines (\$263,892)
- Waterstone Terrace Phase I water and sewer lines (\$312,451)
- Forest Ridge Subdivision Phase I, IIA, and IIIA water and sewer lines (\$545,354)

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 3,523,007	\$ 2,672,428	\$ 6,005,443	\$ 6,005,443	\$ 9,528,450	\$ 8,677,871
Construction in progress	325,015	2,179,190	2,468,749	19,796,803	2,793,764	21,975,993
Buildings and improvements	4,871,396	2,815,842	20,408,398	2,078,652	25,279,794	4,894,494
Plant and distribution systems	-	-	21,917,564	20,724,837	21,917,564	20,724,837
Infrastructure	6,599,774	6,003,162	499,002	492,676	7,098,776	6,495,838
Equipment	125,020	84,798	430,263	257,636	555,283	342,434
Vehicles	960,346	749,224	127,866	96,144	1,088,212	845,368
Total	<u>\$ 16,404,558</u>	<u>\$ 14,504,644</u>	<u>\$51,857,285</u>	<u>\$49,452,191</u>	<u>\$68,261,843</u>	<u>\$ 63,956,835</u>

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

Long-Term Debt. As of June 30, 2015, the Town of Hillsborough had no outstanding bonded debt. The Town's debt represents revolving loans payable and installment purchases secured solely by revenues of the project or specified purchases.

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

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revolving loan payable	\$ -	\$ -	\$ 18,605,655	\$ 18,644,077	\$ 18,605,655	\$ 18,644,077
Installment purchases	4,606,799	4,024,586	2,970,088	3,939,307	7,576,887	7,963,893
Total	<u>\$4,606,799</u>	<u>\$ 4,024,586</u>	<u>\$ 21,575,743</u>	<u>\$ 22,583,384</u>	<u>\$ 26,182,542</u>	<u>\$ 26,607,970</u>

The Town's total debt decreased by \$425,428 during the current fiscal year, primarily due to repayments on installment purchases.

As mentioned in the financial highlights section of this document, the Town maintained, for the 19th consecutive year, its A2 bond rating from Moody's Investor Service and A rating from Standard and Poor's Corporation. This bond rating is a clear indication of the sound financial condition of the Town of Hillsborough. This achievement is a primary factor in keeping interest costs low on the Town's outstanding debt.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

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 \$ \$58,383,907. The Town does not have any bonds authorized but unissued at June 30, 2015.

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 3.9% as of June 30, 2015, is well below the state average of 5.9%.
- *Water/sewer rate increase.* In the new fiscal year, beginning July 1, 2015, the water rate remained the same and the sewer rate increased by 8.8%.
- *No increase in property tax rate.* The property tax rate will not increase in FY 16.
- *No general obligation debt in the General Fund.*

Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities: With new development starting to ramp up in FY15 and an increase expected for FY16, forecasts for the primary sources of revenue (e.g., property and sales tax) were calculated using a 0.36% growth factor. As in prior years, the Town's budget development was guided by three principles: (1) take care of what we've got; (2) invest in Hillsborough's future; and (3) minimize rate impacts on the citizens/customers.

Original budgeted operational expenditures in the General Fund were expected to increase 2.4% or \$452,974 over FY15 original budget. Appropriated fund balance of \$1,282,029 was recommended to balance the FY16 budget. The largest increments are in employee compensation, including funding compensation and benefits adjustments, new positions, street repair, and the first year of debt service on Riverwalk Phases II and III.

Other budget highlights in brief:

- Expenses to increase by 2.4%
- Merit system budgeted at 3.25% average raise for employees

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

Business-Type Activities: Water rates will not increase in 2016, while sewer rates will increase by 8.8% to cover loan payments associated with the wastewater treatment expansion in FY16.

Original budgeted operational expenditures in the Water/Sewer Fund are expected to increase by 3% to \$304,556 over FY 2015 original budget. Actual expenditures for FY 2015 were \$2,127,519 under budget, primarily due to debt financing the entire South Zone Water Tank rather than using capital reserve fees to reduce the debt issuance amount. Debt service payments will begin in FY16 with the capital reserve funds being used to cover the payments for the first few years. Many cuts and deferments were made to this year's budget to avoid a more significant rate increase and to limit the further use of net position.

It was determined through an engineering and financial analysis in early 2007 that it is considerably more cost effective for Hillsborough to upgrade and expand its wastewater treatment plant, which is more than 35 years old, than to pipe the Town's wastewater to the City of Durham for treatment (\$17.5 million vs. \$108 million). Now a \$19.2 million upgrade/expansion, this project is critical, as the Town must meet new, more stringent nitrogen discharge limits into the local Eno River. This project is now complete.

The Town continues work to correct sewer inflow and infiltration problems (\$50,000 annually). This project is critical, as inflow and infiltration create a variety of serious issues, such as decreased plant treatment capacity, pump station overflows, lower quality treatment of discharged water and increased operational costs.

Other budget highlights in brief:

- Continue design work on West Fork Eno Reservoir Phase II expansion (\$600,000). Design began in FY14 (\$200,000).
- Merit system budgeted at 3.25% average raise for employees.
- High-deductible health insurance alternative offered at no cost to employees and given initial monies for deposit to health savings account.

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.

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BASIC FINANCIAL STATEMENTS

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TOWN OF HILLSBOROUGH, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2015

Exhibit 1

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
ASSETS					
Current assets:					
Cash and investments	\$ 6,287,006	\$ 6,587,188	\$ 12,874,194	\$ 168,778	\$ 222,358
Receivables:					
Taxes receivable, net	159,544	-	159,544	-	-
Accrued interest receivable, property taxes	5,053	-	5,053	-	-
Accounts receivable, net	46,946	1,111,431	1,158,377	-	-
Due from other governments	744,920	-	744,920	-	-
Due from primary government	-	-	-	13,837	61,216
Prepaid expenses	52,326	3,812	56,138	-	788
Restricted assets					
Cash and investments	738,462	3,193,417	3,931,879	-	-
Total current assets	<u>8,034,257</u>	<u>10,895,848</u>	<u>18,930,105</u>	<u>182,615</u>	<u>284,362</u>
Noncurrent assets:					
Net pension asset	302,808	174,356	477,164	-	-
Capital assets:					
Land and construction-in-progress	3,848,022	8,474,192	12,322,214	-	-
Other capital assets, net of depreciation	12,556,536	43,383,093	55,939,629	-	-
Total capital assets	<u>16,404,558</u>	<u>51,857,285</u>	<u>68,261,843</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>16,707,366</u>	<u>52,031,641</u>	<u>68,739,007</u>	<u>-</u>	<u>-</u>
Total assets	<u>24,741,623</u>	<u>62,927,489</u>	<u>87,669,112</u>	<u>182,615</u>	<u>284,362</u>
DEFERRED OUTFLOWS OF RESOURCES					
Contributions to pension plan in current fiscal year	241,287	138,937	380,224	-	-
Deferred loss on defeasance of debt	-	39,130	39,130	-	-
	<u>241,287</u>	<u>178,067</u>	<u>419,354</u>	<u>-</u>	<u>-</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	648,412	926,658	1,575,070	-	33,231
Payable from restricted assets - customer deposits	102,265	414,608	516,873	-	-
Accrued interest payable	34,642	84,455	119,097	-	-
Due to component units	75,053	-	75,053	-	-
Current portion of long-term liabilities	775,050	1,875,926	2,650,976	-	-
Total current liabilities	<u>1,635,422</u>	<u>3,301,647</u>	<u>4,937,069</u>	<u>-</u>	<u>33,231</u>
Long-term liabilities:					
Due in more than one year	4,356,104	20,089,420	24,445,524	-	-
Total liabilities	<u>5,991,526</u>	<u>23,391,067</u>	<u>29,382,593</u>	<u>-</u>	<u>33,231</u>
DEFERRED INFLOWS OF RESOURCES					
Pension deferrals	738,017	424,947	1,162,964	-	-
Unearned revenue	27,433	-	27,433	-	-
	<u>765,450</u>	<u>424,947</u>	<u>1,190,397</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	11,870,401	30,507,881	42,378,282	-	-
Restricted for:					
Stabilization by state statute	994,838	-	994,838	13,837	61,216
Streets	99,406	-	99,406	-	-
Capital projects	464,149	-	464,149	-	-
Water and sewer projects	-	2,591,600	2,591,600	-	-
Unrestricted	4,797,140	6,190,061	10,987,201	168,778	189,915
Total net position	<u>\$ 18,225,934</u>	<u>\$ 39,289,542</u>	<u>\$ 57,515,476</u>	<u>\$ 182,615</u>	<u>\$ 251,131</u>

The accompanying notes are an integral part of this statement.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 1,416,316	\$ 182,109	\$ 10,610	\$ -
Public safety	3,929,568	12,068	-	-
Transportation	130,485	187,682	-	-
Environmental protection	963,296	-	-	653
Economic and physical development	387,801	-	-	-
Community activities and projects	220,890	-	-	-
Parks and recreation	74,137	5,155	-	252,807
Interest on long-term obligations	101,260	-	-	-
Total governmental activities	<u>7,223,753</u>	<u>387,014</u>	<u>10,610</u>	<u>253,460</u>
Business-type activities:				
Water and sewer	<u>7,383,564</u>	<u>8,939,712</u>	<u>-</u>	<u>1,484,316</u>
Total business-type activities	<u>7,383,564</u>	<u>8,939,712</u>	<u>-</u>	<u>1,484,316</u>
Total primary government	<u>\$ 14,607,317</u>	<u>\$ 9,326,726</u>	<u>\$ 10,610</u>	<u>\$ 1,737,776</u>
Component units:				
Hillsborough Tourism Development Authority	\$ 4,977	\$ -	\$ -	\$ -
Hillsborough Tourism Board	280,913	-	-	-
Total component units	<u>\$ 285,890</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Local option sales taxes				
Gross receipts on short-term rental property				
Privilege licenses				
Motor vehicle license fees				
Solid waste disposal				
Unrestricted intergovernmental revenues				
Investment earnings, unrestricted				
Payment from Town of Hillsborough				
Miscellaneous				
Total general revenues not including transfers				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning, previously reported				
Restatement				
Net position - beginning, restated				
Net position - ending				

The accompanying notes are an integral part of this statement.

Net Revenue (Expense) and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Tourism Development Authority	Tourism Board
\$ (1,223,597)	\$ -	\$ (1,223,597)		
(3,917,500)	-	(3,917,500)		
57,197	-	57,197		
(962,643)	-	(962,643)		
(387,801)	-	(387,801)		
(220,890)	-	(220,890)		
183,825	-	183,825		
(101,260)	-	(101,260)		
<u>(6,572,669)</u>	<u>-</u>	<u>(6,572,669)</u>		
-	3,040,464	3,040,464		
-	3,040,464	3,040,464		
<u>(6,572,669)</u>	<u>3,040,464</u>	<u>(3,532,205)</u>		
			\$ (4,977)	\$ -
			<u>-</u>	<u>(280,913)</u>
			<u>(4,977)</u>	<u>(280,913)</u>
5,434,983	-	5,434,983	-	-
1,215,819	-	1,215,819	-	-
9,163	-	9,163	-	-
30,902	-	30,902	-	-
3,477	-	3,477	-	-
4,064	-	4,064	-	-
998,629	-	998,629	-	-
1,177	745	1,922	-	-
-	-	-	70,536	318,172
40,962	-	40,962	-	-
<u>7,739,176</u>	<u>745</u>	<u>7,739,921</u>	<u>70,536</u>	<u>318,172</u>
-	-	-	-	-
<u>7,739,176</u>	<u>745</u>	<u>7,739,921</u>	<u>70,536</u>	<u>318,172</u>
1,166,507	3,041,209	4,207,716	65,559	37,259
17,457,542	36,477,567	53,935,109	117,056	213,872
(398,115)	(229,234)	(627,349)	-	-
<u>17,059,427</u>	<u>36,248,333</u>	<u>53,307,760</u>	<u>117,056</u>	<u>213,872</u>
<u>\$ 18,225,934</u>	<u>\$ 39,289,542</u>	<u>\$ 57,515,476</u>	<u>\$ 182,615</u>	<u>\$ 251,131</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

Exhibit 3

	Major Funds			Total Governmental Funds
	General Fund	Consolidated General Capital Projects Fund	Total Nonmajor Funds	
ASSETS				
Cash and investments	\$ 6,010,757	\$ -	\$ 276,249	\$ 6,287,006
Taxes receivable	159,544	-	-	159,544
Accounts receivable, net	46,946	-	-	46,946
Prepaid items	68,242	-	-	68,242
Due from other governments	699,788	-	45,132	744,920
Restricted assets				
Cash and investments	274,313	464,149	-	738,462
Total assets	<u>\$ 7,259,590</u>	<u>\$ 464,149</u>	<u>\$ 321,381</u>	<u>\$ 8,045,120</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 644,711	\$ -	\$ 3,701	\$ 648,412
Payable from restricted assets - customer deposits	102,265	-	-	102,265
Due to component units	75,053	-	-	75,053
Total liabilities	<u>822,029</u>	<u>-</u>	<u>3,701</u>	<u>825,730</u>
DEFERRED INFLOWS OF RESOURCES	<u>220,378</u>	<u>-</u>	<u>-</u>	<u>220,378</u>
FUND BALANCES				
Nonspendable				
Prepaid items	68,242	-	-	68,242
Restricted for:				
Stabilization by state statute	949,706	-	45,132	994,838
Streets	99,406	-	-	99,406
Capital projects	-	464,149	-	464,149
Committed for:				
Capital projects	-	-	272,548	272,548
Assigned for:				
Sidewalks	12,428	-	-	12,428
Subsequent year's expenditures	1,282,029	-	-	1,282,029
Unassigned	<u>3,805,372</u>	<u>-</u>	<u>-</u>	<u>3,805,372</u>
Total fund balances	<u>6,217,183</u>	<u>464,149</u>	<u>317,680</u>	<u>6,999,012</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,259,590</u>	<u>\$ 464,149</u>	<u>\$ 321,381</u>	

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	16,404,558
Net pension asset	302,808
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the statement of net position.	241,287
Liabilities for earned but deferred revenues in the fund statements, including accrued interest receivable on property taxes.	197,998
Prepaid expenses in the fund statements for debt service payments that represent a reduction of long-term obligations in governmental activities.	(63,026)
Certain expenditures in the fund statements for future period obligations are prepaid expenditures on the statement of net position.	47,110
Some liabilities, including accrued interest, are not due and payable in the current period, and therefore are not reported in the funds.	(5,165,796)
Pension related deferrals	<u>(738,017)</u>
Net position of governmental activities	<u>\$ 18,225,934</u>

The accompanying notes are an integral part of this statement.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

Exhibit 4
Page 1 of 2

	Major Funds			Total Governmental Funds
	General Fund	Consolidated General Capital Projects Fund	Total Nonmajor Funds	
Revenues				
General revenues				
Ad valorem taxes	\$ 5,437,266	\$ -	\$ -	\$ 5,437,266
Other taxes and licenses	1,263,425	-	-	1,263,425
Unrestricted intergovernmental revenues	998,629	-	-	998,629
Restricted intergovernmental revenues	347,469	-	295,263	642,732
Investment earnings	1,048	129	-	1,177
Other general revenues	56,727	-	-	56,727
Total general revenues	8,104,564	129	295,263	8,399,956
Functionally related revenues				
Use and rental fees	194,177	-	-	194,177
Total revenues	8,298,741	129	295,263	8,594,133
Expenditures				
General government	1,439,585	1,325,271	14,951	2,779,807
Public safety	3,845,174	-	-	3,845,174
Transportation	1,194,204	-	-	1,194,204
Environmental protection	1,007,805	-	810	1,008,615
Economic and physical development	388,611	-	-	388,611
Community activities and projects	836,258	-	-	836,258
Parks and recreation	74,138	-	349,675	423,813
Debt service				
Principal retirement	632,155	-	-	632,155
Interest and fiscal charges	101,228	-	-	101,228
Total expenditures	9,519,158	1,325,271	365,436	11,209,865
Revenues over (under) expenditures	(1,220,417)	(1,325,142)	(70,173)	(2,615,732)
Other financing sources (uses)				
Transfer to General Fund	-	(133,124)	-	(133,124)
Transfer to General Capital Projects Fund	(25,500)	-	-	(25,500)
Transfer to Riverwalk Phase II Fund	(1,858)	-	-	(1,858)
Transfer from General Fund	-	-	27,358	27,358
Transfer from General Capital Projects Fund	133,124	-	-	133,124
Contribution from property owners	-	1,325,271	-	1,325,271
Installment purchase obligations issued	1,214,368	-	-	1,214,368
Total other financing sources	1,320,134	1,192,147	27,358	2,539,639
Net change in fund balances	99,717	(132,995)	(42,815)	(76,093)
Fund balances, beginning	6,117,466	597,144	360,495	7,075,105
Fund balances, ending	<u>\$ 6,217,183</u>	<u>\$ 464,149</u>	<u>\$ 317,680</u>	<u>\$ 6,999,012</u>

The accompanying notes are an integral part of this statement.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

Exhibit 4
Page 2 of 2

**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 \$ (76,093)

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 (\$2,619,910) exceeded depreciation (\$719,996) in the current period. 1,899,914

Contributions to the pension plan in the current fiscal year are not included in the statement of activities 226,808

Governmental funds report prepayments of future period obligations as expenditures. However, in the statement of activities, these costs are recognized when incurred. 47,110

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.
Change in deferred revenues related to property taxes. (2,283)
Change in deferred revenues related to grants receivable. (201,588)

The repayment of the principal of long-term debt (\$632,155) consumes the current financial resources of governmental funds. This transaction has no effect on net position. 632,155

The issuance of the principal of long-term debt (\$1,214,368) provides current financial resources to governmental funds. This transaction has no effect on net position. (1,214,368)

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 and prepaid interest on general long-term debt (212)
Compensated absences (54,296)
Net pension obligation (30,550)
Pension expense (22,615)
Net OPEB obligation (37,475)

Changes in net position of governmental activities \$ 1,166,507

The accompanying notes are an integral part of this statement.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2015

Exhibit 5

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
General revenues				
Ad valorem taxes	\$ 5,227,550	\$ 5,252,700	\$ 5,437,266	\$ 184,566
Other taxes and licenses	1,157,500	1,124,400	1,263,425	139,025
Unrestricted intergovernmental revenues	355,000	723,001	998,629	275,628
Restricted intergovernmental revenues	180,150	180,150	347,469	167,319
Investment earnings	100	100	1,048	948
Other general revenues	38,000	58,610	56,727	(1,883)
Total general revenues	6,958,300	7,338,961	8,104,564	765,603
Functionally related revenues				
Use and rental fees	120,000	171,306	194,177	22,871
Total revenues	7,078,300	7,510,267	8,298,741	788,474
Expenditures				
General government	1,635,901	1,681,083	1,530,797	150,286
Public safety	3,983,877	4,107,828	3,989,596	118,232
Transportation	992,151	1,267,487	1,194,204	73,283
Environmental protection	1,144,007	1,148,007	1,151,765	(3,758)
Economic and physical development	4,500	407,000	388,611	18,389
Community activities and projects	468,967	1,057,985	915,918	142,067
Parks and recreation	415,716	415,716	348,267	67,449
Contingency	100,000	547	-	547
Total expenditures	8,745,119	10,085,653	9,519,158	566,495
Revenues over (under) expenditures	(1,666,819)	(2,575,386)	(1,220,417)	1,354,969
Other financing sources (uses)				
Transfer to General Capital Projects Fund	-	(25,500)	(25,500)	-
Transfer to Riverwalk Phase II Fund	-	(1,858)	(1,858)	-
Transfer from General Capital Projects Fund	-	7,070	7,070	-
Transfer from General Capital Reserve Fund	126,054	126,054	126,054	-
Installment purchase obligations issued	757,770	1,214,368	1,214,368	-
Total other financing sources	883,824	1,320,134	1,320,134	-
Appropriated fund balance	782,995	1,255,252	-	(1,255,252)
Net change in fund balance	\$ -	\$ -	99,717	\$ 99,717
Fund balance, beginning			6,117,466	
Fund balance, ending			<u>\$ 6,217,183</u>	

The accompanying notes are an integral part of this statement.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2015

Exhibit 6

	<u>Proprietary Fund Type Enterprise</u>
ASSETS	
Current assets:	
Cash and investments	\$ 6,587,188
Accounts receivable, net	1,111,431
Prepaid expenses	3,812
Restricted assets:	
Cash and investments	<u>3,193,417</u>
Total current assets	<u>10,895,848</u>
Noncurrent assets:	
Net pension asset	<u>174,356</u>
Capital assets:	
Land and construction-in-progress	8,474,192
Other capital assets, net of depreciation	<u>43,383,093</u>
Total capital assets	<u>51,857,285</u>
Total noncurrent assets	<u>52,031,641</u>
Total assets	<u>62,927,489</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	138,937
Deferred loss on defeasance of debt	<u>39,130</u>
	<u>178,067</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	926,658
Payable from restricted assets - customer deposits	414,608
Accrued interest payable	84,455
Current portion of long-term liabilities	<u>1,875,926</u>
Total current liabilities	3,301,647
Long-term liabilities:	
Due in more than one year	<u>20,089,420</u>
Total liabilities	<u>23,391,067</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	<u>424,947</u>
NET POSITION	
Net investment in capital assets	30,507,881
Restricted for:	
Water and sewer projects	2,591,600
Unrestricted	<u>6,190,061</u>
Total net position	<u>\$ 39,289,542</u>

The accompanying notes are an integral part of this statement.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUND
Year Ended June 30, 2015

Exhibit 7

	Proprietary Fund Type Enterprise
OPERATING REVENUES	
Charges for services	\$ 7,859,823
Other operating revenues	1,079,889
TOTAL OPERATING REVENUES	8,939,712
OPERATING EXPENSES	
Personnel services	2,449,953
Depreciation	1,466,442
Other current charges	2,808,784
Loss on disposal of capital assets	163
TOTAL OPERATING EXPENSES	6,725,342
OPERATING INCOME	2,214,370
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	745
Interest and fees	(658,222)
TOTAL NONOPERATING EXPENSES	(657,477)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,556,893
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital contribution from developer	1,484,316
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	1,484,316
CHANGE IN NET POSITION	3,041,209
NET POSITION, BEGINNING OF YEAR, PREVIOUSLY REPORTED	36,477,567
RESTATEMENT	(229,234)
NET POSITION, BEGINNING OF YEAR	36,248,333
NET POSITION, END OF YEAR	\$ 39,289,542

The accompanying notes are an integral part of this statement.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year Ended June 30, 2015

Exhibit 8
Page 1 of 2

	<u>Proprietary Fund-Type Enterprise</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 8,984,242
Cash paid for goods and services	(2,835,101)
Cash paid to or on behalf of employees for services	<u>(2,483,311)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,665,830</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,724,927)
Proceeds from sale of capital assets	770
Proceeds from issuance of long-term debt	928,301
Principal paid on bonds, notes and installment purchases	(1,935,942)
Interest paid on bonds and installment purchases	<u>(580,476)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,312,274)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>745</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>745</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	354,301
CASH AND CASH EQUIVALENTS, BEGINNING	<u>9,426,304</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 9,780,605</u></u>
CASH AND CASH EQUIVALENTS	
Unrestricted	\$ 6,587,188
Restricted	<u>3,193,417</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 9,780,605</u></u>

The accompanying notes are an integral part of this statement.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year Ended June 30, 2015

Exhibit 8
Page 2 of 2

	<u>Proprietary Fund-Type Enterprise</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 2,214,370
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,466,442
Pension expense	(108,788)
Loss on disposal of capital assets	163
Changes in assets and liabilities:	
Decrease in accounts receivable	24,445
Increase in prepaid expense	533
Increase in accounts payable and accrued liabilities	(9,794)
Increase in deposits	20,085
Increase in OPEB liability	22,485
Increase in deferred outflows of resources for pensions	(8,792)
Increase in compensated absences payable	44,681
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 3,665,830</u></u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Capital asset additions included in accounts payable and accrued liabilities	<u><u>\$ 663,226</u></u>
Capital contribution from developer	<u><u>\$ 1,484,316</u></u>

The accompanying notes are an integral part of this statement.

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TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Hillsborough Tourism Development Authority (the "Authority")

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

Hillsborough Tourism Board ("the Board")

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

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

The Town reports the following nonmajor governmental funds:

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

Town Barn Improvements Capital Project Fund - The will account for various renovations and upgrades to the Town Barn, including certain data processing equipment.

Riverwalk Phase II Capital Project Fund - The project will connect Gold Park/Riverwalk Phase I to downtown. The connection will serve as a highly desirable recreation amenity, pedestrian route and economic development investment by adding an additional attraction to downtown that should draw more tourists.

Riverwalk Phase III Capital Project Fund - Phase III of Riverwalk will extend Riverwalk east toward lands owned by Classical American Home Preservation Trust to make its outside connections to the trails at the Historic Occoneechee Speedway. This trail portion will have a natural, unpaved surface to protect sensitive lands and denote a transition from an urban greenway to less formal trails operated by the trust for the public's use.

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.

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.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

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 and the Water and Sewer 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 Phase II Capital Project Fund, Riverwalk Phase III Capital Project Fund, Riverwalk CMAQ Capital Project Fund, General Capital Projects Fund, Water and Sewer Capital Projects Fund, and the Water and Sewer Capital Reserve Fund. The 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.

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity (Continued)

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, Riverwalk Phase II Fund, and Riverwalk Phase III 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	\$ 99,406
Customer deposits	102,265
Unspent debt proceeds	72,642
General Capital Reserve Fund	
Developer donations - future capital projects	<u>464,149</u>
Total Governmental Activities	<u>738,462</u>
Business-Type Activities	
Water and Sewer Fund	
Unspent debt proceeds	187,209
Customer deposits	414,608
Developer donations - perpetual maintenance	441,138
Developer donations - water and sewer needs	<u>2,150,462</u>
Total Business-Type Activities	<u>3,193,417</u>
Total Restricted Cash	<u>\$ 3,931,879</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity (Continued)

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, 2015. 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:

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity (Continued)

7. Capital Assets (Continued)

Assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at their estimated fair value at time of donation. 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>Useful Life</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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town's contributions made to the pension plan in the 2015 fiscal year, certain pension deferrals, and the deferred loss on defeasance of debt meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category: taxes receivable, grants receivable and deferrals of pension expense that result from implementation of GASB Statement 68. In addition, the Town has unearned revenue items that meet the criterion for this category.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity (Continued)

9. Long-Term Obligations

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

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

10. Compensated Absences

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

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity (Continued)

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.

The governmental fund types classify fund balances as follows:

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

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

Restricted Fund Balance - This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

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

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

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity (Continued)

11. Net Position/Fund Balances (Continued)

Fund Balances (Continued)

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 Subsequent Year's Expenditures - Portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

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

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity (Continued)

11. Net Position/Fund Balances (Continued)

Fund Balances (Continued)

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 asset, 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.

Note 2. Reconciliation of GAAP and Budgetary Basis Expenditures

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

	Exhibit 4	Increase (Decrease)	Exhibit 5
General government	\$ 1,439,585	\$ 91,212	\$ 1,530,797
Public safety	3,845,174	144,422	3,989,596
Environmental protection	1,007,805	143,960	1,151,765
Community activities and projects	836,258	79,660	915,918
Parks and recreation	74,138	274,129	348,267
Debt service			
Principal retirement	632,155	(632,155) ⁽¹⁾	-
Interest and fiscal charges	101,228	(101,228) ⁽¹⁾	-

⁽¹⁾ *Reclassification of debt service payments.*

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 3. Stewardship, Compliance and Accountability

A. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2015, expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for environmental protection by \$3,758. The over-expenditure of environmental protection occurred because the Town did not budget for the payment of pass through grant funds to Orange County for the purchase of recycling carts. Management and the board will more closely review the budget to actual reports to ensure compliance in future years.

Note 4. Detail Notes on All Funds

A. Assets

1. Deposits

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

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

A. Assets (Continued)

1. Deposits (Continued)

At June 30, 2015, the Town's deposits had a carrying amount of \$6,480,811 and a bank balance of \$6,732,778. Of the bank balance, \$500,000 was covered by federal depository insurance and \$6,232,778 in interest-bearing deposits were covered under the Pooling Method. The Town had \$1,050 in petty cash on hand at June 30, 2015.

At June 30, 2015, the Authority's deposits had a carrying amount of \$168,778 and a bank balance of \$168,778. All of the bank balance was covered by federal depository insurance.

At June 30, 2015, the Board's deposits had a carrying amount of \$222,358 and a bank balance of \$222,358. All of the bank balance was covered by federal depository insurance.

2. Investments

At June 30, 2015, the Town had \$10,324,212 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk of its investments.

3. Due from Other Governments

Amounts due from other governments consist of the following:

	Governmental Activities
General Fund	
Sales and use tax distribution	\$ 341,561
Utilities franchise and telecommunications tax	160,381
Other government agencies	67,632
Sales tax refunds	130,214
	699,788
Riverwalk CMAQ Capital Project Fund	
CMAQ grant funds	45,132
	\$ 744,920

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

A. Assets (Continued)

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, 2015 is net of the following allowances for doubtful accounts, which are based on historical percentages of receivables not expected to be collected.

General Fund	
Taxes receivable	<u>\$ 69,990</u>
Enterprise Fund	<u>\$ 245,000</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets

Governmental capital asset activity for the year ended June 30, 2015 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	\$ 2,672,428	\$ 615,368	\$ -	\$ 235,211	\$ 3,523,007
Construction-in-progress	<u>2,179,190</u>	<u>618,147</u>	<u>-</u>	<u>(2,472,322)</u>	<u>325,015</u>
Total capital assets not being depreciated	<u>4,851,618</u>	<u>\$ 1,233,515</u>	<u>\$ -</u>	<u>\$ (2,237,111)</u>	<u>3,848,022</u>
Capital assets being depreciated:					
Buildings and improvements	4,160,980	\$ -	\$ -	\$ 2,237,111	6,398,091
Infrastructure	6,259,657	757,221	-	-	7,016,877
Equipment	530,609	60,383	-	-	590,992
Vehicles	<u>2,861,905</u>	<u>568,791</u>	<u>(34,661)</u>	<u>-</u>	<u>3,396,036</u>
Total capital assets being depreciated	<u>13,813,151</u>	<u>\$ 1,386,395</u>	<u>\$ (34,661)</u>	<u>\$ 2,237,111</u>	<u>17,401,996</u>
Less accumulated depreciation for:					
Buildings and improvements	1,345,138	\$ 181,557	\$ -	\$ -	1,526,695
Infrastructure	256,495	160,608	-	-	417,103
Equipment	445,811	20,161	-	-	465,972
Vehicles	<u>2,112,681</u>	<u>357,670</u>	<u>(34,661)</u>	<u>-</u>	<u>2,435,689</u>
Total accumulated depreciation	<u>4,160,125</u>	<u>\$ 719,996</u>	<u>\$ (34,661)</u>	<u>\$ -</u>	<u>4,845,460</u>
Total capital assets being depreciated, net	<u>9,653,026</u>				<u>12,556,536</u>
Governmental activity capital assets, net	<u>\$ 14,504,644</u>				<u>\$ 16,404,558</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets (Continued)

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

General government	\$ 224,303
Public safety	251,675
Transportation	130,468
Environmental protection	<u>113,550</u>
	<u>\$ 719,996</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets (Continued)

Business-type capital asset activity for the year ended June 30, 2015 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 depreciated:					
Land	\$ 6,005,443	\$ -	\$ -	\$ -	\$ 6,005,443
Construction-in-progress	<u>19,796,803</u>	<u>2,115,763</u>	<u>-</u>	<u>(19,443,817)</u>	<u>2,468,749</u>
Total capital assets not being depreciated	<u>25,802,246</u>	<u>\$ 2,115,763</u>	<u>\$ -</u>	<u>\$ (19,443,817)</u>	<u>8,474,192</u>
Capital assets being depreciated:					
Buildings and improvements	8,454,240	\$ -	\$ -	\$ 19,061,577	27,515,817
Plant and distribution systems	28,068,010	1,484,316	(22,403)	298,317	29,828,240
Infrastructure	533,316	19,665	-	-	552,981
Equipment	1,322,631	172,660	(112,569)	83,923	1,466,645
Vehicles	<u>642,932</u>	<u>80,063</u>	<u>(20,968)</u>	<u>-</u>	<u>702,027</u>
Total capital assets being depreciated	<u>39,021,129</u>	<u>\$ 1,756,704</u>	<u>\$ (155,940)</u>	<u>\$ 19,443,817</u>	<u>60,065,710</u>
Less accumulated depreciation for:					
Buildings and improvements	6,375,588	\$ 731,831	\$ -	\$ -	7,107,419
Plant and distribution systems	7,343,173	589,906	(22,403)	-	7,910,676
Infrastructure	40,640	13,339	-	-	53,979
Equipment	1,064,995	83,024	(111,637)	-	1,036,382
Vehicles	<u>546,788</u>	<u>48,342</u>	<u>(20,969)</u>	<u>-</u>	<u>574,161</u>
Total accumulated depreciation	<u>15,371,184</u>	<u>\$ 1,466,442</u>	<u>\$ (155,009)</u>	<u>\$ -</u>	<u>16,682,617</u>
Total capital assets being depreciated, net	<u>23,649,945</u>				<u>43,383,093</u>
Business-type activity capital assets, net	<u>\$ 49,452,191</u>				<u>\$ 51,857,285</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets (Continued)

Construction Commitments

The Town has active construction projects as of June 30, 2015 with the following remaining commitments:

Project	Spent-to-Date	Remaining Commitment
Riverwalk CMAQ-Sidewalk	\$ 56,545	\$ 44,247
West Fork Eno Reservoir	531,124	250,147
Waterstone Water Tank	1,553,225	155,775
Bank of America parking lot restoration	129,828	2,520
Total	\$ 2,270,722	\$ 452,689

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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, 2015, was 7.07% 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 \$357,402 for the year ended June 30, 2015.

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.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

At June 30, 2015, the Town reported an asset of \$477,164 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset 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, 2014, the Town's proportion was 0.0809%, which was an increase of 0.0012% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$35,635. At June 30, 2015, 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	\$ -	\$ 52,138
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,110,826
Changes in proportion and differences between Town contributions and proportionate share of contributions	22,822	-
Town contributions subsequent to the measurement date	<u>357,402</u>	<u>-</u>
Total	<u>\$ 380,224</u>	<u>\$ 1,162,964</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$357,402 of the amount reported as deferred outflows of resources related to Town contributions subsequent to the measurement date that will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	\$ (285,055)
2017	(285,055)
2018	(285,055)
2019	(284,977)
2020	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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, 2014 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	36.0%	2.5%
Global equity	40.5%	6.1%
Real estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation protection	<u>4.5%</u>	3.7%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 1,619,700	\$ (477,164)	\$ (2,242,655)

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.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

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. The Separation Allowance is equal to 0.85% 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. A stand-alone financial statement has not been issued for this plan.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	29
Total	30

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 following criteria which are outlined in GASB Statements 67 and 68:

- Contributions to the pension plan and earnings of those contributions are irrevocable
- Pension plan assets are dedicated to providing benefits to plan members
- Pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers' Special Separation Allowance (Continued)

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.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 5.0% investment rate of return and (b) projected salary increases ranging from 4.25% - 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment benefit increases.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 60,907
Interest on net pension asset	(984)
Adjustment to annual required contribution	<u>1,662</u>
Annual pension cost	61,585
Contributions made	<u>31,035</u>
Increase in net pension liability	30,550
Net pension obligation (asset), beginning of year	<u>(19,673)</u>
Net pension obligation (asset), end of year	<u><u>\$ 10,877</u></u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers' Special Separation Allowance (Continued)

Three-Year Trend Information:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
6/30/2013	\$ 52,458	91.75%	\$ (23,548)
6/30/2014	53,533	92.76%	(19,673)
6/30/2015	61,585	50.39%	10,877

Funded Status and Funding Process: As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability ("UALL") were \$428,191. The covered payroll (annual payroll of active employees covered by the plan) was \$1,561,351, and the ratio of the UAAL to the covered payroll was 27.42%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

c. Supplemental Retirement Income Plan (Continued)

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, 2015 were \$366,421, which consisted of \$244,064 from the Town and \$122,357 from employees.

2. Other Postemployment Benefit Obligations

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Other Postemployment Benefit Obligations (Continued)

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 December 31, 2014, the date of the latest actuarial valuation:

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

Funding Policy. The Town pays the cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Board of Commissioners. The Town's members pay up to \$1,208 per month for full family coverage. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Other Postemployment Benefit Obligations (Continued)

The current annual required contribution of the employer (“ARC”) rate is 2.64% of annual covered payroll. For the current year, the Town contributed \$65,324 or 1.38% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town’s required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 0.57% and 0.81% of covered payroll, respectively. The Town’s contributions totaled \$65,324 in fiscal year 2015. There were no contributions made by employees, except for dependent coverage in the amount of \$66,283. The Town’s obligation to contribute to the plan is established and may be amended by the Board of Commissioners.

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

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

Annual required contribution	\$ 124,664
Interest on net OPEB obligation	13,887
Adjustment to annual required contribution	<u>(13,267)</u>
Annual OPEB cost	125,284
Contributions made	<u>65,324</u>
Increase in net OPEB obligation	59,960
Net OPEB obligation, beginning of year	<u>347,187</u>
Net OPEB obligation, end of year	<u><u>\$ 407,147</u></u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Other Postemployment Benefit Obligations (Continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2014, and 2013 were as follows:

<u>For the Year Ended June</u>	<u>Annual OPEB Cost (APC)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 117,508	48.3%	\$ 288,479
2014	117,508	50.0%	347,187
2015	125,284	52.1%	407,147

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

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Other Postemployment Benefit Obligations (Continued)

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

3. Other Employment Benefit

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

For the fiscal year ended June 30, 2015, the Town made contributions to the State for death benefits of \$0. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Other Employment Benefit (Continued)

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

Number of Years Contributing	Year Relief	FY Contributions Resume
Less than 10	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Town of Hillsborough will have a three-year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2015 were as follows:

	Governmental Activities	Business-Type Activities	Total
Payable to vendors and others	\$ 392,113	\$ 841,412	\$ 1,233,525
Accrued payroll and related liabilities	256,299	85,246	341,545
Total accounts payable and accrued liabilities	\$ 648,412	\$ 926,658	\$ 1,575,070

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Deferred Outflows and Inflows of Resources

The Town has deferred outflows of resources, which are comprised of \$357,402 of current year LGERS pension contributions, \$22,822 of pension deferrals and \$39,130 of deferred loss on defeasance of debt.

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

	Unavailable Revenue	Unearned Revenue
Taxes receivable	\$ 159,544	\$ -
Prepaid privilege license	-	435
Grant receivable	33,401	-
Other prepaid receipts	-	26,998
	\$ 192,945	\$ 27,433
Pension deferrals	\$ 1,162,964	

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; workers' compensation coverage up to statutory limits; and employee health coverage with lifetime limit. 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 health pool is reinsured for annual employee health claims in excess of \$350,000. 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.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

6. Risk Management (Continued)

The Town carries commercial insurance for all other risks of loss, including property (\$47,961,142); general liability (\$3 million per occurrence); law enforcement liability (\$2 million per occurrence); public employees scheduled bond (\$60,000 - includes \$50,000 for the finance director and \$10,000 for the deputy tax collector), public employees blanket bond/crime (\$10,000); computer equipment (\$290,000); municipal equipment (\$556,174); fine arts (\$550,000); animal mortality (\$32,800); and public officials' liability (\$1 million per occurrence). There have been no significant reductions in insurance coverage in the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

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

7. Claims and Contingent Liabilities

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

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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. \$ 653,868

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%. 354,617

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%. 693,158

Note payable to SunTrust, executed August 2010, in the amount of \$107,000 for the purchase of a brush truck. The note is payable in five annual payments of \$23,007 with interest payable at 2.5%, and is secured by the truck. 22,437

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

a. Installment Purchases (Continued)

Governmental Activities (Continued):

Note payable to BB&T, executed May 2012, in the amount of \$227,000 for the purchase of a garbage truck. The note is payable in ten semi-annual payments of \$23,634 with interest payable at 1.48%, and is secured by the truck. \$ 92,979

Note payable to SunTrust, executed November 2011, in the amount of \$812,021 for the purchase of a fire truck. The note is payable in 14 semi-annual payments of \$63,027 with interest payable at 2.185%, and is secured by the truck. 422,521

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. 1,232,500

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. 594,856

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

a. Installment Purchases (Continued)

Governmental Activities (Continued):

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. \$ 157,723

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. 382,140

4,606,799

Less current portion 626,371

\$ 3,980,428

The future minimum payments on the notes payable as of June 30, 2015 are as follows:

<u>Fiscal Year</u> <u>Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 626,371	\$ 97,172	\$ 723,543
2017	666,545	87,742	754,287
2018	624,190	73,719	697,909
2019	628,669	60,127	688,796
2020	444,235	47,143	491,378
2021 - 2025	1,432,178	103,220	1,535,398
2026 - 2030	<u>184,611</u>	<u>13,292</u>	<u>197,903</u>
	<u>\$ 4,606,799</u>	<u>\$ 482,415</u>	<u>\$ 5,089,214</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

a. Installment Purchases (Continued)

Business-Type Activities:

Enterprise Fund - Water/Sewer Fund

Note payable to SunTrust, executed August 2010, in the amount of \$450,000 for a sewer main rehabilitation project. The note is payable in ten semi-annual payments of \$47,724 with interest payable at 2.235%, and is secured by the property. \$ 47,196

Note payable to BB&T, executed May 2009, in the amount of \$5,525,000 for the advance refunding of debt of the 1998 Water serial bonds and the Cedar Grove Reservoir installment debt. The note was payable in 20 semi-annual payments of varying amounts with interest payable at 3.69%. The note was modified on July 15, 2013. The modifications separated the debt into two tranches. The first tranche in the amount of \$1,939,000 has varying annual principal payments through October 2017 with interest at 1.66%. The second tranche in the amount of \$1,469,000 has varying annual principal payments through October 2019 with interest at 1.88%. The note is secured by improvements (a). 2,187,000

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

a. Installment Purchases (Continued)

Business-Type Activities (Continued):

Enterprise Fund - Water/Sewer Fund (Continued)

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.

	<u>\$ 735,892</u>
	2,970,088
Less current portion	<u>768,323</u>
	<u><u>\$ 2,201,765</u></u>

The long-term debt requirements to maturity for the Enterprise Fund are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 768,323	\$ 49,925	\$ 818,248
2017	723,127	36,327	759,454
2018	599,127	24,253	623,380
2019	330,127	15,424	345,551
2020	339,127	8,734	347,861
2021 - 2022	<u>210,257</u>	<u>5,940</u>	<u>216,197</u>
	<u><u>\$ 2,970,088</u></u>	<u><u>\$ 140,603</u></u>	<u><u>\$ 3,110,691</u></u>

a) *The provisions of this loan agreement contain certain financial covenants related to the maintenance of fund balance. At June 30, 2015, the Town was in compliance with such covenants.*

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

b. General Obligation Indebtedness

The Town's legal debt margin at June 30, 2015 was \$58,383,907.

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, 2015 was \$838,446.

Annual debt service requirements to maturity for this Revolving Loan Payable are as follows:

Fiscal Year Ending June 30,	Business-Type Activities		
	Principal	Interest	Total
2016	\$ 76,222	\$ 22,302	\$ 98,524
2017	76,222	20,276	96,498
2018	76,222	18,248	94,470
2019	76,222	16,220	92,442
2020	76,222	14,192	90,414
2021 - 2025	381,114	40,552	421,666
2026	<u>76,222</u>	<u>2,028</u>	<u>78,250</u>
	<u>\$ 838,446</u>	<u>\$ 133,818</u>	<u>\$ 972,264</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 principle payments of \$890,500 plus interest of 2.455% through fiscal year ending 2034. The total amount outstanding at June 30, 2015 was \$16,919,507.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

c. Revolving Loans Payable

Annual debt service requirements to maturity for this Revolving Loan Payable are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 890,500	\$ 415,374	\$ 1,305,874
2017	890,500	393,512	1,284,012
2018	890,500	371,650	1,262,150
2019	890,500	349,788	1,240,288
2020	890,500	327,926	1,218,426
2021 - 2025	4,452,500	1,311,708	5,764,208
2026 - 2030	4,452,500	765,160	5,217,660
2031 - 2034	<u>3,562,007</u>	<u>218,620</u>	<u>3,780,627</u>
	<u>\$ 16,919,507</u>	<u>\$ 4,153,738</u>	<u>\$ 21,073,245</u>

On October 6, 2014, the Town was approved for a maximum loan amount of \$2,029,398 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan proceeds are being used for the Waterstone Elevated Water Tank Project. Project-to-date drawdowns were \$847,702 at June 30, 2015. The loan is repayable in equal principle payments, with no interest, through fiscal year ending 2035. The first payment shall be due not earlier than six months nor later than twelve months after the estimated completion date of the project of October 10, 2015. As the amount and timing of the first principle payment is not known at June 30, 2015, the entire loan balance is included in long-term liabilities.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

d. Changes in Long-Term Debt

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Current Portion of Long-Term Liabilities
Governmental activities:					
Installment purchases	\$ 4,024,586	\$ 1,214,368	\$ 632,155	\$ 4,606,799	\$ 626,371
Compensated absences	218,835	202,975	148,679	273,131	148,679
Other postemployment benefits	202,872	78,303	40,828	240,347	-
Net pension liability (LGERS)	609,640	-	609,640	-	-
Net pension obligation (LEO) (asset)	(19,673)	61,585	31,035	10,877	-
Reclassification of LEO net pension asset	19,673	-	19,673	-	-
	<u>\$ 5,055,933</u>	<u>\$ 1,557,231</u>	<u>\$ 1,482,010</u>	<u>\$ 5,131,154</u>	<u>\$ 775,050</u>
Business-type activities:					
Installment purchases	\$ 3,939,307	\$ -	\$ 969,219	\$ 2,970,088	\$ 768,323
Revolving loans payable	18,644,077	928,301	966,723	18,605,655	966,722
Other postemployment benefits	144,315	46,982	24,497	166,800	-
Net pension liability (LGERS)	351,051	-	351,051	-	-
Compensated absences	178,122	185,562	140,881	222,803	140,881
	<u>\$ 23,256,872</u>	<u>\$ 1,160,845</u>	<u>\$ 2,452,371</u>	<u>\$ 21,965,346</u>	<u>\$ 1,875,926</u>

Compensated absences for governmental activities have typically been liquidated in the General Fund.

e. Special Assessment Debt

In October 2013, the Town issued \$4,630,000 of Special Assessment Revenue Bonds to finance the construction of public infrastructure in the Waterstone District. The Town is in no manner obligated to repay this special assessment debt and functions only as an agent for the property owners by remitting collections of special assessments to the Trustee. At June 30, 2015, \$3,795,000 of special assessment debt remained outstanding.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

C. Interfund Balances and Activity

Transfers to/from other funds:

Transfers to/from other funds at June 30, 2015 consist of the following:

From the General Fund to the Riverwalk Phase II Fund for partial funding of construction costs	\$ 1,858
From the General Fund to the General Capital Projects Fund for partial funding of construction costs	25,500
From the General Capital Projects Fund to the General Fund to transfer the remaining fund balance and close out the fund	7,070
From the General Capital Reserve Fund to the General Fund for debt service payments	<u>126,054</u>
	<u>\$ 160,482</u>

D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 16,404,558	\$ 51,857,285
Less: related debt		
Installment purchases	(4,606,799)	(2,970,088)
Revolving loans payable	-	(18,605,655)
Add: deferred loss on defeasance of debt	-	39,130
Add: unexpended debt proceeds	<u>72,642</u>	<u>187,209</u>
Net investment in capital assets	<u>\$ 11,870,401</u>	<u>\$ 30,507,881</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Detail Notes on All Funds (Continued)

E. Fund Balance

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

Total fund balance General Fund		\$ 6,217,183
Less:		
Prepaid items		68,242
Stabilization by state statute		949,706
Streets - Powell Bill		99,406
Sidewalks		12,428
Appropriated fund balance in subsequent fiscal year's budget		1,282,029
Working capital/fund balance policy		<u>3,805,372</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		\$ 236,373
Riverwalk Phase II Capital Project Fund		5,144
Riverwalk CMAQ Capital Project Fund		44,377
General Capital Projects Fund		5,590

Note 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 \$1,056 to the Council during the fiscal year ended June 30, 2015.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 6. Significant Effects of Subsequent Events

In July 2014, the Town entered into a lease/purchase agreement with Singer Holdings, LLC for certain property located at 101 East Corbin Street in Hillsborough. Under the terms of the agreement, the Town was to receive a credit upon closing for a portion of the rent paid under the agreement from July 2014 through the date of closing. In July 2015, the Town purchased the property under the agreement for a purchase price of \$1,047,000. Under the terms of the agreement, the Town received a credit of \$49,120 for a portion of the rent paid. The purchase resulted in a loan payable in the amount of \$871,850 to Singer Holdings, LLC. The loan is payable in thirty semi-annual payments of \$36,303, which includes interest at 3.0%, beginning in January 2016. The loan matures in July 2030. The note payable is secured by the property.

In August 2015, the Town entered into a note payable with BB&T 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, which includes interest at 1.57% and matures in August 2020. The note payable is secured by the related equipment.

Note 7. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, in fiscal year ending June 30, 2015. The implementation of the statement required the Town to record a beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, beginning net position for the governmental and business-type activities decreased by \$398,115 and \$229,234, respectively.

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REQUIRED SUPPLEMENTARY FINANCIAL DATA

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

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Funding Progress for the Other Postemployment Benefits.
- Schedule of Employer Contributions for the Other Postemployment Benefits.
- Notes to the Required Schedules for the Other Postemployment Benefits.
- Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System

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**TOWN OF HILLSBOROUGH, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

Exhibit A-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) ÷ (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) ÷ (c)
12/31/2005	\$ -	\$ 428,649	\$ 428,649	0.00%	\$ 1,104,377	38.81%
12/31/2006	-	429,075	429,075	0.00%	1,229,480	34.90%
12/31/2007	-	478,258	478,258	0.00%	1,275,715	37.49%
12/31/2008	-	484,358	484,358	0.00%	1,466,263	33.03%
12/31/2009	-	515,994	515,994	0.00%	1,373,891	37.56%
12/31/2010	-	460,998	460,998	0.00%	1,371,368	33.62%
12/31/2011	-	431,911	431,911	0.00%	1,358,876	31.78%
12/31/2012	-	417,455	417,455	0.00%	1,381,255	30.22%
12/31/2013	-	405,686	405,686	0.00%	1,397,887	29.02%
12/31/2014	-	428,191	428,191	0.00%	1,561,351	27.42%

TOWN OF HILLSBOROUGH, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Exhibit A-2

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2006	\$ 37,461	130.81%
2007	41,898	129.86%
2008	44,968	166.93%
2009	46,154	186.67%
2010	50,211	171.59%
2011	54,616	127.66%
2012	52,909	120.35%
2013	52,117	92.35%
2014	52,791	94.07%
2015	60,907	50.95%

NOTES TO THE REQUIRED SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	17 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	5.00%
Projected salary increases *	4.25% - 7.85%
* Includes inflation at:	3.00%
Cost of living adjustments	N/A

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

Exhibit B-1

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

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Exhibit B-2

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

NOTES TO THE REQUIRED SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	7.5% - 5.0%
Year of ultimate trend rate	2020
* Includes inflation at:	3.00%

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
 PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST TWO FISCAL YEARS***

Exhibit C-1

Local Government Employees' Retirement System

	<u>2015</u>	<u>2014</u>
Hillsborough's proportion of the net pension liability (asset) (%)	0.0809%	0.0797%
Hillsborough's proportion of the net pension liability (asset) (\$)	\$ (477,164)	\$ 960,691
Hillsborough's covered-employee payroll	\$ 4,672,868	\$ 4,428,097
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-10.21%	21.70%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

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

** *This percentage is the same for all participant employers in the LGERS plan.*

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS**

Exhibit C-2

Local Government Employees' Retirement System

	2015	2014
Contractually required contribution	\$ 357,402	\$ 333,343
Contributions in relation to the contractually required contribution	357,402	333,343
Contribution deficiency (excess)	\$ -	\$ -
Hillsborough's covered-employee payroll	\$ 4,861,624	\$ 4,672,868
Contributions as a percentage of covered-employee payroll	7.35%	7.13%

SUPPLEMENTARY INFORMATION

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**TOWN OF HILLSBOROUGH, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2015 with Comparative
Actual Amounts for Year Ended June 30, 2014**

Schedule 1
Page 1 of 4

	2015		Variance Positive (Negative)	2014
	Budget	Actual		Actual
Revenues				
General revenues				
Ad valorem taxes				
Current	\$ 5,217,700	\$ 5,398,141	\$ 180,441	\$ 5,354,006
Prior	15,000	15,269	269	35,968
Penalties and interest	20,000	23,856	3,856	39,140
	<u>5,252,700</u>	<u>5,437,266</u>	<u>184,566</u>	<u>5,429,114</u>
Other taxes and licenses				
Local option sales tax	1,079,500	1,215,819	136,319	1,114,306
Gross receipts on short-term rental property	5,000	9,163	4,163	7,117
Privilege licenses	1,900	30,902	29,002	43,891
Motor vehicle license fees	35,000	3,477	(31,523)	31,420
Solid waste disposal	3,000	4,064	1,064	2,451
	<u>1,124,400</u>	<u>1,263,425</u>	<u>139,025</u>	<u>1,199,185</u>
Unrestricted intergovernmental revenues				
Franchise tax	330,000	567,970	237,970	399,167
Beer and wine tax	25,000	30,514	5,514	27,536
Food and beverage tax	300,001	327,428	27,427	315,932
Occupancy tax	68,000	72,717	4,717	66,555
	<u>723,001</u>	<u>998,629</u>	<u>275,628</u>	<u>809,190</u>
Restricted intergovernmental revenues				
Powell Bill	180,000	187,682	7,682	182,284
Local grants	-	-	-	129,998
Rollout cart grant	-	57,750	57,750	-
Other	150	102,037	101,887	73,890
	<u>180,150</u>	<u>347,469</u>	<u>167,319</u>	<u>386,172</u>
Investment earnings	100	1,048	948	1,854
Other general revenues	58,610	56,727	(1,883)	48,337
Total general revenues	<u>7,338,961</u>	<u>8,104,564</u>	<u>765,603</u>	<u>7,873,852</u>
Functionally related revenues				
Use and rental fees				
Zoning permits	81,306	98,201	16,895	41,196
Cable franchise	50,000	56,142	6,142	51,620
Time Warner Cable PEG fees	30,000	27,766	(2,234)	34,093
Fire inspection fees	10,000	12,068	2,068	13,893
Total functionally related revenues	<u>171,306</u>	<u>194,177</u>	<u>22,871</u>	<u>140,802</u>
Total revenues	<u>7,510,267</u>	<u>8,298,741</u>	<u>788,474</u>	<u>8,014,654</u>

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2015 with Comparative
Actual Amounts for Year Ended June 30, 2014**

Schedule 1
Page 2 of 4

	2015		Variance Positive (Negative)	2014
	Budget	Actual		Actual
Expenditures				
General government				
Governing body				
Personnel services	\$	\$ 40,738	\$	\$ 38,836
Other services and charges		164,900		166,903
Reimbursement from enterprise fund		(116,138)		(115,477)
	141,138	89,500	51,638	90,262
Ruffin-Roulhac				
Other services and charges		108,519		62,054
Reimbursement from enterprise fund		(40,125)		(24,606)
	23,541	68,394	(44,853)	37,448
Administration				
Personnel services		531,733		446,141
Other services and charges		360,293		347,948
Reimbursement from enterprise fund		(450,981)		(386,041)
	486,403	441,045	45,358	408,048
Finance				
Personnel services		355,708		366,490
Other services and charges		96,395		100,519
Capital outlay		49,841		-
Reimbursement from enterprise fund		(263,563)		(201,252)
	264,618	238,381	26,237	265,757
Planning				
Personnel services		326,817		288,807
Other services and charges		113,641		96,578
	460,901	440,458	20,443	385,385
Motor pool				
Personnel services		240,265		227,859
Other services and charges		168,138		169,135
Debt service payments		91,212		115,563
Reimbursement from enterprise fund		(246,596)		(229,799)
	304,482	253,019	51,463	282,758
Total general government	1,681,083	1,530,797	150,286	1,469,658
Public safety				
Police department				
Personnel services		2,157,933		2,067,837
Other services and charges		249,995		277,121
Capital outlay		234,270		84,818
Debt service payments		18,189		-
	2,825,799	2,660,387	165,412	2,429,776

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2015 with Comparative
Actual Amounts for Year Ended June 30, 2014**

Schedule 1
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	2015		Variance Positive (Negative)	2014
	Budget	Actual		Actual
Fire inspections/code enforcement				
Personnel services	\$	\$ 112,565	\$	\$ 108,374
Other services and charges		140,356		18,593
Capital outlay		-		7,845
Debt service payments		126,233		126,054
	<u>253,839</u>	<u>379,154</u>	<u>(125,315)</u>	<u>260,866</u>
Safety				
Personnel services		86,760		81,105
Other services and charges		154,364		148,020
Reimbursement from enterprise fund		(152,928)		(102,377)
	<u>159,733</u>	<u>88,196</u>	<u>71,537</u>	<u>126,748</u>
Fire protection				
Other services and charges		861,859		764,102
	<u>868,457</u>	<u>861,859</u>	<u>6,598</u>	<u>764,102</u>
Total public safety	<u>4,107,828</u>	<u>3,989,596</u>	<u>118,232</u>	<u>3,581,492</u>
Transportation				
Street department/Powell Bill				
Personnel services		215,199		196,344
Other services and charges		221,784		212,535
Capital outlay		757,221		442,623
	<u>1,267,487</u>	<u>1,194,204</u>	<u>73,283</u>	<u>851,502</u>
Total transportation	<u>1,267,487</u>	<u>1,194,204</u>	<u>73,283</u>	<u>851,502</u>
Environmental protection				
Sanitation department				
Personnel services		250,936		225,899
Other services and charges		178,737		340,847
Capital outlay		434,871		1,380
Debt service payments		143,960		99,902
	<u>977,806</u>	<u>1,008,504</u>	<u>(30,698)</u>	<u>668,028</u>
Cemetery				
Other services and charges		24,224		22,715
Capital outlay		-		69,597
	<u>30,750</u>	<u>24,224</u>	<u>6,526</u>	<u>92,312</u>
Stormwater				
Personnel services		90,693		85,945
Other services and charges		42,833		54,275
Capital outlay		-		20,762
Reimbursement from enterprise fund		(14,489)		(15,210)
	<u>139,451</u>	<u>119,037</u>	<u>20,414</u>	<u>145,772</u>
Total environmental protection	<u>1,148,007</u>	<u>1,151,765</u>	<u>(3,758)</u>	<u>906,112</u>

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2015 with Comparative
Actual Amounts for Year Ended June 30, 2014**

Schedule 1
Page 4 of 4

	2015		Variance Positive (Negative)	2014
	Budget	Actual		Actual
Economic and physical development				
Tourism				
Other services and charges	\$ 407,000	\$ 388,611	\$ 18,389	\$ 367,389
	<u>407,000</u>	<u>388,611</u>	<u>18,389</u>	<u>367,389</u>
Total economic and physical development	407,000	388,611	18,389	367,389
Community activities and projects				
Contributions		28,420		28,420
Other services and charges		43,588		90,831
Debt service payments		79,660		59,328
Capital outlay		764,250		-
	<u>1,057,985</u>	<u>915,918</u>	<u>142,067</u>	<u>178,579</u>
Total community activities and projects				
Parks and recreation				
Personnel services		5,582		-
Capital outlay		14,021		-
Other services and charges		54,535		55,850
Debt service payments		274,129		192,322
	<u>415,716</u>	<u>348,267</u>	<u>67,449</u>	<u>248,172</u>
Total parks and recreation				
Total expenditures	10,085,653	9,519,158	566,495	7,602,904
Revenues over (under) expenditures	(2,575,386)	(1,220,417)	1,354,969	411,750
Other financing sources (uses)				
Transfer to General Capital Projects Fund	(25,500)	(25,500)	-	-
Transfer to Riverwalk Phase II Fund	(1,858)	(1,858)	-	-
Transfer to Riverwalk Phase III Fund	-	-	-	(43,000)
Transfer from General Capital Projects Fund	7,070	7,070	-	-
Transfer from General Capital Reserve Fund	126,054	126,054	-	126,054
Installment purchase obligations issued	1,214,368	1,214,368	-	-
Proceeds of refunding installment purchases	-	-	-	1,277,143
Debt service - principal on refunding	-	-	-	(1,256,353)
	<u>1,320,134</u>	<u>1,320,134</u>	<u>-</u>	<u>103,844</u>
Total other financing sources				
Appropriated fund balance	1,255,252	-	(1,255,252)	-
Net change in fund balance	\$ -	99,717	\$ 99,717	515,594
Fund balance, beginning		6,117,466		5,601,872
Fund balance, ending		<u>\$ 6,217,183</u>		<u>\$ 6,117,466</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
GENERAL CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES AND EXPENDITURES
COMPARED WITH BUDGET
From Project Inception and for the Year Ended June 30, 2015

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	\$ 107	\$ 107	\$ -	\$ 107	\$ -
Total revenues	<u>107</u>	<u>107</u>	<u>-</u>	<u>107</u>	<u>-</u>
Expenditures					
Capital equipment	911,914	911,914	-	911,914	-
Fleet maintenance facility	1,117,257	1,117,257	-	1,117,257	-
Garbage truck	224,512	224,512	-	224,512	-
Municipal operations site	655,622	655,622	-	655,622	-
Construction	4,630,000	1,445,207	1,325,271	2,770,478	1,859,522
Total expenditures	<u>7,539,305</u>	<u>4,354,512</u>	<u>1,325,271</u>	<u>5,679,783</u>	<u>1,859,522</u>
Revenues under expenditures	<u>(7,539,198)</u>	<u>(4,354,405)</u>	<u>(1,325,271)</u>	<u>(5,679,676)</u>	<u>1,859,522</u>
Other financing sources (uses)					
Installment purchase obligations issued	2,838,621	2,838,621	-	2,838,621	-
Contribution from property owners	4,630,000	1,445,207	1,325,271	2,770,478	(1,859,522)
Transfer from General Fund	77,647	77,647	-	77,647	-
Transfer to General Fund	<u>(7,070)</u>	<u>-</u>	<u>(7,070)</u>	<u>(7,070)</u>	<u>-</u>
Total other financing sources	<u>7,539,198</u>	<u>4,361,475</u>	<u>1,318,201</u>	<u>5,679,676</u>	<u>(1,859,522)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 7,070</u>	<u>(7,070)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>7,070</u>		
Fund balance, ending			-		
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			129		
Transfers out - Capital Reserve Fund			(126,054)		
Fund balance, beginning (Capital Reserve Fund)			<u>590,074</u>		
Fund balance, ending (Consolidated General Capital Projects Fund)			<u>\$ 464,149</u>		

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
NONMAJOR GENERAL CAPITAL RESERVE FUND
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED WITH
BUDGET- GENERAL CAPITAL RESERVE FUND
From Project Inception and for the Year Ended June 30, 2015**

Schedule 3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
Revenues					
Capital contributions	\$ 1,105,000	\$ 1,105,000	\$ -	\$ 1,105,000	\$ -
Interest on investments	14,207	14,159	129	14,288	81
Total revenues	1,119,207	1,119,159	129	1,119,288	81
Expenditures	464,068	-	-	-	464,068
Revenues over expenditures	655,139	1,119,159	129	1,119,288	464,149
Other financing uses					
Transfer to General Fund	(252,108)	(126,054)	(126,054)	(252,108)	-
Transfer to Water Sewer Capital Reserve Fund	(403,031)	(403,031)	-	(403,031)	-
Total other financing uses	(655,139)	(529,085)	(126,054)	(655,139)	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 590,074</u>	(125,925)	<u>\$ 464,149</u>	<u>\$ 464,149</u>
Fund balance, beginning			590,074		
Fund balance, ending			<u>\$ 464,149</u>		

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015**

Schedule 4

ASSETS	Downtown Improvements Capital Projects Fund	Town Barn Improvements Capital Reserve Fund	Riverwalk Phase II Capital Project Fund	Riverwalk Phase III Capital Project Fund	Riverwalk CMAQ Capital Project Fund	Total Nonmajor Governmental Funds
Cash and investments	\$ 4,690	\$ 8,750	\$ 173,425	\$ 21,929	\$ 67,455	\$ 276,249
Due from other governments	-	-	-	-	45,132	45,132
Total assets	<u>\$ 4,690</u>	<u>\$ 8,750</u>	<u>\$ 173,425</u>	<u>\$ 21,929</u>	<u>\$ 112,587</u>	<u>\$ 321,381</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued liabilities	\$ -	\$ 3,701	\$ -	\$ -	\$ -	\$ 3,701
Total liabilities	-	3,701	-	-	-	3,701
FUND BALANCES						
Restricted for:						
Stabilization by state statute	-	-	-	-	45,132	45,132
Committed for:						
Capital projects	4,690	5,049	173,425	21,929	67,455	272,548
Total fund balances	4,690	5,049	173,425	21,929	112,587	317,680
Total liabilities and fund balances	<u>\$ 4,690</u>	<u>\$ 8,750</u>	<u>\$ 173,425</u>	<u>\$ 21,929</u>	<u>\$ 112,587</u>	<u>\$ 321,381</u>

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2015**

Schedule 5

	Downtown Improvements Capital Project Fund	Town Barn Improvements Capital Project Fund	Riverwalk Phase II Capital Project Fund	Riverwalk Phase III Capital Project Fund	Riverwalk CMAQ Capital Project Fund	Total Nonmajor Governmental Funds
Revenues						
Restricted intergovernmental revenues						
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ 45,132	\$ 45,132
State grants	-	-	240,131	-	-	240,131
Local grants	-	-	10,000	-	-	10,000
Total revenues	<u>-</u>	<u>-</u>	<u>250,131</u>	<u>-</u>	<u>45,132</u>	<u>295,263</u>
Expenditures						
Current						
General government	-	14,951	-	-	-	14,951
Economic and physical development	810	-	-	-	-	810
Parks and recreation	-	-	114,723	196,302	38,650	349,675
Total expenditures	<u>810</u>	<u>14,951</u>	<u>114,723</u>	<u>196,302</u>	<u>38,650</u>	<u>365,436</u>
Revenues over (under) expenditures	<u>(810)</u>	<u>(14,951)</u>	<u>135,408</u>	<u>(196,302)</u>	<u>6,482</u>	<u>(70,173)</u>
Other financing sources						
Transfer from General Fund	<u>5,500</u>	<u>20,000</u>	<u>1,858</u>	<u>-</u>	<u>-</u>	<u>27,358</u>
Total other financing sources	<u>5,500</u>	<u>20,000</u>	<u>1,858</u>	<u>-</u>	<u>-</u>	<u>27,358</u>
Net change in fund balances	4,690	5,049	137,266	(196,302)	6,482	(42,815)
Fund balances, beginning	<u>-</u>	<u>-</u>	<u>36,159</u>	<u>218,231</u>	<u>106,105</u>	<u>360,495</u>
Fund balances, ending	<u>\$ 4,690</u>	<u>\$ 5,049</u>	<u>\$ 173,425</u>	<u>\$ 21,929</u>	<u>\$ 112,587</u>	<u>\$ 317,680</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NONMAJOR CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED WITH
BUDGET- DOWNTOWN IMPROVEMENTS CAPITAL PROJECT FUND
From Project Inception and for the Year Ended June 30, 2015

Schedule 6

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
Expenditures					
Design	\$ 3,000	\$ -	\$ 810	\$ 810	\$ 2,190
Capital equipment	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Total expenditures	<u>5,500</u>	<u>-</u>	<u>810</u>	<u>810</u>	<u>4,690</u>
Other financing sources					
Transfer from General Fund	<u>5,500</u>	<u>-</u>	<u>5,500</u>	<u>5,500</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	4,690	<u>\$ 4,690</u>	<u>\$ 4,690</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ 4,690</u>		

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NONMAJOR CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED WITH
BUDGET- TOWN BARN IMPROVEMENTS CAPITAL PROJECT FUND
From Project Inception and for the Year Ended June 30, 2015

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>
Expenditures					
Design	\$ 35,000	\$ -	\$ 11,250	\$ 11,250	\$ 23,750
Capital equipment	120,000	-	-	-	120,000
Construction	235,000	-	3,701	3,701	231,299
Contingency	35,000	-	-	-	35,000
Total expenditures	<u>425,000</u>	<u>-</u>	<u>14,951</u>	<u>14,951</u>	<u>410,049</u>
Other financing sources					
Transfer from General Fund	20,000	-	20,000	20,000	-
Installment purchase obligations issued	405,000	-	-	-	(405,000)
	<u>425,000</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>(405,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	5,049	<u>\$ 5,049</u>	<u>\$ 5,049</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ 5,049</u>		

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NONMAJOR CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED WITH
BUDGET- RIVERWALK PHASE II CAPITAL PROJECT FUND
From Project Inception and for the Year Ended June 30, 2015

Schedule 8

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
Revenues					
Restricted intergovernmental revenues					
State grants					
PARTF grant	\$ 817,000	\$ 774,544	\$ 42,456	\$ 817,000	\$ -
NC trails grant	198,766	-	197,675	197,675	(1,091)
Other state grants	40,000	40,000	-	40,000	-
Local grants	20,000	10,000	10,000	20,000	-
Interest on investments	234	234	-	234	-
Total revenues	<u>1,076,000</u>	<u>824,778</u>	<u>250,131</u>	<u>1,074,909</u>	<u>(1,091)</u>
Expenditures					
Land acquisition	959,368	959,368	-	959,368	-
Legal and administrative	199,686	133,564	30,139	163,703	35,983
Design	346,595	342,339	810	343,149	3,446
Construction	1,528,715	1,382,195	83,774	1,465,969	62,746
Contingency	72,278	-	-	-	72,278
Total expenditures	<u>3,106,642</u>	<u>2,817,466</u>	<u>114,723</u>	<u>2,932,189</u>	<u>174,453</u>
Revenues over (under) expenditures	(2,030,642)	(1,992,688)	135,408	(1,857,280)	173,362
Other financing sources					
Installment purchase obligations issued	1,209,937	1,210,000	-	1,210,000	63
Transfer from General Fund	820,705	818,847	1,858	820,705	-
Total other financing sources	<u>2,030,642</u>	<u>2,028,847</u>	<u>1,858</u>	<u>2,030,705</u>	<u>63</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 36,159</u>	137,266	<u>\$ 173,425</u>	<u>\$ 173,425</u>
Fund balance, beginning			<u>36,159</u>		
Fund balance, ending			<u>\$ 173,425</u>		

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NONMAJOR CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED WITH
BUDGET- RIVERWALK PHASE III CAPITAL PROJECT FUND
From Project Inception and for the Year Ended June 30, 2015

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					
Interest on investments	\$ 47	\$ 47	\$ -	\$ 47	\$ -
Total revenues	<u>47</u>	<u>47</u>	<u>-</u>	<u>47</u>	<u>-</u>
Expenditures					
Land acquisition	232,381	232,381	-	232,381	-
Legal and administrative	3,000	2,830	-	2,830	170
Engineering	3,000	2,750	-	2,750	250
Design	58,000	44,036	13,814	57,850	150
Construction	225,000	21,200	182,488	203,688	21,312
Contingency	47	-	-	-	47
Total expenditures	<u>521,428</u>	<u>303,197</u>	<u>196,302</u>	<u>499,499</u>	<u>21,929</u>
Revenues under expenditures	(521,381)	(303,150)	(196,302)	(499,452)	21,929
Other financing sources					
Installment purchase obligations issued	240,000	240,000	-	240,000	-
Transfer from General Fund	281,381	281,381	-	281,381	-
Total other financing sources	521,381	521,381	-	521,381	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 218,231</u>	(196,302)	<u>\$ 21,929</u>	<u>\$ 21,929</u>
Fund balance, beginning			<u>218,231</u>		
Fund balance, ending			<u>\$ 21,929</u>		

TOWN OF HILLSBOROUGH, NORTH CAROLINA
NONMAJOR CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED WITH
BUDGET- RIVERWALK CMAQ CAPITAL PROJECT FUND
From Project Inception and for the Year Ended June 30, 2015

Schedule 10

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
Revenues					
Restricted intergovernmental revenues					
State grants	\$ 25,000	\$ -	\$ -	\$ -	\$ (25,000)
Federal grants	496,000	-	45,132	45,132	(450,868)
Capital contributions	5,000	-	-	-	(5,000)
Total revenues	526,000	-	45,132	45,132	(480,868)
Expenditures					
Design	108,300	17,895	38,650	56,545	(51,755)
Construction	541,700	-	-	-	(541,700)
Total expenditures	650,000	17,895	38,650	56,545	(593,455)
Revenues over (under) expenditures	(124,000)	(17,895)	6,482	(11,413)	112,587
Other financing sources					
Transfer from General Fund	124,000	124,000	-	124,000	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 106,105</u>	6,482	<u>\$ 112,587</u>	<u>\$ 112,587</u>
Fund balance, beginning			106,105		
Fund balance, ending			<u>\$ 112,587</u>		

TOWN OF HILLSBOROUGH, NORTH CAROLINA
ENTERPRISE FUND
SCHEDULE OF REVENUES COMPARED WITH
BUDGET (NON-GAAP) - WATER AND SEWER FUND
Year Ended June 30, 2015 with Comparative
Actual Amounts for Year Ended June 30, 2014

Schedule 11

	2015			2014
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues				
Operating revenues				
Water charges	\$ 3,835,000	\$ 3,812,455	\$ (22,545)	\$ 3,880,029
Sewer charges	3,712,690	4,047,368	334,678	3,619,154
Other receipts	<u>1,045,126</u>	<u>1,080,659</u>	<u>35,533</u>	<u>1,621,424</u>
	8,592,816	8,940,482	347,666	9,120,607
Nonoperating revenues				
Interest on investments	<u>250</u>	<u>356</u>	<u>106</u>	<u>2,379</u>
Total revenues	<u>\$ 8,593,066</u>	<u>\$ 8,940,838</u>	<u>\$ 347,772</u>	<u>\$ 9,122,986</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
ENTERPRISE FUND
SCHEDULE OF EXPENDITURES COMPARED WITH
BUDGET (NON-GAAP) - WATER AND SEWER FUND
Year Ended June 30, 2015 with Comparative
Actual Amounts for Year Ended June 30, 2014

	2015		Variance Positive (Negative)	2014
	Budget	Actual		Actual
Expenditures				
Engineering				
Personnel services	\$	\$ 396,052	\$	\$ 377,345
Other services and charges		1,342,244		1,134,402
Total engineering	1,780,263	1,738,296	41,967	1,511,747
Billing and collection				
Personnel services		344,945		330,383
Other services and charges		126,780		107,775
Repairs and maintenance		600		515
Capital outlay		27,462		-
Debt service payments		161,233		161,286
Total billing and collection	710,191	661,020	49,171	599,959
Water plant				
Personnel services		518,140		494,037
Other services and charges		314,246		274,343
Repairs and maintenance		49,032		44,878
Capital outlay		68,012		-
Debt service payments		116,613		118,949
Total water plant	1,162,210	1,066,043	96,167	932,207
Water distribution				
Personnel services		392,636		376,167
Other services and charges		208,346		234,251
Repairs and maintenance		20,583		18,548
Capital outlay		65,005		48,222
Debt service payments		24,708		25,183
Total water distribution	884,817	711,278	173,539	702,371
Wastewater collection				
Personnel services		392,169		375,722
Other services and charges		220,238		237,423
Repairs and maintenance		20,581		12,502
Capital outlay		115,878		24,579
Debt service payments		178,219		197,306
Total wastewater collection	1,083,010	927,085	155,925	847,532

TOWN OF HILLSBOROUGH, NORTH CAROLINA
ENTERPRISE FUND
SCHEDULE OF EXPENDITURES COMPARED WITH
BUDGET (NON-GAAP) - WATER AND SEWER FUND
Year Ended June 30, 2015 with Comparative
Actual Amounts for Year Ended June 30, 2014

Schedule 12
Page 2 of 3

	2015		Variance Positive (Negative)	2014
	Budget	Actual		Actual
Wastewater plant				
Personnel services	\$	\$ 456,425	\$	\$ 513,206
Other services and charges		391,042		451,868
Repairs and maintenance		30,882		20,115
Capital outlay		44,094		-
Debt service payments		1,378,647		-
Total wastewater plant	2,392,732	2,301,090	91,642	985,189
Reservoir				
Other services and charges		17,931		16,698
Repairs and maintenance		9,284		12,357
Debt service payments		656,998		678,604
Total reservoir	692,823	684,213	8,610	707,659
Total expenditures	8,706,046	8,089,025	617,021	6,286,664
Revenues over expenditures	(112,980)	851,813	964,793	2,836,322
Other financing uses				
Transfer to Water and Sewer Capital Reserve Fund	(840,120)	(840,120)	-	(2,020,699)
Transfer to Water and Sewer Capital Projects Fund	(975,000)	(975,000)	-	(483,935)
Transfer from Water and Sewer Capital Projects Fund	179,270	2,647	(176,623)	-
Transfer from Water and Sewer Capital Reserve Fund	1,447,575	1,447,575	-	-
Total other financing uses	(188,275)	(364,898)	(176,623)	(2,504,634)
Excess of revenues and other uses over (under) expenditures and other uses	(301,255)	486,915	788,170	331,688
Appropriated fund balance	301,255	-	(301,255)	-
Excess of revenues and other uses over expenditures and other uses	\$ -	\$ 486,915	\$ 486,915	\$ 331,688

TOWN OF HILLSBOROUGH, NORTH CAROLINA
ENTERPRISE FUND
SCHEDULE OF EXPENDITURES COMPARED WITH
BUDGET (NON-GAAP) - WATER AND SEWER FUND
Year Ended June 30, 2015 with Comparative
Actual Amounts for Year Ended June 30, 2014

Schedule 12
Page 3 of 3

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

Excess of revenues and other sources over expenditures and other uses	\$ 486,915
Reconciling items:	
Interest income from Water and Sewer Capital Reserve Fund	389
Payment of principal on notes, bonds and installment purchases	1,935,942
Capital outlay	320,451
Noncapitalizable capital project expenditures	(56,995)
Depreciation	(1,466,442)
Loss on disposal of capital assets	(163)
Proceeds from the sale of capital assets	(770)
Deferred outflows of resources for contributions made to pension plan in current fiscal year	130,600
Pension expense	(13,020)
Interest expense accrual adjustment	(62,599)
Vacation pay accrual adjustment	(44,681)
Increase in OPEB liability	(22,485)
Capital contributions from developer	1,484,316
Amortization of deferred loss on refunding	(15,147)
Transfer from Water and Sewer Capital Projects Fund	(2,647)
Transfer to Water and Sewer Capital Projects Fund	975,000
Transfer from Water and Sewer Capital Reserve Fund	(1,447,575)
Transfer to Water and Sewer Capital Reserve Fund	840,120
	840,120
Change in net position	\$ 3,041,209

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
ENTERPRISE FUND**

Schedule 13

**SCHEDULE OF REVENUES AND EXPENDITURES COMPARED WITH
BUDGET (NON-GAAP) - WATER AND SEWER CAPITAL PROJECTS FUND
From Project Inception and for the Year Ended June 30, 2015**

	<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 grant	\$ 492,000	\$ 492,000	\$ -	\$ 492,000	\$ -
Federal grant	156,250	156,250	-	156,250	-
Interest on investments	5,021	5,021	-	5,021	-
Total revenues	<u>653,271</u>	<u>653,271</u>	<u>-</u>	<u>653,271</u>	<u>-</u>
Expenditures - wastewater treatment plant					
Expansion design	1,578,595	1,578,595	-	1,578,595	-
Legal and administrative	1,398,024	1,381,766	16,258	1,398,024	-
Construction	16,212,669	16,213,909	-	16,213,909	(1,240)
Miscellaneous	35,934	35,934	-	35,934	-
Total	<u>19,225,222</u>	<u>19,210,204</u>	<u>16,258</u>	<u>19,226,462</u>	<u>(1,240)</u>
Expenditures - sewer outfall					
Construction	402,279	402,279	-	402,279	-
Miscellaneous	155	155	-	155	-
Total	<u>402,434</u>	<u>402,434</u>	<u>-</u>	<u>402,434</u>	<u>-</u>
Expenditures - capital improvements					
Sewer Outfall Phase II	1,488,043	1,288,043	-	1,288,043	200,000
Lawrence Road	980,260	980,170	90	980,260	-
Lake Ben Johnson	484,119	427,816	56,303	484,119	-
Backwash pump replacement	83,923	83,923	-	83,923	-
Waterstone water tank	1,963,255	96,904	1,664,657	1,761,561	201,694
Water meter replacement	750,000	704,883	2,770	707,653	42,347
Other improvements	300,000	38,074	6,116	44,190	255,810
Total	<u>6,049,600</u>	<u>3,619,813</u>	<u>1,729,936</u>	<u>5,349,749</u>	<u>699,851</u>
Expenditures - West Fork Eno Reservoir					
Services and charges	800,000	152,622	378,503	531,125	268,875
Total	<u>800,000</u>	<u>152,622</u>	<u>378,503</u>	<u>531,125</u>	<u>268,875</u>
Total expenditures	<u>26,477,256</u>	<u>23,385,073</u>	<u>2,124,697</u>	<u>25,509,770</u>	<u>967,486</u>
Revenues under expenditures	<u>(25,823,985)</u>	<u>(22,731,802)</u>	<u>(2,124,697)</u>	<u>(24,856,499)</u>	<u>967,486</u>
Other financing sources (uses)					
Proceeds from state revolving loan	17,810,007	17,729,408	80,599	17,810,007	-
Proceeds from installment purchases	4,215,498	2,252,243	847,702	3,099,945	(1,115,553)
Transfer from Water and Sewer Capital Reserve Fund	879,553	879,553	-	879,553	-
Transfer from Water and Sewer Fund	3,299,828	2,324,828	975,000	3,299,828	-
Transfer to Water and Sewer Fund	(380,901)	(200,000)	(2,647)	(202,647)	178,254
Total other financing sources	<u>25,823,985</u>	<u>22,986,032</u>	<u>1,900,654</u>	<u>24,886,686</u>	<u>(937,299)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 254,230</u>	<u>\$ (224,043)</u>	<u>\$ 30,187</u>	<u>\$ 30,187</u>

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
ENTERPRISE FUND**

Schedule 14

**SCHEDULE OF REVENUES AND EXPENDITURES COMPARED WITH
BUDGET (NON-GAAP) - WATER AND SEWER CAPITAL RESERVE FUND
From Project Inception and for the Year Ended June 30, 2015**

	<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	\$ 264,139	\$ 263,993	\$ 389	\$ 264,382	\$ 243
Expenditures	<u>2,695,694</u>	-	-	-	<u>2,695,694</u>
Revenues over (under) expenditures	<u>(2,431,555)</u>	<u>263,993</u>	<u>389</u>	<u>264,382</u>	<u>2,695,937</u>
Other financing sources (uses)					
Transfers from Water and Sewer Fund	5,054,462	5,082,111	840,120	5,922,231	867,769
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	(2,792,575)	(1,345,000)	(1,447,575)	(2,792,575)	-
Transfers to Water and Sewer Capital Projects Fund	<u>(1,299,553)</u>	<u>(1,299,553)</u>	-	<u>(1,299,553)</u>	-
Total other financing sources (uses)	<u>2,431,555</u>	<u>3,906,779</u>	<u>(607,455)</u>	<u>3,299,324</u>	<u>867,769</u>
Excess of revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 4,170,772</u>	<u>\$ (607,066)</u>	<u>\$ 3,563,706</u>	<u>\$ 3,563,706</u>

TOWN OF HILLSBOROUGH, NORTH CAROLINA
SPECIAL ASSESSMENT DEBT AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2015

Schedule 15

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash	<u>\$ 171,082</u>	<u>\$ 579,876</u>	<u>\$ (750,958)</u>	<u>\$ -</u>
LIABILITIES				
Due to others	<u>\$ 171,082</u>	<u>\$ 579,876</u>	<u>\$ (750,958)</u>	<u>\$ -</u>

ADDITIONAL FINANCIAL DATA

This section contains additional information on property taxes.

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

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TOWN OF HILLSBOROUGH, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2015

Schedule 16

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2014</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014-2015	\$ -	\$ 5,413,151	\$ 5,343,909	\$ 69,242
2013-2014	102,658	-	51,299	51,359
2012-2013	50,908	-	12,711	38,197
2011-2012	22,771	-	3,223	19,548
2010-2011	9,805	-	-	9,805
2009-2010	11,836	-	-	11,836
2008-2009	15,344	-	-	15,344
2007-2008	15,149	-	946	14,203
2006-2007	7,124	-	7,124	-
2005-2006	538	-	538	-
	236,133	<u>\$ 5,413,151</u>	<u>\$ 5,419,750</u>	229,534
Less allowance for uncollectible accounts:				
General Fund	<u>(77,417)</u>			<u>(69,990)</u>
	<u>\$ 158,716</u>			<u>\$ 159,544</u>
Reconciliation of collections and credits with revenues:				
Taxes - ad valorem - General Fund			\$ 5,437,266	
Motor vehicle license fees - General Fund			3,477	
Penalties and interest			(23,856)	
Adjustments and refunds			<u>2,863</u>	
			<u>\$ 5,419,750</u>	

TOWN OF HILLSBOROUGH, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
Year Ended June 30, 2015

Schedule 17

	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	\$ 787,350,735	0.6800	\$ 5,353,985	\$ 5,032,769	\$ 321,216
Motor vehicle taxed at prior year rate	33,088	0.6800	225	-	225
Motor vehicle license fees	-		49,750	-	49,750
Penalties and interest	-		9,191	9,191	-
Total property valuation	<u>\$ 787,383,823</u>		5,413,151	5,041,960	371,191
Uncollected taxes at June 30, 2015			<u>69,242</u>	<u>69,188</u>	<u>54</u>
Current year's taxes collected			<u>\$ 5,343,909</u>	<u>\$ 4,972,772</u>	<u>\$ 371,137</u>
Current levy collection percentage			<u>98.72%</u>	<u>98.63%</u>	<u>99.99%</u>

* Total adjusted levy includes discoveries and abatements.

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

STATISTICAL SECTION

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Statistical Section

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

<u>Contents</u>	<u>Page</u>
Financial Trends Information	116
<i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</i>	
Revenue Capacity Information	121
<i>These schedules contain information to help the reader assess the Town's most significant local revenue sources, property taxes, and water and sewer charges.</i>	
Debt Capacity Information	130
<i>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.</i>	
Demographic and Economic Information	135
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.</i>	
Operating Information	139
<i>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.</i>	

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.*

Financial Trends Information

TOWN OF HILLSBOROUGH
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

Table 1

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Governmental activities										
Net investment in capital assets	\$ 1,536,427	\$ 1,774,382	\$ 1,736,635	\$ 2,375,505	\$ 3,268,065	\$ 5,338,508	\$ 5,870,981	\$ 6,723,808	\$ 10,924,631	\$ 11,870,401
Restricted	2,282	192,078	1,660,871	563,417	806,780	2,121,546	1,570,832	1,831,742	1,700,808	1,558,393
Unrestricted	3,908,306	4,228,407	3,329,482	4,891,494	5,402,272	3,766,961	3,984,264	4,390,314	4,433,988	4,797,140
Total governmental activities net position	<u>\$ 5,447,015</u>	<u>\$ 6,194,867</u>	<u>\$ 6,726,988</u>	<u>\$ 7,830,416</u>	<u>\$ 9,477,117</u>	<u>\$ 11,227,015</u>	<u>\$ 11,426,077</u>	<u>\$ 12,945,864</u>	<u>\$ 17,059,427</u>	<u>\$ 18,225,934</u>
Business-type activities										
Net investment in capital assets	\$ 14,310,390	\$ 15,946,393	\$ 20,174,460	\$ 21,590,822	\$ 21,736,659	\$ 24,316,110	\$ 26,632,441	\$ 26,017,050	\$ 27,110,293	\$ 30,507,881
Restricted	1,834,599	1,607,258	2,011,464	2,438,955	2,128,459	1,721,067	1,974,677	2,590,989	2,591,211	2,591,600
Unrestricted	3,685,563	4,031,059	4,268,347	3,495,837	4,020,580	3,518,417	2,674,119	4,084,460	6,546,829	6,190,061
Total business-type activities net position	<u>\$ 19,830,552</u>	<u>\$ 21,584,710</u>	<u>\$ 26,454,271</u>	<u>\$ 27,525,614</u>	<u>\$ 27,885,698</u>	<u>\$ 29,555,594</u>	<u>\$ 31,281,237</u>	<u>\$ 32,692,499</u>	<u>\$ 36,248,333</u>	<u>\$ 39,289,542</u>
Primary government										
Net investment in capital assets	\$ 15,846,817	\$ 17,720,775	\$ 21,911,095	\$ 23,966,327	\$ 25,004,724	\$ 29,654,618	\$ 32,503,422	\$ 32,740,858	\$ 38,034,924	\$ 42,378,282
Restricted	1,836,881	1,799,336	3,672,335	3,002,372	2,935,239	3,842,613	3,545,509	4,422,731	4,292,019	4,149,993
Unrestricted	7,593,869	8,259,466	7,597,829	8,387,331	9,422,852	7,285,378	6,658,383	8,474,774	10,980,817	10,987,201
Total primary government net position	<u>\$ 25,277,567</u>	<u>\$ 27,779,577</u>	<u>\$ 33,181,259</u>	<u>\$ 35,356,030</u>	<u>\$ 37,362,815</u>	<u>\$ 40,782,609</u>	<u>\$ 42,707,314</u>	<u>\$ 45,638,363</u>	<u>\$ 53,307,760</u>	<u>\$ 57,515,476</u>

**TOWN OF HILLSBOROUGH
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)**

Table 2

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General government	\$ 967,939	\$ 990,096	\$ 1,153,096	\$ 1,341,151	\$ 1,511,119	\$ 1,353,757	\$ 1,402,445	\$ 1,301,963	\$ 1,524,025	\$ 1,416,316
Public safety	2,801,042	3,165,228	3,320,666	3,477,812	3,389,490	3,379,456	2,597,911	3,395,465	3,619,529	3,929,568
Transportation	467,796	1,189,355	1,217,558	435,870	390,313	486,940	1,510,493	497,540	500,491	130,485
Environmental protection	638,351	49,052	63,118	546,472	534,476	595,447	546,612	580,312	833,623	963,296
Economic and physical development	198,650	210,430	217,638	237,278	247,420	256,092	243,163	485,977	367,389	387,801
Community activities and projects	62,521	54,100	227,721	105,026	40,961	49,505	40,996	64,878	119,251	220,890
Parks and recreation	-	-	12,801	31,657	60,629	36,844	51,500	36,267	55,849	74,137
Unallocated interest expense	337	10,690	21,248	77,316	107,315	108,598	104,518	105,022	126,250	101,260
Total governmental activities expenses	5,136,636	5,668,951	6,233,846	6,252,582	6,281,723	6,266,639	6,497,638	6,467,424	7,146,407	7,223,753
Business-type activities:										
Water and sewer	5,153,557	5,120,765	5,472,746	5,616,181	6,093,635	5,758,760	6,151,253	6,279,271	6,271,311	7,383,564
Total business-type activities expenses	5,153,557	5,120,765	5,472,746	5,616,181	6,093,635	5,758,760	6,151,253	6,279,271	6,271,311	7,383,564
Total primary government expenses	\$ 10,290,193	\$ 10,789,716	\$ 11,706,592	\$ 11,868,763	\$ 12,375,358	\$ 12,025,399	\$ 12,648,891	\$ 12,746,695	\$ 13,417,718	\$ 14,607,317
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 99,131	\$ 140,920	\$ 159,868	\$ 113,738	\$ 131,750	\$ 149,790	\$ 160,990	\$ 326,565	\$ 126,909	\$ 182,109
Public safety	24,573	21,036	15,290	14,453	10,825	10,273	15,593	11,426	13,893	12,068
Transportation	-	-	-	-	2,951	-	-	-	-	187,682
Environmental protection	-	-	-	-	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	2,170	2,970	3,190	4,140	5,155
Operating grants and contributions	195,675	254,312	337,166	309,510	202,067	183,874	228,457	175,347	316,576	10,610
Capital grants and contributions	29,817	159,063	265,947	686,984	1,001,630	1,191,157	203,301	334,525	3,741,958	253,460
Total governmental activities program revenues	349,196	575,331	778,271	1,124,685	1,349,223	1,537,264	611,311	851,053	4,203,476	651,084
Business-type activities:										
Charges for services:										
Water and sewer	5,555,602	6,193,895	6,320,471	6,292,642	6,425,750	6,755,260	7,366,996	7,686,356	9,025,607	8,939,712
Capital grants and contributions	1,037,089	434,712	3,754,896	290,891	-	658,828	100,000	-	1,028,171	1,484,316
Total business-type activities program revenues	6,592,691	6,628,607	10,075,367	6,583,533	6,425,750	7,414,088	7,466,996	7,686,356	10,053,778	10,424,028
Total primary government program revenues	\$ 6,941,887	\$ 7,203,938	\$ 10,853,638	\$ 7,708,218	\$ 7,774,973	\$ 8,951,352	\$ 8,078,307	\$ 8,537,409	\$ 14,257,254	\$ 11,075,112
Net (Expense) Revenue										
Governmental activities	\$ (4,787,440)	\$ (5,093,620)	\$ (5,455,575)	\$ (5,127,897)	\$ (4,932,500)	\$ (4,729,375)	\$ (5,886,327)	\$ (5,616,371)	\$ (2,942,931)	\$ (6,572,669)
Business-type activities	1,439,134	1,507,842	4,602,621	967,352	332,115	1,655,328	1,315,743	1,407,085	3,782,467	3,040,464
Total primary government net expense	\$ (3,348,306)	\$ (3,585,778)	\$ (852,954)	\$ (4,160,545)	\$ (4,600,385)	\$ (3,074,047)	\$ (4,570,584)	\$ (4,209,286)	\$ 839,536	\$ (3,532,205)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes	\$ 4,366,328	\$ 5,056,393	\$ 5,203,555	\$ 5,479,986	\$ 5,898,215	\$ 5,808,387	\$ 5,816,041	\$ 6,371,494	\$ 6,603,311	\$ 6,698,408
Unrestricted inter-governmental revenues	516,245	544,091	575,308	625,798	615,770	635,907	651,381	734,401	809,190	998,629
Investment earnings, unrestricted	161,770	219,162	196,325	109,920	29,889	10,838	4,748	3,874	2,209	1,177
Miscellaneous	7,159	21,826	12,508	15,621	35,327	24,141	16,250	26,389	39,899	40,962
Total governmental activities	5,051,502	5,841,472	5,987,696	6,231,325	6,579,201	6,479,273	6,488,420	7,136,158	7,454,609	7,739,176
Business-type activities:										
Investment earnings	190,372	246,246	233,136	107,104	27,967	14,568	6,869	4,177	2,601	745
Miscellaneous	-	70	30,691	-	-	-	-	-	-	-
Total business-type activities	190,372	246,316	263,827	107,104	27,967	14,568	6,869	4,177	2,601	745
Total primary government	\$ 5,241,874	\$ 6,087,788	\$ 6,251,523	\$ 6,338,429	\$ 6,607,168	\$ 6,493,841	\$ 6,495,289	\$ 7,140,335	\$ 7,457,210	\$ 7,739,921
Change in Net Position										
Governmental activities	\$ 264,062	\$ 747,852	\$ 532,121	\$ 1,103,428	\$ 1,646,701	\$ 1,749,898	\$ 199,062	\$ 1,519,787	\$ 4,511,678	\$ 1,166,507
Business-type activities	1,629,506	1,754,158	4,866,448	1,074,456	360,084	1,669,896	1,725,643	1,411,262	3,785,068	3,041,209
Total primary government	\$ 1,893,568	\$ 2,502,010	\$ 5,398,569	\$ 2,177,884	\$ 2,006,785	\$ 3,419,794	\$ 1,924,705	\$ 2,931,049	\$ 8,296,746	\$ 4,207,716

TOWN OF HILLSBOROUGH
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 3

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General fund										
Reserved	\$ 626,383	\$ 743,476	\$ 852,658	\$ 904,063	\$ 1,230,710	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	3,451,245	3,671,668	3,766,755	4,030,731	3,832,453	-	-	-	-	-
Nonspendable	-	-	-	-	-	477	68,649	4,253	72,156	68,242
Restricted	-	-	-	-	-	1,047,758	955,064	1,115,688	1,110,734	1,049,112
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	215,354	88,094	330,206	782,995	1,294,457
Unassigned	-	-	-	-	-	3,478,868	3,803,076	4,151,725	4,151,581	3,805,372
	<u>4,077,628</u>	<u>4,415,144</u>	<u>4,619,413</u>	<u>4,934,794</u>	<u>5,063,163</u>	<u>4,742,457</u>	<u>4,914,883</u>	<u>5,601,872</u>	<u>6,117,466</u>	<u>6,217,183</u>
All other governmental funds										
Reserved	-	-	-	-	200,000	-	-	-	-	-
Unreserved	-	154,898	1,566,324	575,855	639,599	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	52	-	-
Restricted	-	-	-	-	-	1,073,788	227,052	716,054	844,464	509,281
Committed	-	-	-	-	-	204,943	856,356	131,490	106,105	272,548
Assigned	-	-	-	-	-	-	-	-	7,070	-
Unassigned	-	-	-	-	-	(324,964)	(112,038)	(20,444)	-	-
	<u>-</u>	<u>154,898</u>	<u>1,566,324</u>	<u>575,855</u>	<u>839,599</u>	<u>953,767</u>	<u>971,370</u>	<u>827,152</u>	<u>957,639</u>	<u>781,829</u>
Total fund balances	<u>\$ 4,077,628</u>	<u>\$ 4,570,042</u>	<u>\$ 6,185,737</u>	<u>\$ 5,510,649</u>	<u>\$ 5,902,762</u>	<u>\$ 5,696,224</u>	<u>\$ 5,886,253</u>	<u>\$ 6,429,024</u>	<u>\$ 7,075,105</u>	<u>\$ 6,999,012</u>

TOWN OF HILLSBOROUGH
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 4

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues										
Ad valorem taxes	\$ 3,291,685	\$ 3,863,679	\$ 3,843,372	\$ 4,317,508	\$ 4,819,371	\$ 4,610,003	\$ 4,716,460	\$ 5,135,469	\$ 5,429,114	\$ 5,437,266
Other taxes and licenses	1,067,530	1,197,964	1,216,236	1,178,406	1,131,562	1,163,501	1,124,696	1,229,425	1,199,185	1,263,425
Unrestricted intergovernmental	516,245	544,091	575,308	625,798	615,770	635,907	651,381	734,401	809,190	998,629
Restricted intergovernmental	221,614	257,092	364,818	755,912	306,662	1,234,870	453,755	308,007	768,716	642,732
Investment earnings	161,770	219,834	195,632	109,920	29,889	10,838	4,748	3,874	2,209	1,177
Capital contributions	-	135,000	235,000	235,000	200,000	200,000	100,000	-	-	-
Use and rental	123,704	161,956	175,158	128,191	142,575	160,063	176,583	337,991	140,802	194,177
Other general revenues	11,038	42,440	30,733	31,106	31,518	67,071	69,669	34,079	48,337	56,727
Total revenues	<u>5,393,586</u>	<u>6,422,056</u>	<u>6,636,257</u>	<u>7,381,841</u>	<u>7,277,347</u>	<u>8,082,253</u>	<u>7,297,292</u>	<u>7,783,246</u>	<u>8,397,553</u>	<u>8,594,133</u>
Expenditures										
Current										
General government	1,055,473	1,090,839	1,255,061	1,986,459	2,552,912	1,232,665	1,235,107	1,122,514	2,799,302	2,779,807
Public safety	2,788,016	3,281,406	3,349,295	3,499,641	3,263,200	3,347,597	3,164,361	3,134,327	3,455,438	3,845,174
Transportation	677,493	843,439	633,474	408,258	720,627	1,718,386	1,693,664	1,011,557	851,502	1,194,204
Environmental protection	618,358	364,861	510,948	470,448	580,854	583,919	476,415	471,880	806,262	1,008,615
Economic and physical development	198,650	210,430	217,638	237,278	247,420	256,092	243,163	485,977	367,389	388,611
Community activities and projects	62,521	54,461	227,721	105,026	54,137	54,946	325,666	64,878	119,251	836,258
Parks and recreation	-	109,096	102,046	1,722,062	344,499	791,184	239,105	430,831	1,675,156	423,813
Debt service										
Principal retirement	17,246	36,638	62,140	178,595	238,111	303,074	283,126	407,246	474,458	632,155
Interest and fiscal charges	900	7,972	11,938	68,762	93,874	107,928	98,896	111,265	118,711	101,228
Total expenditures	<u>5,418,657</u>	<u>5,999,142</u>	<u>6,370,261</u>	<u>8,676,529</u>	<u>8,095,634</u>	<u>8,395,791</u>	<u>7,759,503</u>	<u>7,240,475</u>	<u>10,667,469</u>	<u>11,209,865</u>
Excess of revenues over (under) expenditures	<u>(25,071)</u>	<u>422,914</u>	<u>265,996</u>	<u>(1,294,688)</u>	<u>(818,287)</u>	<u>(313,538)</u>	<u>(462,211)</u>	<u>542,771</u>	<u>(2,269,916)</u>	<u>(2,615,732)</u>
Other financing sources (uses)										
Transfers in	-	111,232	-	43,023	628,118	717,582	440,409	369,627	169,054	160,482
Transfers out	-	(111,232)	-	(43,023)	(628,118)	(717,582)	(843,440)	(369,627)	(169,054)	(160,482)
Sale of equipment	-	-	-	-	-	-	-	-	-	-
Insurance recovery	-	-	-	-	-	-	16,250	-	-	-
Contribution from property owners	-	-	-	-	-	-	-	-	1,445,207	1,325,271
Debt service - principal on refunding	-	-	-	-	-	-	-	-	(1,256,353)	-
Proceeds from installment notes	198,501	69,500	1,349,700	619,600	1,210,400	107,000	1,039,021	-	2,727,143	1,214,368
Total other financing sources	<u>198,501</u>	<u>69,500</u>	<u>1,349,700</u>	<u>619,600</u>	<u>1,210,400</u>	<u>107,000</u>	<u>652,240</u>	<u>-</u>	<u>2,915,997</u>	<u>2,539,639</u>
Net change in fund balances	<u>\$ 173,430</u>	<u>\$ 492,414</u>	<u>\$ 1,615,696</u>	<u>\$ (675,088)</u>	<u>\$ 392,113</u>	<u>\$ (206,538)</u>	<u>\$ 190,029</u>	<u>\$ 542,771</u>	<u>\$ 646,081</u>	<u>\$ (76,093)</u>
Capital outlay included in functional expenditures above	\$ 416,105	\$ 484,601	\$ 313,810	\$ 2,491,483	\$ 1,907,332	\$ 2,280,672	\$ 1,501,851	\$ 997,107	\$ 2,246,332	\$ 2,619,910
Debt service as a percentage of noncapital expenditures	0.36%	0.81%	1.22%	4.00%	5.36%	6.72%	6.10%	8.30%	7.04%	8.54%

Revenue Capacity Information

TOWN OF HILLSBOROUGH
PROGRAM REVENUES BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(accrual basis of accounting)

Table 5

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Function/program										
Governmental activities:										
General government	\$ 102,708	\$ 140,920	\$ 159,868	\$ 348,738	\$ 331,750	\$ 382,843	\$ 354,227	\$ 361,590	\$ 1,388,937	\$ 192,719
Public safety	54,323	64,210	134,722	14,453	28,874	10,273	15,593	11,426	13,893	12,068
Transportation	185,394	192,890	216,544	274,275	543,741	848,978	228,521	185,847	312,282	187,682
Environmental protection	6,611	8,940	-	-	-	-	-	-	2,059,224	653
Economic and physical development	-	16,302	1,190	235	-	-	-	-	-	-
Community activities and projects	160	-	-	-	-	-	-	-	-	-
Parks and recreation	-	152,069	265,947	486,984	444,858	295,170	12,970	292,190	429,140	257,962
Subtotal governmental activities	<u>349,196</u>	<u>575,331</u>	<u>778,271</u>	<u>1,124,685</u>	<u>1,349,223</u>	<u>1,537,264</u>	<u>611,311</u>	<u>851,053</u>	<u>4,203,476</u>	<u>651,084</u>
Business-type activities:										
Water and sewer	6,592,691	6,628,607	10,075,367	6,583,533	6,425,750	7,414,088	7,466,996	7,686,356	10,053,778	10,424,028
Subtotal business-type activities	<u>6,592,691</u>	<u>6,628,607</u>	<u>10,075,367</u>	<u>6,583,533</u>	<u>6,425,750</u>	<u>7,414,088</u>	<u>7,466,996</u>	<u>7,686,356</u>	<u>10,053,778</u>	<u>10,424,028</u>
Total primary government	<u>\$ 6,941,887</u>	<u>\$ 7,203,938</u>	<u>\$ 10,853,638</u>	<u>\$ 7,708,218</u>	<u>\$ 7,774,973</u>	<u>\$ 8,951,352</u>	<u>\$ 8,078,307</u>	<u>\$ 8,537,409</u>	<u>\$ 14,257,254</u>	<u>\$ 11,075,112</u>

TOWN OF HILLSBOROUGH
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS^a
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 6

Fiscal Year	Ad Valorem Taxes
2006	\$ 3,291,685
2007	3,863,679
2008	3,843,372
2009	4,317,508
2010	4,819,371
2011	4,610,003
2012	4,716,460
2013	5,135,469
2014	5,429,114
2015	5,437,266
Change 2006 - 2015	^b 65.18%

^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 65.18 percent in the past ten years. This is primarily due to property values being re-evaluated every four years. During the last ten years, there were two re-evaluation periods 2005 and 2009. The four-year re-evaluation period along with increasing property values and steady growth has caused a significant increase in Ad Valorem Revenue from 2006 to 2015.

TOWN OF HILLSBOROUGH
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
2006	\$ 498,764,816	\$ 69,532,409	\$ 11,634,060	\$ 579,931,285	0.5660	100.00%
2007	532,148,273	78,065,817	12,257,142	622,471,232	0.6200	100.00%
2008	535,719,952	81,267,458	11,297,072	628,284,482	0.6350	100.00%
2009	552,914,553	77,727,711	11,612,614	642,254,878	0.6700	100.00%
2010	657,426,788	83,569,294	11,954,916	752,950,998	0.6200	100.00%
2011	653,238,545	84,168,694	10,825,503	748,232,742	0.6200	100.00%
2012	661,688,578	85,866,250	11,371,703	758,926,531	0.6200	100.00%
2013	667,581,857	83,022,657	11,710,268	762,314,782	0.6800	100.00%
2014	674,676,352	99,378,379	11,710,269	785,765,000	0.6800	100.00%
2015	676,291,406	98,629,989	12,462,428	787,383,823	0.6800	100.00%

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
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
2006	0.566	0.566	-	0.8430
2007	0.620	0.620	-	0.9030
2008	0.635	0.635	-	0.9500
2009	0.670	0.670	-	0.9980
2010	0.620	0.620	-	0.8580
2011	0.620	0.620	-	0.8580
2012	0.620	0.620	-	0.8580
2013	0.680	0.680	-	0.8580
2014	0.680	0.680	-	0.8780
2015	0.680	0.680	-	0.8780

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
PROPERTY TAX REVIEW AND COLLECTIONS
Last Ten Fiscal Years**

Table 9

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2006	\$ 3,333,473	\$ 3,274,376	98.23%	\$ 50,591	\$ 3,324,967	99.74%
2007	3,893,091	3,833,657	98.47%	59,434	3,893,091	100.00%
2008	4,035,215	3,828,830	94.89%	192,182	4,021,012	99.65%
2009	4,380,999	4,295,618	98.05%	70,037	4,365,655	99.65%
2010	4,732,461	4,641,581	98.09%	79,044	4,720,625	99.75%
2011	4,690,863	4,557,501	97.16%	123,557	4,681,058	99.79%
2012	4,755,200	4,641,541	97.61%	94,111	4,735,652	99.59%
2013	5,225,057	5,085,225	98.82%	101,635	5,186,860	99.27%
2014	5,418,579	5,315,921	98.11%	51,299	5,367,220	99.05%
2015	5,413,151	5,343,909	98.72%	-	5,343,909	98.72%

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

**TOWN OF HILLSBOROUGH
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago**

Table 10

Taxpayer	2015			2006		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Sports Endeavors	\$ 16,370,777	1	2.08%			
Hillsborough Apartments Partners LC	13,675,468	2	1.74%			
Wal-Mart Real Estate Business	15,182,747	4	1.93%	\$ 12,758,748	1	2.20%
Home Depot Development	10,423,863	3	1.32%			
PHE Inc	9,628,318	5	1.22%	7,419,828	3	1.28%
Daniel Boone Ltd	87,941,758	6	11.16%	8,343,619	2	1.44%
SLF II Waterstone LLC	8,539,724	7	1.08%			0.00%
Hillsborough Commons Ltd Partners	8,497,192	8	1.08%	6,562,050	7	1.13%
MDCO LLC	7,771,800	9	0.99%			
Brookshire Inc	6,808,295	10	0.86%			
Boone Square Inc.				4,807,691	10	0.83%
Artcraft Hillsborough LC				7,161,208	4	1.23%
R.T. Holdings, LLC				6,587,606	6	1.14%
CentralTelephone Co.				4,991,435	9	0.86%
Stihl, Inc.				5,680,180	8	0.98%
Meadowlands Distributions Co.				6,975,686	5	1.20%
Total	\$ 184,839,942		23.46%	\$ 71,288,051		12.28%

Source: Orange County Property Assessment Division

**TOWN OF HILLSBOROUGH
WATER SOLD BY TYPE OF CUSTOMER AND
IN AND OUT OF TOWN
Last Ten Fiscal Years**

Table 11

<u>Type of Customer</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
In-town residential	94,742,851	92,359,968	90,776,263	88,082,088	91,194,583	103,459,804	102,937,205	102,755,771	111,836,111	98,914,635
Out-of-town residential	103,325,114	105,793,065	104,552,882	101,568,087	106,627,659	112,868,479	120,107,805	130,921,523	111,241,276	124,805,789
In-town commercial	82,678,001	90,080,216	85,878,132	88,318,823	89,569,350	74,881,598	73,507,962	76,624,165	78,590,500	81,985,440
Out-of-town commercial	<u>30,042,380</u>	<u>29,297,960</u>	<u>28,156,261</u>	<u>23,213,084</u>	<u>22,056,653</u>	<u>18,219,706</u>	<u>18,296,584</u>	<u>18,153,125</u>	<u>17,908,575</u>	<u>29,452,224</u>
Total gallons billed	<u>310,788,346</u>	<u>317,531,209</u>	<u>309,363,538</u>	<u>301,182,082</u>	<u>309,448,245</u>	<u>309,429,587</u>	<u>314,849,556</u>	<u>328,454,584</u>	<u>319,576,462</u>	<u>335,158,088</u>
Total water and sewer charges (revenue)	\$ 5,215,333	\$ 5,699,410	\$ 5,743,722	\$ 6,043,820	\$ 6,194,638	\$ 6,405,307	\$ 6,928,835	\$ 7,262,510	\$ 7,499,183	\$ 7,859,823
Total average rate per 1,000 gallons	\$ 16.78	\$ 17.95	\$ 18.57	\$ 20.07	\$ 20.02	\$ 20.00	\$ 22.00	\$ 22.11	\$ 23.47	\$ 23.45

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

**TOWN OF HILLSBOROUGH
WATER AND SEWER RATES
Last Ten Fiscal Years**

Table 12

Fiscal Year	In-Town Water		In-Town Sewer		Out-of-Town Water		Out-of-Town Sewer	
	Rate per 0-3000 Gallons	Rate per 1,000 Gallons	Rate per 0-3000 Gallons	Rate per 1,000 Gallons	Rate per 0-3000 Gallons	Rate per 1,000 Gallons	Rate per 0-3000 Gallons	Rate per 1,000 Gallons
2006 *	\$ 19.35	\$ 6.45	\$ 19.02	\$ 6.34	\$ 37.74	\$ 12.58	\$ 37.11	\$ 12.37
2007	19.95	6.65	20.52	6.84	38.91	12.97	40.02	13.34
2008	20.16	6.72	21.33	7.11	39.30	13.10	41.61	13.87
2009	21.75	7.25	22.74	7.58	42.40	14.13	44.36	14.79
2010	21.75	7.25	22.74	7.58	42.40	14.13	44.36	14.79
2011	21.75	7.25	23.88	7.96	42.42	14.14	46.56	15.52
2012	23.04	7.68	25.98	8.66	44.94	14.98	50.67	16.89
2013	24.21	8.07	28.26	9.42	47.22	15.74	55.11	18.37
2014	21.79	8.07	30.11	11.15	42.50	15.74	58.70	21.74
2015	21.79	8.07	30.75	10.25	47.22	15.74	59.97	27.68

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 is billed for 0 to 2,600 gallons. Any usage over 2,600 gallons is billed per 1,000 gallons rate.

** Rates effective September 1, 2005*

Debt Capacity Information

TOWN OF HILLSBOROUGH
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	Revolving Loans	Installment Loans		
2006	\$ 198,501	\$ 4,575,000	\$ 1,524,446	\$ 3,781,350	\$ 10,079,297	\$ 1,777
2007	231,363	4,189,000	1,448,224	3,388,902	9,257,489	1,502
2008	1,518,923	3,803,000	1,372,001	2,978,369	9,672,293	1,550
2009	1,959,928	122,000	1,295,779	6,172,366	9,550,073	1,450
2010	2,932,216	86,000	1,219,557	6,258,012	10,495,785	1,572
2011	2,736,142	50,000	1,143,336	5,741,602	9,671,080	1,582
2012	3,440,001	14,000	5,575,878	5,871,812	14,901,691	2,388
2013	3,084,791	-	16,247,369	4,914,368	24,246,528	3,850
2014	4,024,586	-	18,644,077	3,939,307	26,607,970	4,170
2015	4,606,799	-	18,605,655	2,970,088	26,182,542	4,161

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
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		
2006	\$ 4,575,000	\$ 4,575,000	0.79%	\$ 742
2007	4,189,000	4,189,000	0.67%	671
2008	3,803,000	3,803,000	0.61%	578
2009	122,000	122,000	0.00%	18
2010	86,000	86,000	0.00%	13
2011	50,000	50,000	0.00%	8
2012	14,000	14,000	0.00%	2
2013	-	-	0.00%	-
2014	-	-	0.00%	-
2015	-	-	0.00%	-

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.

TOWN OF HILLSBOROUGH
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2015

Table 15

<u>Governmental Unit</u>	<u>Orange Co. G.O. Bonds Outstanding Debt</u>	<u>Estimated Percentage Applicable ^a</u>	<u>Town's Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes	\$ 214,322,108	5.05%	<u>\$ 10,817,136</u>
Town's overlapping debt			10,817,136
Town's direct debt			<u>4,606,799</u>
Total direct and overlapping debt			<u><u>\$ 15,423,935</u></u>

Sources: Budgeted revenues used to estimate applicable percentages. Debt outstanding provided by Orange County, NC Finance Dept.

**TOWN OF HILLSBOROUGH
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years**

Table 16

											<u>Legal Debt Margin Calculation for Fiscal Year 2015</u>	
											Assessed value	<u>\$ 787,383,823</u>
											Debt limit (8% of assessed value)	62,990,706
											Debt applicable to limit:	
											Installation loans	<u>(4,606,799)</u>
											Legal debt margin	<u><u>\$ 58,383,907</u></u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		
Debt limit	\$ 46,394,503	\$ 49,797,699	\$ 50,262,759	\$ 51,380,390	\$ 60,236,080	\$ 59,858,619	\$ 60,714,122	\$ 60,985,183	\$ 62,861,200	\$ 62,990,706		
Total net debt applicable to limit	<u>198,501</u>	<u>231,363</u>	<u>1,518,923</u>	<u>1,959,928</u>	<u>2,932,216</u>	<u>2,736,142</u>	<u>3,440,001</u>	<u>3,084,791</u>	<u>4,024,586</u>	<u>4,606,799</u>		
Legal debt margin	<u>\$ 46,196,002</u>	<u>\$ 49,566,336</u>	<u>\$ 48,743,836</u>	<u>\$ 49,420,462</u>	<u>\$ 57,303,864</u>	<u>\$ 57,122,477</u>	<u>\$ 57,274,121</u>	<u>\$ 57,900,392</u>	<u>\$ 58,836,614</u>	<u>\$ 58,383,907</u>		
Total net debt applicable to the limit as a percentage of debt limit	0.43%	0.46%	3.02%	3.81%	4.87%	4.57%	5.67%	5.06%	6.40%	7.31%		

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

Demographic and Economic Information

**TOWN OF HILLSBOROUGH
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years**

Table 17

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2006	6,162	5,205,261	42,637	32.30	1,203	3.6%
2007	6,240	5,772,365	46,279	33.00	1,180	3.9%
2008	6,584	6,107,990	48,100	33.10	1,272	4.6%
2009	6,677	6,186,352	47,925	33.30	1,272	7.0%
2010	6,751	6,268,886	46,713	33.18	1,279	6.6%
2011	6,113	*	*	33.42	1,305	7.3%
2012	6,239	*	*	33.62	1,420	7.1%
2013	6,298	*	*	33.99	1,433	5.3%
2014	6,381	4,905,216	34,949	33.10	1,370	4.8%
2015	6,292	5,287,926	37,658	33.50	1,393	3.9%

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 yet available

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
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago**

Table 18

<u>Employer</u>	<u>2015</u>		<u>2006</u>	
	<u>Employees</u>	<u>Percentage of Total Town Population</u>	<u>Employees</u>	<u>Percentage of Total Town Population</u>
Orange County Schools	1,019	16.20%	961	15.60%
Orange County Government	958	15.23%	830	13.47%
Sports Endeavors, Inc. dba Eurosport	350	5.56%	-	0.00%
PHE	311	4.94%	325	5.27%
Wal-Mart Associates Inc	280	4.45%	414	6.72%
Brookshire Nursing Center	147	2.34%	130	2.11%
Piedmont Electric	91	1.45%	115	1.87%
Builders First	78	1.24%	95	1.54%
Triangle Sportsplex	52	0.83%	325	5.27%
Town of Hillsborough	88	1.40%	83	1.35%
OE Inteprises	-	0.00%	139	2.26%
Total	<u>3,374</u>	<u>53.57%</u>	<u>3,417</u>	<u>55.45%</u>

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
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Table 19

<u>Function/Program</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General government										
Administration	2	3	3	3	4	4	3	3	5	5
Finance	5	5	4	4	4	4	4	4	4	4
Planning	3	3	3	4	3	3	3	3	4	4
Safety	-	-	1	1	1	1	1	1	1	1
Stormwater	-	-	-	-	-	-	-	-	1	1
Police										
Officers	25	26	29	29	26	26	25	27	24	28
Civilians	3	1	2	3	2	2	-	-	-	
Public works										
Streets	6	3	4	4	4	4	3	3	3	4
Sanitation	4	5	5	4	4	4	4	4	4	4
Motor pool	3	3	3	3	3	3	3	3	3	3
Utilities										
Engineering	2	3	3	4	4	4	4	4	4	4
Billing and collection	7	6	6	7	6	5	5	5	5	6
Water	6	6	6	6	6	6	6	6	6	6
Wastewater	10	9	9	10	10	8	8	8	7	6
Water distribution/ wastewater collection	11	10	11	7	8	8	11	11	11	11
Fire inspections	<u>1</u>									
Total	<u>88</u>	<u>84</u>	<u>90</u>	<u>90</u>	<u>86</u>	<u>83</u>	<u>81</u>	<u>83</u>	<u>83</u>	<u>88</u>

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

Operating Information

TOWN OF HILLSBOROUGH
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Table 20

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Physical arrests	748	792	562	524	546	475	560	538	521	553
Calls for service	8,247	7,273	11,181	12,490	9,619	12,889	15,039	14,569	12,279	15,975
Traffic citations	1,039	1,538	1,877	1,937	1,712	1,182	1,134	1,651	1,212	725
Number of policeman positions	27	27	29	29	29	29	29	26	27	27
Fire										
Number of stations	1	1	1	1	1	1	1	1	1	1
Emergency responses (EMS and fire)	1,449	1,802	1,960	1,918	1,865	1,835	1,770	1,866	1,950	1,978
Fires extinguished	11	6	6	30	75	19	78	70	45	107
Number of paid firemen	20	19	23	23	24	24	25	24	24	27
Number of volunteers	19	15	15	12	15	12	14	19	15	12
Inspections	297	387	289	269	213	211	258	177	132	171
Refuse collection										
Refuse collected (tons per day)	6.7	6.3	6.3	6.7	6.1	5.95	-	6.34	5.90	5.54
Recyclables collected (tons per day)	*	*	*	*	*	*	*	*	0.02	0.48
Other public works										
Street resurfacing (miles)	2.1	2.2	1.5	0.5	-	-	-	2.25	2.13	4.70
Potholes repaired	227	84	51	103	45	41	36	30	36	30
Parks and recreation										
Number of parks	2	3	6	6	6	6	6	6	6	6
Library										
Volumes in collection	86,272	94,273	84,465	78,770	75,506	86,526	97,536	93,421	93,886	93,656
Total volumes borrowed	167,000	178,911	184,301	209,023	203,450	287,938	351,216	397,379	396,164	412,416
Water										
New connections	1,056	949	841	826	939	815	767	736	799	840
Water main breaks	46	32	36	46	41	10	30	20	15	11
Average daily consumption (millions of gallons per day)	1.168	1.235	1.101	1.143	1.124	1.129	1.048	0.913	1.103	1.071
Peak daily consumption (millions of gallons)	1.721	1.770	1.770	1.938	1.626	1.653	1.576	1.653	1.685	1.815
Wastewater										
Average daily sewage treatment (millions of gallons)	0.679	0.726	0.740	0.872	0.888	0.757	0.765	0.902	1.133	0.895
Education										
Number of schools ^a	4	3	3	3	3	3	3	3	3	3
Number of teachers	117	113	105	105	111	111	113	113	112	112
Number of students	1,203	1,180	1,272	1,272	1,279	1,305	1,420	1,433	1,370	1,393
Number of classrooms ^b	112	110	95	95	95	65	65	65	65	65

Sources: Various city departments.

YTBD (Yet to be determined)

^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

TOWN OF HILLSBOROUGH
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Table 21

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Stations	2	2	2	2	2	2	2	2	2	2
Patrol units	22	23	23	26	26	28	27	26	27	27
Fire stations	1	1	1	1	1	1	1	1	1	1
Refuse collection										
Collection trucks >	3	3	3	6	6	6	7	7	8	8
Other public works										
Streets (miles) - paved	30.84	32.89	32.89	36.15	36.15	36.15	36.15	36.15	36.15	37.63
Streets (miles) - unpaved	0.86	0.86	0.86	0.73	0.73	0.73	0.73	0.73	0.91	0.69
Streetlights	620	621	623	623	633	633	633	633	678	679
Traffic signals (all state-owned)	-	-	-	-	-	-	-	-	-	-
Parks and recreation										
Acreage ^b	30.23	30.24	72.62	72.62	72.62	72.62	74.10	74.10	74.10	74.10
Playgrounds	3	3	4	4	4	4	4	4	4	4
Water										
Water mains (miles)	121.0	126.0	146.8	146.8	147.0	147.0	148.0	148.0	150	151.0
Fire hydrants	600 [^]	612 [^]	622 [^]	656 [^]	597	614	663 ^c	621	619	628
Storage capacity (thousands of gallons)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3000	3,000
Wastewater										
Sanitary sewers (miles)	64.0	70.0	86.4	86.4	86.4	86.4	89.0	93.0	93	94.0
Storm sewers (miles) ^a	-	-	36.0	36.0	73.0	73.0	73.0	73.0	75	75.0
Treatment capacity (millions of gallons)	3.0	3.0	3.0	3.0	3.0	3.0	-	3.0	3	3.0
Area (square miles)	5.390	5.520	5.530	5.740	5.740	5.740	5.740	5.760	5.80	5.800

Sources: Various city departments.

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

^a Storm sewer data not available.

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

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

[^] Estimated

> Includes brush and leaf trucks 2009 forward

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COMPLIANCE SECTION

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**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**

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Town of Hillsborough (the "Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 31, 2015.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2015-1.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hillsborough's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Hillsborough's Response to Finding

The Town of Hillsborough's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dixon Hughes Goodman LLP

***High Point, North Carolina
December 31, 2015***

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Its Major Federal Program

We have audited the Town of Hillsborough's ("the Town") compliance with the types of compliance requirements described in the OMB Circular A-133 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 the Town's major federal program for the year ended June 30, 2015. The Town'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 program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Town'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, 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'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's compliance.

Opinion on the Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Town 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, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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'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 a 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 significant deficiencies or material weaknesses. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

***High Point, North Carolina
December 31, 2015***

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal program:

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

Noncompliance material to federal awards? Yes X No

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes X No

Identification of major federal program:

CFDA Number

66.468

Name of Federal Program or Cluster

Capitalization Grants for Drinking Water
State Revolving Funds

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

\$ 300,000

Auditee qualified as low-risk auditee?

 Yes X No

II. Financial Statement Findings

MATERIAL WEAKNESS

Finding 2015-1: Financial Accounting Closing Procedures

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

Condition: Monthly, quarterly, and annual account reconciliations were not being performed and reviewed in a timely manner.

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

Cause: Due in part to turnover in the accounting staff and complications experienced with a vendor in the conversion of the accounting system software, the Town did not follow proper review and reconciliation processes for certain balance sheet accounts.

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

- Cash
- Property taxes
- Water and Sewer Fund accounts receivable
- Miscellaneous receivables
- Due from other governments
- Capital assets retainage payable
- Accrued liabilities
- Long-term debt

View of Responsible Official and Planned Corrective Action: The Town is in the process of formalizing its policies and procedures to ensure timely and accurate reconciliations are being performed. The Town is also working through the complications surrounding the accounting software conversion and plans to have all issues corrected during the next fiscal year. These changes should allow for more proper and timely reconciliations and reviews.

III. Federal Awards Findings and Questioned Costs

There were no findings related to the federal awards for the fiscal year ended June 30, 2015.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2015

Schedule 16

Finding: 2014-1

Status: See Finding 2015-1

TOWN OF HILLSBOROUGH, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
Year Ended June 30, 2015

Schedule 17

Grantor/Program Title	Federal CFDA/ State Number	Grant Number	Federal (Direct and Pass-Through) Expenditures	State Expenditures	Local Expenditures
Federal grants:					
Noncash Programs:					
<u>U.S. Environmental Protection Agency</u>					
Passed through the NC Department of Environmental and Natural Resources Capitalization Grant for Drinking Water State Revolving Fund					
	66.468	FS-984338.13	\$ 1,761,561	\$ -	\$ -
Total U.S. Environmental Protection Agency			<u>1,761,561</u>	<u>-</u>	<u>-</u>
Cash Programs:					
<u>U.S. Department of Transportation</u>					
Passed through the NC Department of Transportation					
Highway Planning and Construction (Federal Aid Highway Program)					
	20.205	CMS-0712(14)	30,816	-	7,704
Total U.S. Department of Transportation			<u>30,816</u>	<u>-</u>	<u>7,704</u>
Total assistance - federal programs			<u>1,792,377</u>	<u>-</u>	<u>7,704</u>
State grants:					
Cash Programs:					
<u>NC Department of Transportation</u>					
Direct Programs					
Powell Bill					
	DOT 4		-	278,790	-
Total NC Department of Transportation			<u>-</u>	<u>278,790</u>	<u>-</u>
<u>NC Department of Environmental and Natural Resources</u>					
Direct Programs					
NC Recreational Trails Program					
		5403	-	114,723	144,106
Total NC Department of Environmental and Natural Resources			<u>-</u>	<u>114,723</u>	<u>144,106</u>
Total assistance - state programs			<u>-</u>	<u>393,513</u>	<u>144,106</u>
Total assistance			<u>\$ 1,792,377</u>	<u>\$ 393,513</u>	<u>\$ 151,810</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Town of Hillsborough and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Loans Outstanding

The Town of Hillsborough had the following loan balances outstanding at June 30, 2015. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	CFDA Number	Pass-Through Grantor's Number	Amount Outstanding
Capitalization Grant for State Revolving Fund	66.468	FS-984338.13	\$ 847,702