

TOWN OF HILLSBOROUGH

REPORT TO THE BOARD OF COMMISSIONERS

JUNE 29, 2023



ASSURANCE, TAX & ADVISORY SERVICES



June 29, 2023

Board of Commissioners
Town of Hillsborough
Hillsborough, North Carolina

Attention: Jenn Weaver, Mayor

We are pleased to present this report related to our audit of the financial statements of Town of Hillsborough (the Town) as of and for the year ended June 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Town's financial reporting process.

This report is intended solely for the information and use of the Board of Commissioners and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to be of service to the Town.

PBMares, LLP

PBMares, LLP

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REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated September 12, 2022. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated September 12, 2022, as an attachment to the above referenced arrangement letter, regarding the planned scope and timing of our audit and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Town. The Town adopted GASB Statement No. 87, *Leases*, during the year. The objective of this statement is to better meet the information needs of financial statement users by improving the accounting and financial reporting for leases.

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

Uncorrected misstatements are summarized in the attached list of Uncorrected Misstatements. Uncorrected misstatements or matters underlying these uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

Observations About the Audit Process

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations With Other Accountants

We are aware the Town engaged an outside professional CPA firm to assist in closing the books for the fiscal year ended June 30, 2022.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Difficult or Contentious Matters That Required Consultation

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

Internal Control Matters

We have separately communicated significant deficiencies and material weaknesses in internal control over financial reporting identified during our audit of the financial statements. These are reported as audit findings in the Schedule of Findings and Responses within the compliance reporting package of the June 30, 2022 audited financial statements. Deficiencies in internal control not considered to be material weaknesses or significant deficiencies as well as management suggestions were separately communicated in the Management Letter attached as Exhibit A.

Significant Written Communications Between Management and Our Firm

Copies of significant written communications between our firm and the management of the Town, including the representation letter provided to us by management, are attached as Exhibit A.

The North Carolina Local Government Commission (LGC) requires certain key performance indicators be communicated to those charged with governance and these indicators are attached as Exhibit B. In the event a performance indicator does not meet the LGC's minimum metrics, the Town will be required to provide a formal action plan in writing to the LGC within 60 days of the receipt of this document.

For the year ended June 30, 2022, the Town has four performance indicators that require communication to the LGC by the Board of Commissioners.

SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the Town's June 30, 2022 financial statements.

Depreciation of Capital Assets

Accounting policy	Depreciation of capital assets is performed on a straight-line basis in accordance with US GAAP.
Management's estimation process	Depreciation is calculated on a straight-line basis over the estimated useful life of the asset.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and useful lives reviewed by PBMares, LLP are reasonable.

Leases

Accounting policy	The Town records a liability and an asset (expense leases) or a receivable and deferred inflow (revenue leases) as a result of GASB 87.
Management's estimation process	The lease liability or receivable is measured at discount rates based on the Town's imputed borrowing rate. Assets recorded at the present value of the future minimum lease payments as of their inception date.
Basis for our conclusion on the reasonableness of the estimate	The Town's estimation process is consistent with GAAP based on our audit procedures performed in this area.

Unbilled Usage

Accounting policy	Receivables and revenue recognition includes as estimate for unbilled usage.
Management's estimation process	Metered sales in July are calculated using a 50% estimate when taking into account the billing cycles.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with the accounting policy and in accordance with US GAAP. PBMares LLP calculated the unbilled usage and tested significant inputs.

Fair Value of Investments

Accounting policy	Investments are carried at their fair value which is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Management's estimation process	All investments are measured using the market approach using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.
Basis for our conclusion on the reasonableness of the estimate	PBMares, LLP performed valuation testing and noted that management's process is consistent with the accounting policy and is in accordance with US GAAP.

Accrued Other Post Employment Benefits

Accounting policy	Accrued as a liability in the government-wide financial statements and proprietary fund financial statements.
Management's estimation process	Actuarial calculations from a third party actuary are used.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on auditor specialist's review of the actuary report.

LGERS Pension Asset (Liability) and Special Separation Allowance

Accounting policy	Recorded as an asset or liability in the government-wide financial statements
Management's estimation process	Actuarial calculations from a third party actuary are used.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on auditor specialist's review of the actuary report.

Accrued Compensated Absences

Accounting policy	Recorded as a liability in the government-wide financial statements
Management's estimation process	Year end balances of vacation as multiplied by the employee's current pay rate.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP.

UNCORRECTED MISSTATEMENTS

We identified the following uncorrected misstatements that management has concluded are not, individually or in the aggregate, material to the financial statements. We agree with management's conclusion in that regard.

Governmental Type Activities Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
Prior prior adjustment for accumulated depreciation not appropriately removed	\$ -	\$ -	\$ (155,959)	\$ -	\$ (155,959)
Record error in June 30, 2022 accrued vacation	-	(116,428)	-	-	(116,428)
Record prior year omission of police vacation in the final accrued vacation as of June 30, 2021	-	-	130,627	-	130,627
Total effect	-	-	-	\$ -	\$ (141,760)
Balance sheet effect	\$ -	\$ (116,428)	\$ 116,428		

Business Type Activities Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
Adjustment to reverse assets not received or put into service until FY23, however were accrued in FY22	\$ (139,550)	\$ (139,550)	\$ -	\$ -	\$ -
Adjustment for change in allocation percentage of LGERS	(28,348)	-	-	-	28,348
Prior period adjustment for accumulated depreciation not appropriately removed	-	-	(202,690)	-	(202,690)
Adjustment for error in accrued vacation	-	(84,023)	-	-	(84,023)
Total effect	-	-	-	\$ -	\$ (258,365)
Balance sheet effect	\$ (167,898)	\$ (223,573)	\$ 55,675		

Water and Sewer Fund Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
Adjustment to reverse assets not received or put into service until FY23, however were accrued in FY22	\$ (139,550)	\$ (139,550)	\$ -	\$ -	\$ -
Adjustment for change in allocation percentage of LGERS	(28,348)	-	-	-	28,348
Prior period adjustment for accumulated depreciation not appropriately removed	-	-	202,690	-	(202,690)
Adjustment for error in accrued vacation	-	(84,023)	-	-	(84,023)
Total effect	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (258,365)</u>
Balance sheet effect	<u>\$ (167,898)</u>	<u>\$ (223,573)</u>	<u>\$ (55,675)</u>		

Aggregate Non-Major Funds - Fiduciary Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
To record prior year adjustment for revenue no properly recognized in FY21	\$ -	\$ -	\$ (20,960)	\$ 20,960	\$ -
Total effect	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 20,960</u>	<u>\$ -</u>
Balance sheet effect	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		

EXHIBIT A

Significant Written Communications Between Management and Our Firm



June 29, 2023

PBMares, LLP
3621 John Platt Drive
Morehead City, North Carolina 28557

This representation letter is provided in connection with your audit of the basic financial statements of the Town of Hillsborough (the Town) as of and for the year ended June 30, 2022 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of June 29, 2023:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 12, 2022, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
4. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP, and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. The methods, assumptions and data used in making accounting estimates, including those measured at fair value, are appropriate for financial statement measurement and disclosure purposes and have been consistently selected and applied in making the estimate: Significant judgments made in making the estimates have taken into account all relevant information of which we are aware. Any assumptions made properly reflect our intent and ability to carry out the specific courses of actions previously communicated to you on behalf of the Town. All disclosures related to estimates, including disclosures describing estimation uncertainty, are complete and reasonable in the context of U.S. GAAP. No subsequent events have occurred that would require adjustment to the estimates and related disclosures included in the financial statements.
6. Related-party transactions have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Types of related party transactions engaged in by the Town include:
 - a. Those with component units for which the Town is accountable.
 - b. Those with other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
 - c. Those with joint ventures in which the Town has an interest.
 - d. Those with jointly governed organizations in which the Town participates.
 - e. Interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees.
7. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as amended.
8. The financial statements include all fiduciary activities required by GASB Statement No. 84, *Fiduciary Activities*, as amended.
9. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
10. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

11. Management has followed applicable laws and regulations in adopting, approving and amending budgets.
12. Risk disclosures associated with deposit and investment securities and derivative transactions are presented in accordance with GASB requirements.
13. Capital assets, including infrastructure, intangible assets, and right of use assets are properly capitalized, reported and, if applicable, depreciated.
14. The government properly separated information in debt disclosures related to direct borrowings and direct placements of debt from other debt and disclosed any unused lines of credit, collateral pledged to secure debt, terms in the debt agreements related to significant default or termination events with finance-related consequences and significant subjective acceleration clauses in accordance with GASB Statement No. 88.
15. Components of net position (net investment in capital assets, restricted, and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
16. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal, if applicable.
17. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
18. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
19. The Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.
20. We agree with the findings of our actuary used in calculating and evaluating our benefit obligations in the Law Enforcement Officers' Special Separation Allowance, , LGERS, and in the Other Post-Employment Benefit (OPEB) Plan and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the

financial statements and underlying accounting records. We did not give or cause any instructions to be given to the actuary with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the actuary.

21. We have recorded all adjustments need to implement GASB Statement No. 87.
22. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders, that is not disclosed in the financial statements.
23. We have disclosed all instances of identified or suspected noncompliance with laws, regulations, and provisions of contracts and grant agreements whose effects should be considered by management when preparing the financial statements. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
24. We have informed you of all uncorrected misstatements.

As of and for the year ended June 30, 2022, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the opinion units of the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Governmental Type Activities Description	Effect - Increase (Decrease)				
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Adjustment for error in accrued vacation	-	(84,023)	-	-	(84,023)
Total effect	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (258,365)</u>
Balance sheet effect	<u>\$ (167,898)</u>	<u>\$ (223,573)</u>	<u>\$ 55,675</u>		

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	Assets	Liabilities	Equity	Revenue	Expense
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Adjustment for change in allocation percentage of LGERS	(28,348)	-	-	-	28,348
Prior period adjustment for accumulated depreciation not appropriately removed	-	-	202,690	-	(202,690)
Adjustment for error in accrued vacation	-	(84,023)	-	-	(84,023)
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Aggregate Non-Major Funds - Fiduciary Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
To record prior year adjustment for revenue not properly recognized in FY21	\$ -	\$ -	\$ (20,960)	\$ 20,960	\$ -
Total effect	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 20,960</u>	<u>\$ -</u>
Balance sheet effect	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		

25. We have requested an unsecured electronic copy of the auditor's report and agree that the auditor's report and financial statements will not be modified in any manner.

Information Provided

26. We have provided you with:

- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation and other matters.
- b. Additional information that you have requested from us for the purpose of the audit.

- c. Unrestricted access to persons within the Town from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Commissioners, or summaries of actions of recent meetings for which minutes have not yet been prepared.
27. All transactions have been recorded in the accounting records and are reflected in the basic financial statements.
28. We have disclosed to you the results of our assessment of risk that the basic financial statements may be materially misstated as a result of fraud.
29. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of an entity's system of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.
30. We have no knowledge of allegations of fraud or suspected fraud affecting the Town's basic financial statements involving:
- a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the basic financial statements.
31. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's basic financial statements received in communications from employees, former employees, analysts, regulators, or others.
32. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations.
33. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

34. We have disclosed to you the identity of all of the Town's related parties and all the related-party relationships and transactions of which we are aware.
35. We have informed you of all deficiencies in internal control over financial reporting, including significant deficiencies or material weaknesses, in the design or operation of internal controls that could adversely affect the Town's ability to record, process, summarize and report financial data.
36. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

37. With respect to supplementary information presented in relation to the basic financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. There are no underlying significant assumptions or interpretations regarding the measurement or presentation of such information.
 - e. When supplementary information is not presented with the audited basic financial statements, we will make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
38. With respect to Management's Discussion and Analysis, the Local Governmental Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Liability and Contributions, the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the Schedules of Changes in the Total OPEB Liability presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.

- b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. There are no underlying significant assumptions or interpretations regarding the measurement or presentation of such information.

Compliance Considerations

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

- 39. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- 40. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the Town.
- 41. Has identified and disclosed to the auditor all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.
- 42. Is responsible for 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.
- 43. Acknowledges its responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
- 44. Has taken timely and appropriate steps to remedy identified or suspected fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements that the auditor reports.
- 45. Has a process to track the status of audit findings and recommendations.
- 46. Has identified for the auditor previous audits, attestation engagements and other studies related to the objectives of the audit and whether related recommendations have been implemented.

47. Is not aware of any investigations or legal proceedings that have been initiated with respect to the period under audit.
48. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.
49. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Town of Hillsborough



Eric J. Peterson (Jun 29, 2023 17:32 EDT)

Eric Peterson

Town Manager



Dave McCole

Finance Director



June 29, 2023

To Management
Town of Hillsborough
Hillsborough, North Carolina

In planning and performing our audit of the financial statements of the Town of Hillsborough (the Town) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We communicated the material weakness and significant deficiencies identified during our audit in the Compliance Section of the financial statements.

Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

Internal Control Deficiencies:

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Software Access for Terminated Employees

During procedures performed over terminated employees, PBMares, LLP identified two terminated Town employees that still had login access to the cloud based financial accounting software, Smartfusion, and one terminated Town employee that still had login access to both Smartfusion and InCode, the utility billing

system. We verified the last login date on all systems corresponded with the termination date for each of the three employees, confirming they had not accessed the systems subsequent to their departure from the Town.

Recommendation

We recommends the Town adhere to the payroll checklist for employee terminations, which was revised after the finding noted above, to include verification of employee removal from all systems.

Local Government Employees Retirement System (LGERS) Allocation

During our testing of the LGERS allocation of liability, deferred outflows/inflows and expense, we noted that the change in allocation percentage resulted in unrecorded deferred outflows on both the Water and Sewer and Stormwater funds and an unrecorded deferred inflows on Governmental Activities.

Recommendation

PBMares, LLP recommends the Town perform an evaluation and review of the LGERS annual allocation percentage to ensure underlying facts and circumstances have not significantly changed for the year. If the facts and circumstances remain materially the same, we recommend the town apply the same allocation percentage each year.

Management Suggestions:

Following includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the basic financial statements of the Town as of and for the year ended June 30, 2022. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the Town's practices and procedures.

Review of Software Module Accesses

During procedures performed over information technology and software systems, we noted several employees had access to certain modules in the financial accounting software that were not applicable to their role or department. We suggest that a full review of employee accesses for all systems be performed in order to ensure each employee's access is appropriate depending on their role or department.

Utility Unbilled Revenue Calculation

The Town currently calculates unbilled utility revenue at the end of each year by applying a flat 50% of the July billing register as an accrual to the prior year. Upon inspection of the July registers, there is significantly more detail available that would allow the Town to more precisely present the value of this accounting estimate. We suggest the Town consider performing a more detailed calculation based on days-in-cycle within each fiscal year to more precisely present the value of the estimate.

This communication is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

PBMares, LLP

PBMares, LLP

EXHIBIT B

Performance Indicators

PERFORMANCE INDICATORS

The self-reported information from your unit's audit report was used to generate the following trends and performance indicators. We have created this Performance Indicator tab to make these indicators available to auditors and local governments when your audit is conducted. If any unit's results are shaded red, the unit must submit a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" within 60 days from the auditor's board presentation. The response must address all performance indicators shaded in red.

Unit Name:	Hillsborough	Fiscal Year 2022	Explanation of Performance Indicator
Unit Number:	50181		

In the past, units of government have been grouped by population to evaluate ratios and benchmarking (including Fund Balance Available). Beginning with fiscal year 2020, we have grouped units by General Fund expenditures for purposes of evaluating the minimum amount of fund balance a unit needs to operate. A unit's General Fund expenditures proved to be a better correlation to the amount of funds balance needed to operate, especially for units with large higher education or tourism populations. Activity from Debt Service Funds (if applicable) is included in the calculation because these funds typically originate from the General Fund and are transferred to a Debt Service Fund.

The table below lists the thresholds that are used in the analysis of your unit's fiscal health. These thresholds were determined based on an analysis of previous years general fund activity. These thresholds will be monitored and updated as applicable.

Municipalities			
General Fund Expenditures below:	Median FBA as % of Expenditures without Powell Bill	Minimum Thresholds FBA as % of Expenditures	# of Months FBA using Annualized Expenditures
\$100,000	260%	100%	12.00
\$100,000 to \$999,999	132%	71%	8.52
\$1,000,000 to \$9,999,999	63%	34%	4.08
Above \$10,000,000	46%	25%	3.00

Counties			
General Fund Expenditures below:	Median FBA as % of Expenditures without Powell Bill	Minimum Thresholds FBA as % of Expenditures	# of Months FBA using Annualized Expenditures
Below \$100,000,000	39%	20%	2.40
\$100,000,000 and above	32%	16%	1.92

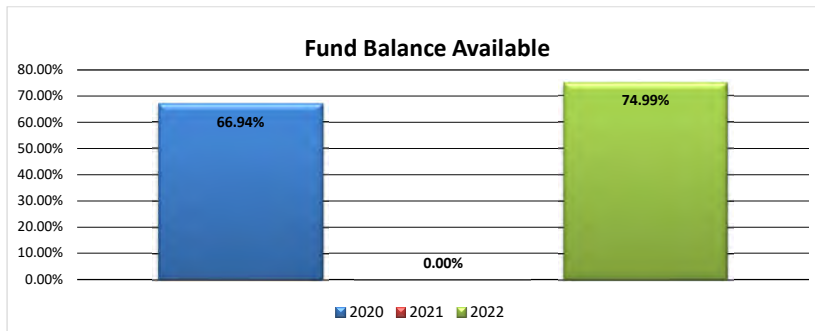
Units of government are grouped by general fund expenditures for purposes of evaluating available fund balance as a percentage of expenditures (GF FBA%). Each grouping category has its own minimum threshold. If you are in the lower quartile your GF FBA% might be considered a performance indicator of concern and you might be asked to communicate to us. To the left are the minimum thresholds for Municipalities and Counties.

GENERAL FUND:

Minimum Threshold

Unit Results

1.



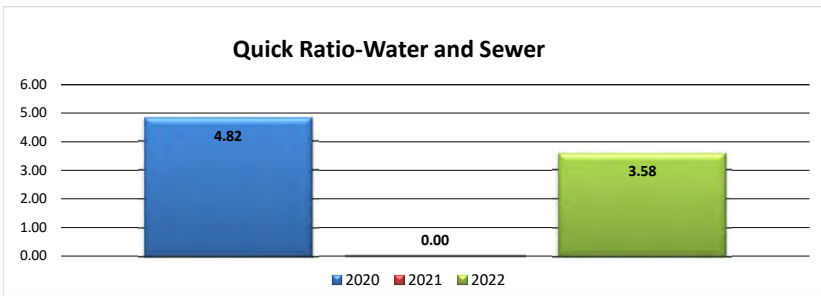
25% -- Average of similar units is 46%

74.99%

Fund balance available for appropriation is an important reserve for local governments to provide cash flow during periods of declining revenues and to be used for emergencies and unforeseen expenditures. The information to the left indicates the amount of available cash on hand. You will also see the average for units of your size. **Note that 8.33% represents enough fund balance to cover only one month of expenditures.** Normally, a unit has to either increase revenues or decrease expenditures to increase fund balance available.

This calculation looks at fund balance available plus debt service fund balance (if applicable) less Powell Bill. This number is then divided by the total of total expenditures plus transfers out less bond proceeds.

	Unit Name:	Hillsborough	Fiscal Year 2022	Explanation of Performance Indicator
	Unit Number:	50181		
	GENERAL FUND:		Minimum Threshold	Unit Results
2.	There was appropriated fund balance for the General Fund in the 2022 budget <u>AND</u> your change in fund balance was negative. Please state if fund balance was used for operations or capital purposes.		Positive Change in Fund Balance	N/A
3.	The General Fund had total fund balance less than zero - Fund Deficit		Positive Fund Balance	\$12,004,024
				<p>If the General Fund has more expenditures than revenues because of operational issues and fund balance was appropriated to cover the loss, the continuation of this practice could result in deterioration of a unit's fund balance available.</p> <p>The General Fund has a fund deficit which means that the unit's revenues and other receipts are inadequate to support its operations. G.S. 159 13(b)(2) requires that the board fund the full amount of a prior fiscal year's deficit in the current fiscal year's budget. Therefore, this deficit should have been funded immediately after the June 30, fiscal year-end. The law requires such action be taken to stop any further deterioration of the overall financial condition of the fund. Please let us know if the deficit was funded in the budget, and what actions the unit plans to take to bring the general fund balance up to an acceptable level.</p>

	Unit Name:		Hillsborough		Fiscal Year 2022		Explanation of Performance Indicator	
	Unit Number:		50181					
	WATER SEWER FUND:				Minimum Threshold	Unit Results	Note: If more than one performance indicator is identified, one proposed solution may solve all water and sewer performance indicators.	
4.	<div><div>Quick Ratio-Water and Sewer</div></div>				Equal or greater than 1	3.58	A Quick Ratio less than 1 indicates that the unit owes mores for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the water and/or sewer system may not be sustainable.	
	Cash Flow Indicators:		2020	2021	2022	Minimum Threshold	Unit Results	
5.	Operating Net Income (Loss) excluding depreciation, including debt service principal and interest		\$2,421,160	\$0	\$1,877,000	Greater than zero	\$1,877,000	This calculation subtracts operating expenses from operating revenues. Depreciation expense is not included the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses and debt service payments.
6.	Unrestricted cash /total expenses excluding depreciation, including debt service principal and interest		123.45%	0.00%	119.64%	Greater than 16% (2 months)	119.64%	This indicator calculates how many month's worth of expenses (including debt principal and interest but not depreciation) a unit can pay based on the amount of unrestricted cash at year-end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.
7.	It appears your Water Sewer Fund has transfers-in for the support of operations that are greater than 3% of the total of operating and non-operating expenses. Please discuss the purpose of such transfers-in and if you plan to continue these transfers-in.				No		No	The rate structure of the Water and Sewer Fund should support the operating expenses of the fund without operating subsidies or transfers from other funds.

	Unit Name:	Hillsborough			Fiscal Year 2022										
	Unit Number:	50181					Explanation of Performance Indicator								
	ELECTRIC FUND:				Minimum Threshold	Unit Results			Note: If more than one performance indicator is identified, one proposed solution may solve all electric performance indicators.						
8.	<div><div>Quick Ratio-Electric</div><table><caption>Quick Ratio-Electric Data</caption><thead><tr><th>Year</th><th>Quick Ratio</th></tr></thead><tbody><tr><td>2020</td><td>0.00</td></tr><tr><td>2021</td><td>0.00</td></tr><tr><td>2022</td><td>0.00</td></tr></tbody></table></div>				Year	Quick Ratio	2020	0.00	2021	0.00	2022	0.00	Equal or greater than 1	#DIV/0!	A Quick Ratio less than 1 indicates that the unit owes mores for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the electric system may not be sustainable.
Year	Quick Ratio														
2020	0.00														
2021	0.00														
2022	0.00														
	Cash Flow Indicators:	2020	2021	2022	Minimum Threshold	Unit Results									
9.	Operating Net Income (Loss) excluding depreciation, including debt service principal and interest	N/A	N/A	N/A	Greater than zero	N/A	This calculation subtracts operating expenses from operating revenues. Depreciation expense is not included the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses.								
10.	Unrestricted cash /total expenses excluding depreciation, including debt service principal and interest	N/A	N/A	N/A	Greater than 16% (2 months)	N/A	This indicator calculates how many month's worth of expenses (including debt principal and interest but not depreciation) a unit can pay based on the amount of unrestricted cash at year-end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.								

	Unit Name:	Hillsborough	Fiscal Year 2022		Explanation of Performance Indicator
	Unit Number:	50181			
	GENERAL PERFORMANCE INDICATORS:		2022	Target	
11.	The 2022 Audit Report is expected to be submitted within five months plus one day from the fiscal year end per the auditor. (December 1st for most units)	No	5 months plus one day after the fiscal year end	Late	As stewards of the public's resources, the governing body is responsible for ensuring that the audited financial statements are available to the public in a timely manner. External groups such as the North Carolina General Assembly, federal and State agencies that provide funding, and other public associations need current financial information about your local government as well.
		2022	Target		
12.	The budgeted ad valorem tax (including motor vehicles) for the General Fund had more than 3% uncollected for the fiscal year audited. Decreases are shown by a negative percentage.	3.96%	Less than 3%	3.96%	This indicator shows that the local government did not collect 3% (or more) of its budgeted ad valorem taxes. This could be an indicator of negative economic events, inaccurate budgeting, and/or issues with the collection process. Uncollected revenues at the 3% level represent several pennies of the tax rate.
		2022	Target		
13.	You indicated that you expect a decrease in property value for your next property revaluation. In your FPIC Response Letter please discuss the magnitude of the drop in valuation, the overall cause of the drop and how you plan to recover the lost revenues.	N/A	Any estimated decrease	N/A	You indicated that you expect a decrease in property value for your next property revaluation which could result in lost tax revenue.
		2022	Target		
14.	Did your audit disclose as a finding any budget violations? (Yes or No)	No	No over-expenditures	No	The unit has expenditures that exceed the legal budget ordinance. This indicates that the unit's purchase order system, contract approval process and / or payment process is not in compliance with North Carolina General Statute 159.
		2022	Target		
15.	If a unit has no performance indicators of concern that would require them to submit a Response to Audit Findings, Recommendations and Fiscal Matters, but they are currently on the Unit Assistance List, they must still submit an FPIC Response Letter. Their response should discuss the financial plan they have developed to address the issues that placed them on the Unit Assistance List and the progress they have made to date.	Yes		Yes	As of the creation of this worksheet your unit was on the Unit Assistance List. Please provide details of what progress you have made to date to improve the issues that placed you on the list and future progress you intend to make. If you are unaware that you are on the Unit Assistance List please email LGCMonitoring@nctreasurer.com and request a copy of the letter notifying you of your status on the Unit Assistance List.
		2022	Target		
16.	The Unit had material weaknesses, significant deficiencies, and/or statutory violations that should be addressed in the FPIC Response Letter.	Yes		Yes	This indicator lists whether the unit has any material weaknesses, significant deficiencies, or management letter comments that require a response.
17.	The unit had a board-appointed finance officer the entire fiscal year.	No		No	This indicator is to determine if during the fiscal year, the unit was without a board-appointed finance officer.

	Unit Name:	Hillsborough	Fiscal Year 2022		Explanation of Performance Indicator
	Unit Number:	50181			
	GENERAL PERFORMANCE INDICATORS:	2022	Target		
18.	The unit had problems with debt service payments being late and/or did not comply with the bond covenants.	No		No	This indicator lists whether or not the unit has issues with debt service payments or bond covenants.
		2022	Target		
19.	Electric transfers-out have exceeded the amounts described in GS 159B-39. If your unit is a member of the North Carolina Eastern Municipal Power Agency it appears you have violated the GS. OR If you are not a member of the Eastern Municipal Power Agency it appears that you have violated your unit's transfer policy.	No		No	This indicator shows if there were electric transfers in in violation of G.S. 159B-39 or in violation of the unit's transfer policy.
		2022	Target		
20.	Are there additional issues the unit should address that affect the fiscal health or internal controls of the unit that were communicated to the unit during the audit presentation? <u>Please include details of the issue in cell J44 to the right and in your FPIC Response.</u>	No		No	This indicator lists any other issues that the unit should address.