


TOWN OF  
**HILLSBOROUGH**  
NORTH CAROLINA


Report date: June 29, 2023



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Certified Public Accountants & Consultants

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Financial Results for the Year Ended  
June 30, 2022

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## Agenda



- Financial Results
  - The Annual Comprehensive Financial Report
  - Audit Opinion (Unmodified)
  - Benchmarking comparative results
- Compliance Results
  - Government Auditing Standards
    - Three significant deficiencies in internal control identified
    - One material weakness in internal control identified
    - One instance of material noncompliance identified
- Performance Indicators of Concern
  - Four performance indicators requiring response by the Board

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## Components of the Annual Comprehensive Financial Report




- Management's Discussion and Analysis
- Government-wide F/S
- Fund F/S
- Notes to the F/S
- Required supplementary financial data
- Other supplementary information
- Statistical data
- Compliance

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TOWN OF HILLSBOROUGH, NC

Types of Opinions



- Adverse
- Disclaim
- Qualified
- **Unmodified – “Clean” (Highest Level of Assurance)**


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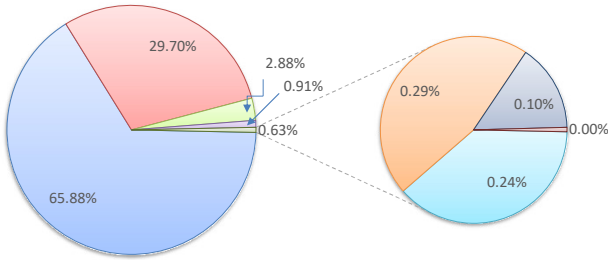
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TOWN OF HILLSBOROUGH, NC

General Fund Revenues

For the Year Ended June 30, 2022





Category	Percentage
Ad valorem taxes	65.88%
Unrestricted intergovernmental revenues	29.70%
Restricted intergovernmental revenues	2.88%
Investment earnings	0.91%
Other taxes and licenses	0.63%
Use and rental fees	0.29%
Miscellaneous	0.24%
Contributions and donations	0.10%
Unlabeled	0.00%

Ad valorem taxes

Restricted intergovernmental revenues

Investment earnings

Other taxes and licenses

Unrestricted intergovernmental revenues

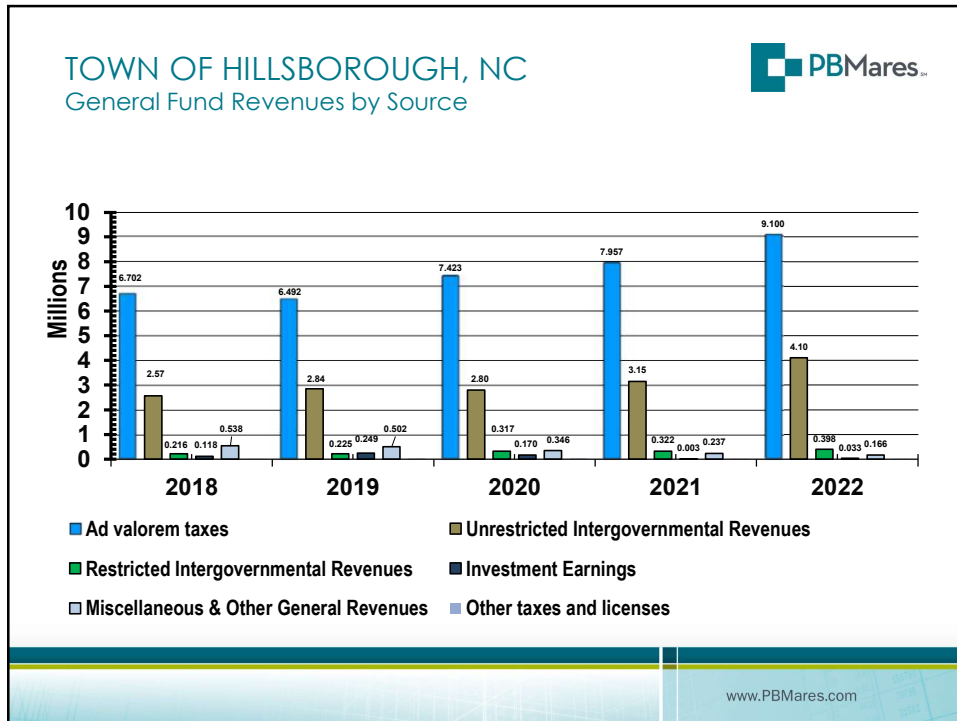
Use and rental fees

Miscellaneous

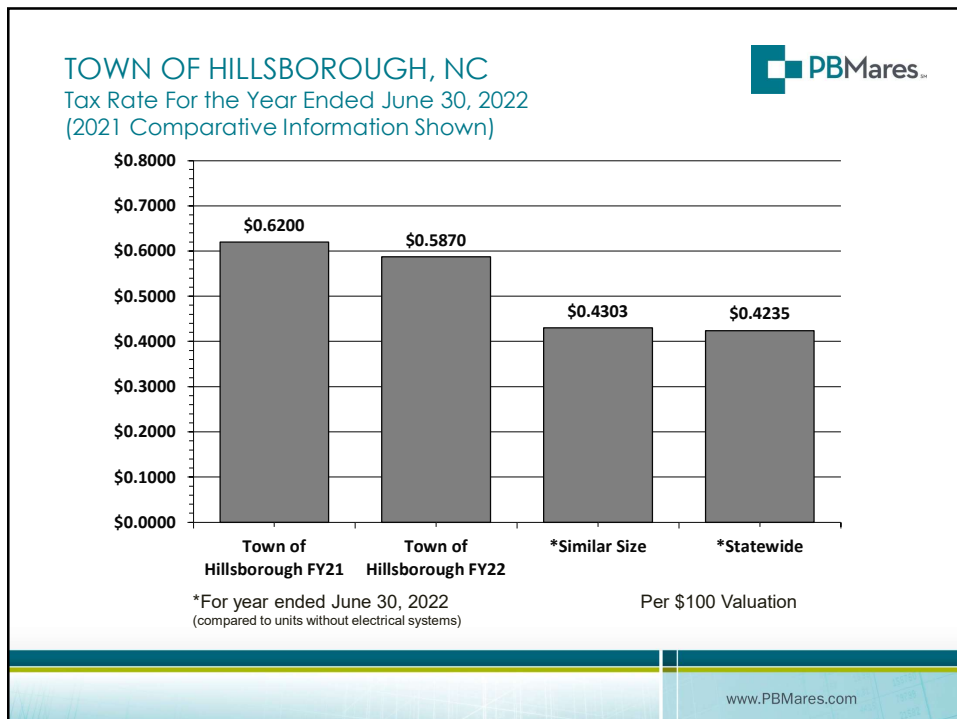
Contributions and donations

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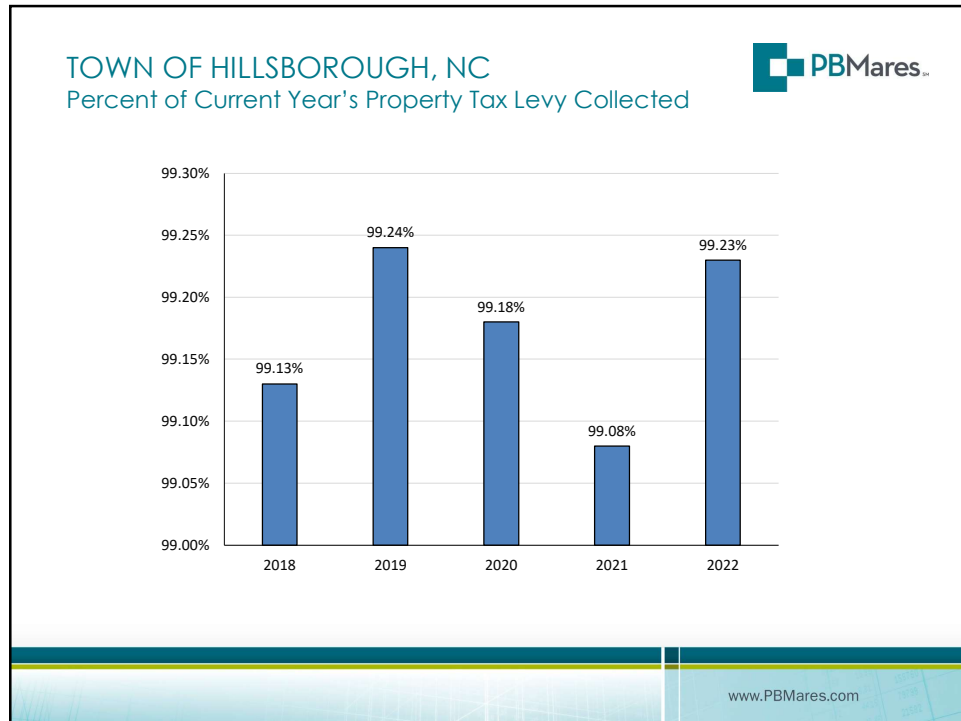
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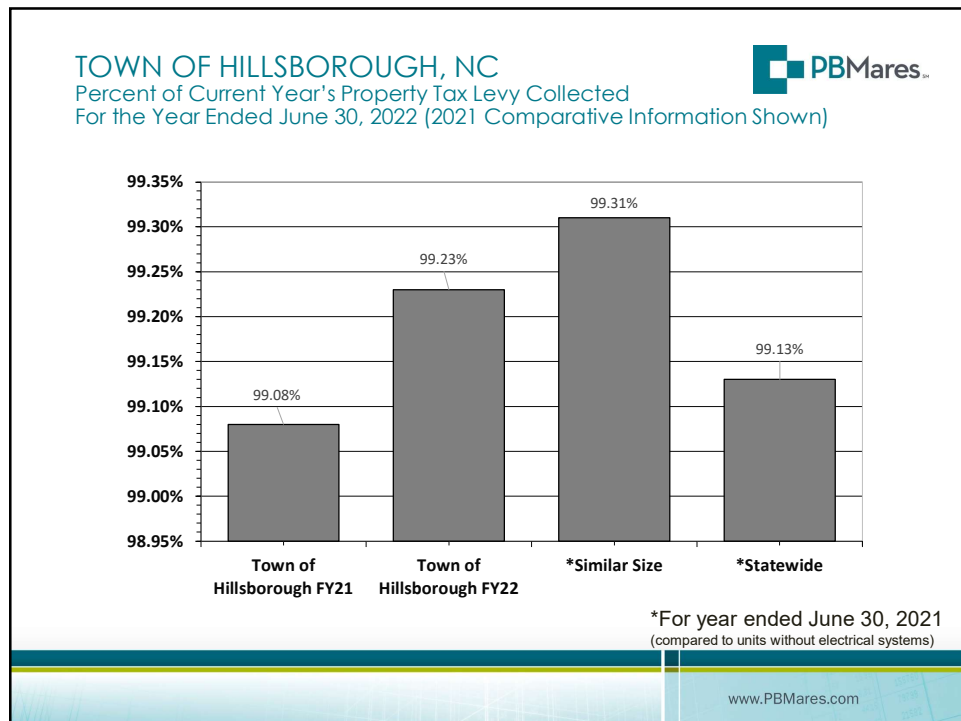
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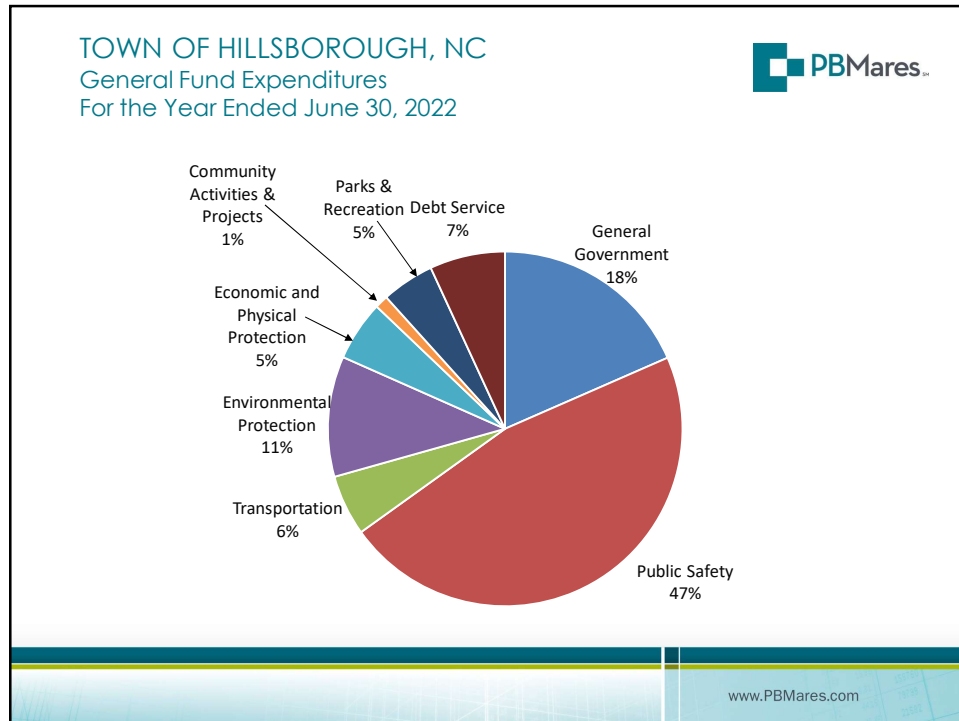
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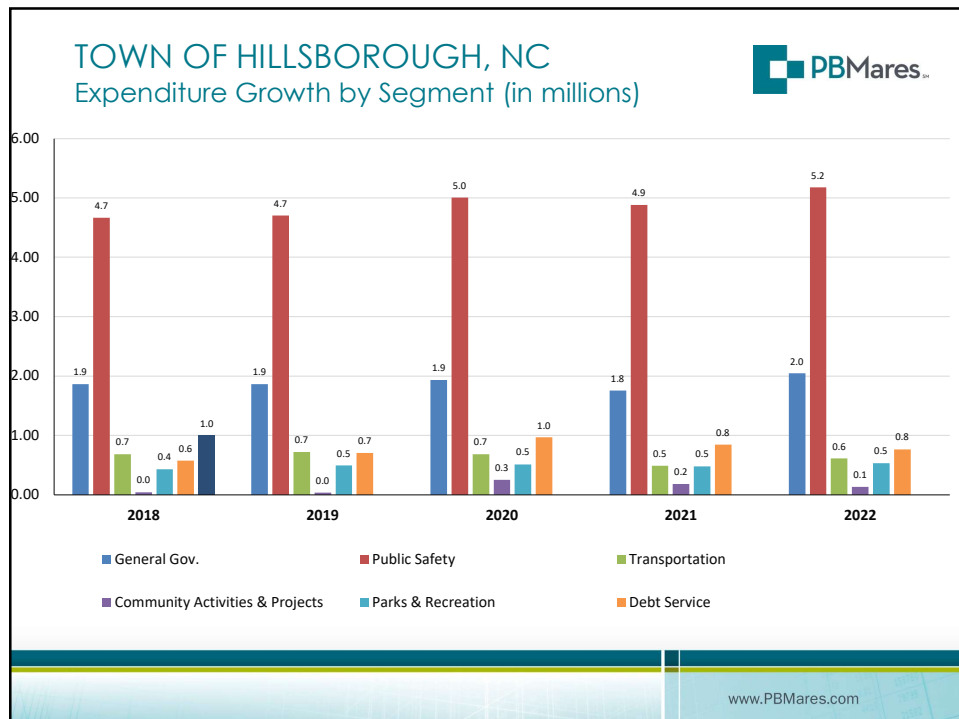
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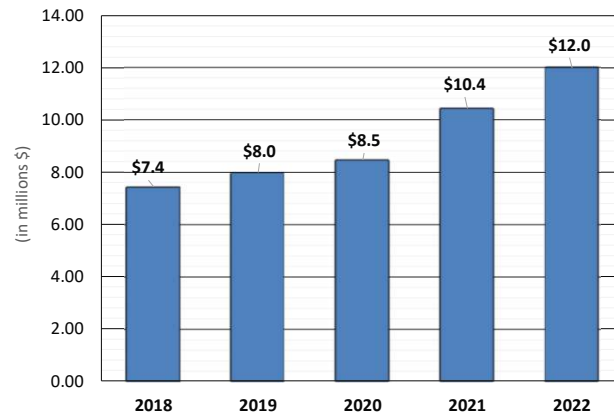


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TOWN OF HILLSBOROUGH, NC  
General Fund Balance (in millions)



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TOWN OF HILLSBOROUGH, NC  
General Fund - Fund Balance Presentation



Restricted for

Stabilization by State Statute	2,458,060
Streets	576,846
Restricted Revenue	150,987

Committed for:

Capital Projects	-
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Assigned for:

Subsequent Year's Expenditures	743,482
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Unassigned

8,074,649

**Total fund balances**

12,004,024

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## Compliance Results for the Year Ended June 30, 2022

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## Reporting Requirements

- Government Auditing Standards

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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



- **Material Weakness-** a significant deficiency, or combination of significant deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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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 (Continued)



- **Significant Deficiency-** a deficiency, or 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.
- **Control Deficiency-** a control deficiency 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.

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## Schedule of Findings and Responses


**Finding 2022-001: Material Noncompliance and Material Weakness in Internal Control over Compliance – Timeliness of Audited Financial Statements Submission**

- **Criteria:** North Carolina General Statute §159-34 (NCGS §159-34) requires the submission of the annual audit 4 months past the end of the fiscal year, with an extended due date at five months past the end of the fiscal year.

**Condition and Context:** The June 30, 2022 financial statements were not submitted to the North Carolina Local Government Commission until over eight months past the original due date or seven months past the extended due date.

**Effect:** The Town has not complied with NCGS §159-34.

**Cause:** The main cause is due to staff turnover.

**Recommendation:** We recommend the Town continue utilizing the third party accounting firm to aid in the timeliness of the audit.

**Management's Response:** The Finance Service Department will be fully staffed entering fiscal year 23/24. Being fully staffed with qualified individuals in the Finance Service Department will enable the Town to have timely audited financial statements submitted to the Local Government Commission. The Town will continue utilizing the third-party accounting firm to aid in the timeliness of the audit.

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## Schedule of Findings and Responses (Continued)


**Finding 2022-002: Significant Deficiency in Internal Control – Accrued Compensated Absences**

- **Criteria:** Government Accounting Standards Board (GASB) Codification Section C60-Compensated Absences paragraph .104 states:

"Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:

- a. The employees' rights to receive compensation are attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement."

**Condition and Context:** The June 30, 2022 subsidiary ledger for accrued compensated absences was not appropriately calculating a liability for each individual employee. The subsidiary ledger did not include all employees with accrued compensated absences at June 30, 2022. For the June 30, 2021 year end, the Town failed to record the compensated absences for the "police leave" portion of the subsidiary ledger.

**Effect:** The Governmental Activities June 30, 2021 compensated absences were understated by \$130,627. The June 30, 2022 compensated absences are understated by \$116,428 and \$84,023 in Governmental Activities and the Water and Sewer Fund, respectively. The June 30, 2022 vacation expense is overstated in Governmental Activities by \$14,199 and understated in the Water and Sewer Fund by \$84,023.

**Cause:** Lack of sufficient review of the accrued compensated absences detail subsidiary ledger.

**Recommendation:** We recommend the Town perform a detailed review of the system-generated compensated absences subsidiary ledger to ensure completeness, accuracy, and that all appropriate leave types are included and accrued for at year end.

**Management's Response:** The Town will perform, on a quarterly basis, a detailed review of the system-generated compensated absences subsidiary ledger to ensure completeness, accuracy, and that all appropriate leave types are included and accrued for at year end.

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## Schedule of Findings and Responses (Continued)

**Finding 2022-003: Significant Deficiency in Internal Control – Year-End Cutoff**

- **Criteria:** Generally Accepted Accounting Principles dictate transactions should be recorded in the period in which they occur.

**Condition and Context:** The Town recognized the purchase of two vehicles in the Water and Sewer Fund in the June 30, 2022 year end, where the purchase occurred in the June 30, 2023 year end. Additionally, the Town recognized revenue in the June 30, 2022 year end for revenue that occurred and should have been accrued for as a receivable in the June 30, 2021 year end in the Fiduciary Fund.

**Effect:** At June 30, 2022, capital assets and accounts payable in the Water and Sewer Fund are overstated by \$139,550. Revenue in the Fiduciary Fund is overstated by \$20,960 for year ending June 30, 2022.

**Cause:** Lack of sufficient review of cut-off invoices for both payables and receivables in the year-end accrual process.

**Recommendation:** We recommend the Town adhere to their prescribed policy of recording transactions in the period in which they occur. Additionally, we recommend the Town strengthen their review process to ensure reporting transactions in the appropriate reporting period.

**Management's Response:** The Town will adhere and strengthen their review process to ensure reporting of transactions in the appropriate reporting period.

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## Schedule of Findings and Responses (Continued)

**Finding 2022-004: Significant Deficiency in Internal Control – Removal of Capital Assets**

- **Criteria:** When retiring a capital asset, Generally Accepted Accounting Principles require the corresponding accumulated depreciation related to the retired asset be removed as well, resulting in the retirement of the capital asset net of accumulated depreciation.

**Condition and Context:** Prior to the fiscal year ending June 30, 2022, the Town failed to remove the accumulated depreciation for several assets. The Town recognized and corrected the error while preparing the financial statements in the current year.

**Effect:** The current year depreciation expense is understated by \$155,959 and \$202,690 for Governmental Activities and the Water and Sewer Fund, respectively.

**Cause:** Oversight and lack of review by former Town employees

**Recommendation:** We recommend the Town continue to appropriately remove capital assets, as was done for the June 30, 2022 fiscal year.

**Management's Response:** The Town will continue to appropriately remove capital assets, as was done for the June 30, 2022 fiscal year.

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## Auditor's Required Communications: AU-C 260



Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	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.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	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.

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## Auditor's Required Communication: AU-C 260 (Continued)



Area	Comments
<b>Accounting Policies and Practices</b>	<p><b>Preferability of Accounting Policies and Practices</b> 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.</p> <p><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Town. The Town adopted GASB Statement No. 87, <i>Leases</i>, 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.</p> <p><b>Significant Accounting Policies</b> We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Significant Unusual Transactions</b> We did not identify any significant unusual transactions.</p> <p><b>Management's Judgments and Accounting Estimates</b> 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.</p>

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## Auditor's Required Communications: AU-C 260 (Continued)



Area	Comments
<b>Audit Adjustments</b>	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
<b>Uncorrected Misstatements</b>	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.
<b>Disagreements With Management</b>	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.
<b>Consultations With Other Accountants</b>	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.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

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## Auditor's Required Communications: AU-C 260 (Continued)



Area	Comments
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Difficult or Contentious Matters That Required Consultation</b>	We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.
<b>Internal Control Matters</b>	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.
<b>Significant Written Communications Between Management and Our Firm</b>	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.

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## Financial Performance Indicators



The next several slides are titled “Performance Indicators of Concern” as defined by the Local Government Commission.

The Board of Commissioners will be responsible for responding directly to the LGC within 60 days of the formal presentation by the auditor to the Board of Commissioners for any items that are marked “red” in the next several slides.

These performance indicators are derived from the Data Input form required to be submitted with the financial statements to the LGC.

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## Financial Performance Indicators of Concern






General Performance Indicators:	2022	Target	Unit Results
The 2022 Audit Report is expected to be submitted within 5 months plus one day from the fiscal year end per the auditor. (December 1 <sup>st</sup> for most units)	No	5 months plus one day after the fiscal year end	Late
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

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Financial Performance Indicators of Concern (Continued)			
			
General Performance Indicators:	2022	Target	Unit Results
The Unit had material weaknesses, significant deficiencies, and/or statutory violations that should be addressed in the FPIC Response Letter.	Yes		Yes
The Unit had a board-appointed finance officer for the entire fiscal year.	No		No
			
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		TOWN OF HILLSBOROUGH NORTH CAROLINA Tourism Board
Report date: June 29, 2023		
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TOWN OF HILLSBOROUGH, NC

Tourism Board

Types of Opinions




- Adverse
- Disclaim
- Qualified
- **Unmodified – “Clean” (Highest Level of Assurance)**

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TOWN OF HILLSBOROUGH, NC

Tourism Board Fund - Fund Balance Presentation




Restricted for	
Stabilization by State Statute	95,084
Assigned for:	
Subsequent Year's Expenditures	19,435
Unassigned	397,706
	<hr/>
Total fund balances	512,225
	<hr/>
Total Liabilities and Fund Balance	<u>\$ 532,632</u>

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TOWN OF  
**HILLSBOROUGH**  
NORTH CAROLINA  
Tourism Development Authority

Report date: June 29, 2023




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TOWN OF HILLSBOROUGH, NC  
Tourism Development Authority  
Types of Opinions




- Adverse
- Disclaim
- Qualified
- **Unmodified – “Clean” (Highest Level of Assurance)**

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TOWN OF HILLSBOROUGH, NC

Tourism Development Authority Fund - Fund Balance Presentation



Restricted for	
Stabilization by State Statute	88
Unassigned	351,524
Total fund balances	351,612
Total Liabilities and Fund Balance	\$ 414,761

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