



TOWN OF
HILLSBOROUGH
NORTH CAROLINA



Annual Financial Report
For Fiscal year ended June 30, 2023

Presented by the Financial Services Department

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TOWN OF HILLSBOROUGH, NORTH CAROLINA

Annual Financial Report

Fiscal Year Ended June 30, 2023



Prepared by the Financial Services Department



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The seal of Hillsborough County, North Carolina, is a circular emblem. It features a central shield divided into four quadrants. The top-left quadrant contains three red shells. The top-right quadrant contains a yellow lion passant guardant. The bottom-left quadrant contains a yellow lion passant guardant. The bottom-right quadrant contains a red lion passant guardant. The shield is set against a background of a yellow sunburst. The words "HILLSBOROUGH" and "NORTH CAROLINA" are inscribed around the perimeter of the seal.

INTRODUCTORY SECTION

This section of the Town of Hillsborough's (the "Town") annual financial report presents general information on the Town's organization and the environment in which it operates. This section goes beyond the minimum reporting requirements of accounting principles generally accepted in the United States of America. As such, the information contained in this section is unaudited.



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November 29, 2023

Honorable Mayor Weaver,
Board of Commissioners,
and Citizens of Hillsborough, North Carolina

The Annual Financial Report of the Town of Hillsborough, North Carolina (the "Town") for the fiscal year ended June 30, 2023, 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. The Town has not met that threshold for the past two fiscal years due to significant turnover in the Financial Services Department from February 2021 through February 2023. At one point the accounting operation was down to 1.4 employees and no finance director. During this two-year period, the Town has had six acting/interim finance directors, with a finance director for one year, then back to an interim director before a full-time director was hired again in February 2023. This level of turnover and inadequate staffing created many gaps, challenges, and operational issues. The 2021 audit was about 15 months late and was completed in January 2023. The gap was reduced for the 2022 audit with it being eight months late with completion just a few months ago in July 2023.

Fortunately, by evidence of this transmittal letter and document, the 2023 audit has been completed on time. Operations have stabilized in the Financial Services Department thanks to several years of hard work from the staff, being able to retain these excellent employees, filling vacancies, the hiring of a finance director with decades of local government accounting experience, resources from the Greg W. Isley accounting firm to prepare the financial statements, as well as use of a financial consultant with significant local government experience. An operational analysis was completed in February 2023 by our financial consultant. The review identified potential improvements, such as building redundancy; streamlining inefficient processes; enhancing staff experience via training and cross-training as many are relatively new to government finance; replacing antiquated software, and assisting the new finance director, who started Feb. 6, with a plan to strengthen departmental operations. Noteworthy progress has been made in many of the areas identified in the analysis, along with plans to continue implementation moving forward to prevent a repeat of the challenges of the past two years, and make the Town's financial services operations more effective, efficient, and resilient during times of employee turnover.

The Town traditionally produces an Annual Comprehensive Financial Report ("ACFR"), but this will be the third year the audit results are shared as an Annual Financial Report ("AFR"). The difference is the ACFR includes a statistical section with a variety of historical information on tax levy, debt levels, population growth, employment levels, operational statistics, and much more. Due to the challenges mentioned with staffing the focus has been on getting the accounting and financial reporting components completed as quickly as possible. Including the statistical section would have further delayed the process. While the current 2023 audit also does not include this section, staff plans to complete that section within the next few months and submit an amended report. This means this helpful information will be available and it will be easy to include this in the 2024 audit, thus returning to the ACFR level of reporting.

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") as applicable to governments. 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 an 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 PBMares, LLP, a firm of licensed certified public accountants, was selected and awarded the contract for Fiscal Year 2023. 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. GAAP requires 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 and Analysis and should be read in conjunction with it. The Town's MD&A immediately follows the independent auditors' report.

Profile of the Town and Government

Founded in 1754, Hillsborough is the seat of Orange County. Located at the intersection of interstates 85 and 40, it is part of the region known as the Research Triangle and is close to several major cities, with Durham, Chapel Hill, Raleigh, and Greensboro nearby. Several universities are close to town — the University of North Carolina at Chapel Hill, Duke, Elon, North Carolina Central, and North Carolina State. Durham Technical Community College also has a Hillsborough campus. The Town's economy is centered on government, retail, service providers, manufacturing, and health care including the UNC Hospitals Hillsborough Campus. The Town's historical sites and its vibrant art, music, and food scenes attract many tourists and visitors.



The historic Ruffin-Roulhac House, circa 1821, serves as Town Hall.

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 parks, water, sewer, police, planning, public space management, street maintenance, solid waste collection, and stormwater. Fire protection is contracted through a partnership with the Orange Rural Fire Department. The Town provides financial support to certain boards, agencies, and commissions to assist their efforts in serving citizens. It has evaluated its relationship with each of these entities according to accounting and reporting standards established by the Governmental Accounting Standards Board ("GASB") and has determined that the Hillsborough Tourism Development Authority and Hillsborough Tourism Board are required to be reported as discretely presented component units in the Town's financial statements.

The Town operates its own water and sanitary sewer systems. Its water treatment plant has a capacity of 3 million gallons per day (MGD) and is currently treating an average daily flow of about 1.6 MGD. The water system serves about 6,500 customers, which includes residents and businesses within the corporate limits as well as out-of-town customers. The sanitary sewer system has a treatment capacity of 3 MGD, with a current average daily treated discharge of about 0.8 MGD.

The Town offers a seven-week course — Hillsborough University: Government 101 — aimed at helping community members increase their knowledge of town government, as well as their interest and ability in influencing and participating in town decisions. Many graduates have gone on to serve on appointed boards and committees, to volunteer in organizations throughout the community, and were elected to the Town’s governing board.

Strategic Plan

After using a balanced scorecard for strategic planning for 12 years, the Town shifted to a new model in Fiscal Year 2020 to better monitor, manage, and set direction for policy and operational goals. The COVID-19 pandemic slowed developing a new way to set goals and link them to actions and performance measures. The fiscal year (“FY”) 2024-2026 Strategic Plan was adopted by the Town’s governing board on June 26, 2023. The Town’s mission and vision statements remain unchanged. The following strategic focus areas were identified and developed into five subplans that will be updated and reported on annually in November:

TOWN OF HILLSBOROUGH

STRATEGIC PLAN



FY2024-26

Adopted 06-26-2023



Environmental Initiatives

One of the five focus areas for the Hillsborough Strategic Plan is sustainability and resiliency. The Town’s mission statement charges personnel with enhancing “the quality of life for the living beings and land within our town.” Strategic objectives include conserving natural resources and expanding recreation, walkability, and connectivity. Below are some environmental initiatives of the Town.

- Updating and expanding the long-term visioning and planning document (Comprehensive Plan) and combining it with long-term sustainability and climate change initiatives. The Comprehensive Sustainability Plan was adopted June 12, 2023. Serving as an Orange County Climate Council member. The council was formed in 2019 by Orange County and the towns of Carrboro, Chapel Hill, and Hillsborough as a collaborative effort among the municipal governments, the school systems, the University of North Carolina, nonprofit organizations, and residents. The council’s mission is to accelerate joint action addressing the climate emergency by sharing successful strategies and identifying equitable opportunities to reduce greenhouse gas emissions, provide stewardship of the natural world, and protect all county residents from climate impacts.
- When adopting the FY22 budget, the Town’s governing board directed that the equivalent revenue of approximately two cents on the property tax rate (\$300,000) be saved and/or used to address climate and sustainability priorities. The FY23 budget also includes the same level of funding to assist with priority implementation identified in the Comprehensive Sustainability Plan scheduled for completion in late 2022. The FY22 and FY23 funds combined will provide \$600,000 available for these efforts.



- Supporting the goal in an adopted town resolution of using 80% clean energy by 2030, then 100 percent clean energy by 2050 and fostering a resilient and sustainable community.
- Working as a designated Tree City USA to protect the Town's trees and educate citizens about the importance of urban forestry through the Public Space and Sustainability Division and the Tree Board.
- Working as a Bee City USA to raise awareness of the role pollinators play in sustaining more than 75 percent of the world's plant species and to help expand pollinator-friendly practices and environments in town. The Public Space and Sustainability Division and Tree Board partner with the Hillsborough Garden Club to develop the program and educational materials, including actions residents can take.
- Operating the Stormwater and Environmental Services Division to comply with many state and federal mandates for environmental stewardship.
- Partnering with Orange County for curbside collections of recyclables throughout the Town and to provide collection bins for recyclables downtown and along the Riverwalk greenway. The Town has invested in a battery-powered cart for use by Public Works Division employees when collecting trash and recyclables along Riverwalk. Additionally, the Town collects appliances and scrap metal for recycling.
- Preventing sanitary sewer overflows and the environmental damage they cause through the Water Distribution and Wastewater Collection Division. The division's fats, oil, and grease program provide educational presentations at schools and public events about keeping these blockage-causing substances out of the Town's sewer system.

Local Economy

The Town of Hillsborough, and the Research Triangle Park area are considered among the most desirable areas of the country to live and work, according to several national surveys. Hillsborough's economy is diversified with government, education, health care, wholesale, and retail businesses, and many service providers. About 45% of Hillsborough's tax base is commercial in nature — a strong indicator of a healthy and diverse property tax base.



While downtown is the historic hub of Hillsborough, the economy is highly diversified with a strong commercial tax base of approximately 45%.

The Town's unemployment rate has been below state and national rates throughout recent history. Traditionally, Orange County has the lowest unemployment rate in North Carolina. This is in part due to a high percentage of residents working for area universities, hospitals, medical offices, and state and local governments that tend to not lose as many employees as private corporations during economic downturns. The issuance of building permits for residential and commercial developments, as well as frequent inquiries from developers, continued to be exceptionally strong through June 2023.

Government, Education, and Health Care

Orange County government (the "County") is a major employer in Hillsborough. Many of the County's administrative buildings are located within town limits. One of those buildings is the Historic Orange County Courthouse (c. 1844), a Greek-revival building designed and built by local builder John Berry. The courthouse is still in use for county judicial business and is open to the public for free visits. The courthouse lawn is home to many outdoor musical performances and festivals and acts as a town square in many respects. The Orange County Board of Education is in Hillsborough and serves 13 schools throughout the county. Three of the schools are within the town limits, and seven are served by Hillsborough's water and sewer system.

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



Duke University Hospital and UNC Hospitals have a variety of medical offices, urgent care, and other facilities in Hillsborough, as the town is about 20 minutes from their base locations in Durham and Chapel Hill. The largest medical presence is the UNC Hospitals Hillsborough Campus in the Waterstone development. The hospital is an extension of UNC Hospitals in Chapel Hill and includes a medical office building, outpatient surgery, inpatient services, as well as support services to provide integrated, convenient, and patient-centered care.

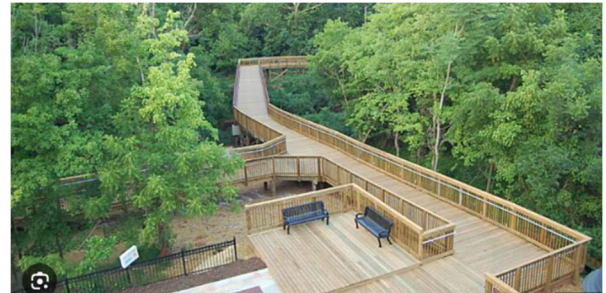
The campus is home to several UNC specialty programs, including family medicine, geriatrics, physical medicine, and rehabilitation, which is moving from Chapel Hill to Hillsborough. The hospital also has many elective surgical programs, including joint replacement, spine, ophthalmology, urology, benign gynecology, and general surgery. It is the first in North Carolina to receive the Geriatric Emergency Department Accreditation from the American College of Emergency Physicians and is one of about 20 hospitals accredited nationwide, certifying that its staff is specially trained to assess older patients more comprehensively. The campus also has earned the Joint Commission’s Gold Seal of Approval® for Total Hip and Knee Replacement Certification by demonstrating continuous compliance with performance standards. The hospital, which opened in 2015, added a 107,000-square-foot patient tower in May 2022. The tower includes 80 patient beds and 6 in-patient dialysis bays. The addition brings the total licensed beds at the campus to 163. The facility’s combined footprint now measures about 365,000 square feet, and the additional tower added 100 jobs. The Hillsborough Campus treats more than 25,000 patients a year and is the primary workplace for about 500 UNC Health employees.



A new patient tower opened in May 2022 at UNC Hospitals Hillsborough Campus.

Recreational, Visitor, and Cultural Events

The Town’s 3 percent hotel/motel and 1 percent prepared food and beverage taxes have provided a dedicated resource for promoting Hillsborough as a destination for arts and culture, unique cuisine, outdoor recreation, and historical landmarks. While many events were canceled in 2020 and 2021 due to COVID, these activities have rebounded strongly with far more public events during 2022 and 2023 than previous years.



The Riverwalk greenway is a favorite destination.

The Hillsborough Tourism Development Authority promotes travel, tourism, and conventions; sponsors tourism-related events; and finances tourism-related capital projects. The Hillsborough Tourism Board (“Tourism Board”) drives economic development by promoting travel, tourism, and visitor services. It sponsors programs and activities designed to improve the Town’s attractiveness to visitors. The Tourism Board has contracted with the Alliance for Historic Hillsborough to operate the Hillsborough Visitors Center. The center offers a gift shop, tours, exhibits, and gardens.

Hillsborough has many festivals and events throughout the year, such as: Art in the Heart of Hillsborough, Last Fridays Concert Series, Hillsborough Garden Tour, Last Fridays Artwalk, Carolina Tarwheels Bikefest, Farm Fare Tasting Event, Hillsborough Hog Day barbecue festival, Moorefields Bluegrass Festival, River Park Concert, Historic Hillsborough Half Marathon and 5K, Handmade Parade, Hillsborough Halloween Spirits Tours, Solstice Celebration Lantern Walk, Hillsborough Holiday Parade and Tree Lighting, and Candlelight Holiday Home Tour.

Well known museums and historical sites:

- Alexander Dickson House (late 18th century)
- Ayr Mount (1800s Federal-era plantation house)
- Burwell School Historic Site (1800s)
- Dickerson’s Chapel AME Church (1790)
- First Baptist Church (c.1860/1868)
- Hillsborough United Methodist Church (c.1860)
- Hillsborough Presbyterian Church (c.1816)
- Margaret Lane Cemetery (c.1885)
- Moorefields (c.1785)

- Occaneechee Village Replica Site
- Old Orange County Courthouse (c.1844)
- Old Town Cemetery (c.1757)
- Orange County Historical Museum
- Ruffin-Roulhac House (c.1821)
- St. Matthew's Episcopal Church (c. 1825/1826)

Recreation, sports, and leisure (many activities):

- Cates Creek Park
- Gold Park
- Exchange Park
- Fairview Park
- Hillsborough Heights Park
- Mayo Park
- Murray Street Park
- Kings Highway Park
- River Park
- Turnip Patch Park
- Calvin Street and Riverwalk greenways
- Duke Forest
- Historic Occaneechee Speedway Trail
- Occaneechee Mountain State Natural Area
- Poet's Walk at Ayr Mount
- Hillsborough Youth Athletic Association baseball fields
- Occaneechee Golf Club
- Central Recreation Center
- Orange County Sportsplex

Residential Growth

Hillsborough's population will continue to increase significantly over the next few years. The Town continues to receive commercial inquiries and to experience expansion of existing businesses. The largest active residential development is Collins Ridge. The master plan includes 950 dwellings (houses, townhouses, and apartments) and 88 affordable rental units. The first homes went on the market in June 2021.

Long-Term Financial Planning

The Town's approach to building its budget and a multi-year financial plan has been: 1) take care of what we've got, 2) invest for the future, and 3) minimize rate impacts on the community. Hillsborough is one of the only local governments in the state that uses a multi-year format. It's used the three-year budget format that has been so



A utility mechanic inspects a mechanical arm on the Wastewater Treatment Plant's clarification tank, which sweeps the water surface of large organics and trash.

successful dating back to 1998. While only the first year of the budget is legally binding, the second and third years of the plan provide helpful planning assistance on managing the Town's finances, resources, as well as overall project management.

A level of uncertainty remained while the FY23 budget was being prepared in early to mid-June due to the economy and to not having prior and current year actual information because of the aforementioned delays in the audit process. Thus, a conservative approach was used in developing the budget. Fortunately, this conservative approach worked as the Town ended the budget year with a substantial boost to the General Fund's fund balance of \$2.4 million. Again, these funds will be needed to pay for high priority needs and to

ensure sufficient money is saved for emergency situations, especially with weather events becoming more frequent and severe. The Water and Sewer Fund ended the year with an increase in unrestricted net position (system fund balance) of \$2.9 million bringing the total amount to \$11.9 million. The surplus in the Water and Sewer Fund will be available to help pay for the tens of millions in immediate to near-term capital needs, maintain savings levels necessary to retain the AA bond rating and help improve it, meet bond covenant requirements from the Series 2018 and 2020 revenue bonds to pay for the reservoir expansion, and stay in line with industry standard metrics to keep the fund in a fiscally strong position.

Major Initiatives

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

General Government

- Street Repaving — Annual repaving and road maintenance is funded without debt and uses the Town's gas tax allocation from the State Street-Aid Program (aka "Powell Bill") and General Fund revenues to pay for the improvements. The Town targets repaving about 5 percent of its road miles annually to have a 20-year repaving cycle. This interval has been identified by some industry experts as the most cost effective in terms of lifecycle costing. Street repaving was greatly reduced in FY2021-2023 to help pay for an expensive repair project on Valley Forge Road, due to the road crossing being washed out during a storm.
- Valley Forge Stormwater Project — This \$1.3 million project replaced three 90-inch pipes crossing under Valley Forge Road and to rebuild the road. The road has washed out twice in recent years, and temporary repairs are being monitored weekly until the reconstruction project is complete. The Town is eligible for emergency funding assistance through the State of North Carolina to help pay for this project. The Town paid for the repairs and is now seeking reimbursement for \$1.0 million of the cost.
- Compensation & Classification Study Implemented. Many of our peer local governments regionally and across the state had either recently conducted a pay study or were in the process of completing one. The Town contracted with Piedmont Triangle Regional Council (PTRC) in late 2021 to conduct a pay study of all town positions. The market comparisons included local governments in the Triad and Triangle area, with the primary market being the Triangle since that is where the Town usually loses its employees. The last pay study conducted was in 2018, and although regular salary adjustments have been made the Town had still fallen behind the market in many positions. The Town approved a new compensation plan and salary grades in September 2022. This had a major impact on lowering employee turnover and helping to fill vacant positions.
- Public Works Facility Relocation. After being in the flood plain, in substandard facilities, with no equipment shelters, and little storage for about 50 years, funds are allocated in FY2023-2025 to move the public works division from their Dimmock's Mill Road location to the NC 86 North facility. Funds are included for design (\$100,000 in FY2023 to supplement existing money in the project fund) with annual debt payments of \$273,000 starting in FY2025. The total project estimate is \$3.5 million.

Water and Sewer Fund

- Wastewater Collection — Developing a detailed evaluation of the system's condition and capacity has started to allow utilities staff to prioritize the most important needs in future years and to determine how much development Hillsborough's system can safely accommodate. Funds are included to address other problem areas, such as inflow and infiltration, line capacity, and pump stations. About \$40 million is anticipated to be needed to address wastewater collection system needs over the next 18 years. The Town has applied for a grant to help pay for 70% of the approximately \$8 million required to replace River Pump Station, an aging station that is the largest of two that pump all sewage into the wastewater plant.
- Water & sewer minimum rates: Continue three-year plan to decrease monthly charge from 2,500 to 2,000 gallons. In FY2023 the minimum rate decreased from 2,375 to 2,250. The Town made this decision during the FY2022 budget process to provide relief and a more equitable way of charging low volume customers, who are often on fixed incomes, elderly, or living alone. This builds on the similar initiative recommended by the Water & Sewer Advisory Committee and approved by the Town that decreased the minimum rate from 3,000 to 2,500 gallons over the four-year period from FY2014-2017. In addition to providing an incentive for customers in this use category to conserve, the change provided substantial relief to lower volume users. The FY2022-2024 reductions take the prior FY2014-2017 efforts a step further. Of the 54% of water systems that use the volumetric charge, as opposed to a base rate, the most typical monthly minimum charges are in the 2,000 to 3,000 per month range. Thus, in FY2024 when the minimum rate drops to 2,000, Hillsborough will be at the most equitable end of the range when it comes to this rate method.

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 \$2,989 per capita. The largest part of the outstanding debt is for the Wastewater Treatment Plant and reservoir. Additional debt incurred over recent years will ensure the Town has sufficient water supply, especially during dry and drought conditions. Hillsborough suffered from severe water shortages for decades and has since been self-sufficient since Phase 1 of the reservoir was completed in 2000. Debt funding for water and sewer projects will also allow for projected growth and economic development. 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 29 fiscal years. The Town has avoided a heavy debt load in its General Fund, which has plagued many municipalities. Revenue bonds were issued for the first time to fund the expansion of the West Fork Eno Reservoir for \$11.1 million in FY2018. A second revenue bond of \$3.7 million was issued in FY2020. Debt payments account for 23 percent of Water and Sewer Fund expenditures. The debt payments are a significant expense for a relatively small utility system especially when coupled with very expensive projects like the Wastewater Treatment Plant upgrade in 2014 that accounts for about \$1 million per year of debt. Using debt financing is the most practical way to pay for expensive maintenance needs on the system.

Financial Policies

The Town has adopted a policy for its General Fund to maintain its available fund balance at a 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 portfolio by security type to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, or maturities. No more than 50% of the Town's total investment portfolio will be invested in a single security type, without exception.

Status Update — Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association ("GFOA") of the United States and Canada awards a Certificate of Achievement for Excellence in Financial Reporting to governmental units that publish an easily readable and efficiently organized annual comprehensive financial report ("ACFR") that conforms to the GFOA's standards. The report must satisfy GAAP and applicable legal requirements. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for the preparation of a state and local government financial report. It is valid for a period of one year.

The Town had received a Certificate of Achievement for 26 consecutive years (fiscal years 1994 through 2020). Unfortunately, that long consecutive streak ended due to the audit submission being significantly late for FY2021 and the various staffing challenges discussed earlier. Currently, the Town does not anticipate submitting an ACFR for FY2023 due to limited staffing and resources. Management is optimistic that the Town will be in a position in the next year or two to prepare an ACFR meets the GFOA's standards for excellence in financial reporting.

Acknowledgments

The assistance and dedication of the Financial Services team has been stellar throughout the year, especially during the preparation of this report! During this short period, the staff has worked many with three full-time finance directors and six interims). They've worked exceptionally hard and been patient as we've gone through several challenging situations over the past 2 ½ years. We would like to thank all members of the department who contributed to the audit's preparation and the independent certified public accountants from PBMares, LLP for their assistance. A special thanks goes to Greg Isley and staff from his CPA firm who have provided tremendous assistance and frequently gone over and above to help during these challenging times, especially Brian Broom who prepared the financial statements. Major recognition and thanks go to Kai Nelson, the Town's financial consultant, who played a critical role over the last 18 months, working closely with our dedicated staff to complete three audits over the last 11 months! This was a major accomplishment for Hillsborough's financial services team! The audit was a lot of work for everyone to juggle in such a short period of time. 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 responsibly and progressively.

Respectfully submitted,



Eric J. Peterson
Town Manager



David McCole
Finance Director



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Town of Hillsborough, North Carolina
Board of Commissioners
For the fiscal year ended June 30, 2023



From left: Commissioners Evelyn Lloyd and Mark Bell, Mayor Jenn Weaver, Mayor Pro Tem Matt Hughes, and Commissioners Kathleen Ferguson and Robb English

Jenn Weaver – Mayor
Matt Hughes – Mayor Pro Tem
Evelyn Lloyd – Commissioner
Mark Bell – Commissioner
Kathleen Ferguson – Commissioner
Robb English – Commissioner

Town Officials

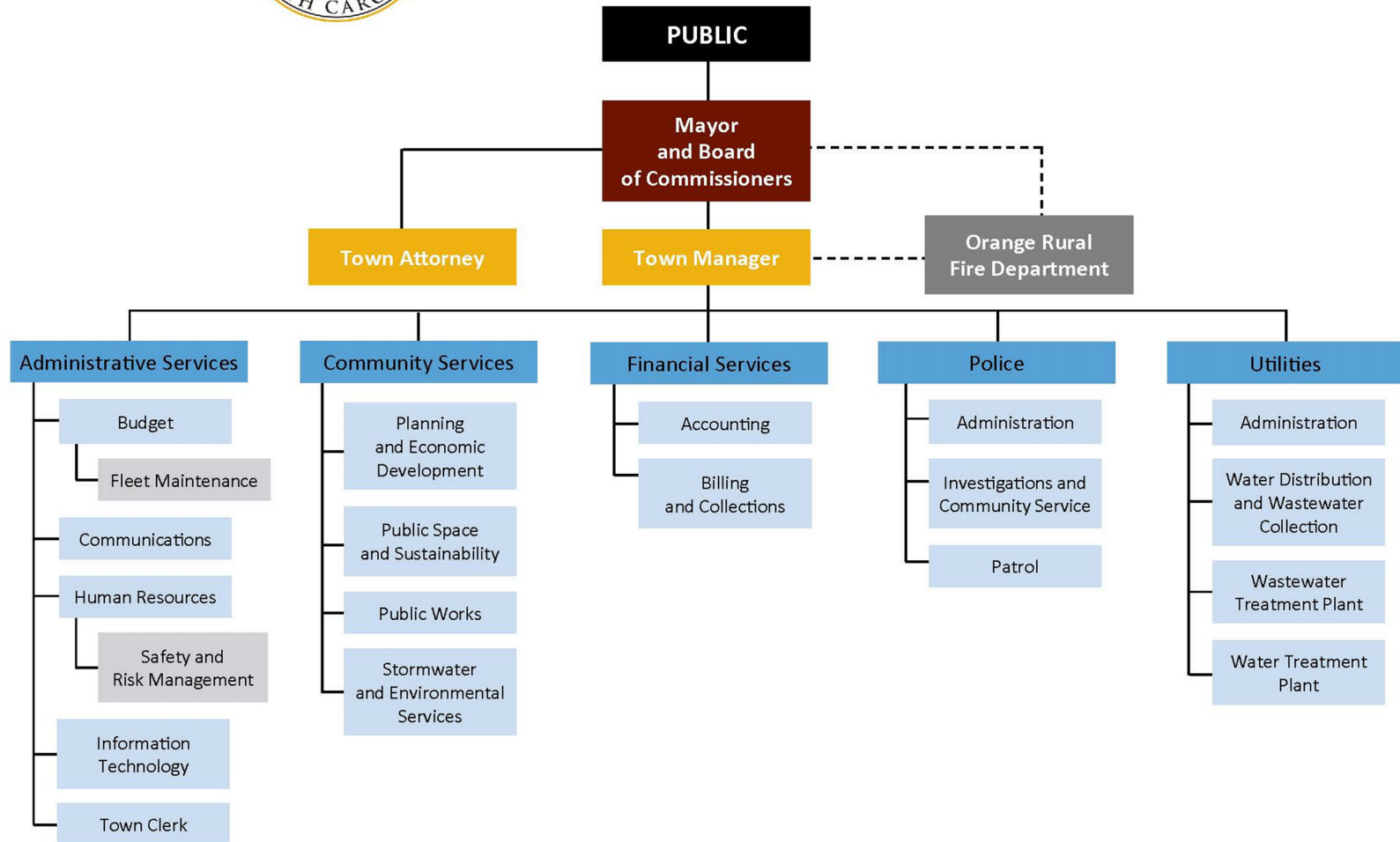
Eric J. Peterson, Town Manager
David McCole, Finance Director
Emily Bradford, Budget Director
Jen Della Valle, Administrative Services Director
Matt Efird, Assistant Town Manager
Marie Strandwitz, Utilities Director
Sarah Kimrey, Town Clerk
Duane Hampton, Police Chief
Robert Hornik, Town Attorney



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ORGANIZATION CHART





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The seal of Hillsborough, North Carolina, is a circular emblem. It features a central shield with a red and white design, including a yellow lion and a red cross. The shield is set against a background of a yellow and white striped pattern. The words "HILLSBOROUGH" and "NORTH CAROLINA" are written in a circular border around the shield. The year "1754" is also visible at the bottom of the seal.

FINANCIAL SECTION

This section of the Town of Hillsborough's (the "Town") annual financial report presents the basic financial statements and required supplementary information (including management's discussion and analysis), as well as the independent auditors' report. In addition, the financial section contains supplemental and other information including budget comparison schedules, required combining statements and other financial information.



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the General Fund budget to actual comparison, and the aggregate remaining fund information of the Town of Hillsborough (the Town), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the General Fund budget to actual comparison, and the aggregate remaining fund information of the Town, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of the Town of Hillsborough Tourism Board and the Hillsborough Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As described in Note 2(D).2, the net position of the Water and Sewer Fund in the Business-Type Activities as of June 30, 2022 has been restated due to an error. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Town of Hillsborough as of and for the year ended June 30, 2022 (not presented herein), and have issued our report thereon dated June 29, 2023, which contained unmodified opinions on the respective financial statements of the governmental and business-type activities, each major fund and the aggregate remaining fund information. The combining and individual fund statements, budgetary schedules, other financial information, the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, based on our audit and the procedures as described above, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2023 on our consideration of the Town'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 solely 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 the effectiveness of the Town's 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 Town's internal control over financial reporting and compliance.

PBMares, LLP

Morehead City, North Carolina
November 29, 2023

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

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, 2023. 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 \$93,394,941 which consisted of \$34,876,084 from governmental activities and \$58,518,857 from business-type activities.
- The Town's total net position increased by \$4,755,538 which consisted of \$3,365,893 from governmental activities and \$1,389,645 from business-type activities.
- The Town restated opening net position in its business-type activities and its Water and Sewer Enterprise Fund. The balance as of July 1, 2022 was decreased by \$2,616,083. Enterprise capital projects previously capitalized as construction-in-progress were reclassified as expenditures resulting in the decrease. The restatement related to an agreement between the Town and the North Carolina Department of Transportation ("NCDOT"). The agreement states that the Town will make improvements around the Town's reservoir and the NCDOT will assume responsibility for the roads once the project is completed.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$16,192,849 which consisted primarily of \$14,263,322 of fund balance in the General Fund.
- At the end of the current fiscal year, fund balance available for appropriation in the General Fund was \$11,212,091, or 91 percent of total expenditures in the General Fund.
- The Town's total debt decreased by \$1,970,605 during the current fiscal year. No new long-term debt was issued but the Town implemented the new software subscriptions standard which added an additional \$72,690 to long-term liabilities as of the close of the current fiscal year.
- The Town obtained an AA bond rating from S&P (Standard & Poors) on May 2, 2018, in connection with the issuance of its Combined Utility Systems Revenue Bonds, Series 2018.

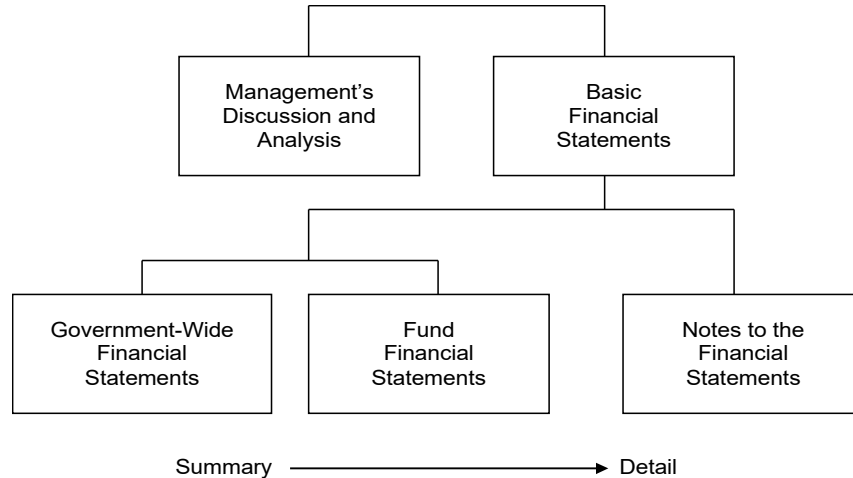
Overview of the Basic Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Town'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's financial condition using government-wide statements presented on the full accrual basis of accounting and fund financial statements presented on the modified accrual basis of accounting. 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.

**Town of Hillsborough, North Carolina
Management’s Discussion and Analysis (Unaudited)**

Required Components of the Basic Financial Statements

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 10) 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 North Carolina General Statutes can also be found in this part of the statements.

Government-wide financial statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town’s finances, similar in format to the financial statements of a private-sector business. The government-wide statements provide short-and long-term information about the Town’s financial status as a whole.

The two government-wide statements report the Town’s net position and how they have changed. Net position is the difference between the Town’s total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to evaluate the Town’s financial condition.

The government-wide statements are divided into three categories: (1) governmental activities; (2) business-type activities; and (3) component units. The governmental activities include most of the Town’s basic services such as public safety, fire, street maintenance, solid waste collection, planning, public spaces, parks, cemetery and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include stormwater as well as the water and sewer services offered by the Town. The final category is the component units. Although legally separate from the Town, the Tourism Development Authority and the Tourism Board are important to the Town. The Town exercises control over these entities by appointing its members and remits a percentage of taxes collected to each of these entities. The government-wide financial statements are on pages 15 through 17 of this report.

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

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 the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town adopts an annual budget for its General Fund, as required by North Carolina 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 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 has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer activity and stormwater activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. The Town has one fiduciary fund, which is a custodial fund. This fund accounts for the Special Assessment Revenue Bonds used to finance the construction of public infrastructure in the Waterstone District.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 29 through 64 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees, as well as information related to the total OPEB liability and related ratios. Required supplementary information can be found beginning on page 65 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 (Unaudited)

Government-wide financial analysis

Net position may serve over time as one useful indicator of a government's financial condition. Table 1 provides a summary of the Town's net position. The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$93,394,941 as of June 30, 2023. The Town's net position increased by \$4,755,538 for the fiscal year ended June 30, 2023.

The largest portion of net position (62%) 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's net position, \$12,530,012 (13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$22,556,032 (24%) is unrestricted and may be used to meet the Town's ongoing obligation to citizens and creditors.

TOWN OF HILLSBOROUGH, NORTH CAROLINA
Condensed Statements of Net Position

Table 1

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022 (As restated)	2023	2022
ASSETS						
Current assets and other assets	\$ 17,676,610	\$ 14,917,559	\$ 28,230,601	\$ 25,480,089	\$ 45,907,211	\$ 40,397,648
Capital assets, net	24,517,031	23,921,068	59,973,621	61,549,867	84,490,652	85,470,935
Total assets	42,193,641	38,838,627	88,204,222	87,029,956	130,397,863	125,868,583
DEFERRED OUTFLOWS OF RESOURCES						
	2,817,057	1,917,401	1,219,533	737,520	4,036,590	2,654,921
LIABILITIES						
Long-term liabilities	8,047,640	6,177,094	27,237,442	27,423,493	35,285,082	33,600,587
Other liabilities	1,398,355	1,286,434	3,413,662	2,450,051	4,812,017	3,736,485
Total liabilities	9,445,995	7,463,528	30,651,104	29,873,544	40,097,099	37,337,072
DEFERRED INFLOWS OF RESOURCES						
	688,619	1,782,309	253,794	764,720	942,413	2,547,029
NET POSITION						
Net investment in capital assets	22,145,270	21,085,633	36,163,627	38,137,913	58,308,897	59,223,546
Restricted	3,046,589	3,185,893	9,483,423	9,019,827	12,530,012	12,205,720
Unrestricted	9,684,225	7,238,665	12,871,807	9,971,472	22,556,032	17,210,137
Total net position	\$ 34,876,084	\$ 31,510,191	\$ 58,518,857	\$ 57,129,212	\$ 93,394,941	\$ 88,639,403

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

Several aspects of the Town's financial operations contributed to the overall increase in unrestricted net position:

- Based on the projected property values, the Town elected to set this year's tax rate at 58.7 cents per \$100 of assessed value which is the same as FY 21/22.
- Many departments finished the year with expenditures under budget due to effective management oversight and adherence to statutory requirements contained in North Carolina General Statutes, chapter 159 "Local Government Finance".
- Sales tax grew year over year.
- Continued low cost of debt due to low interest rates.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
Condensed Statements of Net Activities**

Table 2

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022 (As restated)	2023	2022
REVENUES						
Program revenues:						
Charges for services	\$ 48,702	\$ 65,563	\$ 12,219,514	\$ 11,765,799	\$ 12,268,216	\$ 11,831,362
Operating grants and contributions	548,989	601,072	-	-	548,989	601,072
Capital grants and contributions	226,332	-	127,467	1,016,196	353,799	1,016,196
General revenues:						
Property taxes	9,611,596	9,099,819	-	-	9,611,596	9,099,819
Local option sales taxes	3,200,726	2,868,883	-	-	3,200,726	2,868,883
Unrestricted inter-governmental	1,446,051	1,294,435	-	-	1,446,051	1,294,435
Other revenues	725,810	74,400	835,719	15,841	1,561,529	90,241
Total revenues	15,808,206	14,004,172	13,182,700	12,797,836	28,990,906	26,802,008
EXPENSES						
Governmental:						
General government	3,276,267	2,258,786	-	-	3,276,267	2,258,786
Public safety	5,908,554	5,548,753	-	-	5,908,554	5,548,753
Transportation	879,110	762,381	-	-	879,110	762,381
Environmental protection	674,914	630,024	-	-	674,914	630,024
Economic and physical development	738,943	822,593	-	-	738,943	822,593
Community activities	334,454	324,697	-	-	334,454	324,697
Parks and recreation	551,073	528,308	-	-	551,073	528,308
Interest on long-term debt	78,998	91,385	-	-	78,998	91,385

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

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
Condensed Statements of Net Activities (Continued)**

Table 2

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022 (As restated)	2023	2022
EXPENSES						
Business-type:						
Water and Sewer	\$ -	\$ -	\$ 11,070,781	\$ 10,332,788	\$ 11,070,781	\$ 10,332,788
Stormwater	-	-	722,274	641,969	722,274	641,969
Total expenses	12,442,313	10,966,927	11,793,055	10,974,757	24,235,368	21,941,684
Change in net position	3,365,893	3,037,245	1,389,645	1,823,079	4,755,538	4,860,324
NET POSITION						
Beginning balances	31,510,191	28,472,946	57,129,212	55,306,133	88,639,403	83,779,079
Ending balances	\$ 34,876,084	\$ 31,510,191	\$ 58,518,857	\$ 57,129,212	\$ 93,394,941	\$ 88,639,403

Governmental activities. Governmental activities increased the Town's net position by \$3,365,893 thereby accounting for 70% of the growth in the Town's total net position.

Key elements of this increase are as follows:

- Property taxes revenue increased \$511,777, or 6%, due to an increase in property valuations over last year.
- Sales tax revenue increased over \$331,843, or 12%, due to increased economic activity.
- Expenses increased but were less than budgeted expectations as previously noted.

Business-type activities. Business-type activities increased the Town's net position by \$1,389,645, accounting for 29% of the growth in the Town's total net position.

Key elements of this increase are as follows:

- The Water and Sewer Fund experienced a slight increase in charges for services with the majority of the increase due to volumetric rate increases offset by decreases in system development fees and other miscellaneous operating revenue.
- Other revenues is up over last year due to interest on investments.
- The Town restated opening net position in its business-type activities and its Water and Sewer Enterprise Fund. The balance as of July 1, 2022 was decreased by \$2,616,083. Enterprise capital projects previously capitalized as construction-in-progress were reclassified as expenditures resulting in the decrease. The restatement related to an agreement between the Town and the North Carolina Department of Transportation ("NCDOT"). The agreement states that the Town will make improvements around the Town's reservoir and the NCDOT will assume responsibility for the roads once the project is completed.

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

Financial analysis of the Town of Hillsborough's funds

As noted earlier, the Town 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's combined assigned and unassigned fund balance available in the General Fund was \$11,212,091, while total fund balance was \$14,263,322. The governing body of the Town 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 91% of General Fund expenditures while total fund balance represents 116% of the same amount.

On June 30, 2023, the governmental funds of the Town reported a combined fund balance of \$16,192,849 with a net increase in fund balance of \$2,687,252. As previously noted, this increase is primarily related to increases in property and sales taxes coupled with management's control over operating and capital expenditures.

General fund budgetary highlights. During the fiscal year, the Town revised the budget at least once a month. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and (3) increases in appropriations that become necessary to maintain services.

Actual revenues for the General Fund (excluding the Restricted Revenues Fund) were more than the budgeted amount by \$2,283,698 as property and sales tax revenues exceeded expectations. Expenditures were \$2,055,936 less than budgeted, with favorable balances occurring in personnel (\$372,460), capital (\$796,589) and operating (\$1,242,033) and debt service (\$154,982).

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. The Town's major enterprise fund (Water and Sewer) decreased its net position by \$1,262,238, ending the year with total net position of \$55,671,846. The decrease can be attributed to a prior period adjustment of \$2,616,083. The Town restated opening net position in its business-type activities and its Water and Sewer Enterprise Fund. The balance as of July 1, 2022 was decreased by \$2,616,083. Enterprise capital projects previously capitalized as construction-in-progress were reclassified as expenditures resulting in the decrease. The restatement related to an agreement between the Town and the North Carolina Department of Transportation ("NCDOT"). The agreement states that the Town will make improvements around the Town's reservoir and the NCDOT will assume responsibility for the roads once the project is completed. There would have been a net increase in net position of \$1,353,845 if not for the prior period adjustment to net position. The largest portion of its net position is invested in capital assets (\$34,321,220) while \$9,483,423 is restricted for current and future water and sewer projects. The remaining \$11,867,203 is unrestricted which is an increase of \$2,866,453 from the prior year as revenues exceeded expectations.

Charges for services, in the Water and Sewer Fund, were slightly higher in fiscal year 2023 than 2022 by \$375,474. however, system development fees decreased by \$84,514 and other operating revenues increased by \$153,394. System development fees are a charge assessed on new development to fund capital improvements necessitated by and attributable to that new development or to recoup the costs of existing facilities that serve the new development.

**Town of Hillsborough, North Carolina
Management’s Discussion and Analysis (Unaudited)**

The Town has received over \$2.2 million in ARPA funds. The Town has decided to take the standard allowance option and apply the majority of the funds to cover the salary cost of the Water/Sewer fund FY 23/24 budget. That will free up funds to be applied to various capital projects for water and sewer. Other capital reserves consist primarily of system development fees which are assessed on new development to fund capital improvements necessitated by and attributable to that new development or to recoup the costs of existing facilities that serve the new development.

The Town’s nonmajor enterprise fund (Stormwater) increased its net position by \$35,800 ending the year with total net position of \$2,847,011. The largest portion of its net position is invested in capital assets (\$1,842,407) while unrestricted net position amounted to \$970,721, a 3% or \$33,883 increase from the previous year. The increase is largely attributed to expenses being less than expected.

Capital asset and debt administration

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
Condensed Capital Assets, Net of Accumulated Depreciation and Amortization**

Table 3

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022 (As restated)	2023	2022
Nondepreciable:						
Land	\$ 4,879,989	\$ 4,879,989	\$ 6,133,088	\$ 6,133,088	\$ 11,013,077	\$ 11,013,077
Construction in progress	1,572,549	866,599	977,325	1,163,644	2,549,874	2,030,243
Depreciable, net:						
Buildings and improvements	5,494,258	5,714,565	25,387,698	26,501,932	30,881,956	32,216,497
Plant and distribution systems	-	-	23,950,719	24,684,757	23,950,719	24,684,757
Infrastructure	11,070,178	11,138,010	2,743,086	2,261,971	13,813,264	13,399,981
Equipment	409,040	397,049	474,468	415,909	883,508	812,958
Vehicles	947,332	821,829	307,237	388,566	1,254,569	1,210,395
Amortizable, net:						
Right to use assets	57,829	103,027	-	-	57,829	103,027
IT subscriptions	85,856	-	-	-	85,856	-
	<u>\$ 24,517,031</u>	<u>\$ 23,921,068</u>	<u>\$ 59,973,621</u>	<u>\$ 61,549,867</u>	<u>\$ 84,490,652</u>	<u>\$ 85,470,935</u>

Capital assets. The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2023, totals \$84,490,652 (net of accumulated depreciation and amortization). These assets include buildings, land, machinery and equipment, infrastructure, park facilities, vehicles and right to use leased assets.

Major capital asset transactions during the year include the following:

- Vehicles and equipment in the governmental funds (\$744,463)
- Implementation of GASB Statement No.96, *IT Subscriptions* (\$158,621)
- Transportation Improvement Project (\$244,075)
- Valley Forge Road Project (\$446,058)
- NC 86 Renovation Project (\$64,215)

**Town of Hillsborough, North Carolina
Management’s Discussion and Analysis (Unaudited)**

Major capital asset transactions (continued):

- Street paving (\$491,919)
- Mill Creek Construction Project (\$84,147)
- Adron Thompson Facility Renovation (\$29,108)
- Wastewater System Rehab (\$175,543)
- WWTP Clarifiers (\$176,200)

Additional information on the Town’s capital assets can be found in Note 2.A.6 of the basic financial statements.

**TOWN OF HILLSBOROUGH, NORTH CAROLINA
Condensed Long-Term Debt**

Table 4

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Long-term debt:						
Revolving loans	\$ -	\$ -	\$ 11,153,633	\$ 12,214,479	\$ 11,153,633	\$ 12,214,479
Special revenue bonds	-	-	12,437,000	12,777,000	12,437,000	12,777,000
Premium on bonds	-	-	751,389	807,701	751,389	807,701
Direct placement-installment purchases	2,239,251	2,726,070	324,403	351,031	2,563,654	3,077,101
Lease liabilities	59,820	109,365	-	-	59,820	109,365
IT subscriptions liability	72,690	-	-	-	72,690	-
	<u>\$ 2,371,761</u>	<u>\$ 2,835,435</u>	<u>\$ 24,666,425</u>	<u>\$ 26,150,211</u>	<u>\$ 27,038,186</u>	<u>\$ 28,985,646</u>

Long-term debt. As of June 30, 2023, the Town had outstanding bonded debt of \$12,437,000 which represents bonds secured solely by specified revenue sources (revenue bonds). The remainder of the Town’s debt represents revolving loans payable, installment purchases and leases secured solely by revenues of the project or specified purchases. The Town’s outstanding debt (excluding lease and IT subscription liabilities) decreased by \$1,970,605 during the current fiscal year as a result of making regularly scheduled debt service payments.

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 at June 30, 2023 was approximately \$130,671,000. Practically, this statutory limit exceeds the Town’s realistic debt capacity. The Town does not have any authorized and unissued bonds at June 30, 2023.

Additional information regarding the Town’s long-term debt can be found in Note 2.B.10 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:

- *Low unemployment. Orange County’s unemployment rate of 3.1% as of June 30, 2023, is below the state average of 3.6%.*
- *No additional debt was issued in 2023 nor expected to be issued in 2024.*
- *Maintain a property tax collection rate that exceeds 99%.*

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

Budget highlights for the fiscal year ending June 30, 2024

Governmental Activities - The Town's largest source of revenue is property tax revenue. The 2024 budget maintains the Town's tax rate at 58.7 cents per \$100 of assessed property value. Other budget highlights in brief:

- Increase annual payments for fire service from Orange Rural Fire Department by 8% this year with an additional \$137,799 to implement market-rate compensation adjustments. Cost includes contract with Orange County for fire inspections. FY24 cost: \$1.98 million.
- Build funds for construction of a fire station at 604 and 618 N. Churton St. FY24 cost: \$225,000.
- Provide funds for moving staff and equipment to the N.C. 86 North facility and for constructing storage buildings. FY24 cost: \$4.52 million.
- Repave Waterstone Drive, which consists of four lanes, making it a large resurfacing project. Fund balance from the State Street-Aid Program (Powell Bill) would be used to cover about half the cost. FY24 cost: \$950,000.
- Continue general maintenance of the former police substation and assist Fairview Community Watch in making improvements for community use of the building. FY24 cost: \$40,000.
- Provide merit raises averaging 3.25% and \$1,000 cost of living adjustment.
- Add planner II, public works equipment operator and two police officers. FY24 General Fund cost: \$308,817.

Business-type Activities - The Town increased water and sewer rates by 6 percent for fiscal year ending 2024 with a decrease in the monthly minimum usage charged to utility customers by 125 gallons. The water and sewer rate increases are intended to provide funding for existing debt service requirements and partial self-funding of future capital improvements. Other budget highlights in brief:

- Pay debt service on past, major utilities projects and pay design and construction fees on new ones:
 - Hasell Water Tank engineering — FY24 cost: \$40,000
 - Water and sewer air release valves – FY24 cost: \$150,000
 - Fire hydrants and valves replacement – FY24 cost: \$200,000
 - Elizabeth Brady pump station design – FY24 cost: \$300,000
 - Exchange Club interceptor sewer pipes design – FY24 cost: \$190,000
 - River Pump Station replacement – FY24 cost: \$4.74 million.
 - U.S. Business Water Main Design – FY24 cost: \$275,000
- Add utility mechanic to wastewater collection crew to provide relief to existing staff and to attend to system maintenance. Includes vehicle purchase in first year. FY24 Water and Sewer Fund cost: \$119,515.

The Town did not adjust its stormwater rates for the fiscal year ending June 30, 2024. The Town is continuing work on improving water quality in the area as well as in the Upper Neuse River Basin. With increased frequency and severity of rain events, drainage is becoming an increasing concern throughout town, therefore funds are included for analysis, planning, engineering, as well as actual maintenance work.

- Add stormwater technician mid-year to keep up with workload. FY24 Stormwater Fund cost: \$39,961.

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

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 Finance Director, Town of Hillsborough, 105 East Corbin Street, Post Office Box 429, Hillsborough, North Carolina 27278 or Finance@hillsboroughnc.gov.



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Basic Financial Statements

The basic financial statements include the government-wide financial statements and fund financial statements as required by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.



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Town of Hillsborough, North Carolina
Statement of Net Position
June 30, 2023

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
ASSETS					
Cash and investments:					
Unrestricted	\$ 15,173,593	\$ 13,897,505	\$ 29,071,098	\$ 377,616	\$ 471,300
Restricted	801,640	12,364,578	13,166,218	-	-
Receivables:					
Taxes receivable, net	94,606	-	94,606	-	-
Accounts receivable, net	68,746	1,968,033	2,036,779	-	-
Due from other governments	1,508,183	-	1,508,183	88	16
Due from related governments	-	-	-	48,337	168,235
Accrued interest receivable	25,200	-	25,200	-	-
Prepays	4,642	485	5,127	-	-
Capital assets:					
Non-depreciable assets	6,452,538	7,110,413	13,562,951	-	-
Depreciable assets, net	17,920,808	52,863,208	70,784,016	-	-
Amortizable assets, net	143,685	-	143,685	-	-
Total assets	<u>42,193,641</u>	<u>88,204,222</u>	<u>130,397,863</u>	<u>426,041</u>	<u>639,551</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>2,817,057</u>	<u>1,219,533</u>	<u>4,036,590</u>	<u>-</u>	<u>-</u>
LIABILITIES					
Accounts payable and accrued liabilities	770,974	327,585	1,098,559	5,143	30,397
Payable from restricted assets	-	809,890	809,890	-	-
Other current liabilities	376,409	34,622	411,031	-	-
Unearned revenue	-	2,071,265	2,071,265	-	-
Accrued interest payable	34,400	170,300	204,700	-	-
Due to related governments	216,572	-	216,572	-	-
Long-term liabilities:					
Due within one year	695,078	1,705,244	2,400,322	-	-
Due in more than one year	7,352,562	25,532,198	32,884,760	-	-
Total liabilities	<u>9,445,995</u>	<u>30,651,104</u>	<u>40,097,099</u>	<u>5,143</u>	<u>30,397</u>
DEFERRED INFLOWS OF RESOURCES	<u>688,619</u>	<u>253,794</u>	<u>942,413</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	22,145,270	36,163,627	58,308,897	-	-
Restricted for:					
Stabilization by state statute	2,244,949	-	2,244,949	48,425	168,251
Streets	761,737	-	761,737	-	-
Restricted revenues	39,903	-	39,903	-	-
Capital projects	-	8,536,551	8,536,551	-	-
Perpetual maintenance	-	946,872	946,872	-	-
Unrestricted	9,684,225	12,871,807	22,556,032	372,473	440,903
Total net position	<u>\$ 34,876,084</u>	<u>\$ 58,518,857</u>	<u>\$ 93,394,941</u>	<u>\$ 420,898</u>	<u>\$ 609,154</u>

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

Town of Hillsborough, North Carolina
Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 3,276,267	\$ 41,312	\$ -	\$ -
Public safety	5,908,554	-	4,742	-
Transportation	879,110	-	272,524	204,332
Environmental protection	674,914	840	7,740	-
Economic and physical development	738,943	-	-	-
Community activities and projects	334,454	-	263,983	-
Parks and recreation	551,073	6,550	-	22,000
Interest on long-term obligations	78,998	-	-	-
Total governmental activities	<u>12,442,313</u>	<u>48,702</u>	<u>548,989</u>	<u>226,332</u>
Business-type activities:				
Water and sewer	11,070,781	11,490,059	-	127,467
Stormwater	722,274	729,455	-	-
Total business-type activities	<u>11,793,055</u>	<u>12,219,514</u>	<u>-</u>	<u>127,467</u>
Total primary government	<u>\$ 24,235,368</u>	<u>\$ 12,268,216</u>	<u>\$ 548,989</u>	<u>\$ 353,799</u>
COMPONENT UNITS				
Hillsborough Tourism Development Authority				
Hillsborough Tourism Board	\$ 405,266	-	-	-
Total component units	<u>\$ 456,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GENERAL REVENUES

Taxes:

Property taxes, levied for general purposes
Local option sales taxes
Other Miscellaneous taxes
Gross receipts on short-term rental property
Unrestricted intergovernmental revenues
Investment earnings, unrestricted
Miscellaneous

Total general revenues

Change in net position

Net position, beginning of year, as previously reported

Prior period adjustment

Net position, beginning of year

Net position, end of year

Net Revenue (Expense) and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
\$ (3,234,955)	\$ -	\$ (3,234,955)	\$ -	\$ -
(5,903,812)	-	(5,903,812)	-	-
(402,254)	-	(402,254)	-	-
(666,334)	-	(666,334)	-	-
(738,943)	-	(738,943)	-	-
(70,471)	-	(70,471)	-	-
(522,523)	-	(522,523)	-	-
(78,998)	-	(78,998)	-	-
<u>(11,618,290)</u>	<u>-</u>	<u>(11,618,290)</u>	<u>-</u>	<u>-</u>
-	546,745	546,745	-	-
-	7,181	7,181	-	-
<u>-</u>	<u>553,926</u>	<u>553,926</u>	<u>-</u>	<u>-</u>
<u>(11,618,290)</u>	<u>553,926</u>	<u>(11,064,364)</u>	<u>-</u>	<u>-</u>
-	-	-	(51,566)	-
-	-	-	-	(405,266)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(51,566)</u>	<u>(405,266)</u>
9,611,596	-	9,611,596	-	-
3,200,726	-	3,200,726	-	-
-	-	-	120,852	502,195
1,902	-	1,902	-	-
1,446,051	-	1,446,051	-	-
418,762	835,719	1,254,481	-	-
305,146	-	305,146	-	-
<u>14,984,183</u>	<u>835,719</u>	<u>15,819,902</u>	<u>120,852</u>	<u>502,195</u>
<u>3,365,893</u>	<u>1,389,645</u>	<u>4,755,538</u>	<u>69,286</u>	<u>96,929</u>
31,510,191	59,745,295	91,255,486	351,612	512,225
-	(2,616,083)	(2,616,083)	-	-
<u>31,510,191</u>	<u>57,129,212</u>	<u>88,639,403</u>	<u>351,612</u>	<u>512,225</u>
<u>\$ 34,876,084</u>	<u>\$ 58,518,857</u>	<u>\$ 93,394,941</u>	<u>\$ 420,898</u>	<u>\$ 609,154</u>

**Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds
June 30, 2023**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 13,243,511	\$ 1,930,082	\$ 15,173,593
Receivables:			
Taxes receivable, net	94,606	-	94,606
Accounts receivable, net	68,746	-	68,746
Due from other governments	1,246,820	261,363	1,508,183
Due from other funds	39,051	-	39,051
Prepays	4,642	-	4,642
Restricted assets:			
Cash and investments	801,640	-	801,640
 Total assets	 <u>\$ 15,499,016</u>	 <u>\$ 2,191,445</u>	 <u>\$ 17,690,461</u>
LIABILITIES			
Accounts payable	\$ 236,838	\$ 222,867	\$ 459,705
Accrued liabilities	311,269	-	311,269
Due to other funds	-	39,051	39,051
Due to component units	216,572	-	216,572
Unearned revenue	58,469	-	58,469
Other liabilities	317,940	-	317,940
 Total liabilities	 <u>1,141,088</u>	 <u>261,918</u>	 <u>1,403,006</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes receivable, net	94,606	-	94,606
FUND BALANCES			
Nonspendable:			
Prepays	4,642	-	4,642
Restricted for:			
Stabilization by state statute	2,244,949	-	2,244,949
Streets	761,737	-	761,737
Restricted revenues	39,903	-	39,903
Committed for:			
Capital projects	-	1,929,527	1,929,527
Assigned for:			
Subsequent year's expenditures	1,606,221	-	1,606,221
Unassigned	9,605,870	-	9,605,870
 Total fund balances	 <u>14,263,322</u>	 <u>1,929,527</u>	 <u>16,192,849</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 15,499,016</u>	 <u>\$ 2,191,445</u>	 <u>\$ 17,690,461</u>

**Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds
June 30, 2023**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET TO
THE STATEMENT OF NET POSITION**

Total fund balances, governmental funds		\$ 16,192,849
Reconciliation of amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:		
Capital assets and right to use assets used in governmental activities are not financial resources and; therefore, not reported in the funds:		
Non-depreciable capital assets		6,452,538
Capital assets being depreciated:		
Cost	\$ 28,791,814	
Accumulated depreciation	<u>(10,871,006)</u>	17,920,808
Capital assets being amortized:		
Right to use assets	144,064	
IT subscription agreement	158,621	
Accumulated amortization	<u>(159,000)</u>	143,685
Deferred outflows of resources are not financial resources; therefore, the amounts are not reported in the funds:		
Local Government Employees' Retirement System ("LGERS")	2,205,359	
Law Enforcement Officers' Special Separation Allowance ("LEO")	430,759	
Other post employment benefits ("OPEB")	<u>180,939</u>	2,817,057
Certain assets are not available to pay for current period expenditures; therefore, the balances are deferred in the funds:		
Property taxes receivable		94,606
Certain assets are not considered financial resources; therefore, the balances are not recorded in the funds:		
Accrued interest receivable on unpaid property taxes		25,200
Deferred inflows of resources are not financial resources; therefore, the amounts are not reported in the funds:		
Local Government Employees' Retirement System ("LGERS")	(98,421)	
Law Enforcement Officers' Special Separation Allowance ("LEO")	(339,950)	
Other post employment benefits ("OPEB")	<u>(250,248)</u>	(688,619)
Long-term liabilities are not due and payable in the current period; therefore, the liabilities are not recognized or accrued in the funds:		
Installment purchase contracts	(2,239,251)	
Lease and IT subscription liabilities	(132,510)	
Net pension liability - LGERS	(3,170,031)	
Total pension liability - LEO	(1,195,633)	
Total OPEB liability	(741,299)	
Compensated absences payable	<u>(568,916)</u>	(8,047,640)
Other accrual adjustments that do not require the use of current financial resources; therefore, the liabilities are not recognized or accrued in the funds:		
Accrued interest payable		<u>(34,400)</u>
Net position of governmental activities		<u><u>\$ 34,876,084</u></u>

Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2023

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Ad valorem taxes	\$ 9,656,519	\$ -	\$ 9,656,519
Other taxes and licenses	10,513	-	10,513
Unrestricted intergovernmental revenues	4,601,327	-	4,601,327
Restricted intergovernmental revenues	272,400	468,316	740,716
Use and rental fees	93,283	-	93,283
Contributions and donations	23,287	-	23,287
Investment earnings	418,762	-	418,762
Miscellaneous revenues	308,727	-	308,727
	<u>15,384,818</u>	<u>468,316</u>	<u>15,853,134</u>
EXPENDITURES			
Current:			
General government	3,077,983	-	3,077,983
Public safety	5,659,896	-	5,659,896
Transportation	985,985	-	985,985
Environmental protection	633,364	-	633,364
Economic and physical development	583,542	754,348	1,337,890
Community activities and projects	104,235	267,984	372,219
Parks and recreation	551,073	-	551,073
Debt service:			
Principal retirement	592,430	-	592,430
Interest and fiscal charges	83,798	-	83,798
	<u>12,272,306</u>	<u>1,022,332</u>	<u>13,294,638</u>
Revenues over (under) expenditures	<u>3,112,512</u>	<u>(554,016)</u>	<u>2,558,496</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	981,970	981,970
Transfers to other funds	(981,970)	-	(981,970)
IT subscription agreement	128,756	-	128,756
	<u>(853,214)</u>	<u>981,970</u>	<u>128,756</u>
Other financing sources (uses), net	<u>(853,214)</u>	<u>981,970</u>	<u>128,756</u>
Net change in fund balances	<u>2,259,298</u>	<u>427,954</u>	<u>2,687,252</u>
Fund balances, beginning of year	<u>12,004,024</u>	<u>1,501,573</u>	<u>13,505,597</u>
Fund balances, end of year	<u>\$ 14,263,322</u>	<u>\$ 1,929,527</u>	<u>\$ 16,192,849</u>

Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2023

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF
ACTIVITIES**

Net change in fund balances - total governmental funds \$ 2,687,252

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 and amortization expense. In addition, the book value of assets disposed is not reported in the governmental funds; however this amount is netted against any proceeds from the disposal of assets in the Statement of Activities.

Capital outlay	1,608,254
IT subscription agreement	158,621
Depreciation expense	(1,052,949)
Amortization expense	(117,963)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Net change in property taxes receivable	(47,522)
Net change in accrued interest on property taxes	2,600

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal on long-term debt consumes current financial resources of governmental funds:

IT subscription agreement	(128,756)
Principal retirement	592,430

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest on long-term debt	4,800
Change in accrued compensated absences	(120,290)
Pension expense - LGERS	(218,394)
Pension expense - LEOSSA	(107,951)
OPEB expense	105,767
Other expense	(6)

Changes in net position of governmental activities	\$ 3,365,893
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Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Ad valorem taxes	\$ 9,093,600	\$ 9,040,700	\$ 9,656,519	\$ 615,819
Other taxes and licenses	9,100	7,500	10,513	3,013
Unrestricted intergovernmental revenues	3,610,760	3,605,760	4,601,327	995,567
Restricted intergovernmental revenues	270,000	270,000	272,524	2,524
Use and rental fees	103,000	88,500	93,283	4,783
Investment earnings	1,000	1,000	418,762	417,762
Miscellaneous revenues	83,766	64,497	308,727	244,230
Total revenues	<u>13,171,226</u>	<u>13,077,957</u>	<u>15,361,655</u>	<u>2,283,698</u>
EXPENDITURES				
Current:				
General government	3,475,360	3,777,184	3,265,691	511,493
Public safety	5,669,115	6,002,219	5,774,569	227,650
Transportation	1,032,916	1,545,598	985,985	559,613
Environmental protection	781,589	1,084,113	695,981	388,132
Economic and physical development	495,000	675,902	583,542	92,360
Community activities and projects	604,652	228,890	196,703	32,187
Parks and recreation	836,076	880,089	635,588	244,501
Contingency	300,000	-	-	-
Total expenditures	<u>13,194,708</u>	<u>14,193,995</u>	<u>12,138,059</u>	<u>2,055,936</u>
Revenues over (under) expenditures	<u>(23,482)</u>	<u>(1,116,038)</u>	<u>3,223,596</u>	<u>4,339,634</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(720,000)	(981,970)	(981,970)	-
IT subscription agreement	-	-	128,756	128,756
Other financing sources (uses), net	<u>(720,000)</u>	<u>(981,970)</u>	<u>(853,214)</u>	<u>128,756</u>
APPROPRIATED FUND BALANCE				
	<u>743,482</u>	<u>2,098,008</u>	<u>-</u>	<u>(2,098,008)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>2,370,382</u>	<u>\$ 2,370,382</u>
Fund balance, beginning of year			<u>11,853,037</u>	
Fund balance, end of year			<u>14,223,419</u>	
LEGALLY BUDGETED FUNDS THAT ARE CONSOLIDATED INTO THE GENERAL FUND FOR REPORTING PURPOSES:				
Restricted Revenues Fund:				
Fund balance, beginning			150,987	
Total revenues			23,163	
Total expenditures			<u>(134,247)</u>	
Fund balance, ending (Exhibit 4)			<u>\$ 14,263,322</u>	

Town of Hillsborough, North Carolina
Statement of Net Position
Proprietary Funds
June 30, 2023

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments - Unrestricted	\$ 12,772,851	\$ 1,124,654	\$ 13,897,505
Cash and investments - Restricted	12,364,578	-	12,364,578
Accounts receivable, net	1,957,220	10,813	1,968,033
Prepays	485	-	485
Total current assets	<u>27,095,134</u>	<u>1,135,467</u>	<u>28,230,601</u>
Noncurrent assets:			
Capital assets:			
Non-depreciable assets	6,976,600	133,813	7,110,413
Depreciable assets, net	<u>51,154,614</u>	<u>1,708,594</u>	<u>52,863,208</u>
Capital assets, net	<u>58,131,214</u>	<u>1,842,407</u>	<u>59,973,621</u>
Total assets	<u>85,226,348</u>	<u>2,977,874</u>	<u>88,204,222</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,106,897</u>	<u>112,636</u>	<u>1,219,533</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	306,519	21,066	327,585
Payable from restricted assets:			
Accounts payable - capital projects	180,728	-	180,728
Customer deposits	629,162	-	629,162
Other current liabilities	34,622	-	34,622
Unearned revenue	2,071,265	-	2,071,265
Accrued interest payable	170,300	-	170,300
Current portion of long-term liabilities	<u>1,693,544</u>	<u>11,700</u>	<u>1,705,244</u>
Total current liabilities	<u>5,086,140</u>	<u>32,766</u>	<u>5,118,906</u>
Long-term liabilities:			
Long-term debt	23,174,881	-	23,174,881
Other long-term liabilities	<u>2,165,127</u>	<u>192,190</u>	<u>2,357,317</u>
Total noncurrent liabilities	<u>25,340,008</u>	<u>192,190</u>	<u>25,532,198</u>
Total liabilities	<u>30,426,148</u>	<u>224,956</u>	<u>30,651,104</u>
DEFERRED INFLOWS OF RESOURCES	<u>235,251</u>	<u>18,543</u>	<u>253,794</u>
NET POSITION			
Net investment in capital assets	34,321,220	1,842,407	36,163,627
Restricted for water and sewer projects	8,536,551	-	8,536,551
Restricted for perpetual maintenance	946,872	-	946,872
Unrestricted	<u>11,867,203</u>	<u>1,004,604</u>	<u>12,871,807</u>
Total net position	<u>\$ 55,671,846</u>	<u>\$ 2,847,011</u>	<u>\$ 58,518,857</u>

Town of Hillsborough, North Carolina
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2023

Exhibit 7

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 10,920,544	\$ 729,455	\$ 11,649,999
System Development Fees	179,377	-	179,377
Other operating revenues	390,138	-	390,138
	<u>11,490,059</u>	<u>729,455</u>	<u>12,219,514</u>
OPERATING EXPENSES			
Personnel services	3,627,403	371,715	3,999,118
Operating expenses	4,533,068	292,491	4,825,559
Depreciation expense	2,087,715	58,068	2,145,783
	<u>10,248,186</u>	<u>722,274</u>	<u>10,970,460</u>
Total operating expenses	<u>10,248,186</u>	<u>722,274</u>	<u>10,970,460</u>
Operating income	<u>1,241,873</u>	<u>7,181</u>	<u>1,249,054</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	807,100	28,619	835,719
Amortization of premium on bonds payable	56,312	-	56,312
Loss on disposal of capital assets	(17,566)	-	(17,566)
Other non-operating expenses	(84,147)	-	(84,147)
Interest and fees	(777,194)	-	(777,194)
	<u>(15,495)</u>	<u>28,619</u>	<u>13,124</u>
Non-operating revenues (expenses), net	<u>(15,495)</u>	<u>28,619</u>	<u>13,124</u>
Income before capital contributions	<u>1,226,378</u>	<u>35,800</u>	<u>1,262,178</u>
CAPITAL CONTRIBUTIONS			
Capital contributions	127,467	-	127,467
Change in net position	<u>1,353,845</u>	<u>35,800</u>	<u>1,389,645</u>
Net position, beginning of year, as previously reported	56,934,084	2,811,211	59,745,295
Prior period adjustment	(2,616,083)	-	(2,616,083)
Net position, beginning of year, as restated	<u>54,318,001</u>	<u>2,811,211</u>	<u>57,129,212</u>
Net position, end of year	<u>\$ 55,671,846</u>	<u>\$ 2,847,011</u>	<u>\$ 58,518,857</u>

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

**Town of Hillsborough, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2023**

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 11,339,905	\$ 748,774	\$ 12,088,679
Cash paid for goods and services	(4,883,404)	(286,279)	(5,169,683)
Cash paid to employees	(3,298,950)	(337,023)	(3,635,973)
Net cash provided by operating activities	<u>3,157,551</u>	<u>125,472</u>	<u>3,283,023</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(348,189)	(159,985)	(508,174)
Principal payments on long-term debt	(1,427,474)	-	(1,427,474)
Interest payments on long-term debt	(783,094)	-	(783,094)
Cash received from capital contributions	1,141,096	-	1,141,096
Net cash used for capital and related financing activities	<u>(1,417,661)</u>	<u>(159,985)</u>	<u>(1,577,646)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	807,100	28,619	835,719
Net change in cash and cash equivalents	2,546,990	(5,894)	2,541,096
Cash and cash equivalents, beginning of year	<u>22,590,439</u>	<u>1,130,548</u>	<u>23,720,987</u>
Cash and cash equivalents, end of year	<u>\$ 25,137,429</u>	<u>\$ 1,124,654</u>	<u>\$ 26,262,083</u>
CASH AND CASH EQUIVALENTS			
Unrestricted	\$ 12,772,851	\$ 1,124,654	\$ 13,897,505
Restricted	<u>12,364,578</u>	<u>-</u>	<u>12,364,578</u>
Total cash and cash equivalents	<u>\$ 25,137,429</u>	<u>\$ 1,124,654</u>	<u>\$ 26,262,083</u>

**Town of Hillsborough, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2023**

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 1,241,873	\$ 7,181	\$ 1,249,054
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	2,087,715	58,068	2,145,783
Other non-operating expenses	(84,147)	-	(84,147)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
Accounts receivable	(228,250)	19,319	(208,931)
Prepays	(485)	-	(485)
Deferred outflows of resources for pensions	(418,308)	(47,525)	(465,833)
Deferred outflows of resources for OPEB	(12,720)	(3,460)	(16,180)
Accounts payable and accrued liabilities	(210,572)	9,430	(201,142)
Deposits	74,183	-	74,183
Other current liabilities	3,913	-	3,913
Total OPEB liability	14,088	12,174	26,262
Net pension liability	1,044,996	112,716	1,157,712
Deferred inflows of resources for pensions	(506,803)	(50,463)	(557,266)
Deferred inflows of resources for OPEB	40,357	5,983	46,340
Compensated absences payable	111,711	2,049	113,760
	<u>\$ 3,157,551</u>	<u>\$ 125,472</u>	<u>\$ 3,283,023</u>
Net cash provided by operating activities			
Supplemental schedule of noncash investing and financing activities			
Capital asset additions included in accounts payable and accrued liabilities	<u>\$ 180,728</u>	<u>\$ -</u>	<u>\$ 180,728</u>
Net book value of assets disposed	<u>\$ 17,566</u>	<u>\$ -</u>	<u>\$ 17,566</u>

Town of Hillsborough, North Carolina
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2023

	<u>Custodial Fund</u>
ASSETS	
Cash and investments - restricted	\$ -
Receivables:	
Due from other governments	<u>44,334</u>
Total assets	44,334
LIABILITIES	
Payable to third-party trustee	<u>44,334</u>
NET POSITION	
Restricted for:	
Individuals, organizations and other governments	<u><u>\$ -</u></u>

Town of Hillsborough, North Carolina
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2023

	<u>Custodial Fund</u>
ADDITIONS	
Special assessment revenue	\$ 445,461
DEDUCTIONS	
Payment to third party trustee	<u>445,461</u>
Change in fiduciary net position	-
Fiduciary net position, beginning of year	<u>-</u>
Fiduciary net position end of year	<u><u>\$ -</u></u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting entity

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

Hillsborough Tourism Development Authority (the "Authority")

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

Hillsborough Tourism Board (the "Tourism Board")

The Tourism Board was created on November 8, 1993, by resolution of the Town, under the authority of the North Carolina General Assembly. The Tourism Board is responsible for promoting tourism within the Town of Hillsborough. The Tourism 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 Tourism Board is composed of nine members appointed by the Town's Board of Commissioners.

Requests for complete financial statements for each of the component units may be directed to the Finance Officer, c/o Hillsborough Tourism Development Authority or c/o Hillsborough Tourism Board, Hillsborough, North Carolina, or by telephone at (919) 296-9451.

B. Basis of presentation

Government-wide statements: The Statement of Net Position and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. These statements distinguish between the *governmental* and *business-type* activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Fund financial statements: The fund financial statements provide information about the Town's funds, including the fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* - 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 result from nonexchange transactions. Other nonoperating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental fund:

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. The Town also uses a restricted revenue fund to account for certain revenues. It is not required to be reported as a special revenue fund and is therefore combined with the General Fund.

The Town reports the following nonmajor governmental funds:

Special Revenue Fund. This fund is used to account for the proceeds of the Community Development Block Grant which is legally restricted to specified purposes.

Consolidated General Capital Projects Fund. This fund is used to accumulate expenditures related to multiple capital projects over multiple years. The General Capital Reserve Fund is consolidated in the General Capital Projects Fund.

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, several water and sewer capital project funds including ARPA funded capital projects ("WS Capital Projects Funds") and three capital reserve funds have been consolidated with the Water and Sewer Fund.

The Town reports the following nonmajor enterprise fund:

Stormwater Fund. This fund is used to account for the operations of the Town's stormwater management department. For financial reporting purposes the Stormwater Capital Improvements Fund has been consolidated with the Stormwater Fund.

The Town reports the following fiduciary fund:

Custodial Fund. This fund is used to account for the proceeds and repayment of special assessment revenue bonds issued to finance the construction of public infrastructure in the Waterstone District as disclosed in Note 2.B.10(j).

C. Measurement focus and basis of accounting

In accordance with North Carolina General Statutes ("NCGS" or "G.S."), all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide, proprietary, and fiduciary fund financial statements. The government-wide, proprietary, and fiduciary 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

Town of Hillsborough, North Carolina
Notes to Financial Statements

without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental fund financial statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of general long-term debt and asset-backed financing 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. Most intergovernmental revenues and sales and services are not susceptible to accrual, because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary data

The Town's budgets are adopted by the governing board as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Water and Sewer Fund, and the Stormwater Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for all multiyear governmental special revenue and capital project funds, the WS Capital Project Funds, the water and sewer capital reserve funds, and the Stormwater Capital Improvements Fund. The WS Capital Project Funds and capital reserve funds are consolidated with the Water and Sewer Fund for reporting purposes. The Stormwater Capital Improvements Fund is consolidated with the Stormwater Fund for reporting purposes.

Town of Hillsborough, North Carolina
Notes to Financial Statements

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 net position/fund balances

(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.

G.S. 159-30(c) authorizes the Town to invest in obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed 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 non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"), an SEC registered mutual fund dedicated to serving North Carolina public units. The securities of the NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, are measured at fair value.

(2) Cash and cash equivalents

The Town pools most money from all funds to facilitate disbursement and investment and maximize investment income. Exceptions of non-pooled funds may include, but are not limited to, unspent bond proceeds, certain capital project funds and escrowed or endowed funds restricted for specific purposes. For purposes of the Statement of Cash Flows, the Town's enterprise funds consider equity in pooled cash and investments to be cash equivalents as they are essentially demand deposit accounts and short-term investments. Investment income is allocated based on each fund's monthly balance in relation to the total pooled cash balance. Non-pooled investment income is allocated to the specific beneficiary fund holding those assets.

(3) Restricted assets

The Water and Sewer Fund has 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	\$ 761,737
Restricted revenues	39,903
	<hr/>
Total governmental activities	801,640
	<hr/>

Town of Hillsborough, North Carolina
Notes to Financial Statements

Town of Hillsborough Restricted Cash (Continued)

Business-type activities:	
Water and Sewer Fund:	
Unspent debt proceeds	\$ 1,037,159
Federal funds - ARPA	2,159,365
Customer deposits	629,162
Perpetual maintenance	946,872
Water and sewer capital needs	<u>7,592,020</u>
Total business-type activities	<u>12,364,578</u>
Total restricted cash	<u>\$ 13,166,218</u>

(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, 2022.

(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) Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as "Prepays" in both government-wide and fund statements. The amount will be expensed in the year that it is used.

(7) Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows:

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

Donated capital assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after July 1, 2015 are recorded at acquisition value. All other purchased or constructed assets are recorded at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Town's capital assets also include certain right to use assets. These right to use assets arise in association with agreements where the Town reports a lease (only applies when the Town is the lessee) or agreements where the Town reports an Information Technology (IT) Subscription in accordance with the requirements of GASB 87 and GASB 96, respectively.

Town of Hillsborough, North Carolina
Notes to Financial Statements

The right to use lease assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made at or prior to the start of the lease term, less lease incentives received from the lessor at or prior to the start of the lease term, and plus ancillary charges necessary to place the lease asset into service. The right to use lease assets are amortized on a straight-line basis over the life of the related lease.

The right to use IT subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus any subscription payments made at the start of the subscription term, if applicable, plus capitalizable initial implementation costs at the start of the subscription term, less any incentives received from the IT subscription vendor at the start of the subscription term. Subscription payments, as well as payments for capitalizable implementation costs made before the start of the subscription term should be reported as a prepayment (asset). Such prepayments should be reduced by any incentives received from the same vendor before the start of the subscription term if a right of offset exists. The net amount of the prepayments and incentives should be reported as an asset or liability, as appropriate, before the start of the subscription term at which time the amount should be included in the initial measurement of the subscription asset. The right to use subscription assets should be amortized on a straight-line basis over the subscription term.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and building improvements	30 years
Infrastructure	40 years
Plant and distribution systems	50 years
Furnishings, fixtures, equipment and computers	5 to 10 years
Vehicles	3 to 5 years

(8) Deferred outflows/inflows of resources

In addition to assets, the government-wide and/or fund statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position and/or fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then.

In addition to liabilities, the government-wide and/or fund statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

(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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether withheld from the actual debt proceeds received or not, are reported as debt service expenditures.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(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. Any vacation leave accumulated over 240 hours at December 31st is converted to sick leave. 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. Compensated absences for governmental activities are liquidated in the General Fund and compensated absences for business-type activities are liquidated in the appropriate enterprise fund.

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

(11) Net position/fund balances

Net position

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

Fund balances

In the governmental fund financial statements, fund balance is comprised of five classifications designed to disclose the hierarchy of constraints placed on how the fund balance can be spent.

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.

Prepays - portion of fund balance that is not an available resource because it represents the year-end balance of prepaids which have already been used.

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

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

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

Town of Hillsborough, North Carolina
Notes to Financial Statements

Restricted for revenues - Portion of fund balance representing unexpended grants and contributions from external sources restricted for specific projects.

Committed fund balance - Portion of fund balance that can only be used for specific purposes imposed by the government through majority vote of the Town's governing body - the Board of Town Commissioners (highest level of decision-making authority). The Board of Town Commissioners can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for capital projects - Portion of fund balance that can only be used for the construction of capital projects.

Assigned fund balance - Portion of fund balance the Town intends to use for specific purposes that are considered neither restricted nor committed.

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 in the budget ordinance which expires on June 30th of the following year.

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

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

The Town has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is between 20% and 60% of operating expenditures, with a target of 33%, or the equivalent of four months of operating expenditures.

(12) Defined benefit cost-sharing plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employee's Retirement System ("LGERS") and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value purposes.

2. Detail Notes on All Funds

A. Assets

(1) Deposits and Investments

All of the deposits of the Town, the Authority, and the Tourism 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 Tourism 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

Town of Hillsborough, North Carolina
Notes to Financial Statements

acting in a fiduciary capacity for the Town, the Authority, and the Tourism 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 Tourism Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, the Authority, or the Tourism 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 Tourism Board have no formal policy regarding custodial credit risk for deposits.

The Town's deposits had a carrying amount of \$7,694,415 and a bank balance of \$7,771,260 at June 30, 2023. Of the bank balance, \$328,593 was covered by federal depository insurance and \$7,442,667 in demand deposits were covered under the Pooling Method. The Town had \$3,050 in cash on hand at June 30, 2023.

The Authority's deposits had a carrying amount \$377,616 and bank balance of \$387,216 at June 30, 2023. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$137,216 was covered under the Pooling Method.

The Tourism Board's deposits had a carrying amount of \$471,300 and a bank balance of \$472,881 at June 30, 2023. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$222,881 of demand deposits were covered under the Pooling Method.

Investments

The following table summarizes the Town's investment balances at June 30, 2023:

<u>Investments by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2023</u>	<u>Maturity</u>	<u>Rating</u>
North Carolina Capital Management Trust - Governmental Portfolio	Level 1	<u>\$ 34,539,851</u>	N/A	AAAm

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

Level of fair value hierarchy:

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

The Town does not have a formal investment policy.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NCCMT - Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2023.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(3) Due from other governments

Amounts due from other governments consist of the following:

	Governmental Activities
General Fund:	
Sales and use tax distribution	\$ 855,943
Utilities franchise and telecommunications tax	159,094
Sales tax refunds	154,544
Other government agencies	77,239
Total General Fund	<u>1,246,820</u>
Other governmental funds:	
Federal government - CDBG	204,515
Other government agencies - capital projects	56,848
Total due from other governments	<u>\$ 1,508,183</u>

(4) Receivables - allowances for doubtful accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2023 are net of the following allowances for doubtful accounts:

	Governmental Activities
General Fund:	
Property taxes receivable	<u>\$ 42,000</u>
Water and Sewer Fund:	
Accounts receivable	\$ 272,419
Stormwater Fund:	
Accounts receivable	<u>18,736</u>
Total allowance for doubtful accounts	<u>\$ 291,155</u>

(5) Due from related governments

The Authority - Amounts due from related governments consist of \$48,337 owed to the Authority from the Town for occupancy taxes collected by the Town and remitted to the Authority after year-end.

The Tourism Board - Amounts due from related governments consist of \$168,235 owed to the Tourism Board from the Town for food and beverage taxes collected by the Town and remitted to the Tourism Board after year-end.

(6) Capital assets

The following table summarizes capital asset activity for the Town's governmental activities during the year ended June 30, 2023.

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	Beginning Balances	Additions	Deletions and Transfers	Ending Balances
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 4,879,989	\$ -	\$ -	\$ 4,879,989
Construction-in-progress	866,599	758,348	(52,398)	1,572,549
	<u>5,746,588</u>	<u>758,348</u>	<u>(52,398)</u>	<u>6,452,538</u>
Capital assets being depreciated:				
Buildings and improvements	9,204,305	73,103	-	9,277,408
Infrastructure	13,200,694	213,098	52,398	13,466,190
Equipment	1,201,587	115,052	(62,616)	1,254,023
Vehicles	4,822,888	448,653	(477,348)	4,794,193
	<u>28,429,474</u>	<u>849,906</u>	<u>(487,566)</u>	<u>28,791,814</u>
Less accumulated depreciation for:				
Buildings and improvements	3,489,740	293,410	-	3,783,150
Infrastructure	2,062,684	333,328	-	2,396,012
Equipment	804,538	103,061	(62,616)	844,983
Vehicles	4,001,059	323,150	(477,348)	3,846,861
	<u>10,358,021</u>	<u>1,052,949</u>	<u>(539,964)</u>	<u>10,871,006</u>
Depreciable capital assets, net	<u>18,071,453</u>	<u>(203,043)</u>	<u>52,398</u>	<u>17,920,808</u>
Capital assets being amortized:				
Right to use assets:				
Land improvements	5,763	-	-	5,763
Buildings	103,215	-	-	103,215
Equipment	35,086	-	-	35,086
IT subscriptions	-	158,621	-	158,621
	<u>144,064</u>	<u>158,621</u>	<u>-</u>	<u>302,685</u>
Less accumulated amortization for:				
Right to use assets:				
Land improvements	1,235	1,235	-	2,470
Buildings	31,538	34,405	-	65,943
Equipment	8,264	9,558	-	17,822
IT subscriptions	-	72,765	-	72,765
	<u>41,037</u>	<u>117,963</u>	<u>-</u>	<u>159,000</u>
Amortizable capital assets, net	<u>103,027</u>	<u>40,658</u>	<u>-</u>	<u>143,685</u>
Capital assets, net	<u>\$ 23,921,068</u>	<u>\$ 595,963</u>	<u>\$ -</u>	<u>\$ 24,517,031</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

Depreciation and amortization expense were charged to the following functions:

	<u>Depreciation</u>	<u>Amortization</u>
General government	\$ 230,541	\$ 60,056
Public safety	229,309	56,672
Transportation	364,876	-
Economic and physical development	146,860	-
Environmental protection	81,363	-
Community activities and projects	-	1,235
	<u>\$ 1,052,949</u>	<u>\$ 117,963</u>

The following tables summarize capital asset activity for the Town's business-type activities during the year ended June 30, 2023.

	<u>Beginning Balances (As Restated)</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Water and sewer:</i>				
Capital assets not depreciated:				
Land	\$ 6,099,275	\$ -	\$ -	\$ 6,099,275
Construction-in-progress	1,063,644	380,851	(567,170)	877,325
	<u>7,162,919</u>	<u>380,851</u>	<u>(567,170)</u>	<u>6,976,600</u>
Capital assets being depreciated:				
Buildings and improvements	38,994,136	-	-	38,994,136
Plant and distribution systems	37,057,758	-	-	37,057,758
Infrastructure	753,434	-	567,170	1,320,604
Equipment	1,828,762	90,972	(38,045)	1,881,689
Vehicles	1,308,709	55,295	(115,968)	1,248,036
	<u>79,942,799</u>	<u>146,267</u>	<u>413,157</u>	<u>80,502,223</u>
Less accumulated depreciation for:				
Buildings and improvements	12,492,204	1,114,234	-	13,606,438
Plant and distribution systems	12,373,001	734,038	-	13,107,039
Infrastructure	176,293	32,725	-	209,018
Equipment	1,434,700	90,551	(40,936)	1,484,315
Vehicles	920,143	116,167	(95,511)	940,799
	<u>27,396,341</u>	<u>2,087,715</u>	<u>(136,447)</u>	<u>29,347,609</u>
Capital assets being depreciated, net	<u>52,546,458</u>	<u>(1,941,448)</u>	<u>549,604</u>	<u>51,154,614</u>
Capital assets, net	<u>\$ 59,709,377</u>	<u>\$ (1,560,597)</u>	<u>\$ (17,566)</u>	<u>\$ 58,131,214</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

	Beginning Balances	Additions	Deletions	Ending Balances
Business-type activities:				
<i>Stormwater:</i>				
Capital assets not depreciated:				
Land	\$ 33,813	\$ -	\$ -	\$ 33,813
Construction-in-progress	100,000	-	-	100,000
	<u>133,813</u>	<u>-</u>	<u>-</u>	<u>133,813</u>
Capital assets being depreciated:				
Infrastructure	2,133,177	-	-	2,133,177
Equipment	31,606	59,985	-	91,591
Vehicles	20,762	-	-	20,762
	<u>2,185,545</u>	<u>59,985</u>	<u>-</u>	<u>2,245,530</u>
Less accumulated depreciation for:				
Infrastructure	448,347	53,330	-	501,677
Equipment	9,759	4,738	-	14,497
Vehicles	20,762	-	-	20,762
	<u>478,868</u>	<u>58,068</u>	<u>-</u>	<u>536,936</u>
Capital assets being depreciated, net	<u>1,706,677</u>	<u>1,917</u>	<u>-</u>	<u>1,708,594</u>
Capital assets, net	<u>\$ 1,840,490</u>	<u>\$ 1,917</u>	<u>\$ -</u>	<u>\$ 1,842,407</u>

(7) Construction commitments

The Town has active construction projects as of June 30, 2023 with the following remaining commitments:

	Spent to Date	Estimated Remaining Commitment
Governmental Projects:		
Transportation Improvement Project ("TIP")	\$ 272,137	\$ 806,863
Valley Forge Road Project	1,222,197	28,720
NC 86 Renovation Project	74,215	2,251,767
Fire Station Project	-	225,000
Fiber Loop Project	-	350,000
Other projects	4,000	278,500
Business-type Projects:		
Mill Creek Road Project	3,055,400	222,396
Various water and sewer projects	1,442,495	6,175,804
	<u>\$ 6,070,444</u>	<u>\$ 10,339,050</u>

B. Liabilities

(1) Pension plans and postemployment obligations

(a) Local Governmental Employees' Retirement System

Plan description. The Town 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 Annual Comprehensive Financial Report ("ACFR") for the state of North Carolina. The State's ACFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Benefits provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). 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 (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) 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.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by G.S. 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, 2023 was 13.04% of compensation for law enforcement officers and 12.14% 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 \$961,854 for the year ended June 30, 2023.

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.

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Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

The Town reported a liability, at June 30, 2023, of \$4,708,900 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. The Town's proportion, at June 30, 2022 (measurement date), was 0.08347%, which was an increase of 0.00358% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Town recognized pension expense of \$1,314,861. The Town reported, at June 30, 2023, 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	\$ 202,902	\$ 19,893
Changes in assumptions and/or other inputs	469,843	-
Net difference between projected and actual earnings on pension plan investments	1,556,341	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	84,994	126,304
Contributions subsequent to the measurement date	<u>961,854</u>	<u>-</u>
Total deferrals	<u>\$ 3,275,934</u>	<u>\$ 146,197</u>

The \$961,854 reported as deferred outflows of resources related to the Town's contributions subsequent to the measurement date that will be recognized as a decrease of the net pension liability in the year ending June 30, 2024.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:

2024	\$ 663,916
2025	561,888
2026	200,608
2027	<u>741,471</u>
Total	<u>\$ 2,167,883</u>

Actuarial assumptions. The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25 to 8.25%, including inflation and productivity factor
Investment rate of return	6.50%, 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 etc.) and health status (i.e., disabled and healthy). The current mortality rates are based on published tables

Town of Hillsborough, North Carolina
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and based on studies that cover significant portions of the U.S. population. The health mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2021 valuation, with the exception of the discount rate, were based on the results of an actuarial experience study prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2022 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.1%
Global Equity	42.0%	6.5%
Real Estate	8.0%	5.9%
Alternatives	8.0%	7.5%
Opportunistic Fixed Income	7.0%	5.0%
Inflation Securities	6.0%	2.7%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary as part of a study conducted in early 2022, and is part of the 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 2.50 percent. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 6.50 percent. 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 liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 6.50%, 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 (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

Town of Hillsborough, North Carolina
Notes to Financial Statements

	<u>1% Decrease (5.50%)</u>	<u>Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Town's proportionate share of the net pension liability	<u>\$ 8,498,958</u>	<u>\$ 4,708,900</u>	<u>\$ 1,585,672</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued ACFR for the state of North Carolina.

(b) Law Enforcement Officers' Special Separation Allowance

(i) Plan description.

The Town administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. The Separation Allowance's membership, at December 31, 2021 (valuation date), consisted of:

Inactive members currently receiving benefits	2
Active plan members	<u>27</u>
Total	<u>29</u>

(ii) Summary of significant accounting policies

Basis of accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

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

(iii) Actuarial assumptions:

The entry age actuarial cost method was used in the December 31, 2021 valuation. The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent
Discount rate	4.31 percent

The discount rate used to measure the total pension liability is the S&P Municipal Bond 20 Year High Grade Rate Index.

All mortality rates use Pub-2010 amount-weighted tables and are projected from 2010 using generational improvement with Scale MP-2019.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(iv) *Change in actuarial assumptions:*

Based on the results of an experience study completed by the actuary for the LGERS for the five-year period ending December 31, 2019, several assumptions were updated including mortality rates, salary increase rates, real wage growth, etc.

The Municipal Bond Index Rate increased from 2.25 percent to 4.31 percent.

(v) *Contributions:*

The Town is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$47,045 as benefits came due for the reporting period.

(vi) *Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:*

At June 30, 2023, the Town reported a total pension liability of \$1,195,633. The total pension liability was based on a December 31, 2021 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2022 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2023, the Town recognized pension expense of \$155,434.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 202,932	\$ 130,198
Changes in assumptions and/or other inputs	197,060	209,752
Benefit payments and administrative costs made subsequent to the measurement date	<u>30,767</u>	<u>-</u>
Total deferrals	<u>\$ 430,759</u>	<u>\$ 339,950</u>

The \$30,767 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:

2024	\$ 43,201
2025	35,203
2026	32,031
2027	(41,029)
2028	(8,364)
Thereafter	<u>(1,000)</u>
Total	<u>\$ 60,042</u>

Town of Hillsborough, North Carolina
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(vii) *Sensitivity of the Town's total pension liability to changes in the discount rate:*

The following presents the Town's total pension liability calculated using the discount rate of 4.31 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.31 percent) or 1-percentage-point higher (5.31 percent) than the current rate:

	<u>1% Decrease (3.31%)</u>	<u>Discount Rate (4.31%)</u>	<u>1% Increase (5.31%)</u>
Total pension liability	\$ 1,296,754	\$ 1,195,633	\$ 1,104,110

Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance

	<u>2023</u>
Beginning balance	\$ 1,172,974
Service cost	79,139
Interest on the total pension liability	26,039
Differences between expected and actual experience in the measurement of the total pension liability	168,460
Changes in assumptions and/or other inputs	(219,644)
Benefit payments	(31,335)
Ending balance	<u>\$ 1,195,633</u>

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 1,314,861	\$ 155,002	\$ 1,469,863
Pension liabilities	4,708,900	1,195,633	5,904,533
Proportionate share of net pension liability	0.08347%	N/A	N/A

Deferred outflows of resources:

Differences between expected and actual experience	202,902	202,932	405,834
Changes in assumptions and/or other inputs	469,843	197,060	666,903
Net difference between projected and actual earnings on pension plan investments	1,556,341	-	1,556,341
Changes in proportion and differences between contributions and proportionate share of contributions	84,994	-	84,994
Contributions, benefit payments, and admini- strative costs paid subsequent to the measurement date	961,854	30,767	992,621

Town of Hillsborough, North Carolina
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	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Deferred inflows of resources:			
Differences between expected and actual experience	\$ 19,893	\$ 130,198	\$ 150,091
Changes in assumptions and/or other inputs	-	209,752	209,752
Changes in proportion and differences between contributions and proportionate share of contributions	126,304	-	126,304

(d) Supplemental Retirement Income Plan

Plan description. The Town 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 all permanent full-time employees, as well as 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. All employees begin participation at the date of employment. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the ACFR for the state of North Carolina. The State’s ACFR 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.

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 makes an equal contribution of 5 percent of monthly salary to all other permanent full-time employees. Also, the participants may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2023 were \$640,028, which consisted of \$399,320 from the Town and \$240,708 from employees.

(2) Other postemployment benefit

Healthcare Benefits

Plan description. According to a town resolution, the Town administers a single-employer defined benefit Healthcare Plan (the “HC Plan”). The HC Plan provides post-retirement healthcare benefits until they become eligible for Medicare to retirees of the Town who were hired before February 9, 2009, who have at least 20 years of creditable service, and who attain age 55 for regular employees and age 52 for law enforcement employees. Employees hired on or after February 9, 2009, must complete 30 years of service and attain age 60 for regular employees and age 57 for law enforcement employees before becoming eligible for post-retirement benefits. The Town pays the full cost of coverage for these benefits. The Town’s governing board may amend the benefit provisions. A separate report was not issued for the HC Plan.

<u>Retired Employees’ Years of Creditable Service</u>	<u>Law Enforcement</u>		<u>Non-Law Enforcement</u>	
	<u>Hired Before February 9, 2009</u>	<u>Hired On or After February 9, 2009</u>	<u>Hired Before February 9, 2009</u>	<u>Hired On or After February 9, 2009</u>
Less than 20 years’ continuous service	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
20 or more years’ continuous service:				
Before age 52	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
Age 52 to 55	Full coverage paid for by Town	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
Age 55 until eligible for Medicare	Full coverage paid for by Town	Not eligible for coverage	Full coverage paid for by Town	Not eligible for coverage

Town of Hillsborough, North Carolina
Notes to Financial Statements

<u>Retired Employees' Years of Creditable Service</u>	<u>Law Enforcement</u>		<u>Non-Law Enforcement</u>	
	<u>Hired Before February 9, 2009</u>	<u>Hired On or After February 9, 2009</u>	<u>Hired Before February 9, 2009</u>	<u>Hired On or After February 9, 2009</u>
30 or more years' continuous service: Before age 57	Full coverage paid for by Town	Not eligible for coverage	Full coverage paid for by Town	Not eligible for coverage
Age 57 to 60	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town	Not eligible for coverage
Age 60 until eligible for Medicare	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town

Membership of the HC Plan consisted of the following at June 30, 2021, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	3	1
Active plan members	<u>67</u>	<u>26</u>
Total	<u>70</u>	<u>27</u>

Total OPEB liability

The Town's total OPEB liability of \$1,351,578 was measured as of June 30, 2022 and was determined by an actuarial valuation as of June 30, 2021.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation and wage inflation	2.50 percent and 3.25 percent, respectively
Real wage growth	0.75 percent
Salary increases	3.25 to 8.41 percent, including inflation and varying by position classes
Discount rate	3.54 percent
Healthcare cost trend rates	7.00 percent decreasing to an ultimate rate of 4.50 percent by 2031

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

Changes in the total OPEB liability

	<u>2023</u>
Beginning balance	\$ 1,460,043
Service cost	53,159
Interest on the total pension liability	31,809
Differences between expected and actual experience in the measurement of the total pension liability	31,233
Changes in assumptions and/or other inputs	(143,133)
Net benefit payments and implicit subsidy credit	<u>(81,533)</u>
Ending balance	<u>\$ 1,351,578</u>

Town of Hillsborough, North Carolina
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The net benefit payments shown above include the implicit subsidy (if any) for the year. Changes in assumptions and other inputs reflect a change in the discount rate from 2.16 percent to 3.54 percent.

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2021 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2021 valuation.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.54 percent) or 1 percentage point higher (4.54 percent) than the current rate:

	1% Decrease (2.54%)	Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB liability	<u>\$ 1,453,734</u>	<u>\$ 1,351,578</u>	<u>\$ 1,257,383</u>

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

	1% Decrease	Current Healthcare Trend Rate	1% Increase
Total OPEB liability	<u>\$ 1,226,593</u>	<u>\$ 1,351,578</u>	<u>\$ 1,493,806</u>

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

The Town recognized OPEB expense of \$44,800 for the year ended June 30, 2023. The Town reported, at June 30, 2023, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 53,489	\$ 285,678
Changes in assumptions and/or other inputs	226,983	170,587
Benefit payments and administrative costs made subsequent to the measurement date	<u>49,424</u>	<u>-</u>
Total deferrals	<u>\$ 329,896</u>	<u>\$ 456,265</u>

The \$49,424 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2024.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30:

2024	\$ (41,355)
2025	(41,355)
2026	(39,043)
2027	(31,054)
2028	(27,903)
Thereafter	4,917
Total	<u>\$ (175,793)</u>

(3) Other employment benefit

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

(4) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities at June 30, 2023 were as follows:

	<u>Governmental Activities</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable to vendors	\$ 236,838	\$ 222,867	\$ 459,705
Accrued payroll and related liabilities	311,269	-	311,269
	<u>\$ 548,107</u>	<u>\$ 222,867</u>	<u>\$ 770,974</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

Business-type Activities

	Water and Sewer Fund	Stormwater Fund	Total
Accounts payable to vendors	\$ 331,939	\$ 7,655	\$ 339,594
Accrued payroll and related liabilities	155,308	13,411	168,719
	\$ 487,247	\$ 21,066	\$ 508,313

Component Units

	The Authority	The Tourism Board	Total
Accounts payable to vendors	\$ 5,143	\$ 30,397	\$ 35,540
Accrued payroll and related liabilities	-	-	-
	\$ 5,143	\$ 30,397	\$ 35,540

(5) Due to related governments

The amounts due to related governments are the inverse of the corresponding receivables disclosed in Note 2.A.(5).

(6) Unearned revenue

Unearned revenue consists of unspent federal funds in the amount of \$2,071,265 received under the “American Rescue Plan Act of 2021” (“ARPA”). The federal funds have eligibility requirements that must be met before the revenue can be recognized.

(7) Deferred outflows and inflows of resources

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

Deferred Outflows of Resources:

	Modified Accrual	Full Accrual
Governmental activities:		
Pension - LGERS	\$ -	\$ 2,205,359
Pension - LEOSSA	-	430,759
OPEB	-	180,939
Total	\$ -	\$ 2,817,057
Business-type activities:		
Pension - LGERS		\$ 1,070,575
OPEB		148,958
Total		\$ 1,219,533

Town of Hillsborough, North Carolina
Notes to Financial Statements

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

Deferred Inflows of Resources:

	<u>Modified Accrual</u>	<u>Full Accrual</u>
Governmental activities:		
Unavailable revenue:		
Property taxes receivable	\$ 94,606	\$ -
Pension - LGERS	-	98,421
Pension - LEOSSA	-	339,950
OPEB	-	250,248
Total governmental activities	<u>\$ 94,606</u>	<u>\$ 688,619</u>
Business-type activities:		
Pension - LGERS		\$ 47,777
OPEB		<u>206,017</u>
Total business-type activities		<u>\$ 253,794</u>

(8) 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 \$5 million per occurrence; auto liability coverage of \$5 million per occurrence; property coverage up to the total insurance values of the property policy; and workers' compensation coverage up to statutory limits. The property/liability and workers compensation pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$1 million, property in excess of \$500,000, and \$1 million up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the limit based upon a percentage of the total insurance values.

The Town carries commercial insurance for all other risks of loss, including property (\$69,703,628); general liability (\$5 million per occurrence); law enforcement liability (\$5 million per occurrence); public employees scheduled bond (\$60,000 - includes \$50,000 for the finance director and \$10,000 for the deputy tax collector), public employees blanket bond/crime (\$10,000); computer equipment (\$786,100); municipal equipment (\$1,089,860); fine arts (\$500,000); and public officials' liability (\$5 million per occurrence). There have been no significant reductions in insurance coverage in the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The old motor pool facility is in an area of the state that has been mapped and designated an "A" area (an area close to a river) by the Federal Emergency Management Agency. Flood coverage on the old, dilapidated facility has been discontinued since the building is now used for storage only. Other town structures are designated as "B, C and X" areas (low-risk areas) and are insured for flood damage through the Interlocal Risk Financing Fund of North Carolina pool for \$5 million per occurrence and aggregate with a \$50,000 deductible. Flood coverage is provided only to those buildings and contents located entirely in flood zones B, C, and X.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time or the Town's funds are performance bonded through a commercial surety bond. The finance director is covered by an individual official bond for \$50,000.

The Authority and the Tourism Board carried commercial coverage for Public Officials Liability with coverage of \$5,000,000 for all claims. Both the Authority and the Tourism Board do not carry flood insurance nor have any employees.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(9) 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. See also Note 2.A.(8) for contingent liabilities related to construction commitments.

(10) Long-term obligations

(a) Direct Placement Installment purchases

Governmental activities:

• 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%.	\$ 20,860
• 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%.	109,446
• 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.	266,659
• Note payable to Capital One, executed April 2018, in the amount of \$2,770,000 to finance renovations for the Town's North Campus location and the Town Barn. The note is payable in fifteen annual payments of \$239,296 with interest payable at 3.56%, and is secured by the mortgaged property. This note is allocated 83.65% to governmental activities, and 16.35% to business-type activities, and accordingly, the annual payments made out of the general fund will be \$200,171, which commenced on January 1, 2019.	1,659,719
• Note payable to U.S. Bancorp, executed December 2020, in the amount of 300,000 to finance the purchase of a garbage truck. The note is payable in five annual payments of \$62,617 with interest payable at 1.44%, and is secured by the garbage truck.	<u>182,567</u>
	2,239,251
Less: current portion	<u>(335,922)</u>
	<u>\$ 1,903,329</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

The future minimum payments for direct placement installment purchases, at June 30, 2023, related to governmental activities are as follows:

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 335,922	\$ 71,556	\$ 407,478
2025	284,464	62,476	346,940
2026	254,062	54,772	308,834
2027	197,720	47,315	245,035
2028	203,299	40,555	243,854
2029-2033	963,784	100,378	1,064,162
	<u>\$ 2,239,251</u>	<u>\$ 377,052</u>	<u>\$ 2,616,303</u>

(a) Direct Placement Installment purchases

Business-type activities:

- Note payable to Capital One, executed April 2018, in the amount of \$2,770,000 to finance renovations for the Town's North Campus location and the Town Barn. The note is payable in 15 annual payments of \$239,296 with interest payable at 3.56%, and is secured by the mortgaged property. This note is allocated 83.65% to governmental activities, and 16.35% to business-type activities, and accordingly, the annual payments made out of the general fund will be \$200,171, which commenced on January 1, 2019.

\$	324,403
Less: current portion	<u>(27,576)</u>
\$	<u>296,827</u>

The future minimum payments for direct placement installment purchases, at June 30, 2023, related to business-type activities are as follows:

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 27,576	\$ 11,549	\$ 39,125
2025	28,558	10,567	39,125
2026	29,574	9,550	39,124
2027	30,627	8,498	39,125
2028	31,717	7,407	39,124
2029-2033	176,351	19,274	195,625
	<u>\$ 324,403</u>	<u>\$ 66,845</u>	<u>\$ 391,248</u>

The provisions of the direct placement installment purchase agreements contain certain financial covenants related to the maintenance of fund balance. The Town was in compliance with these covenants at June 30, 2023.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(b) Leases liabilities

Governmental activities:

<ul style="list-style-type: none"> • The Town is a lessee of a 56-month lease for the use of property used as a loading zone. An initial lease liability was recorded in the amount of \$5,763. The Town is required to make annual fixed payments of \$1,367. The lease has an interest rate of 0.3160%. The net book value of the right to use asset for the year ended June 30, 2023 was \$3,293 with accumulated amortization of \$2,470. 	\$ 3,000
<ul style="list-style-type: none"> • The Town is a lessee of a 36-month lease of a building used as a police training facility. An initial lease liability was recorded in the amount of \$103,215. The Town is required to make monthly payments of \$3,150. The lease has an interest rate of 0.6320%. The net book value of the right to use asset for the year ended June 30, 2023 was \$37,272 with accumulated amortization of \$65,943. 	39,868
<ul style="list-style-type: none"> • The Town is a lessee of a 60-month lease of multi-functional devices. An initial lease liability was recorded in the amount of \$24,111. The Town is required to make monthly payments of \$406. The lease has an interest rate of 0.4130%. There are variable payment components of the lease. The net book value of the right to use asset for the year ended June 30, 2023 was \$15,798 with accumulated amortization of \$8,313. 	15,726
<ul style="list-style-type: none"> • The Town is a lessee of a 27-month lease of multi-functional devices. An initial lease liability was recorded in the amount of \$10,975. The Town is required to make monthly payments of \$409. The lease has an interest rate of 0.5140%. There are variable payment components of the lease. The net book value of the right to use asset for the year ended June 30, 2023 was \$1,466 with accumulated amortization of \$9,509. 	<u>1,226</u>
	59,820
Less current portion	<u>(47,378)</u>
	<u>\$ 12,442</u>

The future minimum leases payments, at June 30, 2023, related to governmental activities are as follows:

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 47,378	\$ 203	\$ 47,581
2025	6,368	41	6,409
2026	4,856	16	4,872
2027	1,218	1	1,219
	<u>\$ 59,820</u>	<u>\$ 261</u>	<u>\$ 60,081</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(c) IT subscriptions liability

Governmental activities:

<ul style="list-style-type: none"> • On July 1, 2022, the GASB 96 implementation date, the Town entered into a 24-month subscription for the use of Axon Services. An initial subscription liability was recorded in the amount of \$29,228. As of June 30, 2023, the value of the subscription liability is \$14,479. The Town is required to make annual fixed payments of \$15,172. The subscription has an interest rate of 2.024%. The value of the right to use asset as of June 30, 2023 is \$14,893 with accumulated amortization of \$14,335. 	\$ 14,478
<ul style="list-style-type: none"> • On July 7, 2022 the Town entered into a 36-month subscription for the use of Esri System Software. An initial subscription liability was recorded in the amount of \$68,249. As of June 30, 2023 the value of the subscription liability is \$53,249. The Town is required to make annual fixed payments of \$27,500. The subscription has an interest rate of 2.184%. The value of the right to use asset as of June 30, 2023 is \$47,143 with accumulated amortization of \$21,108. 	53,250
<ul style="list-style-type: none"> • On July 1, 2022, the GASB 96 implementation date, the Town entered into a 19-month subscription for the use of OpenGov Software. An initial subscription liability was recorded in the amount of \$22,237. As of June 30, 2023 the value of the subscription liability is \$0. The Town of is required to make annual fixed payments of \$22,500. The subscription has an interest rate of 2.0240%. The value of the right to use asset as of June 30, 2023 is \$19,196 with accumulated amortization of \$32,907. 	-
<ul style="list-style-type: none"> • On July 1, 2022, the GASB 96 implementation date, the Town entered into a 24-month subscription for the use of PowerDMS Software. An initial subscription liability was recorded in the amount of \$9,041. As of June 30, 2023 the value of the subscription liability is \$4,962. The Town is required to make a payment of \$5,063 in fiscal year 2024. The subscription has an interest rate of 2.0240%. The value of the right to use asset as of June 30, 2023 is \$4,625 with accumulated amortization of \$4,416. 	<u>4,962</u>
	72,690
Less current portion	<u>(45,778)</u>
	<u>\$ 29,912</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

The future minimum leases payments, at June 30, 2023, related to governmental activities are as follows:

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 45,778	\$ 1,556	\$ 47,334
2025	26,912	588	27,500
	<u>\$ 72,690</u>	<u>\$ 2,144</u>	<u>\$ 74,834</u>

(d) Revolving loans payable

Business-type activities:

- 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, 2023 was \$228,668.
- 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. In 2014, the Town was approved for a maximum loan in the amount of \$17,810,007 plus interest 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 is repayable in equal principal payments of \$890,500 plus interest of 2.455% through fiscal year ending 2034. The total amount outstanding at June 30, 2023 was \$9,795,504.
- On October 6, 2014, the Town was approved for a maximum loan amount of \$2,029,398 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan proceeds are being used for the Waterstone Elevated Water Tank Project. The first payment was made on the note in April 2016. The loan is repayable in a principal payment of \$72,078 due on May 1, 2019, followed by equal principal payments of \$94,122 annually on May 1st, with no interest, through fiscal year ending 2035. The total amount outstanding at June 30, 2023 was \$1,129,461.

Annual debt service requirements to maturity for the above revolving loans are as follows:

<u>Years ending June 30:</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,060,845	\$ 246,563	\$ 1,307,408
2025	1,060,845	222,672	1,283,517
2026	1,060,845	198,784	1,259,629
2027	984,622	174,894	1,159,516
2028	984,622	153,033	1,137,655
2029-2033	4,923,112	437,236	5,360,348
2034-2035	1,078,742	21,862	1,100,604
	<u>\$ 11,153,633</u>	<u>\$ 1,455,044</u>	<u>\$ 12,608,677</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(e) Special revenue bonds payable

Business-type activities:

- On May 24, 2018, the City issued \$10,155,000 of special revenue bonds secured by water and sewer utility revenues for improvements to the water and sewer system, including renovation and expansion of the Town’s West Fork of the Eno Reservoir; \$6,500,000 were issued as serial bonds and \$3,655,000 were issued as term bonds. The purchase price of the bonds was \$11,180,846, resulting in a premium upon issuance of \$1,025,846. The serial bonds carry interest rates of 4.00% to 5.00% and mature between October 1, 2020, and October 1, 2038. The term bonds were divided into two lots with \$1,765,000 paying 3.375% due between October 1, 2039 and October 1, 2040, and \$1,890,000 paying 3.50% due between October 1, 2041 and October 1, 2042. All term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates. \$10,075,000 remains outstanding at June 30, 2023.

Annual debt service requirements to maturity for the above special revenue bonds are as follows:

<u>Years ending June 30:</u>	Business-Type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 30,000	\$ 445,969	\$ 475,969
2025	30,000	444,469	474,469
2026	30,000	442,969	472,969
2027	35,000	441,344	476,344
2028	35,000	439,594	474,594
2029-2033	1,840,000	2,048,344	3,888,344
2034-2038	3,590,000	1,302,593	4,892,593
2039-2043	4,485,000	405,433	4,890,433
	<u>\$ 10,075,000</u>	<u>\$ 5,970,715</u>	<u>\$ 16,045,715</u>

(f) Combined Utility Systems Revenue Bonds (Series 2020)

Business-type activities:

- On February 12, 2020, the City issued \$3,271,000 of special revenue bonds secured by water and sewer utility revenues for road improvements near the Town’s water reservoir, as part of the comprehensive plan to improve and expand the reservoir. The bonds carry an interest rate of 1.98% and mature April 1, 2030. \$2,362,000 remains outstanding at June 30, 2023.

Annual debt service requirements to maturity for the above revenue bonds are as follows:

<u>Years ending June 30:</u>	Business-Type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 317,000	\$ 46,768	\$ 363,768
2025	325,000	40,490	365,490
2026	333,000	34,056	367,056
2027	336,000	27,463	363,463
2028	345,000	20,810	365,810
2029-2030	706,000	21,047	727,047
	<u>\$ 2,362,000</u>	<u>\$ 190,634</u>	<u>\$ 2,552,634</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(g) Debt Covenants

Business-type activities:

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

The debt service coverage ratio calculation is as follows:

	<u>2023</u>
Operating revenues	\$ 11,490,059
Operating expenses (excluding depreciation)	<u>(8,160,471)</u>
Operating income	3,329,588
Nonoperating revenues (expenses)	<u>705,387</u>
Income available for debt service - {A}	<u>\$ 4,034,975</u>
Unrestricted net position (system fund balance)	<u>\$ 11,867,203</u>
15% of Unrestricted Net Position - {B}	<u>\$ 1,780,080</u>
Total Balance for 120% Parity ({A}+{B})	<u>\$ 5,815,055</u>
Debt service, principal and interest (Revenue bond only)	<u>\$ 840,375</u>
Debt service coverage ratio on first-lien debt	<u>6.92</u>
Debt service all debt (total balance for 100%)	<u>\$ 2,210,796</u>
Debt service coverage ratio on all debt together	<u>1.83</u>

(h) Changes in long-term liabilities

The following table summarizes changes in the Town's long-term liabilities during the year ended June 30, 2023.

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Direct placement installment purchases	\$ 2,726,070	\$ -	\$ 486,819	\$ 2,239,251	\$ 335,922
Lease liabilities	109,365	-	49,545	59,820	47,378
IT subscriptions liability	-	128,756	56,066	72,690	45,778
Compensated absences	448,626	385,972	265,682	568,916	266,000
Total OPEB liability	876,026	-	134,727	741,299	-
Net pension liability - LGERS	844,033	2,325,998	-	3,170,031	-
Total pension liability - LEOSSA	<u>1,172,974</u>	<u>22,659</u>	<u>-</u>	<u>1,195,633</u>	<u>-</u>
Total Governmental activities	<u>\$ 6,177,094</u>	<u>\$ 2,863,385</u>	<u>\$ 992,839</u>	<u>\$ 8,047,640</u>	<u>\$ 695,078</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Business-type activities:					
<i>Water and sewer:</i>					
Direct placement installment purchases	\$ 351,031	\$ -	\$ 26,628	\$ 324,403	\$ 27,576
Revolving loans payable	12,214,479	-	1,060,846	11,153,633	1,060,845
Revenue bonds payable	12,777,000	-	340,000	12,437,000	347,000
Premium on bonds payable	807,701	-	56,312	751,389	56,123
Compensated absences	295,032	313,673	201,962	406,743	202,000
Total OPEB liability	554,816	14,088	-	568,904	-
Net pension liability - LGERS	346,484	1,044,996	-	1,391,480	-
Total - water and sewer	27,346,543	1,372,757	1,685,748	27,033,552	1,693,544
<i>Stormwater:</i>					
Compensated absences	13,077	13,767	11,718	15,126	11,700
Total OPEB liability	29,201	12,174	-	41,375	-
Net pension liability - LGERS	34,673	112,716	-	147,389	-
Total - stormwater	76,951	138,657	11,718	203,890	11,700
Total business-type activities	\$ 27,423,494	\$ 1,511,414	\$ 1,697,466	\$ 27,237,442	\$ 1,705,244

(i) Legal debt limit and debt margin

The Town is subject to the Local Government Bond Act of North Carolina which limits the amount of debt it can issue to 8 percent of the appraised value of property subject to taxation. The Town's statutory debt limit at June 30, 2023 was approximately \$130,671,000 and a legal debt margin of approximately \$128,431,000 after deducting certain outstanding debt balances.

(j) Special assessment debt

Town issued \$4,630,000 of Special Assessment Revenue Bonds (in October, 2013) 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 a custodial for the property owners by remitting collections of special assessments to the Trustee. The outstanding balance of special assessment debt at June 30, 2023 was \$335,000.

C. Interfund balances and activity

(1) Transfers to/from other funds

<u>Transfer to other funds</u>	<u>Transfers from other funds</u>		
	<u>General Capital Projects Fund</u>	<u>General Capital Reserve Fund</u>	<u>Total</u>
General Fund	\$ 387,000	\$ 594,970	\$ 981,970
	<u>\$ 387,000</u>	<u>\$ 594,970</u>	<u>\$ 981,970</u>

The transfers from the General Fund were for various capital projects including connectivity, facility additions/improvements and rolling stock.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Transfer to other funds	Transfer from other funds			Total
	Utilities Capital Improvements Fund	Sewer System Development Fee Reserve	Water System Development Fee Reserve	
Water and Sewer Operating Fund	\$ 170,592	\$ 78,913	\$ 100,464	\$ 349,969
Water and Sewer Capital Reserve Fund	1,830,000	-	-	1,830,000
Water System Development Fee Reserve Fund	119,408	-	-	119,408
	<u>\$ 2,120,000</u>	<u>\$ 78,913</u>	<u>\$ 100,464</u>	<u>\$ 2,299,377</u>

The transfers from the Water and Sewer fund were for utilities capital improvements as well as a transfer to Water & Sewer Developmental Reserve Funds. The transfers from Water & Sewer Development Fee Reserves were for utilities capital improvements.

D. Net Position/Fund Balances

(1) Net Investment in capital assets

	Governmental Activities	Business-type Activities	
		Water and Sewer	Stormwater
Capital assets, net	\$ 24,517,031	\$ 58,131,214	\$ 1,842,407
Less:			
Capital related debt	(2,371,761)	(23,915,036)	-
Unamortized premium on capital related debt	-	(751,389)	-
Accounts payable from restricted assets	-	(180,728)	-
Add:			
Unspent debt proceeds	-	1,037,159	-
Net investment in capital assets	<u>\$ 22,145,270</u>	<u>\$ 34,321,220</u>	<u>\$ 1,842,407</u>

(2) Prior Period Adjustment

Effective July 1, 2022, the Town restated opening net position in its business-type activities and its Water and Sewer Enterprise Fund. The balance as of July 1, 2022 was decreased by \$2,616,083. Enterprise capital projects previously capitalized as construction-in-progress were reclassified as expenditures resulting in the decrease. The restatement related to an agreement between the Town and the North Carolina Department of Transportation (“NCDOT”). The agreement states that the Town will make improvements around the Town’s reservoir and the NCDOT will assume responsibility for the roads once the project is completed.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(3) Fund Balance

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

General Fund:	
Total fund balance	\$ 14,263,322
Less:	
Nonspendable - prepaids	4,642
Stabilization by state statute	2,244,949
Restricted for streets	761,737
Restricted revenues	39,903
Appropriated in next year's budget	1,606,221
Fund balance policy - 33% of operating expenditures	<u>4,049,861</u>
Available fund balance	<u>\$ 5,556,009</u>

The outstanding encumbrances, reflected in stabilization by state statute, are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. Outstanding encumbrances in the General Fund at June 30, 2023 were \$890,332.

3. 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.

4. Contingencies

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. The Town believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

5. Subsequent Events

The Town evaluates subsequent events up to the date this report is made available. The TDA and Tourism Board evaluated subsequent events through November 29, 2023. The Town has extended consideration of additional subsequent events that could potentially affect the TDA's and Tourism Board's financial statements. While no additional disclosures were noted for the TDA and Tourism Board, the following significant events relate to the Town:

- a. The federal government's American Rescue Plan Act of 2021 included \$2,282,192 of funding allocated to the Town. The Town received the first half of this funding during the year ended June 30, 2022 and received the final installment on July 22, 2022. At June 30, 2023, the Town recorded \$2,071,265 of the ARPA funds as unearned revenue. The Town intends on identifying qualifying expenditures in the Revenue Replacement Category in the fiscal year ending June 30, 2024 and to appropriate the unrestricted revenues to various water and sewer capital projects.
- b. The Town increased water and sewer rates effective July 1, 2023 by six percent in each service category. The additional revenue will partially address a growing operational gap and provide additional resources for the capital financing plan.

6. Change in Accounting Principle

The Town implemented GASB Statement No. 96, *Subscription Based Information Technology Arrangements* (effective July 1, 2022). This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITA”). The Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. As such, there was no effect on beginning net position.

Required Supplementary Financial Data (Unaudited)

Required Supplementary Information ("RSI") is supplemental information that is not a required part of the basic financial statements but is information required by Accounting Principles Generally Accepted in the United States of America. This section includes the following schedules:

- Schedule of Changes in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance.
- Schedules of Changes in the Total OPEB Liability and Related Ratios.
- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System.
- Schedule of Contributions to Local Government Employees' Retirement System.

Management's Discussion and Analysis (pages 4 through 14) is also RSI. It is presented immediately before the basic financial statements. All RSI is subject to limited audit procedures but, is not included in the scope of the auditors' opinion. As such, it is identified as unaudited.



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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,172,974	\$ 1,316,618	\$ 783,583	\$ 727,333	\$ 641,574
Service cost	79,139	73,164	54,522	46,881	49,048
Interest on the total pension liability	26,039	25,142	25,173	26,226	19,749
Difference between expected and actual experience in the measurement of the total pension liability	168,460	(182,736)	96,611	(28,494)	80,147
Changes of assumptions or other inputs	(219,644)	(31,409)	379,515	25,289	(29,947)
Benefit payments	<u>(31,335)</u>	<u>(27,805)</u>	<u>(22,786)</u>	<u>(13,652)</u>	<u>(33,238)</u>
Ending balance	<u>\$ 1,195,633</u>	<u>\$ 1,172,974</u>	<u>\$ 1,316,618</u>	<u>\$ 783,583</u>	<u>\$ 727,333</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 566,336	\$ 556,718	N/A	N/A	N/A
Service cost	37,358	36,956	N/A	N/A	N/A
Interest on the total pension liability	21,303	19,286	N/A	N/A	N/A
Difference between expected and actual experience in the measurement of the total pension liability	(520)	-	N/A	N/A	N/A
Changes of assumptions or other inputs	45,993	(13,621)	N/A	N/A	N/A
Benefit payments	<u>(28,896)</u>	<u>(33,003)</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Ending balance	<u>\$ 641,574</u>	<u>\$ 566,336</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to the Schedule:

N/A - Information prior to the implementation of GASB Statement No. 73 does not exist. This schedule is building to be a ten year schedule as information becomes available.

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total pension liability	\$ 1,195,633	\$ 1,172,974	\$ 1,316,618	\$ 783,583	\$ 727,333
Covered payroll	<u>1,892,468</u>	<u>1,658,837</u>	<u>1,914,214</u>	<u>1,831,895</u>	<u>1,830,296</u>
Total pension liability as a percentage of covered payroll	<u>63.18%</u>	<u>70.71%</u>	<u>68.78%</u>	<u>42.77%</u>	<u>39.74%</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 641,574	\$ 566,336	N/A	N/A	N/A
Covered payroll	<u>1,670,805</u>	<u>1,650,937</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total pension liability as a percentage of covered payroll	<u>38.40%</u>	<u>34.30%</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to the Schedule:

N/A - Information prior to the implementation of GASB Statement No. 73 does not exist. This schedule is building to be a ten year schedule as information becomes available.

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

Town of Hillsborough, North Carolina
Schedule of Changes in the Total OPEB Liability and Related Ratios
OPEB Retirement Plan
Required Supplementary Information
Last Ten Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total OPEB Liability					
Service cost	\$ 53,159	\$ 48,010	\$ 35,773	\$ 55,105	\$ 56,731
Interest	31,809	29,433	40,828	60,865	56,550
Difference between expected and actual experience	31,233	(34,606)	33,091	(461,361)	8,747
Changes of assumptions or other inputs	(143,133)	168,641	123,590	27,076	(45,522)
Net benefit payments and implicit subsidy credit (1)	(81,533)	(70,108)	(89,899)	(140,756)	(60,738)
Net change in total OPEB liability	(108,465)	141,370	143,383	(459,071)	15,768
Beginning balance	1,460,043	1,318,673	1,175,290	1,634,361	1,618,593
Ending balance	<u>\$ 1,351,578</u>	<u>\$ 1,460,043</u>	<u>\$ 1,318,673</u>	<u>\$ 1,175,290</u>	<u>\$ 1,634,361</u>
Covered-employee payroll (2)	<u>\$ 5,323,777</u>	<u>\$ 5,323,777</u>	<u>\$ 5,736,330</u>	<u>\$ 5,736,330</u>	<u>\$ 5,180,570</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>25.39%</u>	<u>27.42%</u>	<u>22.99%</u>	<u>20.49%</u>	<u>31.55%</u>
Discount Rate (3)	<u>3.54%</u>	<u>2.16%</u>	<u>2.21%</u>	<u>3.50%</u>	<u>3.89%</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total OPEB Liability					
Service cost	\$ 60,886	N/A	N/A	N/A	N/A
Interest	48,567	N/A	N/A	N/A	N/A
Difference between expected and actual experience	(2,066)	N/A	N/A	N/A	N/A
Changes of assumptions or other inputs	(78,864)	N/A	N/A	N/A	N/A
Net benefit payments and implicit subsidy credit (1)	(46,470)	N/A	N/A	N/A	N/A
Net change in total OPEB liability	(17,947)	N/A	N/A	N/A	N/A
Beginning balance	1,636,540	N/A	N/A	N/A	N/A
Ending balance	<u>\$ 1,618,593</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Covered-employee payroll (2)	<u>\$ 5,180,570</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>31.24%</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Discount Rate (3)	<u>3.56%</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to the Schedule:

N/A - Information prior to the implementation of GASB Statement No. 75 does not exist. This schedule is building to be a ten year schedule as information becomes available.

(1) - Net benefit payments shown above include the implicit subsidy (if any) for the year. The subsidy was \$19,700 for the 2021 fiscal year.

(2) - For years following the valuation date (when no new valuation is performed), covered-employee payroll has been set equal to the covered-employee payroll from the most recent valuation.

(3) - Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Hillsborough's proportion of the net pension liability (asset) (%)	<u>0.0835%</u>	<u>0.0799%</u>	<u>0.0922%</u>	<u>0.0906%</u>	<u>0.0931%</u>
Hillsborough's proportion of the net pension liability (asset) (\$)	<u>\$ 4,708,900</u>	<u>\$ 1,225,190</u>	<u>\$ 3,292,912</u>	<u>\$ 2,472,850</u>	<u>\$ 2,209,362</u>
Hillsborough's covered payroll	<u>\$ 6,532,666</u>	<u>\$ 6,495,627</u>	<u>\$ 6,389,923</u>	<u>\$ 5,936,460</u>	<u>\$ 5,695,125</u>
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>72.08%</u>	<u>18.86%</u>	<u>51.53%</u>	<u>41.66%</u>	<u>38.79%</u>
Plan fiduciary net position as a percentage of the total pension liability (1)	<u>84.14%</u>	<u>95.51%</u>	<u>88.61%</u>	<u>90.86%</u>	<u>91.63%</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Hillsborough's proportion of the net pension liability (asset) (%)	<u>0.0919%</u>	<u>0.0924%</u>	<u>0.0838%</u>	<u>0.0809%</u>	<u>0.0797%</u>
Hillsborough's proportion of the net pension liability (asset) (\$)	<u>\$ 1,404,436</u>	<u>\$ 1,961,038</u>	<u>\$ 376,224</u>	<u>\$ (477,164)</u>	<u>\$ 960,691</u>
Hillsborough's covered payroll	<u>\$ 5,750,308</u>	<u>\$ 5,235,777</u>	<u>\$ 4,861,624</u>	<u>\$ 4,672,868</u>	<u>\$ 4,428,097</u>
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>24.42%</u>	<u>37.45%</u>	<u>7.74%</u>	<u>-10.21%</u>	<u>21.70%</u>
Plan fiduciary net position as a percentage of the total pension liability (1)	<u>94.18%</u>	<u>91.47%</u>	<u>98.09%</u>	<u>102.47%</u>	<u>94.35%</u>

Notes to the Schedule:

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

(1) - This information was obtained from the State of North Carolina's Annual Comprehensive Financial Report.

Town of Hillsborough, North Carolina
Schedules of Contributions
Local Government Employees' Retirement System
Required Supplementary Information
Last Ten Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 961,854	\$ 766,857	\$ 632,182	\$ 587,827	\$ 478,756
Contributions in relation to the contractually required contribution	<u>961,854</u>	<u>766,857</u>	<u>632,182</u>	<u>587,827</u>	<u>478,756</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hillsborough's covered payroll	<u>\$ 7,640,505</u>	<u>\$ 6,532,666</u>	<u>\$ 6,495,627</u>	<u>\$ 6,389,923</u>	<u>\$ 5,936,460</u>
Contributions as a percentage of covered payroll	<u>12.59%</u>	<u>11.74%</u>	<u>9.73%</u>	<u>9.20%</u>	<u>8.06%</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 440,572	\$ 429,432	\$ 356,396	\$ 357,402	\$ 333,343
Contributions in relation to the contractually required contribution	<u>440,572</u>	<u>429,432</u>	<u>356,396</u>	<u>357,402</u>	<u>333,343</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hillsborough's covered payroll	<u>\$ 5,695,125</u>	<u>\$ 5,750,308</u>	<u>\$ 5,235,777</u>	<u>\$ 4,861,624</u>	<u>\$ 4,672,868</u>
Contributions as a percentage of covered payroll	<u>7.74%</u>	<u>7.47%</u>	<u>6.81%</u>	<u>7.35%</u>	<u>7.13%</u>



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Supplementary Information

Supplementary information supplements the basic financial statements and is compiled from the same underlying accounting records used to prepare the basic financial statements. It also provides additional information to demonstrate legal compliance with budgetary requirements contained in various sections of NCGS 159, *The Local Government Budget and Fiscal Control Act*.

This section contains the following information:

Combining statements and individual fund schedules

- Major and nonmajor governmental funds
- Major and nonmajor enterprise funds

Other schedules

- Ad valorem (“property”) tax schedules



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Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)

	<u>2023</u>		Variance Positive (Negative)	<u>2022</u>
	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
REVENUES				
Ad valorem taxes:				
Current	\$ 9,022,700	\$ 9,625,278	\$ 602,578	\$ 9,070,713
Penalties and interest	18,000	31,241	13,241	29,147
	<u>9,040,700</u>	<u>9,656,519</u>	<u>615,819</u>	<u>9,099,860</u>
Other taxes and licenses:				
Gross receipts on short-term rental property	1,500	1,903	403	3,773
Privilege licenses	500	870	370	840
Motor vehicle license fees	-	-	-	1,259
Solid waste disposal	5,500	7,740	2,240	7,299
	<u>7,500</u>	<u>10,513</u>	<u>3,013</u>	<u>13,171</u>
Unrestricted intergovernmental revenues:				
Local option sales tax	2,474,060	3,200,727	726,667	2,868,883
Franchise tax	585,000	699,440	114,440	612,720
Beer and wine tax	30,000	43,515	13,515	38,422
Food and beverage tax	424,000	532,327	108,327	472,244
Occupancy tax	92,700	124,478	31,778	108,989
Other	-	840	840	780
	<u>3,605,760</u>	<u>4,601,327</u>	<u>995,567</u>	<u>4,102,038</u>
Restricted intergovernmental revenues:				
Powell Bill	270,000	272,524	2,524	273,767
Other	-	-	-	12,884
	<u>270,000</u>	<u>272,524</u>	<u>2,524</u>	<u>286,651</u>
Use and rental fees:				
Planning fees	35,500	40,792	5,292	58,658
Cable franchise	50,000	45,421	(4,579)	61,219
Street fees	-	520	520	-
Fire inspection fees and permits	-	-	-	65
Park usage fees	3,000	6,550	3,550	6,060
	<u>88,500</u>	<u>93,283</u>	<u>4,783</u>	<u>126,002</u>
Investment earnings	1,000	418,762	417,762	33,284
Miscellaneous revenues	64,497	308,727	244,230	39,718
Total revenues	<u>13,077,957</u>	<u>15,361,655</u>	<u>2,283,698</u>	<u>13,700,724</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)

	<u>2023</u>		Variance Positive (Negative)	<u>2022</u>
	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
EXPENDITURES				
General government:				
Governing body:				
Personnel services		\$ 47,897		\$ 48,256
Other services and charges		202,973		176,788
Reimbursement from enterprise funds		(130,452)		(142,538)
	<u>\$ 203,915</u>	<u>120,418</u>	<u>\$ 83,497</u>	<u>82,506</u>
Facility Management:				
Personnel services		105,416		45,708
Other services and charges		234,202		74,871
Capital outlay		34,610		-
Debt service payments		205,078		205,078
Reimbursement from enterprise funds		(202,757)		(96,844)
	<u>417,328</u>	<u>376,549</u>	<u>40,779</u>	<u>228,813</u>
Administration:				
Personnel services		1,295,377		1,086,697
Other services and charges		531,712		462,624
Capital outlay		22,238		10,975
Debt service payments		22,500		-
Reimbursement from enterprise funds		(961,558)		(798,534)
	<u>955,694</u>	<u>910,269</u>	<u>45,425</u>	<u>761,762</u>
Finance:				
Personnel services		367,265		325,072
Other services and charges		394,936		158,505
Reimbursement from enterprise funds		(396,345)		(289,201)
	<u>450,331</u>	<u>365,856</u>	<u>84,475</u>	<u>194,376</u>
Information Services:				
Personnel services		162,050		142,865
Other services and charges		495,307		521,163
Capital outlay		93,739		-
Debt service payments		15,000		-
Reimbursement from enterprise funds		(362,880)		(469,887)
	<u>402,825</u>	<u>403,216</u>	<u>(391)</u>	<u>194,141</u>
Planning:				
Personnel services		630,001		407,575
Other services and charges		142,125		75,120
	<u>872,060</u>	<u>772,126</u>	<u>99,934</u>	<u>482,695</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)

	<u>2023</u>		Variance Positive (Negative)	<u>2022</u>
	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
EXPENDITURES (CONTINUED)				
General government:				
Fleet Maintenance:				
Personnel services		\$ 341,665		\$ 312,731
Other services and charges		127,214		187,617
Capital outlay		-		15,478
Debt service payments		76,970		78,750
Reimbursement from enterprise funds		(228,592)		(211,464)
	<u>\$ 475,031</u>	<u>317,257</u>	<u>\$ 157,774</u>	<u>383,112</u>
Total general government	<u>3,777,184</u>	<u>3,265,691</u>	<u>511,493</u>	<u>2,327,405</u>
Public safety:				
Police department:				
Personnel services		3,326,965		3,086,573
Other services and charges		345,102		420,498
Capital outlay		248,488		243,643
Debt service payments		117,080		138,064
	<u>4,191,976</u>	<u>4,037,635</u>	<u>154,341</u>	<u>3,888,778</u>
Fire inspections/code enforcement:				
Personnel services		-		370
	<u>-</u>	<u>-</u>	<u>-</u>	<u>370</u>
Safety:				
Personnel services		131,070		118,799
Other services and charges		81,339		70,254
Reimbursement from enterprise funds		(110,452)		(120,417)
	<u>146,005</u>	<u>101,957</u>	<u>44,048</u>	<u>68,636</u>
Fire protection:				
Other services and charges		1,634,977		1,349,175
	<u>1,664,238</u>	<u>1,634,977</u>	<u>29,261</u>	<u>1,349,175</u>
Total public safety	<u>6,002,219</u>	<u>5,774,569</u>	<u>227,650</u>	<u>5,306,959</u>
Transportation:				
Street department/Powell Bill:				
Personnel services		270,709		194,839
Other services and charges		223,357		193,674
Capital outlay		491,919		223,300
Debt service payments		-		15,727
	<u>1,545,598</u>	<u>985,985</u>	<u>559,613</u>	<u>627,540</u>
Total transportation	<u>1,545,598</u>	<u>985,985</u>	<u>559,613</u>	<u>627,540</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)

	<u>2023</u>		Variance Positive (Negative)	<u>2022</u>
	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
EXPENDITURES (CONTINUED)				
Environmental protection:				
Sanitation department:				
Personnel services		\$ 370,542		\$ 343,469
Other services and charges		203,584		191,486
Capital outlay		55,869		675,878
Debt service payments		62,617		74,983
	<u>\$ 1,078,763</u>	<u>692,612</u>	<u>\$ 386,151</u>	<u>1,285,816</u>
Cemetery:				
Other services and charges		3,369		9,277
	<u>5,350</u>	<u>3,369</u>	<u>1,981</u>	<u>9,277</u>
Total environmental protection	<u>1,084,113</u>	<u>695,981</u>	<u>388,132</u>	<u>1,295,093</u>
Economic and physical development:				
Tourism:				
Personnel services		(39,442)		54,724
Other services and charges		622,984		552,992
	<u>675,902</u>	<u>583,542</u>	<u>92,360</u>	<u>607,716</u>
Total economic and physical development	<u>675,902</u>	<u>583,542</u>	<u>92,360</u>	<u>607,716</u>
Community activities and projects:				
Other services and charges		69,235		131,701
Capital outlay		35,000		-
Debt service payments		92,468		94,576
	<u>228,890</u>	<u>196,703</u>	<u>32,187</u>	<u>226,277</u>
Total community activities and projects	<u>228,890</u>	<u>196,703</u>	<u>32,187</u>	<u>226,277</u>
Parks and recreation:				
Personnel services		223,467		186,138
Other services and charges		341,370		353,189
Capital outlay		-		5,763
Debt service payments		84,515		156,898
Reimbursement from enterprise funds		(13,764)		(12,254)
	<u>880,089</u>	<u>635,588</u>	<u>244,501</u>	<u>689,734</u>
Total parks and recreation	<u>880,089</u>	<u>635,588</u>	<u>244,501</u>	<u>689,734</u>
Contingency	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>14,193,995</u>	<u>12,138,059</u>	<u>2,055,936</u>	<u>11,080,724</u>
Revenues over (under) expenditures	<u>(1,116,038)</u>	<u>3,223,596</u>	<u>4,339,634</u>	<u>2,620,000</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)

	<u>2023</u>		Variance Positive (Negative)	<u>2022</u>
	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
OTHER FINANCING SOURCES (USES)				
Transfer to other funds:				
General Capital Improvements Fund	\$ (147,000)	\$ (147,000)	\$ -	\$ (764,270)
General Capital Improvements Fund	(150,000)	(150,000)	-	(75,000)
General Capital Improvements Fund	(40,000)	(40,000)	-	(20,000)
General Capital Improvements Fund	(50,000)	(50,000)	-	(150,000)
General Capital Reserve Fund	(320,000)	(320,000)	-	(300,000)
General Capital Reserve Fund	(50,000)	(50,000)	-	-
General Capital Reserve Fund	(80,148)	(80,148)	-	-
General Capital Reserve Fund	(144,822)	(144,822)	-	-
IT subscription agreement	-	128,756	128,756	144,064
Other financing sources (uses), net	<u>(981,970)</u>	<u>(853,214)</u>	<u>128,756</u>	<u>(1,165,206)</u>
APPROPRIATED FUND BALANCE	<u>2,098,008</u>	<u>-</u>	<u>(2,098,008)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>2,370,382</u>	<u>\$ 2,370,382</u>	<u>1,454,794</u>
Fund balance, beginning		<u>11,853,037</u>		<u>10,398,243</u>
Fund balance, ending		<u>\$ 14,223,419</u>		<u>\$ 11,853,037</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Restricted Revenue Fund
From inception and for the year ended June 30, 2023

	Project Authorization	Actual		Total To Date	Variance Positive (Negative)
		Prior Years	Current Year		
REVENUES					
Restricted intergovernmental revenues	\$ 693,100	\$ 315,128	\$ (124)	\$ 315,004	\$ (378,096)
Contributions and donations	80,622	79,847	23,287	103,134	22,512
Total revenues	<u>773,722</u>	<u>394,975</u>	<u>23,163</u>	<u>418,138</u>	<u>(355,584)</u>
EXPENDITURES					
Current:					
General government:					
Administration	4,610	-	-	-	4,610
Planning	694,931	181,600	131,840	313,440	381,491
Public safety:					
Police	28,745	17,418	2,407	19,825	8,920
Community Activity and Projects:					
Affordable housing projects	64,970	64,970	-	64,970	-
Parks and recreation	466	-	-	-	466
Total expenditures	<u>793,722</u>	<u>263,988</u>	<u>134,247</u>	<u>398,235</u>	<u>395,487</u>
Revenues over (under) expenditures	<u>(20,000)</u>	<u>130,987</u>	<u>(111,084)</u>	<u>19,903</u>	<u>39,903</u>
OTHER FINANCING SOURCES					
Transfer from other funds:					
Transfer from General Fund	20,000	20,000	-	20,000	-
Total other financing sources	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 150,987</u>	<u>(111,084)</u>	<u>\$ 39,903</u>	<u>\$ 39,903</u>
Fund balance, beginning			<u>150,987</u>		
Fund balance, ending			<u>\$ 39,903</u>		

Town of Hillsborough, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2023

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	
	<u>CDBG Fund</u>	<u>Consolidated General Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and investments	\$ -	\$ 1,930,082	\$ 1,930,082
Due from other governments	204,515	56,848	261,363
Total assets	<u>\$ 204,515</u>	<u>\$ 1,986,930</u>	<u>\$ 2,191,445</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 165,464	\$ 57,403	\$ 222,867
Due to other funds	39,051	-	39,051
Total liabilities	<u>204,515</u>	<u>57,403</u>	<u>261,918</u>
FUND BALANCES			
Committed for:			
Capital projects	-	1,929,527	1,929,527
Total fund balances	<u>-</u>	<u>1,929,527</u>	<u>1,929,527</u>
Total liabilities and fund balances	<u>\$ 204,515</u>	<u>\$ 1,986,930</u>	<u>\$ 2,191,445</u>

Town of Hillsborough, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2023

	Special Revenue Fund	Capital Projects Fund	
	CDBG Fund	Consolidated General Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Restricted intergovernmental revenues	\$ 263,984	\$ 204,332	\$ 468,316
Total revenues	263,984	204,332	468,316
EXPENDITURES			
Current:			
Economic and physical development	-	754,348	754,348
Community activities and projects	263,984	4,000	267,984
Total expenditures	263,984	758,348	1,022,332
Revenues under expenditures	-	(554,016)	(554,016)
OTHER FINANCING SOURCES			
Transfer from other funds	-	981,970	981,970
Total other financing sources	-	981,970	981,970
Net change in fund balances	-	427,954	427,954
Fund balances, beginning	-	1,501,573	1,501,573
Fund balances, ending	\$ -	\$ 1,929,527	\$ 1,929,527

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - CDBG Fund
From inception and for the year ended June 30, 2023

	<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:					
Community Development Block Grant ("CDBG")	\$ 600,000	\$ 192,996	\$ 263,984	\$ 456,980	\$ (143,020)
Total revenues	<u>600,000</u>	<u>192,996</u>	<u>263,984</u>	<u>456,980</u>	<u>(143,020)</u>
EXPENDITURES					
Community activities and projects:					
Administration	60,000	17,545	23,999	41,544	18,456
Public services	540,000	175,451	239,985	415,436	124,564
Total expenditures	<u>600,000</u>	<u>192,996</u>	<u>263,984</u>	<u>456,980</u>	<u>143,020</u>
Revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES					
Transfer from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Capital Projects
From inception and for the year ended June 30, 2023

	Project Authorization	Actual			Total To Date	Variance Positive (Negative)
		Prior Years	Current Year	Closed Out Projects		
REVENUES						
Restricted intergovernmental revenue:						
Transportation improvement Project (TIP):						
Transit tax	\$ 116,000	\$ -	\$ 204,332	\$ -	\$ 204,332	\$ 88,332
NCDOT grant	870,000	-	-	-	-	(870,000)
State TIP	-	51,180	-	-	51,180	51,180
Exchange Club Rd Bridge Project	126,447	-	-	-	-	(126,447)
Contributions and donations:						
Connectivity projects	8,000	8,000	-	(8,000)	-	(8,000)
Total revenues	<u>1,120,447</u>	<u>59,180</u>	<u>204,332</u>	<u>(8,000)</u>	<u>255,512</u>	<u>(864,935)</u>
EXPENDITURES						
General government:						
Connectivity projects	92,500	52,397	-	(52,397)	-	92,500
Fiber Loop Project	350,000	-	-	-	-	350,000
Public Safety:						
Fire Station Project	225,000	-	-	-	-	225,000
Economic and physical development:						
Transportation improvement Project (TIP)	1,079,000	28,062	244,075	-	272,137	806,863
Valley Forge Road Project	1,250,917	776,139	446,058	-	1,222,197	28,720
NC 86 Renovation Project	2,325,982	10,000	64,215	-	74,215	2,251,767
Exchange Club Rd Bridge Project	170,000	-	-	-	-	170,000
Community activities and projects:						
Skate Park Project	20,000	-	4,000	-	4,000	16,000
Total expenditures	<u>5,513,399</u>	<u>866,598</u>	<u>758,348</u>	<u>(52,397)</u>	<u>1,572,549</u>	<u>3,940,850</u>
Revenues under expenditures	<u>(4,392,952)</u>	<u>(807,418)</u>	<u>(554,016)</u>	<u>44,397</u>	<u>(1,317,037)</u>	<u>3,075,915</u>
OTHER FINANCING SOURCES						
Transfer from General Fund:						
Connectivity Projects	84,500	64,500	20,000	(44,397)	40,103	(44,397)
Fiber Loop Project	350,000	300,000	50,000	-	350,000	-
Fire Station Project	225,000	75,000	150,000	-	225,000	-
Valley Forge Road Project	1,250,917	1,203,917	47,000	-	1,250,917	-
NC 86 Renovation Project	325,982	71,800	100,000	-	171,800	(154,182)
Exchange Club Rd Bridge Project	43,553	43,553	-	-	43,553	-
TIP	93,000	34,000	-	-	34,000	(59,000)
Skate Park	20,000	-	20,000	-	20,000	-

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Capital Projects
From inception and for the year ended June 30, 2023

	Project Authorization	Actual			Total To Date	Variance Positive (Negative)
		Prior Years	Current Year	Closed Out Projects		
OTHER FINANCING SOURCES						
(CONTINUED)						
Transfers from other funds:						
Rail Station Project - TIP	\$ -	\$ 19,290	\$ -	\$ -	\$ 19,290	\$ 19,290
Public Safety Building Project- to be reappropriated	-	61,613	-	-	61,613	61,613
Public Works Building Project- to be reappropriated	-	128,200	-	-	128,200	128,200
Proceeds from Installment						
Financing:						
NC 86 Renovation Project	2,000,000	-	-	-	-	(2,000,000)
Total other financing sources	4,392,952	2,001,873	387,000	(44,397)	2,344,476	(2,048,476)
Net change in fund balance	\$ -	\$ 1,194,455	(167,016)	\$ -	\$ 1,027,439	\$ 1,027,439

FUND BALANCE

Fund balance, beginning (General Capital Projects Fund)	\$ 1,194,455
Fund balance, ending	1,027,439

Amounts reported for Revenue, Expenditures and Changes in Fund Balance are different for the Budgeted/Actual Statement due to the consolidation of the General Capital Reserve Fund

Fund balance, beginning (General Capital Reserve Fund)	307,118
Transfers from other funds	594,970
Fund balance, ending (Consolidated General Capital Projects Fund)	<u>\$ 1,929,527</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Capital Reserve Fund
From inception and for the year ended June 30, 2023

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Investment earnings	\$ 7,118	\$ -	\$ -	\$ -	\$ (7,118)
Total revenues	<u>7,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,118)</u>
EXPENDITURES					
General Government:					
Sustainability	627,118	-	-	-	627,118
Public Safety:					
Police station	50,000	-	-	-	50,000
Waterstone Police	-	108,010	-	108,010	(108,010)
Transportation:					
Streets - vehicle	80,148	-	-	-	80,148
Environmental Protection:					
Solid Waste - vehicle	144,822	-	-	-	144,822
Total expenditures	<u>902,088</u>	<u>108,010</u>	<u>-</u>	<u>108,010</u>	<u>794,078</u>
Revenues under expenditures	<u>(894,970)</u>	<u>(108,010)</u>	<u>-</u>	<u>(108,010)</u>	<u>786,960</u>
OTHER FINANCING SOURCES					
Transfer from other funds:					
General fund - General	-	115,128	-	115,128	115,128
General fund - Sustainability	620,000	300,000	320,000	620,000	-
General fund - Police	50,000	-	50,000	50,000	-
General fund - Streets	80,148	-	80,148	80,148	-
General fund - Solid Waste	144,822	-	144,822	144,822	-
Total other financing sources	<u>894,970</u>	<u>415,128</u>	<u>594,970</u>	<u>1,010,098</u>	<u>115,128</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 307,118</u>	594,970	<u>\$ 902,088</u>	<u>\$ 902,088</u>
Fund balance, beginning			<u>307,118</u>		
Fund balance, ending			<u>\$ 902,088</u>		

**Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Other Financing Sources
Budget and Actual (Non-GAAP) - Water and Sewer Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)**

	2023		Variance Favorable (Unfavorable)	2022
	Budget	Actual		Actual
REVENUES				
Operating revenues:				
Water charges	\$ 5,323,000	\$ 5,481,086	\$ 158,086	\$ 5,247,699
Sewer charges	5,311,000	5,439,458	128,458	5,297,371
System development fees	168,406	179,377	10,971	263,891
Other receipts	204,500	390,138	185,638	236,744
Total operating revenues	11,006,906	11,490,059	483,153	11,045,705
Non-operating revenues:				
Investment earnings	-	387,355	387,355	1,341
Total revenues	11,006,906	11,877,414	870,508	11,047,046
EXPENDITURES				
Engineering:				
Personnel services	582,440	553,931	28,509	348,249
Other services and charges	3,324,552	2,437,581	886,971	2,201,572
Total engineering	3,906,992	2,991,512	915,480	2,549,821
Billing and collection:				
Personnel services	417,915	340,773	77,142	326,543
Other services and charges	416,143	384,913	31,230	302,853
Capital outlay	56,000	55,294	706	-
Debt service payments	39,125	39,125	-	39,125
Total billing and collection	929,183	820,105	109,078	668,521
Water treatment plant:				
Personnel services	648,399	617,133	31,266	509,732
Other services and charges	413,590	358,238	55,352	421,838
Repairs and maintenance	102,829	91,626	11,203	252,169
Capital outlay	52,200	-	52,200	-
Debt service payments	84,333	84,332	1	86,360
Total water treatment plant	1,301,351	1,151,329	150,022	1,270,099
Water distribution:				
Personnel services	700,145	666,174	33,971	544,750
Other services and charges	296,680	273,928	22,752	242,575
Repairs and maintenance	79,925	73,838	6,087	52,276
Capital outlay	96,555	35,248	61,307	94,007
Debt service payments	101,470	94,123	7,347	94,122
Total water distribution	1,274,775	1,143,311	131,464	1,027,730

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Other Financing Sources
Budget and Actual (Non-GAAP) - Water and Sewer Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)

	<u>2023</u>			<u>2022</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual</u>
EXPENDITURES (Continued)				
Wastewater collection:				
Personnel services	\$ 608,807	\$ 546,578	\$ 62,229	\$ 472,258
Other services and charges	389,725	299,280	90,445	187,665
Repairs and maintenance	292,593	82,860	209,733	109,386
Capital outlay	<u>391,905</u>	<u>55,723</u>	<u>336,182</u>	<u>347,701</u>
Total wastewater collection	<u>1,683,030</u>	<u>984,441</u>	<u>698,589</u>	<u>1,117,010</u>
Wastewater treatment plant:				
Personnel services	658,192	629,493	28,699	553,011
Other services and charges	374,094	341,934	32,160	322,808
Repairs and maintenance	189,793	124,366	65,427	184,886
Debt service payments	<u>1,152,842</u>	<u>1,152,842</u>	<u>-</u>	<u>1,174,704</u>
Total wastewater treatment plant	<u>2,374,921</u>	<u>2,248,635</u>	<u>126,286</u>	<u>2,235,409</u>
Reservoir:				
Other services and charges	55,402	32,965	22,437	25,212
Repairs and maintenance	47,374	31,539	15,835	13,688
Debt service payments	<u>840,375</u>	<u>840,146</u>	<u>229</u>	<u>839,821</u>
Total reservoir	<u>943,151</u>	<u>904,650</u>	<u>38,501</u>	<u>878,721</u>
Total expenditures	<u>12,413,403</u>	<u>10,243,983</u>	<u>2,169,420</u>	<u>9,747,311</u>
Revenues over (under) expenditures	<u>(1,406,497)</u>	<u>1,633,431</u>	<u>3,039,928</u>	<u>1,299,735</u>
OTHER FINANCING (USES)				
Transfer to Utilities Capital Improvements Fund	(170,592)	(170,592)	-	(429,200)
Transfer to Water System Development Reserve Fund	(92,736)	(100,464)	(7,728)	(149,408)
Transfer to Sewer System Development Reserve Fund	<u>(75,670)</u>	<u>(78,913)</u>	<u>(3,243)</u>	<u>(112,424)</u>
Total other financing uses	<u>(338,998)</u>	<u>(349,969)</u>	<u>(10,971)</u>	<u>(691,032)</u>
Revenues over (under) expenditures and other financing uses	<u>(1,745,495)</u>	<u>1,283,462</u>	<u>3,028,957</u>	<u>608,703</u>
APPROPRIATED FUND BALANCE	<u>1,745,495</u>	<u>-</u>	<u>(1,745,495)</u>	<u>-</u>
Revenues and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,283,462</u>	<u>\$ 1,283,462</u>	<u>\$ 608,703</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Other Financing Sources
Budget and Actual (Non-GAAP) - Water and Sewer Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)

	<u>2023</u>		<u>2022</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
		Variance Favorable (Unfavorable)	
Reconciliation from budgetary basis (modified accrual)			
to the full accrual basis of accounting:			
Revenues and appropriated fund balance over expenditures and other financing uses		\$ 1,283,462	\$ 608,703
Reconciling items:			
Revenue activity:			
Investment earnings - enterprise capital projects		131,911	2,212
Investment earnings - enterprise capital reserves		287,834	12,288
Capital contributions - ARPA Fund		127,467	83,460
Personnel activity:			
Pension expense - LGERS		(119,885)	131,397
OPEB expense		(41,725)	5,550
Payroll accrual - compensated absences		(111,711)	(1,749)
Capital outlay activity:			
Capital outlay		146,265	441,708
Depreciation		(2,087,715)	(1,819,090)
Loss on disposal of capital assets		(17,566)	(15,700)
Contributed capital		-	932,736
Noncapitalized expenditures - enterprise capital projects		(84,147)	(5,000)
Long-term debt activity:			
Payment of principal on notes, bonds and installment purchases		1,427,474	1,418,557
Interest expense accrual adjustment		5,900	6,700
Amortization of premium on bonds payable		56,312	56,485
Internal transfer activity:			
Transfer to water and sewer capital project and reserve funds		349,969	691,032
Change in net position		<u>\$ 1,353,845</u>	<u>\$ 2,549,289</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - Utilities Capital Improvements Fund
From inception and for the year ended June 30, 2023

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
REVENUES					
Restricted intergovernmental	\$ 30,000	\$ -	\$ -	\$ -	\$ (30,000)
Miscellaneous	1,935,000	-	-	-	(1,935,000)
Total revenues	1,965,000	-	-	-	(1,965,000)
EXPENDITURES					
Capital outlay:					
EDD water line extension	509,404	27,437	-	27,437	481,967
Churton Street main replacement	430,000	-	-	-	430,000
16" Water connection under Interstate 40	565,000	504,139	(1)	504,138	60,862
Booster pump station	180,000	35,594	-	35,594	144,406
Adron Thompson Facility renovation	290,000	26,595	29,108	55,703	234,297
Churton Street sewer replacement	500,000	283,495	-	283,495	216,505
River pump station	3,448,800	33,800	-	33,800	3,415,000
Wastewater system rehab	415,895	152,585	175,543	328,128	87,767
Gov Burke Rd water main replacement	230,000	-	-	-	230,000
WTP filters repairs 2 and 3	179,200	174,200	-	174,200	5,000
Eno River interceptors	750,000	-	-	-	750,000
OWASA booster pump station	90,000	-	-	-	90,000
US-70 water improvements	30,000	-	-	-	30,000
Total expenditures	7,618,299	1,237,845	204,650	1,442,495	6,175,804
Revenues under expenditures	(5,653,299)	(1,237,845)	(204,650)	(1,442,495)	4,210,804
OTHER FINANCING SOURCES					
Transfer from other funds:					
Water and Sewer Operating Fund	2,369,487	2,198,895	170,592	2,369,487	-
Water and Sewer Capital Reserve Fund	1,830,000	-	1,830,000	1,830,000	-
Water System Development Reserve Fund	873,812	754,404	119,408	873,812	-
Sewer System Development Reserve Fund	580,000	580,000	-	580,000	-
Total other financing sources	5,653,299	3,533,299	2,120,000	5,653,299	-
Revenues and other financing sources over expenditures	\$ -	\$ 2,295,454	\$ 1,915,350	\$ 4,210,804	\$ 4,210,804

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - West Fork ENO Reservoir Project Fund
From inception and for the year ended June 30, 2023

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Investment earnings	\$ -	\$ 213,747	\$ 22,926	\$ 236,673	\$ 236,673
EXPENDITURES					
West Fork Eno Reservoir:					
Design	-	-	-	-	-
Construction	-	-	-	-	-
Total expenditures	-	-	-	-	-
Revenues over expenditures	-	213,747	22,926	236,673	236,673
OTHER FINANCING SOURCES					
Transfer from other funds	-	521,941	-	521,941	521,941
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 735,688</u>	<u>\$ 22,926</u>	<u>\$ 758,614</u>	<u>\$ 758,614</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - Mill Creek Road Project Fund
From inception and for the year ended June 30, 2023

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Investment earnings	\$ 6,796	\$ 8,314	\$ 60,252	\$ 68,566	\$ 61,770
EXPENDITURES					
Design	132,468	120,690	-	120,690	11,778
Land Aquisition	5,500	5,202	-	5,202	298
Construction Administration	310,000	295,330	-	295,330	14,670
Construction	2,458,323	2,433,606	-	2,433,606	24,717
Miscellaneous	371,505	116,425	84,147	200,572	170,933
Total expenditures	3,277,796	2,971,253	84,147	3,055,400	222,396
Revenues under expenditures	(3,271,000)	(2,962,939)	(23,895)	(2,986,834)	284,166
OTHER FINANCING SOURCES					
Issuance of installment purchase agreement	3,271,000	3,271,000	-	3,271,000	-
Total other financing sources	3,271,000	3,271,000	-	3,271,000	-
Revenues and other other financing sources over (under) expenditures	\$ -	\$ 308,061	\$ (23,895)	\$ 284,166	\$ 284,166

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - Water and Sewer Capital Reserve Fund
From inception and for the year ended June 30, 2023

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Capital contributions	\$ -	\$ 1,066,190	\$ -	\$ 1,066,190	\$ 1,066,190
Investment earnings	100,889	401,759	287,834	689,593	588,704
Total revenues	<u>100,889</u>	<u>1,467,949</u>	<u>287,834</u>	<u>1,755,783</u>	<u>1,654,894</u>
EXPENDITURES					
Capital improvements - water	191,477	-	-	-	191,477
Capital improvements - sewer	823,674	-	-	-	823,674
Total expenditures	<u>1,015,151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,015,151</u>
Revenues over (under) expenditures	<u>(914,262)</u>	<u>1,467,949</u>	<u>287,834</u>	<u>1,755,783</u>	<u>2,670,045</u>
OTHER FINANCING SOURCES (USES)					
Transfers from other funds:					
Water and Sewer Operating Fund	2,744,262	12,664,360	-	12,664,360	9,920,098
Transfers to other funds:					
Water and Sewer Operating Fund	-	(7,866,980)	-	(7,866,980)	(7,866,980)
Utility Capital Improvements Fund	(1,830,000)	(1,299,553)	(1,830,000)	(3,129,553)	(1,299,553)
Water System Development Reserve Fund	-	(1,106,017)	-	(1,106,017)	(1,106,017)
Sewer System Development Reserve Fund	-	(1,014,608)	-	(1,014,608)	(1,014,608)
Other financing sources (uses), net	<u>914,262</u>	<u>1,377,202</u>	<u>(1,830,000)</u>	<u>(452,798)</u>	<u>(1,367,060)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 2,845,151</u>	<u>\$ (1,542,166)</u>	<u>\$ 1,302,985</u>	<u>\$ 1,302,985</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - Water System Development Reserve Fund
From inception and for the year ended June 30, 2023

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-
Total revenues	-	-	-	-	-
EXPENDITURES					
Capital improvements - water	-	-	-	-	-
Total expenditures	-	-	-	-	-
Revenues over expenditures	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
Transfers from other funds:					
Water and Sewer Capital Reserve Fund	345,000	1,106,017	-	1,106,017	761,017
Water and Sewer Operating Fund	577,204	745,591	100,464	846,055	268,851
Transfers to other funds:					
Utility Capital Improvements Fund-					
EDD water line	-	(259,404)	-	(259,404)	(259,404)
16" water connection	-	(465,000)	-	(465,000)	(465,000)
U.S. 70 Design	(345,000)	-	-	-	345,000
U.S. 70 Phase 1	(282,796)	-	-	-	282,796
Gov Burke Wtr Main	(119,408)	(30,000)	(119,408)	(149,408)	(30,000)
Water and Sewer Operating Fund-debt service	(175,000)	(175,000)	-	(175,000)	-
Other financing sources (uses), net	-	922,204	(18,944)	903,260	903,260
Revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 922,204	\$ (18,944)	\$ 903,260	\$ 903,260

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - Sewer System Development Reserve Fund
From inception and for the year ended June 30, 2023

	<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	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES					
Capital outlay:					
Future capital improvements	-	-	-	-	-
Revenues over expenditures	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
Transfers from other funds:					
Utility Capital Improvements Fund	1,249,170	1,265,385	-	1,265,385	16,215
Water and Sewer Operating Fund	512,424	312,424	78,913	391,337	(121,087)
Transfers to other funds:					
Utility Capital Improvements Fund-					
River pump upgrade project	(512,424)	(400,000)	-	(400,000)	112,424
Collection sysytem rehab project	(1,249,170)	(180,000)	-	(180,000)	1,069,170
Other financing sources (uses), net	-	997,809	78,913	1,076,722	1,076,722
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 997,809	\$ 78,913	\$ 1,076,722	\$ 1,076,722

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - ARPA Fund
From inception and for the year ended June 30, 2023

	Project Authorization	Prior Years	Actual		Variance Positive (Negative)
			Current Year	Total To Date	
REVENUES					
Capital contributions:					
Federal funds-ARPA	\$ 1,958,460	\$ 83,460	\$ 127,467	\$ 210,927	\$(1,747,533)
Investment earnings	-	-	48,733	48,733	48,733
Total revenues	<u>1,958,460</u>	<u>83,460</u>	<u>176,200</u>	<u>259,660</u>	<u>(1,698,800)</u>
EXPENDITURES					
Capital improvement Projects:					
WTP Filters	83,460	83,460	-	83,460	-
WTP Paving	90,000	-	-	-	90,000
WTP SCADA Update	50,000	-	-	-	50,000
Galvanized Water Main Replacement	60,000	-	-	-	60,000
Hydrants and Values Replacement	200,000	-	-	-	200,000
McAdams Road Main Replacement	350,000	-	-	-	350,000
Lawndale PS and Basin Rehabilitation	935,000	-	-	-	935,000
WWTP Clarifiers	190,000	-	176,200	176,200	13,800
Total expenditures	<u>1,958,460</u>	<u>83,460</u>	<u>176,200</u>	<u>259,660</u>	<u>1,698,800</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Other Financing Uses
Budget and Actual (Non-GAAP) - Stormwater Fund
Year Ended June 30, 2023 (with Comparative Actual Amounts for 2022)

	2023		2022	
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
REVENUES				
Operating revenues:				
Stormwater charges	\$ 671,000	\$ 729,455	\$ 58,455	\$ 718,994
Other operating revenues	500	-	(500)	1,100
Non-operating revenues:				
Investment earnings	-	28,619	28,619	-
Total revenues	671,500	758,074	86,574	720,094
EXPENDITURES				
Operating expenditures:				
Personnel services	346,886	340,241	6,645	265,355
Other services and charges	285,427	232,091	53,336	241,651
Repairs and maintenance	95,800	60,400	35,400	87,317
Capital outlay	59,985	59,985	-	-
Total expenditures	788,098	692,717	95,381	594,323
Revenues over (under) expenditures	(116,598)	65,357	181,955	125,771
APPROPRIATED FUND BALANCE	116,598	-	(116,598)	-
	<u>\$ -</u>	<u>65,357</u>	<u>\$ 65,357</u>	<u>125,771</u>
Reconciliation from budgetary basis (modified accrual)				
to the full accrual basis of accounting:				
Capital outlay		59,985		-
Depreciation expense		(58,068)		(56,490)
Payroll accrual - compensated absences		(2,049)		(3,227)
Pension expense - LGERS		(14,728)		11,780
OPEB expense		(14,697)		291
Change in net position		<u>\$ 35,800</u>		<u>\$ 78,125</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - Stormwater Capital Improvements Fund
From inception and for the year ended June 30, 2023

	<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	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES					
Capital outlay:					
Valley Forge Road infrastructure	100,000	100,000	-	100,000	-
Revenues under expenditures	(100,000)	(100,000)	-	(100,000)	-
OTHER FINANCING SOURCES					
Transfer from other funds:					
Stormwater operating fund	100,000	100,000	-	100,000	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year			-		
Fund balance, end of year			<u>\$ -</u>		

Town of Hillsborough, North Carolina
Schedule of Ad Valorem Taxes Receivable
Year ended June 30, 2023

Fiscal Year	Beginning Balance	Additions	Collections and Credits	Ending Balance
2022-2023	\$ -	\$ 9,587,952	\$ 9,538,860	\$ 49,092
2021-2022	69,076	-	46,572	22,504
2020-2021	42,402	-	26,069	16,333
2019-2020	17,126	-	5,042	12,084
2018-2019	14,763	-	4,531	10,232
2017-2018	8,971	-	2,339	6,632
2016-2017	5,979	-	1,782	4,197
2015-2016	4,277	-	397	3,880
2014-2015	4,700	-	210	4,490
2013-2014	7,769	-	607	7,162
2012-2013	7,065	-	7,065	-
	<u>\$ 182,128</u>	<u>\$ 9,587,952</u>	<u>\$ 9,633,474</u>	136,606
				(42,000)
				<u>\$ 94,606</u>

Less: allowance for uncollectible accounts

Ad valorem taxes receivable, net

**RECONCILIATION OF COLLECTIONS AND CREDITS TO
RECORDED REVENUE**

Ad valorem taxes - General Fund	\$ 9,656,519
Penalties and interest	(31,241)
Statutory write-off after 10 years	(7,065)
Other adjustments	15,261
	<u>\$ 9,633,474</u>

Town of Hillsborough, North Carolina
Analysis of Current Tax Levy
Year Ended June 30, 2023

	Town-Wide		Total Levy		
	(1) Property Valuation	Rate	(2) Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
ORIGINAL LEVY					
Property taxed at current year's rate	\$ 1,482,689,438	\$ 0.587	\$ 8,703,387	\$ 8,703,387	\$ -
Motor vehicle license fees, tax and tag together	<u>150,692,504</u>		<u>884,565</u>	<u>-</u>	<u>884,565</u>
Total property valuation	<u><u>\$ 1,633,381,942</u></u>				
Net levy			9,587,952	8,703,387	884,565
Uncollected taxes at year-end			<u>49,092</u>	<u>49,092</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 9,538,860</u></u>	<u><u>\$ 8,654,295</u></u>	<u><u>\$ 884,565</u></u>
Collection percentage			<u><u>99.49%</u></u>	<u><u>99.44%</u></u>	<u><u>100.00%</u></u>

Notes to Schedule:

- (1) - Total adjusted levy includes discoveries and abatements.
- (2) - Property tax valuation prior to the discoveries and abatements.

COMPLIANCE SECTION

This section of the Town of Hillsborough's (the "Town") annual financial report presents various schedules in accordance with applicable sections of Title 2 *U.S. Code of Federal Regulations* Part 200, *Information Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and the *State Single Audit Implementation Act*.

Based on the amounts of federal and state expenditures, the Town is only required to comply with the *State Single Audit Implementation Act* which incorporates many of the federal Uniform Guidance requirements. As such, this section contains the independent auditors' reports on compliance and controls as required by the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the independent auditors' reports on compliance and controls as required by the *State Single Audit Implementation Act*.



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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 AUDITOR'S REPORT

The Honorable Mayor and Board of Commissioners
Town of Hillsborough, North Carolina

We have audited, in accordance with the 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the general fund budget to actual comparison, and the aggregate remaining fund information of the Town of Hillsborough (the Town) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 29, 2023.

The financial statements of the Hillsborough Tourism Board and the Hillsborough Tourism Development Authority were not audited in accordance with *Government Auditing Standards*

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 that we consider to be a material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from 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 financial statements. 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's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to the finding identified in our audit and described in the Schedule of Findings and Questioned Costs. The Town's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Morehead Town, North Carolina
November 29, 2023



**REPORT ON COMPLIANCE
FOR THE MAJOR STATE PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

Independent Auditor's Report

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

Report on Compliance for the Major State Program

Opinion on the Major State Program

We have audited Town of Hillsborough, North Carolina's (the Town) compliance with the types of compliance requirements described in 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 state program for the year ended June 30, 2023. The Town's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town of Hillsborough 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 State program for the year ended June 30, 2023.

Basis for Opinion on the Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major State program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Town's State programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of the major State program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 State 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 State 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

PBMares, LLP

Morehead City, North Carolina

November 29, 2023

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2023

Section I. Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were presented in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted yes X no

State Awards

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor’s report issued on compliance for the major State program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with State Single Audit Implementation Act yes X no

Identification of the major State program:

State ID No.	Names of Federal Program or Cluster
N/A	Emergency Management Disaster Relief and Mitigation Grant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2023

Section II. Financial Statement Findings

Finding 2023-001 Material Weakness in Internal Control – Capital Assets

Criteria: Capital assets should be removed from the subsidiary and general ledger when the ownership of the asset has been transferred to another entity.

Condition & Context: In March of 2022, the Town transferred ownership of \$2,616,083 worth of roads and road improvements capitalized through construction in process. The construction in process was not appropriately removed from the subsidiary or general ledger as of June 30, 2022.

Effect: The balance of capital assets and net position as of June 30, 2022 were overstated by \$2,616,083, requiring a restatement of capital assets and net position as of June 30, 2022 of the same amount.

Cause: The restatement related to an agreement between the Town and North Carolina Department of Transportation whereby the Town would improve several roads near the Town’s reservoir and the state would then take over maintenance upon completion. Lack of communication between the Water department and the Finance department on the nature of and timing of the agreement.

Recommendation: We recommend the Town enhance their communication across all departments with Finance to ensure contract terms and conditions are understood by Finance and appropriate journal entries can be made in the appropriate timeframe.

Management’s Response: The Town will enhance their communication across all departments to assure that Finance is aware of contracts that have financial impacts on the Town.

Section III. Findings and Questioned Costs for State Awards

None reported.

TOWN OF HILLSBOROUGH, NORTH CAROLINA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ended June 30, 2022

Finding 2022-001

Status: Corrected

Finding 2022-002

Status: Corrected

Finding 2022-003

Status: Corrected

Finding 2022-004

Status: Corrected



TOWN OF
HILLSBOROUGH
NORTH CAROLINA

Corrective Action Plan

Finding 2023-001: Material Weakness in Internal Controls – Capital Assets

Name of Contact Person: David McCole, Finance Director

Corrective Action: The Town will enhance communication across all departments to assure that the Finance Department is aware of contracts that have a financial impact on the Town.

Proposed Completion Date: January 2, 2024.

Respectfully submitted,

Eric J. Peterson
Town Manager

David McCole
Finance Director



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Town of Hillsborough, North Carolina
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2023

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal Assistance Listing No.</u>	<u>Pass-through Grantor's No.</u>	<u>Federal (Direct and Pass-through) Expenditures</u>	<u>State Expenditures</u>
Federal awards:				
Cash programs				
<u>U.S. Department of Housing and Urban Development</u>				
Passed through N.C. Department of Commerce:				
Office of Rural Economic Development				
COVID 19 - Community Development Block Grant, State's Program				
	14.228	20-V-3528	\$ 263,984	\$ -
Total U.S. Department of Husing and Urban Development			263,984	-
<u>U.S. Department of Treasury</u>				
Passed through the Office of State Budget and Management - NC Pandemic Recovery Office: Coronavirus State and Local Fiscal Recovery Fund:				
WWTP Clarifiers				
	21.027	N/A	176,200	-
Total U.S. Department of Treasury			176,200	-
State awards:				
Cash programs:				
<u>N.C. Department of Public Safety ("NCDPS"):</u>				
Emergency Management Division:				
Long-Term Recovery Grant Program:				
Valley Forge Road Project				
	N/A	DRMF MOA# NCEM- DRMG 1040	-	446,058
Total NCDPS			-	446,058
<u>N.C. Department of Transportation ("NCDOT")</u>				
Powell Bill				
	N/A	32570	-	104,939
Total NCDOT			-	104,939
Total expenditures of federal and state awards			\$ 440,184	\$ 550,997

See accompanying notes to the SEFSA.

Town of Hillsborough, North Carolina
Notes to the Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2023

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards ("SEFSA") includes the federal and State grant activity of the Town under the programs of the federal government and the State of North Carolina for the year ended June 30, 2023. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the SEFSA presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

Note 2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

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