

**Town of Hillsborough  
Hillsborough, North Carolina**

**Audited Financial Statements**

**Year Ended June 30, 2024**

**Town of Hillsborough, North Carolina**

**Audited Financial Statements**

**For the Year Ended June 30, 2024**

**TOWN COUNCIL MEMBERS**

Mark Bell, Mayor

Rob English, Mayor Pro-Tem

**ADMINISTRATIVE AND FINANCIAL STAFF**

Eric J. Peterson, Town Manager

David McCole, Finance Officer

Sarah Kimrey, Town Clerk

Robert Hornik, Town Attorney

**Town of Hillsborough, North Carolina**  
**Table of Contents**  
**June 30, 2024**

<b>Introductory Section (Unaudited):</b>	<b><u>Page</u></b>
<b>Letter of Transmittal .....</b>	<b>i</b>
<b>List of Principal Officials.....</b>	<b>xi</b>
<b>Organization Chart.....</b>	<b>xii</b>
 <b>Financial Section:</b>	
<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>4</b>
 <b><i>Basic Financial Statements:</i></b>	
<b><u>Exhibit</u></b>	
<b>Government-wide Financial Statements:</b>	
1        Statement of Net Position.....	16
2        Statement of Activities.....	17
 <b>Fund Financial Statements:</b>	
3        Balance Sheet – Governmental Funds .....	18
4        Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	20
5        Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund .....	22
6        Statement of Fund Net Position – Proprietary Funds.....	23
7        Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds .....	24
8        Statement of Cash Flows – Proprietary Funds.....	25
<b>Notes to the Financial Statements .....</b>	<b>27</b>

**Town of Hillsborough, North Carolina**  
**Table of Contents (continued)**  
**June 30, 2024**

	<u>Page</u>
<b><i>Required Supplementary Financial Data (Unaudited):</i></b>	
<u>Schedule</u>	
<b>Law Enforcement Officers' Special Separation Allowance Required Supplementary Information:</b>	
RSI-1	Schedule of Changes in Total Pension Liability ..... 69
RSI-2	Schedule of Total Pension Liability as a Percentage of Covered Payroll ..... 70
<b>OPEB Retirement Plan Required Supplementary Information:</b>	
RSI-3	Schedules of Changes in the Total OPEB Liability and Related Ratios ..... 71
<b>Local Government Employees' Retirement System Required Supplementary Information:</b>	
RSI-4	Schedules of Proportionate Share of Net Pension Liability (Asset) ..... 72
RSI-5	Schedules of Contributions ..... 73
<b><i>Supplementary Information:</i></b>	
<b><i>Combining and Individual Fund Statements</i></b>	
<u>Schedule</u>	
<b>Governmental Funds:</b>	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:
	General Fund ..... 74
2	Restricted Revenue Fund ..... 79
3	Combining Balance Sheet for Non-Major Governmental Funds..... 80
4	Combining Schedules of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds..... 81
5	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – CDBG Fund ..... 82
6	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Special Assessment District Fund ..... 83
7	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Capital Projects Fund..... 84
8	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Capital Reserve Fund..... 86

**Town of Hillsborough, North Carolina**  
**Table of Contents (continued)**  
**June 30, 2024**

<i>Combining and Individual Fund Statements (continued)</i>	<u><b>Page</b></u>
 <u>Schedule</u>	
 <b>Enterprise Funds:</b>	
9      Schedule of Revenues, Expenditures, and Other Financing Sources – Budget and Actual (Non-GAAP) – Water and Sewer Fund .....	87
10     Schedule of Revenues, Expenditures, and Other Financing Sources – Budget and Actual (Non-GAAP) – Utilities Capital Improvements Fund .....	90
11     Schedule of Revenues, Expenditures, and Other Financing Sources – Budget and Actual (Non-GAAP) – West Fork ENO Reservoir Project Fund .....	91
12     Schedule of Revenues, Expenditures, and Other Financing Sources – Budget and Actual (Non-GAAP) – Mill Creek Road Project Fund .....	92
13     Schedule of Revenues, Expenditures, and Other Financing Sources – Budget and Actual (Non-GAAP) – Water and Sewer Capital Reserve Fund .....	93
14     Schedule of Revenues, Expenditures, and Other Financing Sources – Budget and Actual (Non-GAAP) – Water System Development Reserve Fund .....	94
15     Schedule of Revenues, Expenditures, and Other Financing Sources – Budget and Actual (Non-GAAP) – Sewer System Development Reserve Fund .....	95
16     Schedule of Revenues, Expenditures, and Other Financing Sources – Budget and Actual (Non-GAAP) – ARPA Fund .....	96
17     Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP) – Nonmajor Stormwater Fund .....	97
18     Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP) – Stormwater Capital Improvements Fund .....	98
 <b>Other Schedules:</b>	
19     Schedule of Ad Valorem Taxes Receivable .....	99
20     Analysis of Current Year Tax Levy .....	100

**Town of Hillsborough, North Carolina**  
**Table of Contents (continued)**  
**June 30, 2024**

<b>Compliance Section:</b>	<b><u>Page</u></b>
<u>Schedule</u>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i> .....	101
Report on Compliance for Major State Program and Internal Control over Compliance Required by the State Single Audit Implementation Act .....	103
Schedule of Findings and Questioned Costs .....	105
Summary of Prior Year Audit Findings .....	107
Corrective Action Plan .....	108
21 Schedule of Expenditures of Federal and State Awards .....	109

## **Introductory Section**



November 21, 2024

Honorable Mayor Mark Bell,  
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, 2024, 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 traditionally produces an Annual Comprehensive Financial Report ("ACFR"), but this will be the fourth 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.

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 2024. 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:

# 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 FY24 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 FY22-24 funds combined will provide over \$900,000 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 2024.

## 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, 2023, and 2024 than previous years.

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.



*The Riverwalk greenway is a favorite destination.*

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

### **Recreation, sports, and leisure (many activities):**

- Cates Creek Park
- Gold Park
- Exchange Park
- Fairview Park

- Turnip Patch Park
- Calvin Street and Riverwalk greenways
- Duke Forest
- Historic Occoneechee Speedway Trail
- Occoneechee Mountain State Natural Area
- Poet's Walk at Ayr Mount
- Hillsborough Youth Athletic Association baseball fields
- Occoneechee 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.

The Town's revenues over expenditure was \$2.1 million. The Town transferred \$2.5 million to other funds. The Water and Sewer Fund ended the year with an increase in unrestricted net position (system fund balance) of \$1.7 million bringing the total amount to \$13.6 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

- Passenger Rail/Multi-Modal Station (\$10.4 million). Approximately \$8.2 million comes from the State Transportation Improvement Program (TIP), NCDOT Rail TIP, and Transit Tax. The town will be responsible for any costs over that amount and for the cost of the town offices. Construction is anticipated to start in approximately 2025 and to be completed by February 2028.
- Ridgewalk Greenway Phase I & II Design. FY25 includes \$325,000 to continue design for Phase 1 (downtown to train station) and Phase II (train station to Collins Ridge Greenway). Phase III would extend from the Collins Ridge Greenway over I-85 to Cates Creek Park in Waterstone.
- Ridgewalk Greenway Phase 1 – "Ramp-up" Savings Plan to Pay for the Project. This started by including \$50,000 in the FY24 budget, then increases by an additional \$50,000 annually over seven years to "ramp up" to reach the amount needed to make the estimated yearly debt service payments of \$582,771, over

10 years for this projected \$4.5 million project expected to be completed in FY30. The “ramp up” only generates \$350,000 of annual debt service capacity. The remaining amount will be offset by reserved parks debt capacity of \$232,355. Banked funds can be used to offset project costs (e.g., lower the amount that needs to be borrowed, pay for cost escalations, and/or cover debt payments until full coverage is met).

- **Affordable Housing.** Last year, the board agreed to the “ramp-up” plan where spending is increased in this area annually until meeting the equivalent of two cents on the property tax rate, or about \$326,000 in FY27. At this year’s budget retreat, the board discussed staying with the previously adopted ramp-up plan. That increases the FY25 set aside from \$100,000 to \$175,000, then \$250,000 in FY26 and finally \$326,000 in FY27. (Note that FY26 and FY27 equivalent amounts may change due to the countywide revaluation occurring next summer). The board and staff plan to complete a series of affordable housing workshops over the next year, building towards a comprehensive affordable housing plan. As such, the recommended budget does not include a use for the FY25 funding or accumulated FY24 funds.
- **Public Works facility and relocation (\$4.85 million).** After being in the flood plain, in substandard facilities, with no equipment shelters, and little storage for about 50 years, funds are allocated to move the Public Works Division from their Dimmock’s Mill Road location to the NC 86 North facility. If a 15-year loan was used to pay for the project, annual debt payments would be approximately \$434,000. Instead of borrowing money to construct this facility, a combination of savings from fund balance and operating revenue (\$3,821,000) and reallocation of the reimbursement from the Valley Forge Road bridge repair (\$1,029,000) are being used to pay for this project. Paying cash for the project has several big advantages: 1) avoid the annual impact of \$434,000 on future budgets, thus freeing up capacity to fund other needs or avoid/reduce future tax increases, and 2) save additional funds by avoiding a loan at a time when interest rates are high.
- **Additional Firefighters.** The fire protection contract with Orange Rural Fire Department (ORFD) increases by 6.75% to cover inflationary pressures and other operational needs. The contract increases an additional \$63,292 in FY25 to share the cost of adding four firefighters projected to be added five months into the fiscal year. The full impact of those additions will be \$113,925 in FY26. Additional firefighters are needed to help ORFD have sufficient staff on the firegrounds, as well as coverage when multiple calls occur simultaneously (e.g., first responder calls for EMS and rescues).
- **Downtown fire station:** 1) Continue “ramp-up” savings plan (\$300,000) and 2) Preliminary Design/Site Analysis (\$75,000). The town is responsible for building and paying for the new downtown station at 604/618 North Churton Street, the old furniture store site. The new downtown station is estimated to cost \$8 million. Funds were included for the first time in FY22 (\$75,000) and increased by \$75,000 annually to “ramp up” to the eventual annual debt service amount. FY23 included \$150,000, \$225,000 in the FY24 budget, \$300,000 in FY25, \$375,000 in FY26, \$450,000 in FY27, and \$525,000 in FY28, which should be close to the anticipated annual payments going forward. These funds are being placed in a capital project fund to help pay for design costs first, decrease the loan amount, and provide a funding source for the annual debt. “Ramping up” to the annual debt service amount prevents other items from crowding out the ability to pay for this top priority. Relocating the old fire station provides a modern facility for ORFD, improves overall coverage and allows the current station and downtown property to be redeveloped as part of a future economic development project. The FY25 budget includes \$75,000 to pay for preliminary design/site analysis. The cost of fire stations has grown rapidly in recent years. The analysis will help

provide a likely cost range to better refine budget projections and financing options, as well as confirming what sitework and adjustments may be needed to make the current site work for the station.

- Fairview Community Watch. \$45,000 for building improvements in FY25 and \$10,000 annually for operations.
- Transit Oriented Development Plan/Feasibility Study for Hillsborough Station (\$75,000).
- Code enforcement. Hire a contractor to increase monitoring and enforcement to manage nuisance properties and other issues throughout town: \$60,000 in FY25, then \$50,000 annually after that.
- Additional recycling amenities at parks (\$30,600).
- LED Streetlights (\$30,000). Transition the remaining non-LED fixtures to LED to meet the town standard and reduce overall energy consumption by an estimated 11,000 KWH/month. The new streetlights will also provide a more consistent light pattern at night, making town roads safer for the traveling public.
- Police Department
  - o Live-scan fingerprint machine (\$15,000)
  - o Radio replacements, required for compliance (\$82,000)
  - o Replace in-car cameras (FY26 - \$100,000; FY27 - \$100,000)
  - o Vehicle replacement fund, annual contribution to smooth purchases (\$225,000).
  - o FY25 includes replacement of four vehicles that will all be 16-20 years old.
- Public Works
  - o Street repaving: \$882,500
  - o Solid waste vehicle/equipment replacement fund (FY25 - \$190,000, FY26 - \$190,000, FY27 - \$135,000).
  - o FY25: leaf truck replacement (\$376,506)
  - o FY26: garbage truck replacement (\$362,006), knuckle boom truck replacement (\$227,006)
  - o Replace truck in the streets division (\$69,106)
  - o Replace mobile electric cart (\$23,000)
  - o Snowplow blade replacement (\$10,000)

**Business-type Activities:** The Town increased water and sewer rates by 7.5 percent for fiscal year ending 2025 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:

- Main console replacement at the water plant (\$100,000): FY25
- Sewer lift station abandonment analysis (\$95,000): FY25
- Water system rehabilitation for larger repairs that require contractor assistance (\$110,000 annually)
- Wastewater system rehabilitation for larger repairs that require contractor assistance (\$110,000 annually)
- Water plant generator replacement (\$350,000): FY26
- Adron Thompson operational facility (\$7,295,600): FY24 and FY25. Debt service begins in FY26 with a half payment of \$249,848, the starting full payments of \$499,696 in FY27.
- Lawndale sewer basin rehabilitation project (\$1.2 million): FY25
- Wastewater collection system rehabilitation projects (\$1.0 million): \$500,000 in FY25 and \$500,000 in FY27
- Eno River sewer interceptors (\$5.05 million): FY26
- Exchange Club sewer interceptors (\$1.29 million): FY26
- Elizabeth Brady Pump Station design (\$400,000): FY27
- Water system master plan annual improvements (\$400,000): FY27

The Town did adjust its stormwater rates for the fiscal year ending June 30, 2025, by \$15 to \$90. 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.

- **Program Updates.** During FY24, the town completed its first ever state stormwater program audit and received approval of an updated Stormwater Master Plan, and receipt of a new stormwater permit is expected early in FY25. Audit recommendations that were included in the updated Master Plan include updated written procedures, expanded public input processes and additional outreach and expanded efforts for illicit discharge control, construction site runoff and pollution prevention.
- **Infrastructure Maintenance.** Improved levels of service and updated permit requirements will require additional investments in personnel, equipment and a stormwater capital improvement plan (CIP) to plan for large projects, such as a culvert replacement on Elizabeth Brady Road. The FY25-27 recommended budget includes ramp-up funds for a stormwater CIP and an additional Public Works employee (FY26). The requested Jet-Vac truck is not able to be funded in the recommended budget.
- **Planning Ahead.** While the Stormwater Fund currently has a healthy fund balance, the approval of a new Stormwater Technician position in FY24, along with the recommended investments in the FY25-27 budget and overall operating cost increases will rapidly deplete that fund balance without fee adjustments. Additionally, just beyond the “visual horizon” of the FY25-27 budget, the Stormwater Fund may need to make a sizable contribution to the Ridgewalk Greenway project for drainage-related improvements.

## **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. Most long-term debt is for water and sewer project.

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. In fact, the long-term debt load in the General Fund is exceptionally small. 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 15 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 FY2024. Management is optimistic that the Town will be in a position in the next year to prepare an ACFR that 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.

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,

A handwritten signature in dark ink, appearing to read 'E. Peterson', with a stylized, flowing script.

Eric J. Peterson  
Town Manager

A handwritten signature in dark ink, appearing to read 'David McCole', with a clear, legible script.

David McCole  
Finance Director

## **Financial Section**

## **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, 2024, 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, 2024, 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.

## **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. The combining and individual fund statements, budgetary schedules, and other financial information, 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 27, 2024 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 27, 2024

## **Management's Discussion and Analysis**

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis**  
**June 30, 2024**

**Management's Discussion and Analysis**

As management of the Town of Hillsborough (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2024. 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 \$106,036,776 which consisted of \$40,820,954 from governmental activities and \$65,215,822 from business-type activities.
- The Town's total net position increased by \$12,641,835 which consisted of \$5,944,870 from governmental activities and \$6,696,965 from business-type activities.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$20,843,644 which consisted primarily of \$14,367,619 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 \$8,782,176, or 64 percent of total expenditures in the General Fund.
- The Town's total debt decreased by \$1,710,492 during the current fiscal year. No new long-term debt was issued but the Town added a new lease liability which added an additional \$214,873 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.

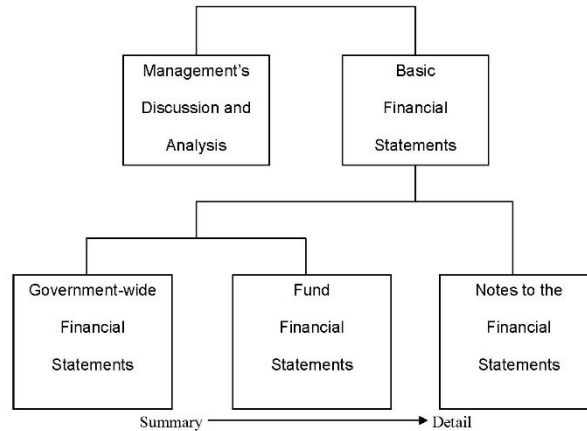
**Overview of the Financial Statements**

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

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

The first two statements 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 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 to the Financial Statements**. The notes explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show additional details about the Town's individual funds. Budgetary information required by the 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, in a manner similar to the 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 it has 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 gauge 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, general administration, streets and highways, and sanitation. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include stormwater as well as the water and sewer services offered by the Town. The final category is the component units. Although legally separate from the Town, the Tourism Development Authority and the Tourism Board are important to the Town. The Town exercises control over these entities by appointing its members and remits a percentage of taxes collected to each of these entities. The government-wide financial statements are on pages 16 through 17 of this report.



**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

**Fund Financial Statements.** The fund financial statements 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 state and local governments, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Hillsborough can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. 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 monies that are unexpended 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*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Hillsborough adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities.

The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Proprietary Funds.** Town of Hillsborough has one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Hillsborough uses enterprise funds to account for its water and sewer activity and stormwater activity. These funds are the same as those functions shown in 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 can be found on pages 27-68 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 69 of this report.

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

**Interdependence with Other Entities.** The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations.

**Government-Wide Financial Analysis**

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 \$106,036,776 as of June 30, 2024. The Town's net position increased by \$12,641,835 for the fiscal year ended June 30, 2024.

The largest portion of net position (59%) 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, \$14,503,731 (14%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$29,487,873 (28%) is unrestricted and may be used to meet the Town's ongoing obligation to citizens and creditors.

**The Town of Hillsborough's Net Position**  
**Figure 2**

	Governmental Activities		Business-type Activities		Totals	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$ 21,792,233	\$ 17,676,610	\$ 30,519,463	\$ 28,230,601	\$ 52,311,696	\$ 45,907,211
Capital assets	25,920,013	24,517,031	61,054,195	59,973,621	86,974,208	84,490,652
Deferred outflows of resources	3,024,418	2,817,057	1,337,376	1,219,533	4,361,794	4,036,590
Total assets and deferred outflows of resources	50,736,664	45,010,698	92,911,034	89,423,755	143,647,698	134,434,453
Long-term liabilities outstanding	7,745,506	8,047,640	24,139,333	27,237,442	31,884,839	35,285,082
Other liabilities	1,518,905	1,398,355	3,229,727	3,413,662	4,748,632	4,812,017
Deferred inflows of resources	651,299	688,619	326,152	253,794	977,451	942,413
Total liabilities and deferred inflows of resources	9,915,710	10,134,614	27,695,212	30,904,898	37,610,922	41,039,512
Net position						
Net investment in capital assets	23,767,200	22,145,270	38,277,972	36,163,627	62,045,172	58,308,897
Restricted	2,133,127	3,046,589	12,370,604	9,483,423	14,503,731	12,530,012
Unrestricted	14,920,627	9,684,225	14,567,246	12,871,807	29,487,873	22,556,032
Total net position	\$ 40,820,954	\$ 34,876,084	\$ 65,215,822	\$ 58,518,857	\$ 106,036,776	\$ 93,394,941

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

**Government-Wide Financial Analysis (continued)**

Several particular aspects of the Town's financial operations positively influenced the total unrestricted net position:

- Based on the projected property values, the Town elected to set this year's tax rate at 70 cents per \$100 of assessed value which is an increase of 12 cents from FY 22/23.
- 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.

**The Town of Hillsborough's Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Totals	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program revenues:						
Charges for services	\$ 124,940	\$ 48,702	\$ 14,339,425	\$ 12,219,514	\$ 14,464,365	\$ 12,268,216
Operating grants and contributions	2,935,927	548,989	-	-	2,935,927	548,989
Capital grants and contributions	143,020	226,332	4,077,207	127,467	4,220,227	353,799
General revenues:						
Property taxes	9,949,865	9,611,596	-	-	9,949,865	9,611,596
Local option sales tax	3,355,972	3,200,720	-	-	3,355,972	-
Unrestricted intergovernmental	1,388,706	1,446,051	-	-	1,388,706	1,446,051
Other	1,023,253	725,810	1,162,942	835,719	2,186,195	1,561,529
Total revenues	18,921,683	15,808,206	19,579,574	13,182,700	38,501,257	25,790,180
Expenses:						
General government	3,036,694	3,276,267	-	-	3,036,694	3,276,267
Public safety	6,319,915	5,908,554	-	-	6,319,915	5,908,554
Transportation	955,467	879,110	-	-	955,467	879,110
Environmental protection	739,976	674,914	-	-	739,976	674,914
Economic and physical development	650,901	738,943	-	-	650,901	738,943
Community activities	561,269	334,454	-	-	561,269	334,454
Parks and recreation	643,125	551,073	-	-	643,125	551,073
Interest on long-term debt	69,466	78,998	-	-	69,466	78,998
Water and sewer	-	-	-	11,070,781	-	11,070,781
Stormwater	-	-	12,882,609	722,274	12,882,609	722,274
Total expenses	12,976,813	12,442,313	12,882,609	11,793,055	25,859,422	24,235,368
Increase (decrease) in net position before transfers	5,944,870	3,365,893	6,696,965	1,389,645	12,641,835	4,755,538
Transfers	-	-	-	-	-	-
Change in net position	5,944,870	3,365,893	6,696,965	1,389,645	12,641,835	4,755,538
Net position, beginning	34,876,084	31,510,191	58,518,857	57,129,212	93,394,941	52,325,875
Net position - ending	\$ 40,820,954	\$ 34,876,084	\$ 65,215,822	\$ 58,518,857	\$ 106,036,776	\$ 93,394,941

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

**Government-Wide Financial Analysis (continued)**

**Governmental activities:** Governmental activities increased the Town's net position by \$5,944,870 thereby accounting for 47% of the growth in the Town's total net position.

- The total property revenue increased \$338,269, or 4%, due to an increase in property valuations over last year.
- Sales tax revenues increased over \$155,252, or 5%, 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 \$6,696,965, accounting for 53% of the growth in the Town's total net position.

- 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.

**Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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 \$14,367,619, while total governmental fund balance was \$20,843,644. 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 104% of the same amount.

On June 30, 2024, the governmental funds of the Town reported a combined fund balance of \$20,843,644 with a net increase in fund balance of \$4,650,795. 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.

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

**General Fund Budgetary Highlights**

During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories:

1. Amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available;
2. Amendments made to recognize new funding from external sources, such as federal and State grants.
3. Increases in appropriations that become necessary to maintain services and obligations from prior years not completed.

Actual revenues for the General Fund (excluding the Restricted Revenues Fund) were more than the budgeted amount by \$1,042,942 as property and sales tax revenues exceeded expectations. Expenditures were \$2,762,480 less than budgeted, with favorable balances occurring in general government (\$935,785), transportation (\$559,409) and public safety (\$547,147).

**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) increased its net position by \$6,739,734, ending the year with total net position of \$62,411,580. The largest portion of its net position is invested in capital assets (\$36,435,909) while \$12,370,604 is restricted for current and future water and sewer projects and perpetual maintenance. The remaining \$13,605,067 is unrestricted which is an increase of \$1,695,439 from the prior year as revenues exceeded expectations.

Charges for services, in the Water and Sewer Fund, were slightly higher in fiscal year 2024 than 2023 by \$662,441, however, system development fees increased by \$1,265,045 and other operating revenues increased by \$165,008. 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.

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) decreased its net position by \$42.769 ending the year with total net position of \$2,804.242. The largest portion of its net position is invested in capital assets (\$1,842,063) while unrestricted net position amounted to \$962.179, a 1% or \$8,542 decrease from the previous year. The decrease is largely attributed to expenses being larger than expected.

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

**Capital Assets and Debt Administration**

**Capital Assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2024, totals \$86,974,208 (net of accumulated depreciation and amortization). These assets include buildings, land, machinery and equipment, infrastructure, park facilities, vehicles, right to use assets, and subscriptions.

Major capital asset transactions during the year include the following additions:

- Vehicles and equipment in the governmental funds (\$976,616)
- Infrastructure in the governmental funds (\$2,079,938)
- Transportation Improvement Project (\$65,632)
- NC 86 Renovation Project (\$199,780)
- Adorn Thompson Facility Renovation (\$52,010)
- Wastewater System Rehab (\$12,900)
- US-70 water improvements (\$27,340)
- Air release valve replacement (\$266,786)
- Lawndale basin rehabilitation (\$6,930)
- Hasell water tank replacement (\$28,824)
- WTP paving & curbing (\$57,012)

**The Town of Hillsborough's Capital Assets**  
**(net of depreciation and amortization)**  
**Figure 4**

	Governmental Activities		Business-type Activities		Totals	
	2024	2023	2024	2023	2024	2023
Land	\$ 4,879,989	\$ 4,879,989	\$ 6,133,088	\$ 6,133,088	11,013,077	\$ 11,013,077
Construction in progress	801,564	1,572,549	938,332	977,325	1,739,896	2,549,874
Buildings and improvements	5,276,810	5,494,258	24,270,412	25,387,698	29,547,222	30,881,956
Plant and distribution systems	-	-	25,522,174	23,950,719	25,522,174	23,950,719
Infrastructure	12,774,930	11,070,178	3,185,006	2,743,086	15,959,936	13,813,264
Equipment	439,688	409,040	681,738	474,468	1,121,426	883,508
Vehicles	1,495,854	947,332	323,445	307,237	1,819,299	1,254,569
Right to use assets	226,019	57,829	-	-	226,019	57,829
IT subscriptions	25,159	85,856	-	-	25,159	85,856
Total capital assets, net	\$ 25,920,013	\$ 24,517,031	\$ 61,054,195	\$ 59,973,621	\$ 86,974,208	\$ 84,490,652

Additional information on the Town's capital assets can be found in the notes on page 39 of this report.

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

**Long-term debt.** As of June 30, 2024, the Town had outstanding bonded debt of \$12,090,000 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 \$1,879,587 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, 2024 was approximately \$55,732,137. Practically, this statutory limit exceeds the Town's realistic debt capacity. The Town does not have any authorized and unissued bonds at June 30, 2024.

Additional information regarding the Town's long-term debt can be found in Note 2.B.10 of the basic financial statements.

**The Town of Hillsborough's Outstanding Liabilities**  
**Figure 5**

	Governmental Activities		Business-type Activities		Totals	
	2024	2023	2024	2023	2024	2023
Revolving loans	\$ -	\$ -	\$ 10,092,788	\$ 11,153,633	\$ 10,092,788	\$ 11,153,633
Special revenue bonds	-	-	12,090,000	12,437,000	12,090,000	12,437,000
Premium on bonds	-	-	695,266	751,389	695,266	751,389
Instamment purchases	1,903,329	2,239,251	296,827	324,403	2,200,156	2,563,654
Lease liabilities	222,572	59,820	-	-	222,572	59,820
IT subscriptions liability	26,912	72,690	-	-	26,912	72,690
Total outstanding debt	\$ 2,152,813	\$ 2,371,761	\$ 23,174,881	\$ 24,666,425	\$ 25,327,694	\$ 27,038,186

**Economic Factors and Next Year's Budgets and Rates**

The following key economic indicators will affect the growth and prosperity of the Town.

- Low unemployment. Orange County's unemployment rate of 3.5% as of June 30, 2024, is below the state average of 4.1%.
- No additional debt was issued in 2024 nor expected to be issued in 2025.
- Maintain a property tax collection rate that exceeds 99%.

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

**Budget Highlights for the Fiscal Year Ending June 30, 2025**

**Governmental Activities:** The Town's largest source of revenue is property tax revenue. The 2025 budget had an increase in the Town's tax rate of 2 cent to 60.7 cents per \$100 of assessed property value. Other budget highlights in brief:

- Passenger Rail/Multi-Modal Station (\$10.4 million). Approximately \$8.2 million comes from the State Transportation Improvement Program (TIP), NCDOT Rail TIP, and Transit Tax. The town will be responsible for any costs over that amount and for the cost of the town offices. Construction is anticipated to start in approximately 2025 and to be completed by February 2028.
- Ridgewalk Greenway Phase I & II Design. FY25 includes \$325,000 to continue design for Phase I (downtown to train station) and Phase II (train station to Collins Ridge Greenway). Phase III would extend from the Collins Ridge Greenway over I-85 to Cates Creek Park in Waterstone.
- Ridgewalk Greenway Phase 1 – “Ramp-up” Savings Plan to Pay for the Project. This started by including \$50,000 in the FY24 budget, then increases by an additional \$50,000 annually over seven years to “ramp up” to reach the amount needed to make the estimated yearly debt service payments of \$582,771, over 10 years for this projected \$4.5 million project expected to be completed in FY30. The “ramp up” only generates \$350,000 of annual debt service capacity. The remaining amount will be offset by reserved parks debt capacity of \$232,355. Banked funds can be used to offset project costs (e.g., lower the amount that needs to be borrowed, pay for cost escalations, and/or cover debt payments until full coverage is met).
- Affordable Housing. Last year, the board agreed to the “ramp-up” plan where annual spending is increased in this area annually until meeting the equivalent of two cents on the property tax rate, or about \$326,000 in FY27. At this year's budget retreat, the board discussed staying with the previously adopted ramp-up plan. That increases the FY25 set aside from \$100,000 to \$175,000, then \$250,000 in FY26 and finally \$326,000 in FY27. (Note that FY26 and FY27 equivalent amounts may change due to the countywide revaluation occurring next summer). See the chart below for details. The board and staff plan to complete a series of affordable housing workshops over the next year, building towards a comprehensive affordable housing plan. As such, the recommended budget does not include a use for the FY25 funding or accumulated FY24 funds.
- Public Works facility and relocation (\$4.85 million). After being in the flood plain, in substandard facilities, with no equipment shelters, and little storage for about 50 years, funds are allocated to move the Public Works Division from their Dimmock's Mill Road location to the NC 86 North facility. If a 15-year loan was used to pay for the project, annual debt payments would be approximately \$434,000. Instead of borrowing money to construct this facility, a combination of savings from fund balance and operating revenue (\$3,821,000) and reallocation of the reimbursement from the Valley Forge Road bridge repair (\$1,029,000) are being used to pay for this project. Paying cash for the project has several big advantages: 1) avoid the annual impact of \$434,000 on future budgets, thus freeing up capacity to fund other needs or avoid/reduce future tax increases, and 2) save additional funds by avoiding a loan at a time when interest rates are high.
- Additional Firefighters. The fire protection contract with Orange Rural Fire Department (ORFD) increases by 6.75% to cover inflationary pressures and other operational needs. The contract increases an additional \$63,292 in FY25 to share the cost of adding four firefighters projected to be added five months into the fiscal year. The 16 full impact of those additions will be \$113,925 in FY26. Additional firefighters are needed to help ORFD have sufficient staff on the firegrounds, as well as coverage when multiple calls occur simultaneously (e.g., first responder calls for EMS and rescues).



**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

- Downtown fire station: 1) Continue “ramp-up” savings plan (\$300,000) and 2) Preliminary Design/Site Analysis (\$75,000). The town is responsible for building and paying for the new downtown station at 604/618 North Churton Street, the old furniture store site. The new downtown station is estimated to cost \$8 million. Funds were included for the first time in FY22 (\$75,000) and increased by \$75,000 annually to “ramp up” to the eventual annual debt service amount. FY23 included \$150,000, \$225,000 in the FY24 budget, \$300,000 in FY25, \$375,000 in FY26, \$450,000 in FY27, and \$525,000 in FY28, which should be close to the anticipated annual payments going forward. These funds are being placed in a capital project fund to help pay for design costs first, decrease the loan amount, and provide a funding source for the annual debt. “Ramping up” to the annual debt service amount prevents other items from crowding out the ability to pay for this top priority. Relocating the old fire station provides a modern facility for ORFD, improves overall coverage and allows the current station and downtown property to be redeveloped as part of a future economic development project. The FY25 budget includes \$75,000 to pay for preliminary design/site analysis. The cost of fire stations has grown rapidly in recent years. The analysis will help provide a likely cost range to better refine budget projections and financing options, as well as confirming what sitework and adjustments may be needed to make the current site work for the station.
- Fairview Community Watch. \$45,000 for building improvements in FY25 and \$10,000 annually for operations.
- Transit Oriented Development Plan/Feasibility Study for Hillsborough Station (\$75,000).
- Code enforcement. Hire a contractor to increase monitoring and enforcement to manage nuisance properties and other issues throughout town: \$60,000 in FY25, then \$50,000 annually after that.
- Additional recycling amenities at parks (\$30,600).
- LED Streetlights (\$30,000). Transition the remaining non-LED fixtures to LED to meet the town standard and reduce overall energy consumption by an estimated 11,000 KWH/month. The new streetlights will also provide a more consistent light pattern at night, making town roads safer for the travelling public.
- Police Department o Live-scan fingerprint machine (\$15,000) o Radio replacements, required for compliance (\$82,000) o Replace in-car cameras (FY26 - \$100,000; FY27 - \$100,000) o Vehicle replacement fund, annual contribution to smooth purchases (\$225,000). o FY25 includes replacement of four vehicles that will all be 16-20 years old.
- Public Works o Street repaving: \$882,500 o Solid waste vehicle/equipment replacement fund (FY25 - \$190,000, FY26 - \$190,000, FY27 - \$135,000). o FY25: leaf truck replacement (\$376,506) o FY26: garbage truck replacement (\$362,006), knuckle boom truck replacement (\$227,006) o Replace truck in the streets division (\$69,106) o Replace mobile electric cart (\$23,000) o Snowplow blade replacement (\$10,000)

**Business-type Activities:** The Town increased water and sewer rates by 7.5 percent for fiscal year ending 2025 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:

- Main console replacement at the water plant (\$100,000): FY25
- Sewer lift station abandonment analysis (\$95,000): FY25
- Water system rehabilitation for larger repairs that require contractor assistance (\$110,000 annually)
- Wastewater system rehabilitation for larger repairs that require contractor assistance (\$110,000 annually)
- Water plant generator replacement (\$350,000): FY26

**Town of Hillsborough, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2024**

- Adron Thompson operational facility (\$7,295,600): FY24 and FY25. Debt service begins in FY26 with a half payment of \$249,848, the starting full payments of \$499,696 in FY27.
- Lawndale sewer basin rehabilitation project (\$1.2 million): FY25
- Wastewater collection system rehabilitation projects (\$1.0 million): \$500,000 in FY25 and \$500,000 in FY27
- Eno River sewer interceptors (\$5.05 million): FY26
- Exchange Club sewer interceptors (\$1.29 million): FY26
- Elizabeth Brady Pump Station design (\$400,000): FY27
- Water system master plan annual improvements (\$400,000): FY27

The Town did adjust its stormwater rates for the fiscal year ending June 30, 2025 by \$15 to \$90. 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.

- Program Updates. During FY24, the town completed its first ever state stormwater program audit and received approval of an updated Stormwater Master Plan, and receipt of a new stormwater permit is expected early in FY25. Audit recommendations that were included in the updated Master Plan include updated written procedures, expanded public input processes and additional outreach and expanded efforts for illicit discharge control, construction site runoff and pollution prevention.
- Infrastructure Maintenance. Improved levels of service and updated permit requirements will require additional investments in personnel, equipment and a stormwater capital improvement plan (CIP) to plan for large projects, such as a culvert replacement on Elizabeth Brady Road. The FY25-27 recommended budget includes ramp-up funds for a stormwater CIP and an additional Public Works employee (FY26). The requested Jet-Vac truck is not able to be funded in the recommended budget.
- Planning Ahead. While the Stormwater Fund currently has a healthy fund balance, the approval of a new Stormwater Technician position in FY24, along with the recommended investments in the FY25-27 budget and overall operating cost increases will rapidly deplete that fund balance without fee adjustments. Additionally, just beyond the “visual horizon” of the FY25-27 budget, the Stormwater Fund may need to make a sizable contribution to the Ridgewalk Greenway project for drainage-related improvements

**Request 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](mailto:Finance@hillsboroughnc.gov).

## **Basic Financial Statements**

**Town of Hillsborough, North Carolina**  
**Statement of Net Position**  
**June 30, 2024**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 18,367,235	\$ 26,480,708	\$ 44,847,943	\$ 443,373	\$ 531,500
Taxes receivables (net)	113,168	-	113,168	-	-
Accounts receivable (net)	131,221	3,464,143	3,595,364	-	-
Due from other governments	1,252,993	-	1,252,993	614	62
Due from related governments	-	-	-	38,114	173,783
Accrued interest receivable	25,200	-	25,200	-	-
Prepays	20,758	485	21,243	-	-
Restricted cash and cash equivalents	1,881,658	574,127	2,455,785	-	-
<b>Total current assets</b>	<b>21,792,233</b>	<b>30,519,463</b>	<b>52,311,696</b>	<b>482,101</b>	<b>705,345</b>
<b>Capital assets:</b>					
Capital assets - nondepreciable	5,681,553	7,071,420	12,752,973	-	-
Capital assets - depreciable, net	20,238,460	53,982,775	74,221,235	-	-
<b>Total capital assets</b>	<b>25,920,013</b>	<b>61,054,195</b>	<b>86,974,208</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>47,712,246</b>	<b>91,573,658</b>	<b>139,285,904</b>	<b>482,101</b>	<b>705,345</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
	3,024,418	1,337,376	4,361,794	-	-
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued liabilities	729,653	434,184	1,163,837	4,487	9,270
Payable from restricted assets	-	807,306	807,306	-	-
Other current liabilities	22,099	-	22,099	-	-
Current portion of long-term liabilities	678,284	1,793,469	2,471,753	-	-
Unearned revenue	58,469	30,968	89,437	-	-
Accrued interest payable	30,400	163,800	194,200	-	-
<b>Total current liabilities</b>	<b>1,518,905</b>	<b>3,229,727</b>	<b>4,748,632</b>	<b>4,487</b>	<b>9,270</b>
<b>Long-term liabilities:</b>					
Due in more than one year	7,745,506	24,139,333	31,884,839	-	-
<b>Total liabilities</b>	<b>9,264,411</b>	<b>27,369,060</b>	<b>36,633,471</b>	<b>4,487</b>	<b>9,270</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
	651,299	326,152	977,451	-	-
<b>NET POSITION</b>					
Net investment in capital assets	23,767,200	38,277,972	62,045,172	-	-
Restricted for:					
Stabilization by State Statute	1,649,219	-	1,649,219	38,728	173,845
Streets - Powell Bill	293,004	-	293,004	-	-
Restricted revenues	95,452	-	95,452	-	-
Capital projects	95,452	12,288,796	12,384,248	-	-
Perpetual maintenance	-	81,808	81,808	-	-
Unrestricted	14,920,627	14,567,246	29,487,873	438,886	522,230
<b>Total net position</b>	<b>\$ 40,820,954</b>	<b>\$ 65,215,822</b>	<b>\$ 106,036,776</b>	<b>\$ 477,614</b>	<b>\$ 696,075</b>

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, 2024**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
Primary government:									
Governmental Activities:									
General government	\$ 3,036,694	\$ 117,080	\$ -	\$ -	\$ (2,919,614)	\$ -	\$ (2,919,614)	\$ -	\$ -
Public safety	6,319,915	-	-	-	(6,319,915)	-	(6,319,915)	-	-
Transportation	955,467	-	306,425	-	(649,042)	-	(649,042)	-	-
Environmental protection	739,976	1,410	-	-	(738,566)	-	(738,566)	-	-
Economic and physical protection	650,901	-	-	-	(650,901)	-	(650,901)	-	-
Community activities and projects	561,269	-	2,629,502	-	2,068,233	-	2,068,233	-	-
Parks and recreation	643,125	6,450	-	143,020	(493,655)	-	(493,655)	-	-
Interest on long-term debt	69,466	-	-	-	(69,466)	-	(69,466)	-	-
Total governmental activities	12,976,813	124,940	2,935,927	143,020	(9,772,926)	-	(9,772,926)	-	-
Business-type activities:									
Water and sewer	12,035,117	13,582,553	-	4,077,207	-	5,624,643	5,624,643	-	-
Stormwater	847,492	756,872	-	-	-	(90,620)	(90,620)	-	-
Total business-type activities	12,882,609	14,339,425	-	4,077,207	-	5,534,023	5,534,023	-	-
Total primary government	\$ 25,859,422	\$ 14,464,365	\$ 2,935,927	\$ 4,220,227	(9,772,926)	5,534,023	(4,238,903)	-	-
Component units:									
Hillsborough Tourism Development Authority	73,651	-	-	-	-	-	-	(73,651)	-
Hillsborough Tourism Board	450,820	-	-	-	-	-	-	-	(450,820)
Total component units	524,471	-	-	-	-	-	-	(73,651)	(450,820)
General revenues:									
Property taxes, levied for general purpose					9,949,865	-	9,949,865	-	-
Local option sales taxes					3,355,972	-	3,355,972	-	-
Other miscellaneous taxes					-	-	-	130,367	537,741
Gross receipts on short-term rental property					1,555	-	1,555	-	-
Unrestricted intergovernmental revenues					1,388,706	-	1,388,706	-	-
Investment earnings, unrestricted					778,203	1,162,942	1,941,145	-	-
Miscellaneous					243,495	-	243,495	-	-
Total general revenues not including transfers					15,717,796	1,162,942	16,880,738	130,367	537,741
Total general revenues and transfers					15,717,796	1,162,942	16,880,738	130,367	537,741
Change in net position					5,944,870	6,696,965	12,641,835	56,716	86,921
Net position, beginning					34,876,084	58,518,857	93,394,941	420,898	609,154
Net position, ending					\$ 40,820,954	\$ 65,215,822	\$ 106,036,776	\$ 477,614	\$ 696,075

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

**Town of Hillsborough, North Carolina  
Balance Sheet  
Governmental Funds  
June 30, 2024**

	<b>General Fund</b>	<b>Total Nonmajor Funds</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 13,344,262	\$ 5,022,973	\$ 18,367,235
Receivables, net:			
Taxes	113,168	-	113,168
Accounts	131,221	-	131,221
Due from other governments	1,251,418	1,575	1,252,993
Due from other funds	39,051	-	39,051
Prepays	20,758	-	20,758
Restricted cash and cash equivalents	388,456	1,493,202	1,881,658
<b>Total assets</b>	<b>\$ 15,288,334</b>	<b>\$ 6,517,750</b>	<b>\$ 21,806,084</b>
<b><u>LIABILITIES</u></b>			
Accounts payable and accrued liabilities	\$ 534,181	\$ 2,674	\$ 536,855
Due to other funds	-	39,051	39,051
Due to component units	192,798	-	192,798
Unearned revenue	58,469	-	58,469
Other liabilities	22,099	-	22,099
<b>Total liabilities</b>	<b>807,547</b>	<b>41,725</b>	<b>849,272</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Property taxes receivable	113,168	-	113,168
<b>Total deferred inflows of resources</b>	<b>113,168</b>	<b>-</b>	<b>113,168</b>
<b><u>FUND BALANCES</u></b>			
Nonspendable:			
Prepays	20,758	-	20,758
Restricted:			
Stabilization by State Statute	1,649,219	-	1,649,219
Streets - Powell Bill	293,004	-	293,004
Restricted revenues	95,452	-	95,452
Community activities and projects	-	1,455,679	1,455,679
Committed for:			
Capital projects	-	5,020,346	5,020,346
Assigned:			
Subsequent year's expenditures	3,527,010	-	3,527,010
Unassigned	8,782,176	-	8,782,176
<b>Total fund balances</b>	<b>14,367,619</b>	<b>6,476,025</b>	<b>20,843,644</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 15,288,334</b>	<b>\$ 6,517,750</b>	<b>\$ 21,806,084</b>

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

**Town of Hillsborough, North Carolina**  
**Balance Sheet**  
**Governmental Funds (continued)**  
**June 30, 2024**

**Amounts reported for governmental activities in the Statement of Net Position are different because:**

Ending fund balance - governmental funds		\$ 20,843,644
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		5,681,553
Capital assets being depreciated:		
Cost	\$ 31,939,283	
Accumulated depreciation	<u>(11,952,001)</u>	19,987,282
Capital assets being amortized:		
Right to use assets	358,937	
IT subscription agreement	158,621	
Accumulated amortization	<u>(266,380)</u>	251,178
Deferred outflows of resources are not financial resources; therefore the amounts are not reported in the funds:		
Local Government Employees' Retirement System ("LGERS")	2,448,439	
Law Enforcement Officers' Special Separation Allowance ("LEO")	412,715	
Other Post Employment Benefits ("OPEB")	<u>163,264</u>	3,024,418
Certain assets are not available to pay for current period expenditures; therefore, the balances are deferred in the funds:		
Property taxes receivable		113,168
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")	(49,226)	
Law Enforcement Officers' Special Separation Allowance ("LEO")	(258,045)	
Other Post Employment Benefits ("OPEB")	<u>(344,028)</u>	(651,299)
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	(1,903,329)	
Lease and IT subscription liabilities	(249,484)	
Net pension liability - LGERS	(3,808,363)	
Total pension liability - LEO	(1,356,531)	
Total OPEB liability	(568,370)	
Compensated absences payable	<u>(537,713)</u>	(8,423,790)
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>(30,400)</u>
<b>Net position of governmental activities</b>		<u><u>\$ 40,820,954</u></u>

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

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended June 30, 2024**

	<b>General Fund</b>	<b>Total Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Ad valorem taxes	\$ 9,931,303	\$ -	\$ 9,931,303
Other taxes and licenses	10,572	-	10,572
Unrestricted intergovernmental	4,877,478	-	4,877,478
Restricted intergovernmental	353,253	2,772,522	3,125,775
Use and rental fees	124,940	-	124,940
Investment earnings	778,203	-	778,203
Miscellaneous	242,063	-	242,063
<b>Total revenues</b>	<u>16,317,812</u>	<u>2,772,522</u>	<u>19,090,334</u>
<b>Expenditures:</b>			
Current:			
General government	2,810,956	-	2,810,956
Public safety	6,347,428	-	6,347,428
Transportation	1,513,628	-	1,513,628
Environmental protection	1,132,790	-	1,132,790
Economic and physical development	668,108	265,412	933,520
Community activities and projects	131,397	445,359	576,756
Parks and recreation	643,125	-	643,125
Debt service:			
Principal	433,821	-	433,821
Interest and other charges	73,466	-	73,466
<b>Total expenditures</b>	<u>13,754,719</u>	<u>710,771</u>	<u>14,465,490</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>2,563,093</u>	<u>2,061,751</u>	<u>4,624,844</u>
<b>Other financing sources (uses):</b>			
Sale of capital assets	25,951	-	25,951
Transfers (to) from other funds	(2,484,747)	2,484,747	-
<b>Total other financing sources (uses)</b>	<u>(2,458,796)</u>	<u>2,484,747</u>	<u>25,951</u>
<b>Net change in fund balances</b>	104,297	4,546,498	4,650,795
<b>Fund balances, beginning</b>	14,263,322	1,929,527	16,192,849
<b>Fund balances, ending</b>	<u>\$ 14,367,619</u>	<u>\$ 6,476,025</u>	<u>\$ 20,843,644</u>

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



**Town of Hillsborough, North Carolina**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2024**

**Amounts reported for governmental activities in the Statement of Activities are different because:**

Net change in fund balances - total governmental funds	\$	4,650,795
--	----	-----------

Governmental funds report capital outlay 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	\$ 2,597,275	
Depreciation expense	(1,086,913)	
Amortization expense	<u>(107,380)</u>	1,402,982

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	18,562
---	--------

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

Leases (as leasee)	(214,873)	
Principal retirement	433,821	218,948

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	4,000	
Change in accrued compensated absences	31,203	
Pension expense - LGERS	(346,057)	
Pension expense - LEOSSA	(97,037)	
OPEB expense	<u>61,474</u>	<u>(346,417)</u>

<b>Total changes in net position of governmental activities</b>	<b>\$</b>	<b><u>5,944,870</u></b>
---	-----------	-------------------------

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

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2024**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues:</b>				
Ad valorem taxes	\$ 9,947,250	\$ 9,807,250	\$ 9,931,303	\$ 124,053
Other taxes and licenses	1,550	7,300	10,572	3,272
Unrestricted intergovernmental	4,235,250	4,087,500	4,877,478	789,978
Restricted intergovernmental	348,989	382,914	353,253	(29,661)
Use and rental fees	57,000	57,000	124,940	67,940
Investment earnings	100,000	735,000	778,203	43,203
Miscellaneous	197,906	197,906	242,063	44,157
<b>Total revenues</b>	<b>14,887,945</b>	<b>15,274,870</b>	<b>16,317,812</b>	<b>1,042,942</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	4,267,994	4,072,356	3,136,571	935,785
Public safety	6,648,487	6,942,652	6,395,505	547,147
Transportation	1,683,850	2,073,037	1,513,628	559,409
Environmental protection	823,416	1,272,383	1,195,407	76,976
Economic and physical development	525,000	720,900	668,108	52,792
Community activities and projects	606,329	599,255	200,897	398,358
Parks and recreation	649,203	836,616	644,603	192,013
<b>Total expenditures</b>	<b>15,204,279</b>	<b>16,517,199</b>	<b>13,754,719</b>	<b>2,762,480</b>
<b>Revenues over (under) expenditures</b>	<b>(316,334)</b>	<b>(1,242,329)</b>	<b>2,563,093</b>	<b>3,805,422</b>
<b>Other financing sources (uses):</b>				
Transfers (to) from other funds	(1,289,887)	(2,484,747)	(2,484,747)	-
Sale of capital assets	-	-	25,951	25,951
<b>Total other financing sources (uses)</b>	<b>(1,289,887)</b>	<b>(2,484,747)</b>	<b>(2,458,796)</b>	<b>(25,951)</b>
<b>Appropriated fund balance</b>	<b>1,606,221</b>	<b>3,727,076</b>	<b>-</b>	<b>(3,727,076)</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>104,297</b>	<b>\$ 104,297</b>
<b>Fund balance, beginning of year</b>			<b>14,223,419</b>	
<b>Fund balance, end of year</b>			<b>14,327,716</b>	
<b>Legally budgeted funds that are consolidated into the General Fund for reporting purposes:</b>				
Restricted Revenues Fund:				
Fund balance, beginning			39,903	
Fund balance, ending (Exhibit 4)			<b>\$ 14,367,619</b>	

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

**Town of Hillsborough, North Carolina**  
**Statement of Fund Net Position**  
**Proprietary Funds**  
**June 30, 2024**

	Water and Sewer Fund	Nonmajor Fund	Total
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 25,371,231	\$ 1,109,477	\$ 26,480,708
Restricted cash and cash equivalents	574,127	-	574,127
Accounts receivable, net	3,455,368	8,775	3,464,143
Prepays	485	-	485
<b>Total current assets</b>	<b>29,401,211</b>	<b>1,118,252</b>	<b>30,519,463</b>
<b>Capital assets:</b>			
Land and construction in progress	7,037,607	33,813	7,071,420
Capital assets, net of accumulated depreciation	52,174,525	1,808,250	53,982,775
<b>Total capital assets</b>	<b>59,212,132</b>	<b>1,842,063</b>	<b>61,054,195</b>
<b>Total noncurrent assets</b>	<b>59,212,132</b>	<b>1,842,063</b>	<b>61,054,195</b>
<b>Total assets</b>	<b>88,613,343</b>	<b>2,960,315</b>	<b>91,573,658</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension deferrals	1,206,145	131,231	1,337,376
<b>Total deferred outflows of resources</b>	<b>1,206,145</b>	<b>131,231</b>	<b>1,337,376</b>
<b><u>LIABILITIES</u></b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	410,450	23,734	434,184
Payable from restricted assets:			
Accounts payable - capital projects	175,468	-	175,468
Customer deposits	631,838	-	631,838
Other current liabilities	30,968	-	30,968
Accrued interest payable	163,800	-	163,800
Current portion of long-term liabilities	1,776,537	16,932	1,793,469
<b>Total current liabilities</b>	<b>3,189,061</b>	<b>40,666</b>	<b>3,229,727</b>
<b>Noncurrent liabilities:</b>			
Long-term debt	23,916,075	223,258	24,139,333
<b>Total noncurrent liabilities</b>	<b>23,916,075</b>	<b>223,258</b>	<b>24,139,333</b>
<b>Total liabilities</b>	<b>27,105,136</b>	<b>263,924</b>	<b>27,369,060</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension deferrals	302,772	23,380	326,152
<b>Total deferred inflows of resources</b>	<b>302,772</b>	<b>23,380</b>	<b>326,152</b>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	36,435,909	1,842,063	38,277,972
Restricted for water and sewer projects	12,288,796	-	12,288,796
Restricted for perpetual maintenance	81,808	-	81,808
Unrestricted	13,605,067	962,179	14,567,246
<b>Total net position</b>	<b>\$ 62,411,580</b>	<b>\$ 2,804,242</b>	<b>\$ 65,215,822</b>

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

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2024**

	<b>Water and Sewer Fund</b>	<b>Nonmajor Fund</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services	\$ 11,582,985	\$ 756,872	\$ 12,339,857
System development fees	1,444,422	-	1,444,422
Other operating revenues	555,146	-	555,146
<b>Total operating revenues</b>	<u>13,582,553</u>	<u>756,872</u>	<u>14,339,425</u>
<b>Operating expenses:</b>			
Personnel services	3,762,434	422,007	4,184,441
Operating expenses	5,609,676	348,750	5,958,426
Depreciation	2,186,637	76,734	2,263,371
<b>Total operating expenses</b>	<u>11,558,747</u>	<u>847,491</u>	<u>12,406,238</u>
<b>Operating income (loss)</b>	<u>2,023,806</u>	<u>(90,619)</u>	<u>1,933,187</u>
<b>Nonoperating revenues (expenses):</b>			
Investment earnings	1,115,092	47,850	1,162,942
Amortization of premium on bonds payable	56,123	-	56,123
Gain on disposal of capital assets	211,499	-	211,499
Interest and fees	(743,993)	-	(743,993)
<b>Total nonoperating revenues (expenses)</b>	<u>638,721</u>	<u>47,850</u>	<u>686,571</u>
<b>Income (loss) before capital contributions</b>	<u>2,662,527</u>	<u>(42,769)</u>	<u>2,619,758</u>
Capital contributions	<u>4,077,207</u>	<u>-</u>	<u>4,077,207</u>
<b>Change in net position</b>	6,739,734	(42,769)	6,696,965
<b>Total net position, beginning</b>	55,671,846	2,847,011	58,518,857
<b>Total net position, ending</b>	<u>\$ 62,411,580</u>	<u>\$ 2,804,242</u>	<u>\$ 65,215,822</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, 2024**

	<b>Water and Sewer Fund</b>	<b>Nonmajor Fund</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 11,511,288	\$ 758,910	\$ 12,270,198
Cash paid for goods and services	(7,107,824)	(346,082)	(7,453,906)
Cash paid to employees	(3,624,111)	(399,465)	(4,023,576)
Net cash provided (used) by operating activities	<u>779,353</u>	<u>13,363</u>	<u>792,716</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(3,056,059)	(76,390)	(3,132,449)
Principal payments on long-term debt	(1,435,421)	-	(1,435,421)
Interest paid on long-term debt	(672,243)	-	(672,243)
Cash received from capital contributions	4,077,207	-	4,077,207
Net cash provided (used) by capital and related financing activities	<u>(1,086,516)</u>	<u>(76,390)</u>	<u>(1,162,906)</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	1,115,092	47,850	1,162,942
Net cash provided (used) by investing activities	<u>1,115,092</u>	<u>47,850</u>	<u>1,162,942</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>807,929</b>	<b>(15,177)</b>	<b>792,752</b>
<b>Cash and cash equivalents - beginning of year</b>	<u>25,137,429</u>	<u>1,124,654</u>	<u>26,262,083</u>
<b>Cash and cash equivalents - end of year</b>	<u><u>\$ 25,945,358</u></u>	<u><u>\$ 1,109,477</u></u>	<u><u>\$ 27,054,835</u></u>
<b>Cash and cash equivalents</b>			
Unrestricted	\$ 25,371,231	\$ 1,109,477	\$ 26,480,708
Restricted	574,127	-	574,127
Total cash and cash equivalents	<u><u>\$ 25,945,358</u></u>	<u><u>\$ 1,109,477</u></u>	<u><u>\$ 27,054,835</u></u>

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

**Town of Hillsborough, North Carolina**  
**Statement of Cash Flows (continued)**  
**Proprietary Funds**  
**Year Ended June 30, 2024**

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
<b>Operating income (loss)</b>	<u>\$ 2,023,806</u>	<u>\$ (90,619)</u>	<u>\$ 1,933,187</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>			
Depreciation expense	2,186,637	76,734	2,263,371
Other non-operating expenses			
Change in assets, deferred outflows and inflows of resources, and liabilities:			
Accounts receivable	(1,498,148)	2,038	(1,496,110)
Accounts payable and accrued liabilities	98,671	2,668	101,339
Deposits	2,676	-	2,676
Other current liabilities	(81,901)	-	(81,901)
Unearned revenue	(2,071,265)	-	(2,071,265)
OPEB expense	(9,759)	356	(9,403)
Pension expense - LGERS	150,725	20,380	171,105
Compensated absences payable	(22,089)	1,806	(20,283)
<b>Total adjustments</b>	<u>(1,244,453)</u>	<u>103,982</u>	<u>(1,140,471)</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 779,353</u>	<u>\$ 13,363</u>	<u>\$ 792,716</u>
<b>Supplemental schedule of noncash investing and financing activities</b>			
Capital asset additions included in accounts payable and accrued liabilities	<u>\$ 175,468</u>	<u>\$ -</u>	<u>\$ 175,468</u>

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

## **Notes to the Financial Statements**

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A - Reporting Entity**

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

**Hillsborough Tourism Development Authority (the “Authority”)**

The Authority was created on April 9, 2012 by resolution of the Town, under the authority of the North Carolina General Assembly. The Authority is responsible for promoting travel and tourism in the Hillsborough area. The Authority receives revenue from a three percent occupancy tax, which is levied, 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 nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

*Fund Financial Statements:* The fund financial statements provide information about the Town’s funds, 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.



**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B - Basis of Presentation (continued)**

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.

**C - Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C - Measurement Focus and 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 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.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D - Budgetary Data**

The Town's budgets are adopted by the governing board as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, 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.

All budgets are prepared using a budgetary non-GAAP basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multiyear funds. The Town Manager is authorized by the budget ordinance to transfer appropriations and may allow any amount of money to be transferred between functional areas within a fund. The Town Manager is also authorized to effect interdepartmental transfers within the same fund, not to exceed 10% of the appropriated monies for the department whose allocation is reduced. The Finance Director may make minor adjustments to the budget without obtaining prior governing board approval by formal budget amendment. Such changes must be within a fund and not between two or more funds. The Finance Director is required to inform the board at the next meeting after the budget adjustment is made. Budget amendments typically involve larger sums of money and require the governing board's approval. During the year, several amendments to the original budget were necessary.

**E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity**

**1. Deposits and Investments**

All deposits of the Town are made in board-designated official depositories and are secured as required by state law (G.S. 159-31). The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity**

**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's Restricted Cash**

Governmental Activities:

General Fund:

Streets	\$ 293,004
Restricted revenues	95,452
Special Assessment District Fund	1,493,202
Total Governmental Activities	<u>1,881,658</u>

Business-type Activities:

Water and Sewer Fund:

Unspent debt proceeds	574,127
Total Business-type Activities	<u>574,127</u>

Total Restricted Cash	<u>\$ 2,455,785</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, 2024.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)**

5. Allowance 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 that were 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:

	Cost	
	\$	1
Land and easements		
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.

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.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)**

**7. Capital Assets (continued)**

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

	<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	5-10 years
Vehicles	3-5 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.

**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.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)**

10. Compensated absences (continued)

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 represents 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 composed of five classifications designed to disclose the hierarchy of constraints placed on how 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 the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)**

**11. Net Position / Fund Balances (continued)**

*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 that 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.



**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS**

**A - Assets**

**1. Deposits**

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 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 \$7,345,375 and a bank balance of \$7,463,428 at June 30, 2024. Of the bank balance, \$328,593 was covered by federal depository insurance and \$7,134,835 in demand deposits were covered under the Pooling Method. The Town had \$3,050 in cash on hand at June 30, 2024.

The Authority's deposits had a carrying amount and bank balance of \$443,374 at June 30, 2024. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$193,374 was covered under the Pooling Method.

The Tourism Board's deposits had a carrying amount of \$531,500 and a bank balance of \$531,500 at June 30, 2024. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$281,500 of demand deposits were covered under the Pooling Method.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS**

**A – Assets**

**2. Investments**

The following table summarizes the Town's investment balances at June 30, 2024:

<b>Investments by Type</b>	<b>Valuation Measurement Method</b>	<b>Book Value at 6/30/2024</b>	<b>Maturity</b>	<b>Rating</b>
NC Capital Management Trust - Government Portfolio	Level 1	<u>\$39,955,303</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.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**A – Assets (continued)**

**2. Investments (continued)**

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, 2024.

**3. Due from other governments**

Amount due from other governments consist of the following:

	<b>Governmental Activities</b>
General Fund:	
Sales and use tax distribution	\$ 865,645
Utilities franchise and telecommunications tax	187,005
Sales tax refunds	198,768
Total General Fund	<u>1,251,418</u>
Other governmental funds:	
Nonmajor funds	<u>1,575</u>
Total due from other governments	<u><u>\$ 1,252,993</u></u>

**4. Receivables - Allowance for Doubtful Accounts**

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2024 are net of the following allowance for doubtful accounts:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
General Fund:		
Property taxes receivable	\$ 37,000	
Water and Sewer Fund:		
Accounts receivable	\$ 300,695	
Stormwater Fund:		
Accounts receivable		<u>12,773</u>
Total allowance for doubtful accounts	<u><u>\$ 350,468</u></u>	

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**A - Assets (continued)**

5. Due from related governments

The Authority - Amounts due from related governments consist of \$38,302 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 \$173,783 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, 2024.

	Beginning			Ending
	Balances	Increases	Decreases	Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 4,879,989	\$ -	\$ -	\$ 4,879,989
Construction in progress	1,572,549	451,212	1,222,197	801,564
Total capital assets not being depreciated	6,452,538	451,212	1,222,197	5,681,553
<b>Capital assets being depreciated:</b>				
Buildings and improvements	9,277,408	75,042	-	9,352,450
Infrastructure	13,466,190	2,079,938	-	15,546,128
Equipment	1,254,023	102,573	5,918	1,350,678
Vehicles	4,794,193	895,834	-	5,690,027
Total capital assets being depreciated	28,791,814	3,153,387	5,918	31,939,283
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	3,783,150	292,490	-	4,075,640
Infrastructure	2,396,012	375,186	-	2,771,198
Equipment	844,983	71,925	5,918	910,990
Vehicles	3,846,861	347,312	-	4,194,173
Total accumulated depreciation	10,871,006	1,086,913	5,918	11,952,001
Total capital assets being depreciated, net	17,920,808			19,987,282

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**A - Assets (continued)**

6. Capital Assets

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets being amortized:</b>				
Right to use assets:				
Land improvements	\$ 5,763	\$ -	\$ -	\$ 5,763
Buildings	103,215	191,027	-	294,242
Equipment	35,086	23,846	-	58,932
IT subscriptions	158,621	-	-	158,621
Total capital assets being amortized	302,685	214,873	-	517,558
<b>Less accumulated amortization for:</b>				
Right to use assets:				
Land improvements	2,470	1,235	-	3,705
Buildings	65,943	37,589	-	103,532
Equipment	17,822	7,859	-	25,681
IT subscriptions	72,765	60,697	-	133,462
Total accumulated amortization	159,000	107,380	-	266,380
Total capital assets being amortized, net	143,685			251,178
<b>Governmental activities capital assets, net</b>	<u>\$ 24,517,031</u>			<u>\$ 25,920,013</u>

Depreciation and amortization expense were charged to the following functions:

	<u>Depreciation</u>	<u>Amortization</u>
General government	\$ 178,487	\$ 64,988
Public safety	138,519	42,392
Transportation	424,568	-
Economic and physical development	176,305	-
Environmental protection	169,034	-
Total	<u>\$ 1,086,913</u>	<u>\$ 107,380</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**A - Assets (continued)**

**6. Capital Assets (continued)**

The following tables summarize capital asset activity for the Town's business-type activities during the year ended June 30, 2024.

<b>Business-type activities:</b>	Beginning			Ending
<b>Water and Sewer fund</b>	Balances	Increases	Decreases	Balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 6,099,275	\$ -	\$ -	\$ 6,099,275
Construction in progress	877,325	569,320	508,313	938,332
Total capital assets not being depreciated	6,976,600	569,320	508,313	7,037,607
<b>Capital assets being depreciated:</b>				
Buildings and improvements	38,994,136	-	-	38,994,136
Plant and distributions systems	37,057,758	2,325,031	-	39,382,789
Infrastructure	1,320,604	440,219	-	1,760,823
Equipment	1,881,689	280,209	55,495	2,106,403
Vehicles	1,248,036	159,384	-	1,407,420
Total capital assets being depreciated	80,502,223	3,204,843	55,495	83,651,571
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	13,606,438	1,117,286	-	14,723,724
Plant and distributions systems	13,107,039	755,281	1,705	13,860,615
Infrastructure	209,018	42,314	-	251,332
Equipment	1,484,315	128,580	55,495	1,557,400
Vehicles	940,799	143,176	-	1,083,975
Total accumulated depreciation	29,347,609	2,186,637	57,200	31,477,046
Total capital assets being depreciated, net	51,154,614			52,174,525
<b>Business-type activities capital assets, net</b>	<u>\$ 58,131,214</u>			<u>\$ 59,212,132</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**A - Assets (continued)**

**6. Capital Assets (continued)**

<b>Business-type activities:</b>	Beginning			Ending
<b>Stormwater fund</b>	Balances	Increases	Decreases	Balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 33,813	\$ -	\$ -	\$ 33,813
Construction in progress	100,000	-	100,000	-
Total capital assets not being depreciated	133,813	-	100,000	33,813
<b>Capital assets being depreciated:</b>				
Infrastructure	2,133,177	100,000	-	2,233,177
Equipment	91,591	76,390	-	167,981
Vehicles	20,762	-	-	20,762
Total capital assets being depreciated	2,245,530	176,390	-	2,421,920
<b>Less accumulated depreciation for:</b>				
Infrastructure	501,677	55,982	-	557,659
Equipment	14,497	20,752	-	35,249
Vehicles	20,762	-	-	20,762
Total accumulated depreciation	536,936	76,734	-	613,670
Total capital assets being depreciated, net	1,708,594			1,808,250
<b>Business-type activities capital assets, net</b>	<u>\$ 1,842,407</u>			<u>\$ 1,842,063</u>

**7. Construction commitments**

The Town has active construction projects as of June 30, 2024 with the following remaining commitments:

	<b>Spent to Date</b>	<b>Estimated Remaining Commitment</b>
Governmental Projects:		
NC 86 Renovation Project	\$ 273,995	\$ 4,551,987
Fire Station Project	-	450,000
Fiber Loop Project	-	400,000
Other projects	-	335,106
Business-type Projects:		
Various water and sewer projects	1,378,599	19,162,843
Total due from other governments	<u>\$ 1,652,594</u>	<u>\$ 24,899,936</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities**

1. Pension Plan 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, 2024 was 14.10% of compensation for law enforcement officers and 12.85% 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 \$1,122,927 for the year ended June 30, 2024.



**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

**1. Pension Plan and Postemployment Obligations (continued)**

***a. Local Governmental Employees' Retirement System (continued)***

*Refunds of Contributions.* Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

The Town reported a liability, at June 30, 2024, of \$5,665,521 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022. The total pension liability was then rolled forward to the measurement date of June 30, 2023 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, 2023 (measurement date), was 0.05547%, which was an increase of 0.00204% from its proportion measured as of June 30, 2022.

For the year ended June 30, 2024, the Town recognized pension expense of \$1,640,089. The Town reported, at June 30, 2024, deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 631,307	\$ 13,591
Changes of assumptions	240,752	-
Net difference between projected and actual earnings on pension plan investment	1,516,341	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	131,099	59,640
Town contributions subsequent to the measurement date	1,122,927	-
Total	<u>\$ 3,642,426</u>	<u>\$ 73,231</u>

The \$1,122,927 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:

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

1. Pension Plan and Postemployment Obligations (continued)

*a. Local Governmental Employees' Retirement System (continued)*

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

<b>Year ended June 30:</b>	
2025	\$ 856,897
2026	485,168
2027	1,040,086
2028	64,117
	<u>\$ 2,446,268</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	6.50 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2022 valuation, with the exception of the discount rate, were based the results of an actuarial experience study prepared as of December 21, 2019 and adopted by the of Trustees on January 28, 2021, and amended on January 27, 2022.

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 weighing 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, 2023 are summarized in the following table:

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

1. Pension Plan and Postemployment Obligations (continued)

*a. Local Governmental Employees' Retirement System (continued)*

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	33.0%	0.9%
Global Equity	38.0%	6.5%
Real Estate	8.0%	5.9%
Alternatives	8.0%	8.2%
Credit	7.0%	5.0%
Inflation Protection	6.0%	2.7%
Total	100.0%	

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:

	<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 (asset)	\$ 9,815,293	\$ 5,665,521	\$ 2,249,040

*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.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

1. Pension Plan and Postemployment Obligations (continued)

***b. Law Enforcement Officers' Special Separation Allowance***

1. 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, 2022 (valuation date), consisted of:

Inactive members receiving benefits	3
Active plan members	<u>29</u>
Total	<u><u>32</u></u>

2. Summary of Significant Accounting Policies

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2022 valuation. The total pension liability in the December 31, 2022 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, including inflation and productivity factor
Discount rate	4.00 percent

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

1. Pension Plan and Postemployment Obligations (continued)

*b. Law Enforcement Officers' Special Separation Allowance (continued)*

3. Actuarial Assumptions (continued)

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2022.

Mortality rates are based on the Pub 2010 Mortality tables with adjustments for mortality improvements based on Scale MP-2019.

4. 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 decreased from 4.31 percent to 4.00 percent.

5. 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.

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

At June 30, 2024, the Town reported a total pension liability of \$1,356,531. The total pension liability was based on a December 31, 2022 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2023 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2024, the Town recognized pension expense of \$174,929.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 212,879	\$ 94,449
Changes of assumptions	155,445	163,596
Town benefit payments and plan administrative expense made subsequent to the measurement date	44,391	-
Total	<u>\$ 412,715</u>	<u>\$ 258,045</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

1. Pension Plan and Postemployment Obligations (continued)

*b. Law Enforcement Officers' Special Separation Allowance (continued)*

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

The \$44,391 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources and will be recognized in pension expense for the year ending June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2025	\$ 53,891
2026	50,719
2027	(22,341)
2028	10,324
2029	17,686
Thereafter	-

7. 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 4.00 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 (3.00 percent) or 1-percentage-point higher (5.00 percent) than the current rate:

	<b>1% Decrease</b>	<b>Discount rate</b>	<b>1% Increase</b>
	<b>(3.00%)</b>	<b>(4.00%)</b>	<b>(5.00%)</b>
Total pension liability	\$ 1,475,085	\$ 1,356,531	\$ 1,249,767

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

	<b>2024</b>
Beginning balance	\$ 1,195,633
Service cost	61,601
Interest on the total pension liability	50,174
Differences between expected and actual experience in the measurement of the total pension liability	80,291
Changes of assumptions or other inputs	31,835
Benefit payments	(63,003)
<b>Ending balance of the total pension liability</b>	<b>\$ 1,356,531</b>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

1. Pension Plan and Postemployment Obligations (continued)

**c. Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of Related to Pensions**

The 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	\$ 1,640,089	\$ 174,929	\$ 1,815,018
Pension Liability	5,665,521	1,356,531	7,022,052
Proportionate share of the net pension liability	0.08554%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	631,307	212,879	844,186
Changes of assumptions	240,752	155,445	396,197
Net difference between projected and actual earnings on plan investments	1,516,341	-	1,516,341
Changes in proportion and differences between contributions and proportionate share of contributions	131,099	-	131,099
Benefit payments and administrative costs paid subsequent to the measurement date	1,122,927	44,391	1,167,318
Deferred of Inflows of Resources			
Difference between expected and actual experience	13,591	94,449	108,040
Changes of assumptions	-	163,596	163,596
Changes in proportion and differences between contributions and proportionate share of contributions	59,639	-	59,639

**d. Supplemental Retirement Income Plan for Law Enforcement Officers**

*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 five percent of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other employees may make voluntary contributions to the plan. Contributions by the Town for the year ended June 30, 2024 were \$127,503.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

**2. Other Postemployment Benefits**

**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.

Retired Employees' Years of Creditable Service	Law Enforcement		Non-Law Enforcement	
	Hired Before February 9, 2009	Hired On or After February 9, 2009	Hired Before February 9, 2009	Hired On or After February 9, 2009
Less than 20 years	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	Not eligible for coverage	Not eligible for coverage
30 or more years' continuous service:				
Before age 57	Full coverage paid for by Town	Not eligible for coverage	Full coverage paid for by Town	Not eligible for coverage
Age 57 to 60	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town	Not eligible for coverage
Age 60 until eligible for Medicare	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town

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

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	6	0
Active plan members	78	32
Total	84	32



**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

**2. Other Postemployment Benefits (continued)**

The Town's total OPEB liability of \$1,067,548 was measured as of June 30, 2023 and was determined by an actuarial valuation as of June 30, 2022.

*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.25 to 8.41 percent, including inflation and productivity factor
Discount rate	3.65 percent
Healthcare cost trend rates	Pre-Medicare and Prescription Drug and Prescription Drug 7.00% for 2023 decreasing to an ultimate rate of 4.50% by 2033.

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.

**Schedule of Changes in Total Pension Liability**

	<b>2024</b>
Beginning balance	\$ 1,351,578
Service cost	41,492
Interest on the total pension liability	47,831
Differences between expected and actual experience in the measurement of the total pension liability	(310,860)
Changes of assumptions or other inputs	22,013
Benefit payments	(84,507)
<b>Ending balance of the total pension liability</b>	<b>\$ 1,067,547</b>

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 3.54 percent to 3.65 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, 2022 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, 2023 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2023 valuation.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

**2. Other Postemployment Benefits (continued)**

*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 (2.65 percent) or 1 percentage point higher (4.65 percent) than the current rate:

	<b>1% Decrease (2.65%)</b>	<b>Discount rate (3.65%)</b>	<b>1% Increase (4.65%)</b>
Total OPEB Liability	\$ 1,145,302	\$ 1,067,548	\$ 995,865

*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:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
Total OPEB Liability	\$ 982,208	\$ 1,067,548	\$ 1,164,213

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

The Town recognized OPEB expense of \$16,816 for the year ended June 30, 2024. The Town reported, at June 30, 2024, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 45,179	\$ 506,643
Benefit payments and administrative costs made subsequent to measurement date	51,345	-
Changes of assumptions or other inputs	210,129	139,532
Total	<u>\$ 306,653</u>	<u>\$ 646,175</u>

The \$51,345 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, 2025.

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

**Year ended June 30:**

2025	\$ (73,773)
2026	(71,461)
2027	(63,472)
2028	(60,321)
2029	(17,366)
Thereafter	(104,474)

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

3. Other Employment Benefits

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, 2024 were as follows:

	Governmental Activities		
	Other		
	General	Government	Total
	Fund	Funds	
Accounts payable to vendors	\$ 220,408	\$ 2,674	\$ 223,082
Accrued payroll and related liabilities	313,774	-	313,774
	<u>\$ 534,182</u>	<u>\$ 2,674</u>	<u>\$ 536,856</u>
	Business-type Activities		
	Water and		
	Sewer	Stormwater	Total
	Fund	Fund	
Accounts payable to vendors	\$ 261,966	\$ 6,380	\$ 268,346
Accrued payroll and related liabilities	150,246	34,288	184,534
	<u>\$ 412,212</u>	<u>\$ 40,668</u>	<u>\$ 452,880</u>

5. Due to related governments

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

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

6. 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	\$ -	\$ 2,448,439
Pension - LEOSSA	-	412,715
OPEB	-	163,264
<b>Total</b>	<b>\$ -</b>	<b>\$ 3,024,418</b>
Business-type activities:		
Pension - LGERS		\$ 1,193,987
OPEB		143,389
<b>Total</b>		<b>\$ 1,337,376</b>

7. Deferred Outflows and Inflows of Resources (continued)

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

**Deferred Inflows of Resources:**

	Modified Accrual	Full Accrual
Governmental activities:		
Unavailable revenue:		
Property taxes receivable	\$ 113,168	\$ -
Pension - LGERS	-	49,226
Pension - LEOSSA	-	258,045
OPEB	-	344,028
<b>Total governmental activities</b>	<b>\$ 113,168</b>	<b>\$ 651,299</b>
Business-type activities:		
Pension - LGERS		\$ 24,005
OPEB		302,147
<b>Total business-type activities</b>		<b>\$ 326,152</b>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

**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 (\$75,622,366); general liability (\$5 million per occurrence); law enforcement liability (\$5 million per occurrence); public employees scheduled bond (\$1,000,000) public employees blanket bond/crime (\$10,000); computer equipment (\$786,100); municipal equipment (\$1,164,754); 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.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

8. Risk Management (continued)

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 \$1,000,000.

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.

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 \$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. \$ 36,482
- Note payable to BB&T, executed in 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. 225,634

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

10. Long-term obligations (continued)

a. Direct Placement Installment Purchases (continued)

<ul style="list-style-type: none"> <li>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.</li> </ul>	1,518,634
<ul style="list-style-type: none"> <li>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 trucks.</li> </ul>	122,579
	1,903,329
	(284,464)
Less: current portion	\$ 1,618,865

The future minimum payments for direct placement installment purchases, at June 30, 2024, related to governmental activities are as follows:

<b>Governmental Activities:</b>			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	209,075	33,597	242,672
2030-2033	754,709	66,781	821,490
	<u>\$ 1,903,329</u>	<u>\$ 305,496</u>	<u>\$ 2,208,825</u>

*Business-type activities:*

<ul style="list-style-type: none"> <li>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% business-type activities, and accordingly, the annual payments are made out of the Water and Sewer Fund will be \$39,125, which commenced on January 1, 2019.</li> </ul>	\$ 296,827
Less: current portion	(28,588)
	<u>\$ 268,239</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

10. Long-term obligations (continued)

a. Direct Placement Installment Purchases (continued)

The future minimum payments for direct placement installment purchases, at June 30, 2024, related to business-type activities are as follows:

<b>Business-type Activities:</b>			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	32,847	6,278	39,125
2030-2033	143,504	12,996	156,500
	<u>\$ 296,827</u>	<u>\$ 55,296</u>	<u>\$ 352,123</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, 2024.

b. Lease liabilities

*Governmental activities:*

- 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, 2024 was \$2,058 with accumulated amortization of \$3,705. \$ 1,532
- The Town is a lessee of a 60-month lease of a building used as a police training facility. An initial lease liability was recorded in the amount of \$191,027. The Town is required to make monthly payments of \$3,200. The lease has an interest rate of 2.6160%. The net book value of the right to use asset for the year ended June 30, 2024 was \$187,842 with accumulated amortization of \$3,184. 187,827
- 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, 2024 was \$10,995 with accumulated amortization of \$13,115. 10,909



**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

10. Long-term obligations (continued)

b. Lease liabilities (continued)

<ul style="list-style-type: none"> <li>The Town is a lessee of a 60-month lease of multi-functional devices. An initial lease liability was recorded in the amount of \$23,846. The Town is required to make monthly payments of \$424. The lease has an interest rate of 2.6160%. There are variable payment components of the lease. The net book value of the right to use asset for the year ended June 30, 2024 was \$22,256 with accumulated amortization of \$1,590.</li> </ul>	22,303
	222,571
Less current portion	(44,908)
	<u>\$ 177,663</u>

The future minimum leases payments, at June 30, 2024, related to governmental activities are as follows:

<b>Governmental Activities:</b>			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 44,908	\$ 5,079	\$ 49,987
2026	45,585	4,020	49,605
2027	44,228	2,912	47,140
2028	45,390	1,758	47,148
2029	42,460	546	43,006
	<u>\$ 222,571</u>	<u>\$ 14,315</u>	<u>\$ 236,886</u>

c. IT subscription liability

*Governmental activities:*

<ul style="list-style-type: none"> <li>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, 2024, the value of the subscription liability is \$26,912. 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, 2024 is \$158,621 with accumulated amortization of \$133,462.</li> </ul>	26,912
	26,912
Less current portion	(26,912)
	<u>\$ -</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

10. Long-term obligations (continued)

c. IT subscription liability (continued)

The future minimum leases payments, at June 30, 2024, related to governmental activities are as follows:

<b>Governmental Activities:</b>			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 26,912	\$ 588	\$ 27,500
	<u>\$ 26,912</u>	<u>\$ 588</u>	<u>\$ 27,500</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, 2024 was \$152,444.
- 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 Clean 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, 2024 was \$8,905,004.
- 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 were 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 1<sup>st</sup>, with no interest, through fiscal year ending 2035. The total amount outstanding at June 30, 2024 was \$1,035,340.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

10. Long-term obligations (continued)

d. Revolving loans payable (continued)

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

<b>Business-Type Activities:</b>			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 1,060,844	\$ 222,672	\$ 1,283,516
2026	1,060,846	198,784	1,259,630
2027	984,622	174,894	1,159,516
2028	984,623	153,032	1,137,655
2029	984,622	131,171	1,115,793
2030-2034	4,923,111	327,927	5,251,038
2035	94,120	-	94,120
	<u>\$ 10,092,788</u>	<u>\$ 1,208,480</u>	<u>\$ 11,301,268</u>

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 issues 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. \$10,045,000 remains outstanding at June 30, 2024.

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

<b>Business-Type Activities:</b>			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	40,000	437,719	477,719
2030-2034	2,450,000	1,941,094	4,391,094
2035-2039	3,770,000	1,118,592	4,888,592
2040-2043	3,655,000	258,965	3,913,965
	<u>\$ 10,045,000</u>	<u>\$ 5,524,746</u>	<u>\$ 15,569,746</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

10. Long-term obligations (continued)

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. \$2,045,000 remains outstanding at June 30, 2024.

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

<b>Business-Type Activities:</b>			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	349,000	13,979	362,979
2030	357,000	7,068	364,068
	<u>\$ 2,045,000</u>	<u>\$ 143,866</u>	<u>\$ 2,188,866</u>

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.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

10. Long-term obligations (continued)

g. Debt Covenants (continued)

The debt service coverage ratio calculation is as follows:

	<u>2024</u>
Operating revenues	\$ 13,582,553
Operating expenses (excluding depreciation)	<u>(9,372,110)</u>
Operating income	4,210,443
Nonoperating revenues (expenses)	<u>638,721</u>
Income available for debts service - {A}	<u>\$ 4,849,164</u>
Unrestricted net position (system fund balance)	<u>\$ 13,605,067</u>
15% of Unrestricted Net Position - {B}	<u>\$ 2,040,760</u>
Total Balance for 120% Parity ({A}+{B})	<u>\$ 6,889,924</u>
Debt service, principal and interest (Revenue bond only)	<u>\$ 839,737</u>
Debt service coverage ratio on first-lien debt	<u>8.20</u>
Debt service all debt (total balance for 100%)	<u>\$ 2,186,270</u>
Debt service coverage ratio on all debt together	<u>2.22</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, 2024.

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Governmental activities:					
Direct placement installment purchases	\$ 2,239,251	\$ -	\$ 335,922	\$ 1,903,329	\$ 284,464
Lease liabilities	59,820	214,873	52,121	222,572	44,908
IT subscriptions liability	72,690	-	45,778	26,912	26,912
Compensated absences	568,916	290,319	321,522	537,713	322,000
Total OPEB liability	741,299	-	172,929	568,370	-
Net pension liability (LGRS)	3,170,031	638,332	-	3,808,363	-
Total pension liability (LEO)	<u>1,195,633</u>	<u>160,898</u>	<u>-</u>	<u>1,356,531</u>	<u>-</u>
Total governmental activity long-term liabilities	<u>\$ 8,047,640</u>	<u>\$ 1,304,422</u>	<u>\$ 928,272</u>	<u>\$ 8,423,790</u>	<u>\$ 678,284</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**B - Liabilities (continued)**

10. Long-term obligations (continued)

h. Changes in long-term liabilities (continued)

	Beginning Balances	Increases	Decreases	Ending Balance	Current Portion
Business-type activities:					
<i>Water and sewer:</i>					
Direct placement installment purchases	\$ 324,403	\$ -	\$ 27,576	\$ 296,827	\$ 28,558
Revolving loans payable	11,153,633	-	1,060,845	10,092,788	1,060,844
Revenue bonds payable	12,437,000	-	347,000	12,090,000	355,000
Premium on bonds payable	751,389	-	56,123	695,266	55,935
Compensated absences	406,743	254,127	276,216	384,654	276,200
Total OPEB liability	568,904	-	104,323	464,581	-
Net pension liability (LGERS)	1,391,480	277,016	-	1,668,496	-
Total - water and sewer	27,033,552	531,143	1,872,083	25,692,612	1,776,537
<i>Stormwater:</i>					
Compensated absences	15,126	25,163	23,357	16,932	16,932
Total OPEB liability	41,375	-	6,779	34,596	-
Net pension liability (LGERS)	147,389	41,273	-	188,662	-
Total - stormwater	203,890	66,436	30,136	240,190	16,932
Business-type activity long-term liabilities	\$ 27,237,442	\$ 597,579	\$ 1,902,219	\$ 25,932,802	\$ 1,793,469

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, 2024 was approximately \$135,266,000 and a legal debt margin of approximately \$133,362,000 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 debt has been paid in full. The excess funds collected to cover debt service of the issuances was transferred to the Town. The funds are being accounted for as a Special Revenue Funds only to be used for the benefit the Waterstone District.

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**C - Interfund Balances and Activity**

<b>Transfers from:</b>	<b>Transfers to:</b>		
	<b>General Capital Projects Fund</b>	<b>General Fund</b>	<b>Total</b>
General Fund	\$ 2,484,747	\$ -	\$ 2,484,747
General Capital Reserve Fund	-	167,500	167,500
	<u>\$ 2,484,747</u>	<u>\$ 167,500</u>	<u>\$ 2,652,247</u>

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

<b>Transfers from:</b>	<b>Transfers to:</b>				<b>Total</b>
	<b>Utilities Capital Improvements Fund</b>	<b>Water and Sewer Operating Fund</b>	<b>Sewer System Development Fee Reserve</b>	<b>Water System Development Fee Reserve</b>	
Water and Sewer Operating Fund	\$ 4,056,317	\$ -	\$ 59,405	\$ 82,348	\$ 4,198,070
Utilities Capital Improvements Fund	-	58,893	-	381,375	440,268
ARPA Fund	-	2,022,647	-	-	2,022,647
Water and Sewer Capital Reserve Fund	327,386	-	-	-	327,386
Water System Development Fee Reserve Fund	275,000	-	-	-	275,000
	<u>\$ 4,658,703</u>	<u>\$ 2,081,540</u>	<u>\$ 59,405</u>	<u>\$ 463,723</u>	<u>\$ 7,263,371</u>

**D - Net Position/Fund Balances**

1. Net Investment in capital assets

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
		<b>Water and Sewer</b>	<b>Stormwater</b>
Capital assets	\$ 25,920,013	\$ 59,212,132	\$ 1,842,063
Less:			
Capital related debt	(2,152,813)	(22,479,615)	-
Unamortized premium on capital related debt	-	(695,266)	-
Accounts payable for capital assets	-	(175,468)	-
Add:			
Unspent debt proceeds	-	574,126	-
Net investment in capital assets	<u>\$ 23,767,200</u>	<u>\$ 36,435,909</u>	<u>\$ 1,842,063</u>

**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)**

**D – Net Position/Fund Balances (continued)**

**2. Fund Balance**

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation. 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, 2024 were \$227,528.

Total Fund Balance - General Fund	\$ 14,367,619
Less:	
Nonspendable - prepaid	20,758
Stabilization by State Statute	1,649,219
Restricted for streets	293,004
Restricted revenues	95,452
Appropriated in next year's budget	3,527,010
Fund balance policy - 33% of operating expenditures	4,539,057
Remaining Fund Balance	\$ 4,243,119

**NOTE 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.

**NOTE 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 money 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 the grant money.



**Town of Hillsborough, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2024**

**NOTE 5 – SUBSEQUENT EVENTS**

The Town were evaluated through November 21, 2024, which is the date the financials were available to be issued.

**NOTE 6 – RECENTLY IMPLEMENTED AND UPCOMING GASB STATEMENTS**

The Town has not currently determined what, if any, effect of implementation of the following statements may have on the financial statements of the Town.

**Statement No. 101, *Compensated Absences*.** The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

**Statement No. 102, *Certain Risk Disclosures*.** The objection of this Statement is to define a concentration as a lack of diversity related to an aspect of significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

**Statement No. 103, *Financial Reporting Model Improvements*.** The objection of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

**Statement No. 104, *Disclosure of Certain Capital Assets*.** The objection of this Statement is to improve financial reporting by providing users of financial statements with essential information about certain types of capital assets in order to make informed decisions and assess accountability. Additionally, the disclosure requirements will improve consistency and comparability between governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

### **Required Supplementary Financial Data**

---

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

---

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

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,195,633	\$ 1,172,974	\$ 1,316,618	\$ 783,583	\$ 727,333	\$ 641,574	\$ 566,336	\$ 556,718
Service Cost	61,601	79,139	73,164	54,522	46,881	49,048	37,358	36,956
Interest on the total pension liability	50,174	26,039	25,142	25,173	26,226	19,749	21,303	19,286
Differences between expected and actual experience in the measurement of the total pension liability	80,291	168,460	(182,736)	96,611	(28,494)	80,147	(520)	-
Changes of assumptions or other inputs	31,835	(219,644)	(31,409)	379,515	25,289	(29,947)	45,993	(13,621)
Benefit payments	(63,003)	(31,335)	(27,805)	(22,786)	(13,652)	(33,238)	(28,896)	(33,003)
<b>Ending balance of the total pension liability</b>	<u>\$ 1,356,531</u>	<u>\$ 1,195,633</u>	<u>\$ 1,172,974</u>	<u>\$ 1,316,618</u>	<u>\$ 783,583</u>	<u>\$ 727,333</u>	<u>\$ 641,574</u>	<u>\$ 566,336</u>

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

\*\*This schedule will present 10 years of information when available.

**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 Eight Fiscal Years**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 1,356,531	\$ 1,195,633	\$ 1,172,974	\$ 1,316,618	\$ 783,583	\$ 727,333	\$ 641,574	\$ 566,336
Covered payroll	2,150,451	1,892,468	1,658,837	1,914,214	1,831,895	1,830,296	1,670,805	1,650,937
Total pension liability as a percentage of covered payroll	63.08%	63.18%	70.71%	68.78%	42.77%	39.74%	38.40%	34.30%

Notes to the schedules:

The Town of Hillsborough has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

\*\*This schedule will present 10 years of information when available.

**Schedule RSI-3**

**Town of Hillsborough, North Carolina**  
**Schedule of Changes in the Total OPEB Liability and Related Ratios**  
**OPEB Retirement Plan**  
**June 30, 2024**

<b>Total OPEB Liability</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Service cost	\$ 41,492	\$ 53,159	\$ 48,010	\$ 35,773	\$ 55,105	\$ 56,731	\$ 60,886
Interest	47,832	31,809	29,433	40,828	60,865	56,550	48,567
Differences between expected and actual experiences	(310,860)	31,233	(34,606)	33,091	(461,361)	8,747	(2,066)
Changes of assumptions	22,013	(143,133)	168,641	123,590	27,076	(45,522)	(78,864)
Benefit payments	(84,507)	(81,533)	(70,108)	(89,899)	(140,756)	(60,738)	(46,470)
<b>Net change in total OPEB liability</b>	<b>(284,030)</b>	<b>(108,465)</b>	<b>141,370</b>	<b>143,383</b>	<b>(459,071)</b>	<b>15,768</b>	<b>(17,947)</b>
<b>Total OPEB liability - beginning</b>	<b>1,351,578</b>	<b>1,460,043</b>	<b>1,318,673</b>	<b>1,175,290</b>	<b>1,634,361</b>	<b>1,618,593</b>	<b>1,636,540</b>
<b>Total OPEB liability - ending</b>	<b>\$ 1,067,548</b>	<b>\$ 1,351,578</b>	<b>\$ 1,460,043</b>	<b>\$ 1,318,673</b>	<b>\$ 1,175,290</b>	<b>\$ 1,634,361</b>	<b>\$ 1,618,593</b>
 <b>Covered payroll</b>	 7,556,644	 5,323,777	 5,323,777	 5,736,330	 5,736,330	 5,180,570	 5,180,570
<b>Total OPEB liability as a percentage of covered payroll</b>	<b>14.13%</b>	<b>25.39%</b>	<b>27.42%</b>	<b>22.99%</b>	<b>20.49%</b>	<b>31.55%</b>	<b>31.24%</b>

**Notes to Schedule**

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

This schedule will present 10 years of information when available.

<u>Fiscal year</u>	<u>Rate</u>
2018	3.56%
2019	3.89%
2020	3.50%
2021	2.21%
2022	2.16%
2023	3.54%
2024	3.65%

**Town of Hillsborough, North Carolina**  
**Schedule of Proportionate Share of Net Pension Liability (Asset)**  
**Local Government Employees' Retirement System**  
**Last Ten Fiscal Years**  
**June 30, 2024**

	<b>Local Government Employees' Retirement System</b>									
	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Hillsborough's proportion of the net pension liability (asset) (%)	0.08554%	0.08350%	0.07990%	0.09220%	0.09060%	0.09310%	0.09190%	0.09240%	0.08380%	0.08090%
Hillsborough's proportion of the net pension liability (asset) (\$)	\$ 5,665,521	\$ 4,708,900	\$ 1,225,190	\$ 3,292,912	\$ 2,472,850	\$ 2,209,362	\$ 1,404,436	\$ 1,961,038	\$ 376,224	\$ (477,164)
Hillsborough's covered-employee payroll	\$ 7,640,505	\$ 6,532,666	\$ 6,495,627	\$ 6,389,923	\$ 5,936,460	\$ 5,695,125	\$ 5,750,308	\$ 5,235,777	\$ 4,861,624	\$ 4,672,868
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	74.15%	72.08%	18.86%	51.53%	41.66%	38.79%	24.42%	37.45%	7.74%	-10.21%
Plan fiduciary net position as a percentage of the total pension liability	82.49%	84.14%	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	102.47%

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

\*\* This will be the same percentage all participant employers in the LGERS plan.

**Town of Hillsborough, North Carolina**  
**Schedules of Contributions**  
**Required Supplementary Information**  
**Last Ten Fiscal Years**  
**June 30, 2024**

**Local Government Employees' Retirement System**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,122,927	\$ 961,854	\$ 766,857	\$ 632,182	\$ 587,827	\$ 478,756	\$ 440,572	\$ 429,432	\$ 356,396	\$ 357,402
Contributions in relation to the contractually required contribution	<u>1,122,927</u>	<u>961,854</u>	<u>766,857</u>	<u>632,182</u>	<u>587,827</u>	<u>478,756</u>	<u>440,572</u>	<u>429,432</u>	<u>356,396</u>	<u>357,402</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hillsborough's covered-employee payroll	\$ 8,490,229	\$ 7,640,505	\$ 6,532,666	\$ 6,495,627	\$ 6,389,923	\$ 5,936,460	\$ 5,695,125	\$ 5,750,308	\$ 5,235,777	\$ 4,861,624
Contributions as a percentage of covered-employee payroll	13.23%	12.59%	11.74%	9.73%	9.20%	8.06%	7.74%	7.47%	6.81%	7.35%

## Supplementary Information

---

**This section contains additional information on property taxes.**

---

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



**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual – General Fund**  
**Year Ended June 30, 2024 (with Comparative Actual Amounts for 2023)**

	<b>2024</b>		<b>2023</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative) Actual</b>
<b>Revenues:</b>			
<b>Ad valorem taxes:</b>			
Current	\$ 9,785,000	\$ 9,908,294	\$ 123,294
Penalties and interest	22,250	23,009	759
<b>Total</b>	<b>9,807,250</b>	<b>9,931,303</b>	<b>124,053</b>
<b>Other taxes and licenses:</b>			
Gross receipts on short-term rental property	1,000	1,555	555
Privilege licenses	500	930	430
Motor vehicle license fees	50	80	30
Solid waste disposal	5,750	8,007	2,257
<b>Total</b>	<b>7,300</b>	<b>10,572</b>	<b>3,272</b>
<b>Unrestricted intergovernmental:</b>			
Local option sales tax	2,894,000	3,355,972	461,972
Franchise tax	605,000	782,367	177,367
Beer and wine tax	35,000	48,150	13,150
Food and beverage tax	450,500	565,567	115,067
Occupancy tax	103,000	125,402	22,402
Other	-	20	20
<b>Total</b>	<b>4,087,500</b>	<b>4,877,478</b>	<b>789,978</b>
<b>Restricted intergovernmental:</b>			
Powell bill allocation	306,425	306,425	-
Other	76,489	46,828	(29,661)
<b>Total</b>	<b>382,914</b>	<b>353,253</b>	<b>(29,661)</b>
<b>Use and rental fees:</b>			
Planning fees	20,000	51,518	31,518
Cable franchise	30,000	42,882	12,882
Street fees	-	22,680	22,680
Park usage fees	6,500	6,450	(50)
Other	500	1,410	910
<b>Total</b>	<b>57,000</b>	<b>124,940</b>	<b>67,940</b>
<b>Investment earnings</b>	<b>735,000</b>	<b>778,203</b>	<b>43,203</b>
<b>Miscellaneous revenues</b>	<b>197,906</b>	<b>242,063</b>	<b>44,157</b>
<b>Total revenues</b>	<b>\$ 15,274,870</b>	<b>\$ 16,317,812</b>	<b>\$ 1,042,942</b>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual – General Fund (continued)**  
**Year Ended June 30, 2024 (with Comparative Actual Amounts for 2023)**

	<b>2024</b>			<b>2023</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
<b>Expenditures:</b>				
<b>General government:</b>				
Governing body:				
Personnel services	\$	\$ 47,918	\$	\$ 47,897
Other services and charges		185,421		202,973
Reimbursement from enterprise funds		(121,336)		(130,452)
<b>Total</b>	<u>180,912</u>	<u>112,003</u>	<u>68,909</u>	<u>120,418</u>
<b>Facility Management:</b>				
Personnel services		112,608		105,416
Other services and charges		279,484		234,202
Capital outlay		-		34,610
Debt service payments		203,092		205,078
Reimbursement from enterprise funds		(207,774)		(202,757)
<b>Total</b>	<u>512,669</u>	<u>387,410</u>	<u>125,259</u>	<u>376,549</u>
<b>Administration:</b>				
Personnel services		1,368,691		1,295,377
Other services and charges		243,677		531,712
Capital outlay		-		22,238
Debt service payments		-		22,500
Reimbursement from enterprise funds		(838,431)		(961,558)
<b>Total</b>	<u>928,679</u>	<u>773,937</u>	<u>154,742</u>	<u>910,269</u>
<b>Finance:</b>				
Personnel services		600,029		367,265
Other services and charges		173,734		394,936
Reimbursement from enterprise funds		(402,326)		(396,345)
<b>Total</b>	<u>451,152</u>	<u>371,437</u>	<u>79,715</u>	<u>365,856</u>
<b>Information Services:</b>				
Personnel services		171,723		162,050
Other services and charges		621,038		495,307
Capital outlay		21,791		93,739
Debt service payments		47,334		15,000
Reimbursement from enterprise funds		(437,867)		(362,880)
<b>Total</b>	<u>593,050</u>	<u>424,019</u>	<u>169,031</u>	<u>403,216</u>
<b>Planning:</b>				
Personnel services		703,474		630,001
Other services and charges		85,636		142,125
<b>Total</b>	<u>940,471</u>	<u>789,110</u>	<u>151,361</u>	<u>772,126</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual – General Fund (continued)**  
**Year Ended June 30, 2024 (with Comparative Actual Amounts for 2023)**

	2024			2023
	Budget	Actual	Variance Positive (Negative)	Actual
<b>Fleet Maintenance:</b>				
Personnel services	\$	\$ 361,427	\$	\$ 341,665
Other services and charges		160,147		127,214
Debt service payments		75,189		76,970
Reimbursement from enterprise funds		(318,108)		(228,592)
<b>Total</b>	<u>465,423</u>	<u>278,655</u>	<u>186,768</u>	<u>317,257</u>
<b>Total general government</b>	<u>\$ 4,072,356</u>	<u>\$ 3,136,571</u>	<u>\$ 935,785</u>	<u>\$ 3,265,691</u>
<b>Public safety</b>				
<b>Police Department:</b>				
Personnel services		3,587,611		3,326,965
Other services and charges		364,748		345,102
Capital outlay		374,556		248,488
Debt service payments		48,077		117,080
<b>Total</b>	<u>4,830,568</u>	<u>4,374,992</u>	<u>455,576</u>	<u>4,037,635</u>
<b>Safety:</b>				
Personnel services		131,000		131,070
Other services and charges		397,614		81,339
Capital outlay		32,826		-
Reimbursement from enterprise funds		(291,949)		(110,452)
<b>Total</b>	<u>357,314</u>	<u>269,491</u>	<u>87,823</u>	<u>101,957</u>
<b>Fire protection:</b>				
Other services and charges		1,751,022		1,634,977
<b>Total</b>	<u>1,754,770</u>	<u>1,751,022</u>	<u>3,748</u>	<u>1,634,977</u>
<b>Total public safety</b>	<u>6,942,652</u>	<u>6,395,505</u>	<u>547,147</u>	<u>5,774,569</u>
<b>Transportation:</b>				
<b>Street department/Powell Bill:</b>				
Personnel services		277,833		270,709
Other services and charges		242,685		223,357
Capital outlay		993,110		491,919
<b>Total</b>	<u>2,073,037</u>	<u>1,513,628</u>	<u>559,409</u>	<u>985,985</u>
<b>Total transportation</b>	<u>2,073,037</u>	<u>1,513,628</u>	<u>559,409</u>	<u>985,985</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual – General Fund (continued)**  
**Year Ended June 30, 2024 (with Comparative Actual Amounts for 2023)**

	<b>2024</b>			<b>2023</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
<b>Environmental protection:</b>				
<b>Sanitation department:</b>				
Personnel services	\$	\$ 396,567	\$	\$ 370,542
Other services and charges		227,158		203,584
Capital outlay		493,417		55,869
Debt service payments		62,617		62,617
<b>Total</b>	<u>1,254,323</u>	<u>1,179,759</u>	<u>74,564</u>	<u>692,612</u>
<b>Cemetery:</b>				
Other services and charges		15,648		3,369
<b>Total</b>	<u>18,060</u>	<u>15,648</u>	<u>2,412</u>	<u>3,369</u>
<b>Total environmental protection</b>	<u>1,272,383</u>	<u>1,195,407</u>	<u>76,976</u>	<u>695,981</u>
<b>Economic and physical development:</b>				
<b>Tourism:</b>				
Personnel services		-		(39,442)
Other services and charges		668,108		622,984
<b>Total</b>	<u>720,900</u>	<u>668,108</u>	<u>52,792</u>	<u>583,542</u>
<b>Total economic and physical development</b>	<u>720,900</u>	<u>668,108</u>	<u>52,792</u>	<u>583,542</u>
<b>Community activities and projects:</b>				
Other services and charges		115,907		69,235
Capital outlay		15,490		35,000
Debt service payments		69,500		92,468
<b>Total community activities and projects</b>	<u>599,255</u>	<u>200,897</u>	<u>398,358</u>	<u>196,703</u>
<b>Parks and recreation:</b>				
Personnel services		233,350		223,467
Other services and charges		423,539		341,370
Debt service payments		1,478		84,515
Reimbursement from enterprise funds		(13,764)		(13,764)
<b>Total parks and recreation</b>	<u>836,616</u>	<u>644,603</u>	<u>192,013</u>	<u>635,588</u>
<b>Total expenditures</b>	<u>16,517,199</u>	<u>13,754,719</u>	<u>2,762,480</u>	<u>12,138,059</u>
<b>Revenues over (under) expenditures</b>	<u>(1,242,329)</u>	<u>2,563,093</u>	<u>(3,805,422)</u>	<u>3,223,596</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual – General Fund (continued)**  
**Year Ended June 30, 2024 (with Comparative Actual Amounts for 2023)**

	<u>2024</u>			<u>2023</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
<b>Other financing sources (uses):</b>				
Transfers (to) other funds:				
General Capital Improvements Fund	\$ 100,148	\$ 100,148	\$ -	\$ -
General Capital Improvements Fund	67,352	67,352	-	-
General Capital Improvements Fund	(50,000)	(50,000)	-	(147,000)
General Capital Improvements Fund	(225,000)	(225,000)	-	(150,000)
General Capital Reserve Fund	(1,226,650)	(1,226,650)	-	(40,000)
General Capital Reserve Fund	(81,000)	(81,000)	-	(50,000)
General Capital Reserve Fund	(145,000)	(145,000)	-	(320,000)
General Capital Reserve Fund	(455,003)	(455,003)	-	(50,000)
General Capital Reserve Fund	(347,000)	(347,000)	-	(80,148)
General Capital Reserve Fund	(50,000)	(50,000)	-	(144,822)
General Capital Reserve Fund	(39,710)	(39,710)	-	-
General Capital Reserve Fund	(32,884)	(32,884)	-	-
IT subscription agreement	-	-	-	128,756
Sale of capital assets	-	25,951	25,951	-
<b>Total other financing sources (uses)</b>	<u>(2,484,747)</u>	<u>(2,458,796)</u>	<u>25,951</u>	<u>(853,214)</u>
Appropriated fund balance	<u>3,727,076</u>	<u>-</u>	<u>(3,727,076)</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ 104,297</u>	<u>\$ 104,297</u>	<u>\$ 2,370,382</u>
<b>Fund balance, beginning</b>		<u>14,223,419</u>		<u>11,853,037</u>
<b>Fund balance, ending</b>		<u>\$ 14,327,716</u>		<u>\$ 14,223,419</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual – Restricted Revenue Fund**  
**From Inception and for the Year Ended June 30, 2024**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>					
Restricted intergovernmental	\$ 693,100	\$ 315,004	\$ -	\$ 315,004	\$ (378,096)
Contributions and donations	80,622	103,134	-	103,134	22,512
<b>Total revenues</b>	<u>773,722</u>	<u>418,138</u>	<u>-</u>	<u>418,138</u>	<u>(355,584)</u>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Economic and physical development:</b>					
Current:					
General government:					
Administration	4,610	-	-	-	4,610
Planning	694,931	313,440	-	313,440	381,491
Public safety:					
Police	28,745	19,825	-	19,825	8,920
Community Activity and Projects:					
Affordable housing projects	64,970	64,970	-	64,970	-
Parks and recreation	466	-	-	-	466
<b>Total expenditures</b>	<u>793,722</u>	<u>398,235</u>	<u>-</u>	<u>398,235</u>	<u>395,487</u>
<b>Revenues over (under) expenditures</b>	<u>(20,000)</u>	<u>19,903</u>	<u>-</u>	<u>19,903</u>	<u>39,903</u>
<b>Other financing sources (uses):</b>					
Transfers from General Fund	20,000	20,000	-	20,000	-
<b>Total other financing sources (uses)</b>	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ 39,903</u>	<u>-</u>	<u>\$ 39,903</u>	<u>\$ 39,903</u>
<b>Fund balance, beginning</b>			<u>39,903</u>		
<b>Fund balance, ending</b>			<u><u>\$ 39,903</u></u>		

**Town of Hillsborough, North Carolina**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2024**

	<b>Special Revenue Funds</b>		<b>Capital Projects Funds</b>	
	<b>Special Assessment District Fund</b>	<b>CDBG Fund</b>	<b>Consolidated General Capital Projects</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets:</b>				
Cash and investments	\$ -	\$ -	\$ 5,022,973	\$ 5,022,973
Due from other governments	1,575	-	-	1,575
Restricted cash and investments	1,493,202	-	-	1,493,202
<b>Total assets</b>	<u>\$ 1,494,777</u>	<u>\$ -</u>	<u>\$ 5,022,973</u>	<u>\$ 6,517,750</u>
<b>Liabilities, deferred inflows of resources and fund balances</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 47	\$ -	\$ 2,627	\$ 2,674
Due to other funds	39,051	-	-	39,051
<b>Total liabilities</b>	<u>39,098</u>	<u>-</u>	<u>2,627</u>	<u>41,725</u>
<b>Fund balances:</b>				
<b>Restricted for:</b>				
Community activities and projects	1,455,679	-	-	1,455,679
<b>Committed for:</b>				
Capital projects	-	-	5,020,346	5,020,346
<b>Total fund balances</b>	<u>1,455,679</u>	<u>-</u>	<u>5,020,346</u>	<u>6,476,025</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,494,777</u>	<u>\$ -</u>	<u>\$ 5,022,973</u>	<u>\$ 6,517,750</u>

**Town of Hillsborough, North Carolina**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2024**

	<b>Special Revenue Funds</b>		<b>Capital Projects Funds</b>	
	<b>Special Assessment District Fund</b>	<b>CDBG Fund</b>	<b>Consolidated General Capital Projects</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues:</b>				
Restricted intergovernmental	\$ 1,572,218	\$ 143,020	\$ 1,057,284	\$ 2,772,522
<b>Total revenues</b>	<u>1,572,218</u>	<u>143,020</u>	<u>1,057,284</u>	<u>2,772,522</u>
<b>Expenditures:</b>				
Current:				
Economic and physical development	-	-	265,412	265,412
Community activities and projects	116,539	143,020	185,800	445,359
<b>Total expenditures</b>	<u>116,539</u>	<u>143,020</u>	<u>451,212</u>	<u>710,771</u>
<b>Revenues over (under) expenditures</b>	<u>1,455,679</u>	<u>-</u>	<u>606,072</u>	<u>2,061,751</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	-	-	2,484,747	2,484,747
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>2,484,747</u>	<u>2,484,747</u>
<b>Revenues and other sources over expenditures and other uses</b>	<u>1,455,679</u>	<u>-</u>	<u>3,090,819</u>	<u>4,546,498</u>
<b>Fund balance, beginning</b>	<u>-</u>	<u>-</u>	<u>1,929,527</u>	<u>1,929,527</u>
<b>Fund balance, ending</b>	<u>\$ 1,455,679</u>	<u>\$ -</u>	<u>\$ 5,020,346</u>	<u>\$ 6,476,025</u>



**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, 2024**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>					
Restricted intergovernmental:					
Community Development Block Grant ("CDBG")	\$ 600,000	\$ 456,980	\$ 143,020	\$ 600,000	\$ -
<b>Total revenues</b>	<u>600,000</u>	<u>456,980</u>	<u>143,020</u>	<u>600,000</u>	<u>-</u>
<b>Expenditures:</b>					
Community activities and projects:					
Administration	60,000	41,544	18,456	60,000	-
Public services	540,000	415,436	124,564	540,000	-
<b>Total expenditures</b>	<u>600,000</u>	<u>456,980</u>	<u>143,020</u>	<u>600,000</u>	<u>-</u>
<b>Revenues over (under) expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other financing sources (uses):</b>					
Transfer from other funds	-	-	-	-	-
<b>Total other financing     sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund balance, beginning</b>			<u>-</u>		
<b>Fund balance, ending</b>			<u><u>\$ -</u></u>		

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual - Special Assessment District Fund**  
**From Inception and for the Year Ended June 30, 2024**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>					
Restricted:					
Special assessment tax revenues	\$ 549,863	\$ -	\$ 413,219	\$ 413,219	\$ (136,644)
Regions Bank grant	-	-	1,158,999	1,158,999	1,158,999
<b>Total revenues</b>	<u>549,863</u>	<u>-</u>	<u>1,572,218</u>	<u>1,572,218</u>	<u>1,022,355</u>
<b>Expenditures:</b>					
Community activities and projects:					
Debt service payments	533,363	-	104,142	104,142	429,221
Collection fees	16,500	-	12,397	12,397	4,103
<b>Total expenditures</b>	<u>549,863</u>	<u>-</u>	<u>116,539</u>	<u>116,539</u>	<u>433,324</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>1,455,679</u>	<u>\$ 1,455,679</u>	<u>\$ 589,031</u>
<b>Fund balance, beginning</b>			<u>-</u>		
<b>Fund balance, ending</b>			<u><u>\$ 1,455,679</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, 2024**

		Actual				Variance
	Project	Prior	Current	Closed Out	Total to	Positive
	Authorization	Years	Year	Projects	Date	(Negative)
<b>Revenues:</b>						
Restricted intergovernmental:						
Transportation improvement						
Project ("TIP"):						
Transit tax	\$ 402,000	\$ 204,332	\$ -	\$ -	\$ 204,332	\$ (197,668)
NCDOT grant	870,000	-	-	-	-	(870,000)
State TIP	6,314,000	51,180	57,284	-	108,464	(6,205,536)
Exchange Club Rd Bridge Project	126,447	-	-	-	-	(126,447)
NC DOT reimbursement Valley Forge	-	-	1,000,000	-	1,000,000	1,000,000
<b>Total revenues</b>	<b>7,712,447</b>	<b>255,512</b>	<b>1,057,284</b>	<b>-</b>	<b>1,312,796</b>	<b>(6,399,651)</b>
<b>Expenditures:</b>						
General government:						
Connectivity projects	40,103	-	-	-	-	40,103
Fiber Loop Project	400,000	-	-	-	-	400,000
Public safety:						
Fire Station Project	450,000	-	-	-	-	450,000
Economic and physical development:						
Transportation improvement						
Project ("TIP"):	8,239,000	272,137	65,632	-	337,769	7,901,231
Valley Forge Road Project	1,250,917	1,222,197	-	(1,222,197)	-	1,250,917
NC 86 Renovation Project	4,825,982	74,215	199,780	-	273,995	4,551,987
Exchange Club Rd Bridge Project	170,000	-	-	-	-	170,000
Community activities and projects:						
Ridgewalk Greenway	125,003	-	-	-	-	125,003
Skate Park Project	350,000	4,000	185,800	-	189,800	160,200
<b>Total expenditures</b>	<b>15,851,005</b>	<b>1,572,549</b>	<b>451,212</b>	<b>(1,222,197)</b>	<b>801,564</b>	<b>15,049,441</b>
<b>Revenues over (under) expenditures</b>	<b>(8,138,558)</b>	<b>(1,317,037)</b>	<b>606,072</b>	<b>1,222,197</b>	<b>511,232</b>	<b>8,649,790</b>
<b>Other financing sources (uses):</b>						
Transfer from General Fund:						
Connectivity Projects	40,103	40,103	-	-	40,103	-
Fiber Loop Project	400,000	350,000	50,000	-	400,000	-
Fire Station Project	450,000	225,000	225,000	-	450,000	-
Valley Forge Road Project	1,250,917	1,250,917	-	-	1,250,917	-
NC 86 Renovation Project	1,398,450	171,800	1,226,650	(1,222,197)	176,253	(1,222,197)
Exchange Club Rd Bridge Project	43,553	43,553	-	-	43,553	-
TIP	93,000	34,000	-	-	34,000	(59,000)
Rail Station	-	-	39,710	-	39,710	39,710
Ridgewalk	125,003	-	125,003	-	125,003	-
Skate Park	350,000	20,000	330,000	-	350,000	-

**Town of Hillsborough, North Carolina  
Schedule of Revenues, Expenditures, and Changes in Fund Balance -  
Budget and Actual - General Capital Projects (continued)  
From Inception and for the Year Ended June 30, 2024**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Closed Out Projects</b>	<b>Total to Date</b>	<b>Variance Positive (Negative)</b>
<b>Other financing sources (uses): (continued)</b>						
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:						
Rail Station Project - TIP	560,000	-	-	-	-	(560,000)
NC 86 Renovation Project	3,237,719	-	-	-	-	(3,237,719)
<b>Total other financing sources (uses)</b>	<u>8,138,558</u>	<u>2,344,476</u>	<u>1,996,363</u>	<u>(1,222,197)</u>	<u>3,118,642</u>	<u>(5,019,916)</u>
 <b>Net change in fund balance</b>	 <u>\$ -</u>	 <u>\$ 1,027,439</u>	 <u>2,602,435</u>	 <u>\$ -</u>	 <u>\$ 3,629,874</u>	 <u>\$ 3,629,874</u>
<b>Fund Balance</b>						
Fund balance, beginning (General Capital Projects Fund)			<u>\$ 1,027,439</u>			
Fund balance, ending			3,629,874			
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)			902,088			
Transfers (to) from other funds			<u>488,384</u>			
Fund balance, ending (Consolidated General Capital Projects Fund)			<u>\$ 5,020,346</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, 2024**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>	<b>Variance Positive Positive (Negative)</b>
<b>Expenditures:</b>					
General Government:					
Sustainability	\$ 600,000	\$ -	\$ -	\$ -	\$ 600,000
Public Safety:					
Police station	50,000	-	-	-	50,000
Waterstone Police	115,128	108,010	-	108,010	7,118
Environmental protection:					
Solid Waste - vehicle	144,822	-	-	-	144,822
<b>Total expenditures</b>	<u>909,950</u>	<u>108,010</u>	<u>-</u>	<u>108,010</u>	<u>801,940</u>
<b>Revenues over (under) expenditures</b>	<u>(909,950)</u>	<u>(108,010)</u>	<u>-</u>	<u>(108,010)</u>	<u>801,940</u>
<b>Other financing sources (uses):</b>					
Transfer from other funds:					
General fund - General	115,128	115,128	-	115,128	-
General fund - Sustainability	620,000	620,000	-	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	-
Transfer to other funds:					
General fund - General	(100,148)	-	(167,500)	(167,500)	(67,352)
<b>Total other financing     sources (uses)</b>	<u>909,950</u>	<u>1,010,098</u>	<u>(167,500)</u>	<u>842,598</u>	<u>(67,352)</u>
<b>Revenues and other financing sources over expenditures and other uses</b>	<u>\$ -</u>	<u>\$ 902,088</u>	<u>(167,500)</u>	<u>\$ 734,588</u>	<u>\$ 734,588</u>
<b>Fund balance, beginning</b>			<u>902,088</u>		
<b>Fund balance, ending</b>			<u><u>\$ 734,588</u></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, 2024 (with Comparative Actual Amounts for 2024)**

	<b>2024</b>			<b>2023</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
<b>Revenues:</b>				
<b>Operating revenues:</b>				
Water charges	\$ 5,600,000	\$ 5,797,278	\$ 197,278	\$ 5,481,086
Sewer charges	5,600,000	5,785,707	185,707	5,439,458
System development fees	1,439,908	1,444,422	4,514	179,377
Other receipts	265,500	555,146	289,646	390,138
<b>Total</b>	<b>12,905,408</b>	<b>13,582,553</b>	<b>677,145</b>	<b>11,490,059</b>
<b>Nonoperating revenues:</b>				
Investment earnings	45,500	637,441	591,941	387,355
<b>Total</b>	<b>45,500</b>	<b>637,441</b>	<b>591,941</b>	<b>387,355</b>
<b>Total revenues</b>	<b>12,950,908</b>	<b>14,219,994</b>	<b>1,269,086</b>	<b>11,877,414</b>
<b>Expenditures:</b>				
<b>Engineering:</b>				
Personnel services	592,106	555,454	36,652	553,931
Other services and charges	3,678,296	2,915,773	762,523	2,437,581
Capital outlay	31,158	31,158	-	-
<b>Total</b>	<b>4,301,560</b>	<b>3,502,385</b>	<b>799,175</b>	<b>2,991,512</b>
<b>Billing and collection:</b>				
Personnel services	409,219	366,379	42,840	340,773
Other services and charges	446,206	432,034	14,172	384,913
Debt service payments	39,125	39,125	-	39,125
<b>Total</b>	<b>894,550</b>	<b>837,538</b>	<b>57,012</b>	<b>820,105</b>
<b>Water treatment plant:</b>				
Personnel services	786,403	713,629	72,774	617,133
Other services and charges	631,228	548,891	82,337	358,238
Repairs and maintenance	337,710	93,625	244,085	91,626
Capital outlay	107,640	107,635	5	-
Debt service payments	82,305	82,305	-	84,332
<b>Total</b>	<b>1,945,286</b>	<b>1,546,085</b>	<b>399,201</b>	<b>1,151,329</b>
<b>Water distribution:</b>				
Personnel services	775,314	736,606	38,708	666,174
Other services and charges	419,111	298,147	120,964	273,928
Repairs and maintenance	100,521	77,066	23,455	73,838
Capital outlay	151,511	33,871	117,640	35,248
Debt service payments	101,470	94,122	7,348	94,123
<b>Total</b>	<b>1,547,927</b>	<b>1,239,812</b>	<b>308,115</b>	<b>1,143,311</b>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Other Financing Sources**  
**Budget and Actual (Non-GAAP) - Water and Sewer Fund (continued)**  
**Year Ended June 30, 2024 (with Comparative Actual Amounts for 2024)**

	<b>2024</b>			<b>2023</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
<b>Expenditures (continued)</b>				
<b>Wastewater collection:</b>				
Personnel services	\$ 687,130	\$ 523,617	\$ 163,513	\$ 546,578
Other services and charges	340,909	279,679	61,230	299,280
Repairs and maintenance	393,379	296,004	97,375	82,860
Capital outlay	643,723	308,133	335,590	55,723
<b>Total</b>	<b>2,065,141</b>	<b>1,407,433</b>	<b>657,708</b>	<b>984,441</b>
<b>Wastewater treatment plant:</b>				
Personnel services	788,605	747,872	40,733	629,493
Other services and charges	540,391	422,056	118,335	341,934
Repairs and maintenance	195,804	168,235	27,569	124,366
Debt service payments	1,130,980	1,130,980	-	1,152,842
<b>Total</b>	<b>2,655,780</b>	<b>2,469,143</b>	<b>186,637</b>	<b>2,248,635</b>
<b>Reservoir:</b>				
Other services and charges	57,586	46,118	11,468	32,965
Repairs and maintenance	38,001	32,048	5,953	31,539
Debt service payments	841,527	320,086	521,441	840,146
<b>Total</b>	<b>937,114</b>	<b>398,252</b>	<b>538,862</b>	<b>904,650</b>
<b>Total expenditures</b>	<b>14,347,358</b>	<b>11,400,648</b>	<b>2,946,710</b>	<b>10,243,983</b>
<b>Revenues over (under) expenditures</b>	<b>(1,396,450)</b>	<b>2,819,346</b>	<b>4,215,796</b>	<b>1,633,431</b>
<b>Other financing sources (uses):</b>				
Transfer to Utilities Capital Improvements Fund	(4,056,317)	(4,056,317)	-	(170,592)
Transfer to Water System Development Reserve Fund	(714,326)	(82,348)	631,978	(100,464)
Transfer to Sewer System Development Reserve Fund	(725,582)	(59,405)	666,177	(78,913)
Transfer from Utilities Capital Improvements Fund	58,893	58,893	-	-
Transfer from West Fork Fund	222,609	-	(222,609)	-
Transfer from W mill Creek Road Fund	284,167	-	(284,167)	-
Transfer from ARPA Fund	-	2,022,647	2,022,647	-
Contributed capital assets	-	(2,005,942)	(2,005,942)	-
Capital contributions	-	2,005,942	2,005,942	-
<b>Total other financing uses</b>	<b>(4,930,556)</b>	<b>(2,116,530)</b>	<b>2,814,026</b>	<b>(349,969)</b>
<b>Revenues and other sources over expenditures and other uses</b>	<b>(6,327,006)</b>	<b>702,816</b>	<b>7,029,822</b>	<b>1,283,462</b>
Fund balance appropriated	6,327,006	-	6,327,006	-
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ 702,816</b>	<b>\$ 702,816</b>	<b>1,283,462</b>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Other Financing Sources**  
**Budget and Actual (Non-GAAP) - Water and Sewer Fund (continued)**  
**Year Ended June 30, 2024 (with Comparative Actual Amounts for 2024)**

	<u>2024</u>		<u>2023</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			<u>Actual</u>
Revenues and other sources over expenditures and other uses		\$ 702,816	\$ 1,283,462
Reconciling items:			
Revenue activity:			
Investment earnings - enterprise capital projects		50,642	131,911
Investment earnings - enterprise capital reserves		427,009	287,834
Release of deferred revenue - ARPA Fund		2,071,265	127,467
Personnel activity:			
Pension expense - LGERS		(150,725)	(119,885)
OPEB expense		9,759	(41,725)
Payroll accrual - compensated absences		22,089	(111,711)
Capital outlay activity:			
Capital outlay		480,797	146,265
Depreciation		(2,186,637)	(2,087,715)
Gain on disposal of capital assets		211,499	(17,566)
Contributed capital		2,005,942	-
Noncapitalized expenditures - enterprise capital projects		(519,296)	(84,147)
Long-term debt activity:			
Payment of principal on notes, bonds and installment purchases		1,435,421	1,427,474
Interest expense accrual adjustment		6,500	5,900
Amortization of premium on bonds payable		56,123	56,312
Internal transfer activity:			
Transfer to water and sewer capital project and reserve funds		2,116,530	349,969
Total reconciling items		<u>6,036,918</u>	<u>70,383</u>
<b>Change in net position</b>		<u>\$ 6,739,734</u>	<u>\$ 1,353,845</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, 2024**

	Project Authorization	Actual				Variance
		Prior Years	Current Year	Closed Out Projects	Total to Date	Positive (Negative)
Revenues:						
Restricted intergovernmental	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ (30,000)
Grant - FEMA - BRIC	6,742,175	-	-	-	-	(6,742,175)
Grant - NCEM - Disaster Relief & Mitigati	1,069,275	-	-	-	-	(1,069,275)
Grant - AIA	40,000	-	-	-	-	(40,000)
Installment Financing	3,000,000	-	-	-	-	(3,000,000)
Total revenues	10,881,450	-	-	-	-	(10,881,450)
Expenditures:						
Capital outlay:						
EDD water line extension	277,437	27,437	-	(27,437)	-	277,437
Churton Street main replacement	-	-	-	-	-	-
16" Water connection under Interstate 40	-	504,138	-	(504,138)	-	-
Booster pump station	180,000	35,594	-	(35,594)	-	180,000
Adron Thompson Facility renovation	3,795,600	55,703	52,010	-	107,713	3,687,887
Churton Street sewer replacement	500,000	283,495	-	(283,495)	-	500,000
River pump station	9,258,096	33,800	-	-	33,800	9,224,296
Wastewater system rehab	357,002	328,128	12,900	-	341,028	15,974
Gov Burke Rd water main replacement	80,592	-	-	-	-	80,592
WTP filters repairs 2 and 3	179,200	174,200	-	(174,200)	-	179,200
Eno River interceptors	750,000	-	-	-	-	750,000
OWASA booster pump station	1,665,600	-	-	-	-	1,665,600
US-70 water improvements	305,000	-	27,340	-	27,340	277,660
Elizabeth Brady PS & force main upg	300,000	-	-	-	-	300,000
Exchange club interceptors	190,000	-	-	-	-	190,000
Air release valve replacement	150,000	-	68,900	-	68,900	81,100
Galvanized Water Main Replacement	160,000	-	-	-	-	160,000
Hydrant & valve project	487,647	-	-	-	-	487,647
McAdams road water main replacement	400,000	-	266,786	-	266,786	133,214
Lawndale basin rehabilitation	935,000	-	6,930	-	6,930	928,070
Hasell water tank replacement	40,000	-	28,824	-	28,824	11,176
WTP paving & curbing	90,000	-	57,012	-	57,012	32,988
Total expenditures	20,101,174	1,442,495	520,702	(1,024,864)	938,333	19,162,841
Revenues over (under) expenditures	(9,219,724)	(1,442,495)	(520,702)	1,024,864	(938,333)	8,281,391
Other financing sources (uses):						
Transfers from other funds:						
Water and Sewer Operating Fund	6,238,794	2,369,487	4,056,317	(620,726)	5,805,078	(433,716)
Water and Sewer Capital Reserve Fund	2,157,386	1,830,000	327,386	-	2,157,386	-
Water System Development Reserve Fund	683,812	873,812	275,000	(465,000)	683,812	-
Sewer System Development Reserve Fund	580,000	580,000	-	-	580,000	-
Transfers to other funds:						
Water and Sewer Operating Fund	(58,893)	-	(58,893)	-	(58,893)	-
Water System Development Reserve Fund	(381,375)	-	(381,375)	-	(381,375)	-
Appropriated Fund Balance	-	-	-	60,862	60,862	60,862
Total other financing sources (uses)	9,219,724	5,653,299	4,218,435	(1,024,864)	8,846,870	(372,854)
Revenues and other sources over expenditures and other uses	\$ -	\$ 4,210,804	\$ 3,697,733	\$ -	\$ 7,908,537	\$ 7,908,537

**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, 2024**

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues:</b>					
Investment earnings	\$ -	\$ 236,673	\$ 35,580	\$ 272,253	\$ 272,253
<b>Total revenues</b>	<u>-</u>	<u>236,673</u>	<u>35,580</u>	<u>272,253</u>	<u>272,253</u>
<b>Expenditures:</b>					
West Fork Eno Reservoir:					
Debt service payments	222,609	-	222,609	222,609	-
<b>Total expenditures</b>	<u>222,609</u>	<u>-</u>	<u>222,609</u>	<u>222,609</u>	<u>-</u>
<b>Revenues over (under) expenditures</b>	<u>(222,609)</u>	<u>236,673</u>	<u>(187,029)</u>	<u>49,644</u>	<u>272,253</u>
<b>Other financing sources (uses):</b>					
Transfer from other funds	-	521,941	-	521,941	521,941
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>521,941</u>	<u>-</u>	<u>521,941</u>	<u>521,941</u>
<b>Revenues and other sources over (under) expenditures and other uses</b>	<u>(222,609)</u>	<u>758,614</u>	<u>(187,029)</u>	<u>571,585</u>	<u>794,194</u>
Appropriated fund balance	222,609	-	-	-	(222,609)
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ 758,614</u>	<u>\$ (187,029)</u>	<u>\$ 571,585</u>	<u>\$ 571,585</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, 2024**

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues:</b>					
Investment earnings	\$ 6,796	\$ 68,566	\$ 15,062	\$ 83,628	\$ 76,832
<b>Total revenues</b>	<u>6,796</u>	<u>68,566</u>	<u>15,062</u>	<u>83,628</u>	<u>76,832</u>
<b>Expenditures:</b>					
Design	132,468	120,690	-	120,690	11,778
Land acquisition	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	200,572	-	200,572	170,933
Debt service payments	284,167	-	296,687	296,687	(12,520)
<b>Total expenditures</b>	<u>3,561,963</u>	<u>3,055,400</u>	<u>296,687</u>	<u>3,352,087</u>	<u>210,618</u>
<b>Revenues over (under) expenditures</b>	<u>(3,555,167)</u>	<u>(2,986,834)</u>	<u>(281,625)</u>	<u>(3,268,459)</u>	<u>286,708</u>
<b>Other financing sources (uses):</b>					
Issuance of installment purchase agreement	3,271,000	3,271,000	-	3,271,000	-
<b>Total other financing sources (uses)</b>	<u>3,271,000</u>	<u>3,271,000</u>	<u>-</u>	<u>3,271,000</u>	<u>-</u>
<b>Revenues and other sources over (under) expenditures and other uses</b>	<u>\$ (284,167)</u>	<u>\$ 284,166</u>	<u>\$ (281,625)</u>	<u>\$ 2,541</u>	<u>\$ 2,541</u>

## Schedule 13

**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, 2024**

	<b>Project</b>		<b>Actual</b>		<b>Variance</b>
	<b>Authorization</b>	<b>Prior</b>	<b>Current</b>	<b>Total to</b>	<b>Positive</b>
		<b>Years</b>	<b>Year</b>	<b>Date</b>	<b>(Negative)</b>
<b>Revenues:</b>					
Capital contributions	\$ 1,066,190	\$ 1,066,190	\$ -	\$ 1,066,190	\$ -
Investment earnings	937,525	689,539	427,009	1,116,548	179,023
<b>Total revenues</b>	<u>2,003,715</u>	<u>1,755,729</u>	<u>427,009</u>	<u>2,182,738</u>	<u>179,023</u>
<b>Revenues over (under) expenditures</b>	<u>2,003,715</u>	<u>1,755,729</u>	<u>427,009</u>	<u>2,182,738</u>	<u>179,023</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds:					
Water and Sewer Operating Fund	12,664,360	12,664,360	-	12,664,360	-
Transfers to other funds:					
Water and Sewer Operating Fund	(7,866,980)	(7,866,980)	-	(7,866,980)	-
Utility Capital Improvements Fund	(4,680,470)	(3,129,553)	(327,386)	(3,456,939)	1,223,531
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)	-
<b>Total other financing sources (uses)</b>	<u>(2,003,715)</u>	<u>(452,798)</u>	<u>(327,386)</u>	<u>(780,184)</u>	<u>1,223,531</u>
<b>Revenues and other sources over expenditures and other uses</b>	<u>\$ -</u>	<u>\$ 1,302,931</u>	<u>\$ 99,623</u>	<u>\$ 1,402,554</u>	<u>\$ 1,402,554</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, 2024**

	<b>Project</b>	<b>Actual</b>			<b>Variance</b>
	<b>Authorization</b>	<b>Prior</b>	<b>Current</b>	<b>Total to</b>	<b>Positive</b>
		<b>Years</b>	<b>Year</b>	<b>Date</b>	<b>(Negative)</b>
<b>Other financing sources (uses):</b>					
Transfers from other funds:					
Water and Sewer Capital Reserve Fund	\$ 1,016,017	\$ 1,106,017	\$ -	\$ 1,106,017	\$ 90,000
Water and Sewer Operating Fund	1,010,591	846,055	82,348	928,403	(82,188)
Utility Capital Improvements Fund	389,187	-	381,375	381,375	(7,812)
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	(381,613)	-	(275,000)	(275,000)	106,613
U.S. 70 Phase 1	(985,370)	-	-	-	985,370
Gov Burke Wtr Main	(149,408)	(149,408)	-	(149,408)	-
Water and Sewer Operating Fund - debt service	(175,000)	(175,000)	-	(175,000)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>903,260</b>	<b>188,723</b>	<b>1,091,983</b>	<b>1,091,983</b>
<b>Revenues and other sources over expenditures and other uses</b>					
	<b>\$ -</b>	<b>\$ 903,260</b>	<b>\$ 188,723</b>	<b>\$ 1,091,983</b>	<b>\$ 1,091,983</b>

**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, 2024**

	<b>Project</b>	<b>Actual</b>			<b>Variance</b>
	<b>Authorization</b>	<b>Prior</b>	<b>Current</b>	<b>Total to</b>	<b>Positive</b>
		<b>Years</b>	<b>Year</b>	<b>Date</b>	<b>(Negative)</b>
<b>Other financing sources (uses):</b>					
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	391,337	59,405	450,742	(61,682)
Transfers to other funds:					
Utility Capital Improvements Fund -					
River pump upgrade project	(512,424)	(400,000)	-	(400,000)	112,424
Collection system rehab project	(1,249,170)	(180,000)	-	(180,000)	1,069,170
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>1,076,722</b>	<b>59,405</b>	<b>1,136,127</b>	<b>1,136,127</b>
<b>Revenues and other sources</b>					
<b>over expenditures and other uses</b>	<b>\$ -</b>	<b>\$ 1,076,722</b>	<b>\$ 59,405</b>	<b>\$ 1,136,127</b>	<b>\$ 1,136,127</b>

**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, 2024**

		Actual				Variance
	Project Authorization	Prior Years	Current Year	Closed Out Projects	Total to Date	Positive (Negative)
<b>Revenues:</b>						
Capital contributions:						
Federal funds - ARPA	\$ 2,198,732	\$ 210,927	\$ 2,071,265	\$ (83,460)	\$ 2,198,732	\$ -
Investment earnings	48,733	48,733	-	-	48,733	-
<b>Total revenues</b>	<u>2,247,465</u>	<u>259,660</u>	<u>2,071,265</u>	<u>(83,460)</u>	<u>2,247,465</u>	<u>-</u>
<b>Expenditures:</b>						
Capital Improvement Projects:						
WTP Filters	-	83,460	-	(83,460)	-	-
WTP SCADA Update	48,618	-	48,618	-	48,618	-
WWTP Clarifiers	176,200	176,200	-	-	176,200	-
<b>Total expenditures</b>	<u>224,818</u>	<u>259,660</u>	<u>48,618</u>	<u>(83,460)</u>	<u>224,818</u>	<u>-</u>
<b>Other financing sources (uses):</b>						
Transfers to other funds:						
Water and Sewer Fund	(2,022,647)	-	(2,022,647)	-	(2,022,647)	-
<b>Total financing sources (uses)</b>	<u>(2,022,647)</u>	<u>-</u>	<u>(2,022,647)</u>	<u>-</u>	<u>(2,022,647)</u>	<u>-</u>
<b>Revenues over (under) expenditures</b>	<u>\$ -</u>	<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) – Nonmajor Stormwater Fund**  
**From Inception and For the Year Ended June 30, 2024**

	<b>2024</b>			<b>2023</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
<b>Revenues:</b>				
Operating revenues:				
Stormwater charges	\$ 716,100	\$ 756,872	\$ 40,772	\$ 729,455
Non-operating revenues:				
Investment earnings	-	47,850	47,850	28,619
<b>Total</b>	<u>716,100</u>	<u>804,722</u>	<u>88,622</u>	<u>758,074</u>
<b>Total revenues</b>	<u>716,100</u>	<u>804,722</u>	<u>88,622</u>	<u>758,074</u>
<b>Expenditures:</b>				
<b>Operating expenditures:</b>				
Personnel services	418,444	399,465	18,979	340,241
Other services and charges	356,964	246,578	110,386	232,091
Repairs and maintenance	188,750	102,172	86,578	60,400
Capital outlay	76,500	76,390	110	59,985
<b>Total</b>	<u>1,040,658</u>	<u>824,605</u>	<u>216,053</u>	<u>692,717</u>
<b>Total expenditures</b>	<u>1,040,658</u>	<u>824,605</u>	<u>216,053</u>	<u>692,717</u>
<b>Revenues over (under) expenditures</b>	(324,558)	(19,883)	304,675	65,357
Fund balance appropriated	324,558	-	(324,558)	-
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>(19,883)</u>	<u>\$ (19,883)</u>	<u>65,357</u>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>				
Capital outlay		76,390		59,985
Depreciation expense		(76,734)		(58,068)
Payroll accrual - compensated absences		(1,806)		(2,049)
Pension expense - LGERS		(20,380)		(14,728)
OPEB expense		<u>(356)</u>		<u>(14,697)</u>
<b>Change in net position</b>		<u>\$ (42,769)</u>		<u>\$ 35,800</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, 2024**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>	<b>Variance Positive Positive (Negative)</b>
<b>Revenues:</b>					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenditures:</b>					
Capital outlay:					
Valley Forge Road					
Infrastructure	100,000	100,000	-	100,000	-
<b>Total expenditures</b>	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
<b>Revenues over (under) expenditures</b>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds:					
Stormwater operating fund	100,000	100,000	-	100,000	-
<b>Total other financing sources (uses)</b>	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund balance, beginning of year</b>			<u>-</u>		
<b>Fund balance, end of year</b>			<u>\$ -</u>		

## **Other Schedules**

---

**This section contains additional information on property taxes.**

---

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

**Town of Hillsborough, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2024**

<b>Fiscal Year</b>	<b>Uncollected Balances June 30, 2023</b>	<b>Additions</b>	<b>Collections and Credits</b>	<b>Uncollected Balances June 30, 2024</b>
2023-2024		\$ 9,925,116	\$ 9,868,350	\$ 56,766
2022-2023	49,092	-	22,498	26,594
2021-2022	22,504	-	4,005	18,499
2020-2021	16,333	-	5,131	11,202
2019-2020	12,084	-	2,684	9,400
2018-2019	10,232	-	2,153	8,079
2017-2018	6,632	-	2,386	4,246
2016-2017	4,197	-	427	3,770
2015-2016	3,880	-	189	3,691
2014-2015	4,490	-	205	4,285
2013-2014	7,162	-	7,162	-
	<u>\$ 136,606</u>	<u>\$ -</u>	<u>\$ 9,915,190</u>	<u>146,532</u>

Less: allowance for uncollectible accounts - General Fund (37,000)

**Ad valorem taxes receivable - net** \$ 109,532

**Reconciliation to revenues:**

Ad valorem taxes - General Fund	\$ 9,931,303
Reconciling items:	
Penalties and interest, net of discounts	(23,009)
Amount written off after 10 years	(7,162)
Refunds and other adjustments	<u>14,058</u>
<b>Total collections and credits</b>	<u><u>\$ 9,915,190</u></u>

**Town of Hillsborough, North Carolina**  
**Analysis of Current Year Tax Levy**  
**For the Year Ended June 30, 2024**

	<u>Town-Wide Levy</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<b>Original levy</b>					
Property taxed at current year's rate	\$ 1,526,861,329	0.587	\$ 8,962,676	\$ 8,962,676	\$ -
Registered motor vehicles	<u>163,959,114</u>		<u>962,440</u>	<u>-</u>	<u>962,440</u>
<b>Total property valuation</b>	<u><u>\$ 1,690,820,443</u></u>				
<b>Net levy</b>			9,925,116	8,962,676	962,440
<b>Uncollected taxes at June 30, 2024</b>			<u>56,766</u>	<u>56,766</u>	<u>-</u>
<b>Current year's taxes collected</b>			<u><u>\$ 9,868,350</u></u>	<u><u>\$ 8,905,910</u></u>	<u><u>\$ 962,440</u></u>
<b>Current levy collection percentage</b>			<u><u>99.43%</u></u>	<u><u>99.37%</u></u>	<u><u>100.00%</u></u>

## **Compliance Section**

**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, 2024, 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 27, 2024.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **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*.

## **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 City, North Carolina  
November 27, 2024

**REPORT ON COMPLIANCE  
FOR THE MAJOR FEDERAL PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members of the Town Council  
Town of Hillsborough, North Carolina

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited Town of Hillsborough, North Carolina's (the Town) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Town's major federal program for the year ended June 30, 2024. The Town's major federal 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 federal program for the year ended June 30, 2024.

***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*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 reasonable basis for our opinion on compliance for the major federal 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 federal program.

### ***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 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 each major federal 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 Uniform Guidance, 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 federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in Auditor's Responsibilities for the Audit of Compliance section and above and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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 27, 2024



**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, 2024. 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, 2024.

***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 27, 2024

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Fiscal Year Ended June 30, 2024

---

#### 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? \_\_\_\_\_ yes \_\_\_\_\_ X no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes \_\_\_\_\_ X none reported

Noncompliance material to financial  
statements noted

\_\_\_\_\_ yes \_\_\_\_\_ X no

##### Federal Awards

Internal Control over the major federal program

- 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 Federal program: Unmodified

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

\_\_\_\_\_ yes \_\_\_\_\_ X no

Identification of the major federal program:

Assistance Listing  
21.027

Name of Federal Program  
Coronavirus State and Local Fiscal Recovery Funds

Dollar Threshold used to distinguish between Type A  
And Type B programs?

\$750,000

Auditee qualified as a low-risk auditee?

\_\_\_\_\_ yes \_\_\_\_\_ X no

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2024**


---

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:

<u>State ID No.</u> DOT-4	<u>Name of State Program</u> Non-State Street Aid Allocation (Powell Bill)
------------------------------	---

Auditee qualified as a low-risk auditee? \_\_\_\_\_ yes                        X   no

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2024**

---

**Section II. Financial Statement Findings**

None Reported

**Section III. Findings and Questioned Costs for Federal Awards**

None reported.

**Section IV. 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, 2024**

---

**Finding 2023-001**

Status: Corrected

**Town of Hillsborough, North Carolina**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2024**

<b>Grantor/Pass-through Grantor/Program Title</b>	<b>Federal Assistance Listing No.</b>	<b>Pass-through Grantor's No.</b>	<b>Federal (Direct and Pass-through) Expenditures</b>	<b>State Expenditures</b>
<b>Federal awards:</b>				
<b>Cash programs</b>				
<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	\$ 141,802	\$ -
Total U.S. Department of Husing and Urban Development			141,802	-
<u>U.S. Department of Treasury</u>				
Coronavirus State and Local Fiscal Recovery				
Fund:				
Revenue Replacement	21.027	N/A	2,022,647	-
Total U.S. Department of Treasury			2,022,647	-
<b>State awards:</b>				
<b>Cash programs:</b>				
<u>N.C. Department of Transportation ("NCDOT")</u>				
Powell Bill	N/A	32570	-	785,925
Total NCDOT			-	785,925
<b>Total expenditures of federal and state awards</b>			<b>\$ 2,164,449</b>	<b>\$ 785,925</b>

**Town of Hillsborough, North Carolina**  
**Notes to the Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2024**

---

**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, 2024. 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.