

**TOWN OF HILLSBOROUGH**

**REPORT TO THE BOARD OF COMMISSIONERS**

**NOVEMBER 27, 2024**



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ASSURANCE, TAX & ADVISORY SERVICES



November 27, 2024

Board of Commissioners  
Town of Hillsborough  
Hillsborough, North Carolina

Attention: Mark Bell, Mayor

We are pleased to present this report related to our audit of the basic financial statements of Town of Hillsborough (the Town) as of and for the year ended June 30, 2024. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Town's financial reporting process.

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

*PBMares, LLP*

PBMares, LLP

## TABLE OF CONTENTS

Required Communications	1 – 3
Significant Accounting Estimates	4 – 5
Uncorrected Misstatements	6
Exhibits	
Exhibit A—Significant Written Communications Between Management and Our Firm	
• Representation Letter	
Exhibit B—Performance Indicators	

## REQUIRED COMMUNICATIONS

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

### **Our Responsibilities With Regard to the Financial Statement and Compliance Audit**

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our engagement letter dated April 30, 2024. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

### **Overview of the Planned Scope and Timing of the Financial Statement and Compliance Audit**

We have issued a separate communication dated April 30, 2024 regarding the planned scope and timing of our audit and identified significant risks.

### **Accounting Policies and Practices**

#### **Preferability of Accounting Policies and Practices**

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

#### **Adoption of, or Change in, Accounting Policies**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Town. The Town did not adopt any new significant accounting policies that had a material effect on the financial statements.

#### **Significant Accounting Policies**

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

#### **Significant Unusual Transactions**

We did not identify any significant unusual transactions.

#### **Management's Judgments and Accounting Estimates**

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

## **Audit Adjustments and Uncorrected Misstatements**

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

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

## **Observations About the Audit Process**

### **Disagreements With Management**

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

### **Consultations With Other Accountants**

We are aware the Town engaged an outside professional CPA firm to assist in closing the books and drafting of the financial statements for the fiscal year ended June 30, 2024.

### **Significant Issues Discussed With Management**

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

### **Significant Difficulties Encountered in Performing the Audit**

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

### **Difficult or Contentious Matters That Required Consultation**

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

## **Shared Responsibilities for Independence**

Independence is a joint responsibility and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and *Government Accountability Office (GAO)* independence rules. For PBMAres, LLP to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and PBMAres, LLP each play an important role.

### **Our Responsibilities**

- AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. PBMAres, LLP is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality management over compliance with independence rules and firm policies.

### **The Town's Responsibilities**

- Timely inform PBMAres, LLP, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, or officers.

- Changes in the reporting impacting affiliates such as subsidiaries, partnerships, related entities, investments, joint ventures, component units or joint governed organizations.
- Provide necessary affiliate information such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the Town and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with PBMares, LLP.
- Not entering into relationships resulting in close family members of PBMares, LLP covered persons, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the Town.

### **Significant Written Communications Between Management and Our Firm**

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

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

For the year ended June 30, 2024, the Town has no performance indicators that require communication to the LGC by the Board of Commissioners.

## SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the Town's June 30, 2024 financial statements.

### Depreciation of Capital Assets

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

### Leases & SBITA's

<b>Accounting policy</b>	The Town records a liability and an asset (expense leases & SBITAs) or a receivable and deferred inflow (revenue leases) as a result of GASBs 87 & 96.
<b>Management's estimation process</b>	The lease/subscription liability or receivable is measured at discount rates based on the Town's imputed borrowing rate. Assets recorded at the present value of the future minimum lease/subscription payments as of their inception date.
<b>Basis for our conclusion on the reasonableness of the estimate</b>	The Town's estimation process is consistent with GAAP based on our audit procedures performed in this area.

### Unbilled Usage

<b>Accounting policy</b>	Receivables and revenue recognition includes as estimate for unbilled usage.
<b>Management's estimation process</b>	Metered sales in July are calculated using the number of days in the billing cycle in the appropriate fiscal year.
<b>Basis for our conclusion on the reasonableness of the estimate</b>	Estimation process is consistent with the accounting policy and in accordance with US GAAP. PBMares LLP calculated the unbilled usage and tested significant inputs.

### Fair Value of Investments

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

### **Accrued Other Post Employment Benefits**

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

### **LGERS Pension Asset (Liability) and Special Separation Allowance**

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

### **Accrued Compensated Absences**

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



## UNCORRECTED MISSTATEMENTS

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

Governmental Type Activities Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
Prior adjustment for error in OPEB Change in Allocation %	\$ -	\$ -	\$ (60,928)	\$ -	\$ 60,928
<b>Total effect</b>			(60,928)	\$ -	\$ 60,928
<b>Balance sheet effect</b>	\$ -	\$ -	\$ -		

Business Type Activities Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
Prior adjustment for error in LGERS and OPEB Change in Allocation %	\$ -	\$ -	\$ 76,972	\$ -	\$ 76,972
<b>Total effect</b>			(76,972)	\$ -	\$ 76,972
<b>Balance sheet effect</b>	\$ -	\$ -	\$ -		

Water and Sewer Fund Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
Prior year adjustment for error in LGERS and OPEB Change in Allocation %	\$ -	\$ -	\$ 64,424	\$ -	\$ 64,424
<b>Total effect</b>			(64,424)	\$ -	\$ 64,424
<b>Balance sheet effect</b>	\$ -	\$ -	\$ -		

Solid Waste Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
Prior year adjustment for error in OPEB Change in Allocation %	\$ -	\$ -	\$ 12,548	\$ -	\$ 12,548
<b>Total effect</b>			(12,548)	\$ -	\$ 12,548
<b>Balance sheet effect</b>	\$ -	\$ -	\$ -		

## **EXHIBIT A**

### **Significant Written Communications Between Management and Our Firm**

## **REPRESENTATION LETTER**



November 27, 2024

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

This representation letter is provided in connection with your audit of the basic financial statements of the Town of Hillsborough (the Town) as of and for the year ended June 30, 2024 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of November 27, 2024:

#### Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 30, 2024, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
4. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP, and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. The methods, assumptions and data used in making accounting estimates, including those measured at fair value, are appropriate for financial statement measurement and disclosure purposes and have been consistently selected and applied in making the estimate: Significant judgments made in making the estimates have taken into account all relevant information of which we are aware. Any assumptions made properly reflect our intent and ability to carry out the specific courses of actions previously communicated to you on behalf of the Town. All disclosures related to estimates, including disclosures describing estimation uncertainty, are complete and reasonable in the context of U.S. GAAP.

No subsequent events have occurred that would require adjustment to the estimates and related disclosures included in the financial statements.

6. Related-party transactions have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Types of related party transactions engaged in by the Town include:

- a. Those with component units for which the Town is accountable.
- b. Those with other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
- c. Those with joint ventures in which the Town has an interest.
- d. Those with jointly governed organizations in which the Town participates.
- e. Interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees.

7. The financial statements properly classify all funds and activities in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, as amended.

8. The Town followed either its established accounting policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available or followed paragraph 18 of GASB Statement No. 54 to determine the fund balance classifications for financial reporting purposes.

9. The financial statements include all fiduciary activities required by GASB Statement No. 84, Fiduciary Activities, as amended.

10. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.

11. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

12. Management has followed applicable laws and regulations in adopting, approving and amending budgets.

13. Risk disclosures associated with deposit and investment securities and derivative transactions are presented in accordance with GASB requirements.

14. Capital assets, including infrastructure, intangible assets, and right of use assets are properly capitalized, reported and, if applicable, depreciated.

15. The government properly separated information in debt disclosures related to direct borrowings and direct placements of debt from other debt and disclosed any unused lines of credit, collateral pledged to secure debt, terms in the debt agreements related to significant default or termination events with finance-related consequences and significant subjective acceleration clauses in accordance with GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.
16. Components of net position (net investment in capital assets, restricted, and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
17. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal, if applicable.
18. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
19. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
20. The Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.
21. We agree with the findings of our actuary used in calculating and evaluating our benefit obligations in the Law Enforcement Officers' Special Separation Allowance, LGERS, and in the Other Post-Employment Benefit (OPEB) Plan and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the actuary with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the actuary.
22. We have recorded all adjustments needed to implement GASB Statement No. 96.
23. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders, that is not disclosed in the financial statements.
24. We have disclosed all instances of identified or suspected noncompliance with laws, regulations, and provisions of contracts and grant agreements whose effects should be considered by management when preparing the financial statements.
25. We have informed you of all uncorrected misstatements.

As of and for the year ended June 30, 2024, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are quantitatively and qualitatively immaterial, both individually and in the aggregate, to the opinion units of the basic financial statements.

For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

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<b>Total effect</b>			(64,424)	\$ -	\$ 64,424
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Solid Waste Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
Prior year adjustment for error in OPEB Change in Allocation %	\$ -	\$ -	\$ 12,548	\$ -	\$ 12,548
<b>Total effect</b>			(12,548)	\$ -	\$ 12,548
<b>Balance sheet effect</b>	\$ -	\$ -	\$ -		

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

Information Provided

27. We have provided you with:

- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation and other matters.
- b. Additional information that you have requested from us for the purpose of the audit.
- c. Unrestricted access to persons within the Town from whom you determined it necessary to obtain audit evidence.
- d. Minutes of the meetings of the Board of Commissioners, or summaries of actions of recent meetings for which minutes have not yet been prepared.

28. All transactions have been recorded in the accounting records and are reflected in the basic financial statements.

29. We have disclosed to you the results of our assessment of risk that the basic financial statements may be materially misstated as a result of fraud.

30. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of an entity's system of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.

31. We have no knowledge of allegations of fraud or suspected fraud affecting the Town's basic financial statements involving:

- a. Management.
- b. Employees who have significant roles in internal control.
- c. Others where the fraud could have a material effect on the basic financial statements.

32. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's basic financial statements received in communications from employees, former employees, analysts, regulators, or others.

33. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.

34. We are not aware of any pending or threatened litigation, claims or assessments; unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Government Accounting Standards Board (GASB) Codification Section C50, Claims and



Judgments; or other matters, including gain or loss contingencies, whose effects should be considered when preparing the financial statements. Neither we nor the Town or others acting on behalf of the Town have consulted a lawyer concerning litigation, claims, assessments or other matters affecting the Town.

35. We have disclosed to you the identity of all of the Town's related parties and all the related-party relationships and transactions of which we are aware.

36. We have informed you of all deficiencies in internal control over financial reporting, including significant deficiencies or material weaknesses, in the design or operation of internal controls that could adversely affect the Town's ability to record, process, summarize and report financial data.

37. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

#### Supplementary Information

38. With respect to supplementary information presented in relation to the basic financial statements as a whole:

- a. We acknowledge our responsibility for the presentation of such information.
- b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. There are no underlying significant assumptions or interpretations regarding the measurement or presentation of such information.
- e. When supplementary information is not presented with the audited basic financial statements, we will make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

39. With respect to Management's Discussion and Analysis, the Local Governmental Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Liability and Contributions, the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the Schedules of Changes in the Total OPEB Liability presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:

- a. We acknowledge our responsibility for the presentation of such required supplementary information.

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

#### Compliance Considerations

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

- 40. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- 41. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the Town.
- 42. Has identified and disclosed to the auditor all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.
- 43. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 44. Acknowledges its responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
- 45. Has taken timely and appropriate steps to remedy identified or suspected fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements that the auditor reports.
- 46. Has a process to track the status of audit findings and recommendations.
- 47. Has identified for the auditor previous audits, attestation engagements and other studies related to the objectives of the audit and whether related recommendations have been implemented.
- 48. Is not aware of any investigations or legal proceedings that have been initiated with respect to the period under audit.
- 49. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.

50. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State Single Audit Implementation Act we confirm:

51. Management is responsible for complying, and has complied, with the requirements of Uniform Guidance and the State Single Audit Implementation Act.

52. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal and State programs.

53. Management is responsible for the design, implementation, and maintenance, and has designed, implemented and maintained, effective internal control over compliance for federal and State programs that provides reasonable assurance that the auditee is managing federal awards in compliance with federal and State statutes, regulations, and the terms and conditions of the federal and State award that could have a material effect on its federal and State programs.

54. Management is responsible for the preparation of the schedule of expenditures of federal and state awards, acknowledges and understands its responsibility for the presentation of the schedule of expenditures of federal and state awards in accordance with the Uniform Guidance and State Single Audit Implementation Act; believes the schedule of expenditures of federal and state awards, including its form and content, is fairly presented in accordance with the Uniform Guidance and the State Single Audit Implementation Act; asserts that methods of measurement or presentation have not changed from those used in the prior period, or if the methods of measurement or presentation have changed, the reasons for such changes have been communicated; and is responsible for any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal and state awards.

55. Management will make the audited financial statements readily available to the intended users of the schedule no later than the issuance date by the entity of the schedule of expenditures of federal and state awards and the auditor's report thereon.

56. Management has identified and disclosed all of its government programs and related activities subject to the Uniform Guidance and State Single Audit Implementation Act compliance audit.

57. Management has identified and disclosed to the auditor the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards that are considered to have a direct and material effect on each major program.

58. Management has made available all federal and state awards (including amendments, if any) and any other correspondence relevant to federal and state programs and related activities that have taken place with federal and state agencies or pass-through entities.

59. Management has identified and disclosed to the auditor all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal and state awards or stated that there was no such noncompliance.

60. Management believes that the auditee has complied with the direct and material compliance requirement.

61. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

62. Management is aware of no communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

63. There are no findings and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

64. Management is responsible for taking corrective action on audit findings of the compliance audit meets the requirements of the Uniform Guidance and the State Single Audit Implementation Act.

65. There are no subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

66. Management has disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report or stated that there were no such known instances.

67. Management has disclosed whether any changes in internal control over compliance or other factors that might significantly affect the entity's system of internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditor's report.

68. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

69. The copies of federal and state program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

70. Management has charged costs to federal and state awards in accordance with applicable cost principles.

- 71. The reporting package does not contain protected personally identifiable information.
- 72. Management has accurately completed the appropriate sections of the data collection form.
- 73. Management has disclosed to the auditor all communications from service organizations relating to noncompliance at those organizations.

Town of Hillsborough

*Eric Peterson*

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Eric Peterson, Town Manager

*David McCole*

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Dave McCole, Finance Director

## **EXHIBIT B**

### **Performance Indicators**

## PERFORMANCE INDICATORS

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

Unit Name:

Hillsborough

Fiscal Year 2024

Explanation of Performance Indicator

Unit Number:

50181

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

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

### Municipalities

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

### Counties

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

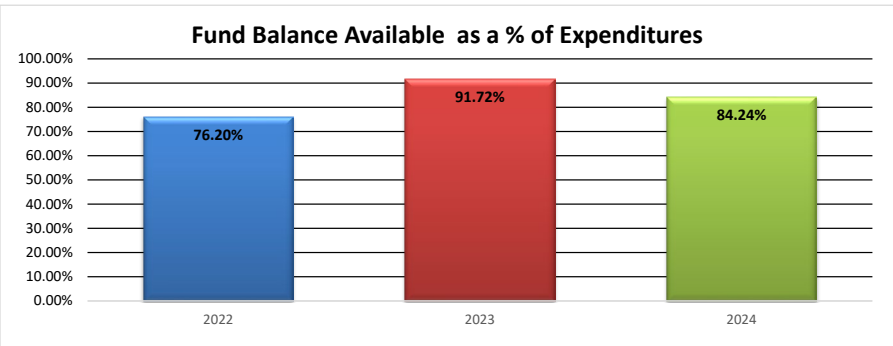
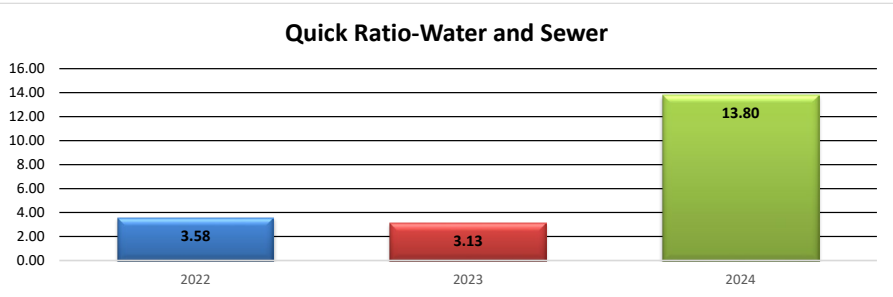
Units of government are grouped by general fund expenditures for purposes of evaluating available fund balance as a percentage of expenditures (GF FBA%). Each grouping category has its own minimum threshold. If you are in the lower quartile your GF FBA% might be considered a performance indicator of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

#### GENERAL FUND:

As of the publication date of this workbook, prior year self-reported numbers may not been received by the LGC staff, please contact LGC staff at lgcaudit@nctreasurer.com to have the prior year's financial data populated on this worksheet. Please include in email subject "Prior Year Financial Data."

Minimum Threshold

Unit Results

	Unit Name:		Hillsborough		Fiscal Year 2024		Explanation of Performance Indicator	
	Unit Number:		50181					
1.	<div><div>Fund Balance Available as a % of Expenditures</div></div>				25% -- Average of similar units is 46%	84.24%	<p>Fund balance available for appropriation is an important reserve for local governments to provide cash flow during periods of declining revenues and to be used for emergencies and unforeseen expenditures. The information to the left indicates the amount of available cash on hand. You will also see the average for units of your size. <b>Note that 8.33% represents enough fund balance to cover only one month of expenditures.</b> Normally, a unit has to either increase revenues or decrease expenditures to increase fund balance available.</p> <p>This calculation looks at fund balance available plus debt service fund balance (if applicable) less Powell Bill restricted fund balance. This number is then divided by the total of total expenditures plus transfers out less bond proceeds and less amount expended for Powell Bill Expenditures.</p>	
	GENERAL FUND:				Minimum Threshold	Unit Results		
2.	There was appropriated fund balance for the General Fund in the 2023 budget <u>AND</u> your change in fund balance was negative. Please state if fund balance was used for operations or capital purposes <b>in account 590 on the Unit Data from Audit Worksheet.</b>				Positive Change in Fund Balance	N/A	If the General Fund has more expenditures than revenues because of operational issues and fund balance was appropriated to cover the loss, the continuation of this practice could result in deterioration of a unit's fund balance available.	
3.	The General Fund had total fund balance less than zero - Fund Deficit				Positive Fund Balance	\$14,367,619	The General Fund has a fund deficit which means that the unit's revenues and other receipts are inadequate to support its operations. G.S. 159 13(b)(2) requires that the board fund the full amount of a prior fiscal year's deficit in the current fiscal year's budget. Therefore, this deficit should have been funded immediately after the June 30, fiscal year-end. The law requires such action be taken to stop any further deterioration of the overall financial condition of the fund. Please let us know if the deficit was funded in the budget, and what actions the unit plans to take to bring the general fund balance up to an acceptable level.	
	WATER SEWER FUND: As of the publication date of this workbook, prior year self-reported numbers may not been received by the LGC staff, please contact LGC staff at lgcaudit@nctreasurer.com to have the prior year's financial data populated on this worksheet. Please include in email subject "Prior Year Financial Data."				Minimum Threshold	Unit Results	Note: If more than one performance indicator is identified, one proposed solution may solve all water and sewer performance indicators.	
4.	<div><div>Quick Ratio-Water and Sewer</div></div>				Equal or greater than 1	13.80	A Quick Ratio less than 1 indicates that the unit owes mores for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the water and/or sewer system may not be sustainable.	
	Cash Flow Indicators:		2022	2023	2024	Minimum Threshold	Unit Results	



	Unit Name:	Hillsborough			Fiscal Year 2024		Explanation of Performance Indicator
	Unit Number:	50181					
5.	Operating Net Income (Loss) excluding depreciation, including debt service principal and interest	\$1,877,000	\$2,552,394	\$2,031,029	Greater than zero	\$2,031,029	This calculation subtracts operating expenses from operating revenues. Depreciation expense is not included the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses and debt service payments.
6.	Unrestricted cash /total expenses excluding depreciation, including debt service principal	130.18%	141.30%	219.64%	Greater than 16% (2 months)	219.64%	This indicator calculates how many month's worth of expenses (including debt principal but not depreciation) a unit can pay based on the amount of unrestricted cash at year-end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). <b>This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.</b>
7.	It appears your Water Sewer Fund has transfers-in for the support of operations that are greater than 3% of the total of operating and non-operating expenses. Please discuss the purpose of such transfers-in and if you plan to continue these transfers-in.			No		No	The rate structure of the Water and Sewer Fund should support the operating expenses of the fund without operating subsidies or transfers from other funds.
8	Water and Sewer Capital Assets Condition Ratio	0.66	0.64	0.62	Remaining useful life of asset greater than or equal to 0.50	0.62	This capital assets condition ratio formula calculates the remaining useful life. A remaining useful asset value less than 0.50 may signal the need to replace the assets in the near future.

	<b>ELECTRIC FUND:</b> As of the publication date of this workbook, prior year self-reported numbers may not been received by the LGC staff, please contact LGC staff at lgcaudit@nctreasurer.com to have the prior year's financial data populated on this worksheet. Please include in email subject "Prior Year Financial Data."				Minimum Threshold	Unit Results	Note: If more than one performance indicator is identified, one proposed solution may solve all electric performance indicators.								
9	<div><div>Quick Ratio-Electric</div><table><thead><tr><th>Year</th><th>Quick Ratio</th></tr></thead><tbody><tr><td>2022</td><td>0.00</td></tr><tr><td>2023</td><td>0.00</td></tr><tr><td>2024</td><td>0.00</td></tr></tbody></table></div>				Year	Quick Ratio	2022	0.00	2023	0.00	2024	0.00	Equal or greater than 1	#DIV/0!	A Quick Ratio less than 1 indicates that the unit owes mores for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the electric system may not be sustainable.
Year	Quick Ratio														
2022	0.00														
2023	0.00														
2024	0.00														
	Cash Flow Indicators:	2022	2023	2024	Minimum Threshold	Unit Results									
10	Operating Net Income (Loss) excluding depreciation, including debt service principal and interest	N/A	N/A	N/A	Greater than zero	N/A	This calculation subtracts operating expenses from operating revenues. Depreciation expense is not included the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses.								

	Unit Name:		Hillsborough		Fiscal Year 2024		Explanation of Performance Indicator
	Unit Number:		50181				
	11	Unrestricted cash /total expenses excluding depreciation, including debt service principal	N/A	N/A	N/A	Greater than 16% (2 months)	
	GENERAL PERFORMANCE INDICATORS:			2024	Target		
12	What date was the audit report submitted to the LGC? (Note audit reports are due four months after fiscal year end regardless of the contract submission date.)			11/27/2024		Response Not Required	As stewards of the public’s resources, the governing body is responsible for ensuring that the audited financial statements are available to the public in a timely manner. External groups such as the North Carolina General Assembly, federal and State agencies that provide funding, and other public associations need current financial information about your local government as well.
				2024	Target		
13	The budgeted ad valorem tax (including motor vehicles) for the General Fund had more than 3% uncollected for the fiscal year audited. Decreases are shown by a negative percentage.			1.26%	Less than 3%	1.26%	This indicator shows that the local government did not collect 3% (or more) of its budgeted ad valorem taxes. This could be an indicator of negative economic events, inaccurate budgeting, and/or issues with the collection process. Uncollected revenues at the 3% level represent several pennies of the tax rate.
				2024	Target		
14	You indicated that you expect a decrease in property value for your next property revaluation. In your FPIC Response Letter please discuss the magnitude of the drop in valuation, the overall cause of the drop and how you plan to recover the lost revenues.			Increase	Any estimated decrease	Increase	You indicated that you expect a decrease in property value for your next property revaluation which could result in lost tax revenue.
				2024	Target		
15	Did your audit disclose any budget violations at the adopted ordinance level? (Yes or No)			No	No over-expenditures	No	The unit has expenditures that exceed the legal budget ordinance. This indicates that the unit's purchase order system, contract approval process and / or payment process is not in compliance with North Carolina General Statute 159.
				2024	Target		
16	The Unit had material weaknesses, significant deficiencies, statutory violations and/or items identified on the <i>TD Info Completed by Auditor</i> tab that should be addressed in the FPIC Response Letter.			No		No	<b>This indicator identifies whether the unit has any material weaknesses, significant deficiencies, management letter comments or items identified on the <i>TD Info Completed by Audit tab</i> including 1055, 1056, 1058, 955 and 957, that require a response.</b>
17	Did the unit have a board-appointed finance officer or board-appointed interim finance officer the entire fiscal year as required by G.S. 159-24 which provides that "each local government and public authority shall, at all times, have a finance officer appointed by the local government, public authority, or designated official to hold office at the pleasure of the appointing board or official?" (Yes or No)			Yes		Yes	The indicator is to determine if any time during the fiscal year, the unit was without a board-appointed finance officer.

	Unit Name:	Hillsborough	Fiscal Year 2024		Explanation of Performance Indicator
	Unit Number:	50181			
18	Was the finance officer or interim finance officer bonded pursuant to G.S. 159-29 which requires that the finance officer give a true accounting and faithful performance bond in an amount not less than the greater of (1) \$50,000 or (2) an amount equal to 10% of the unit's annually budgeted funds, up to \$1,000,000? (Yes or No)	Yes		Yes	The indicator is to determine if any time during the fiscal year, the unit was board-appointed finance officer was not bonded.
	GENERAL PERFORMANCE INDICATORS:	2024	Target		
19	The unit had problems with debt service payments being late and/or did not comply with the bond covenants.	No		No	This indicator advises whether or not the unit has issues with debt service payments or bond covenants.
		2024	Target		
20	Electric transfers-out have exceeded the amounts described in GS 159B-39. If your unit is a member of the North Carolina Eastern Municipal Power Agency it appears you have violated the GS. OR If you are not a member of the Eastern Municipal Power Agency it appears that you have violated your unit's transfer policy.	No		No	This indicator advises if there were electric transfers in violation of G.S. 159B-39 or in violation of the unit's transfer policy.
		2024	Target		
21	Are there additional issues the unit should address that affect the fiscal health or internal controls of the unit that were communicated to the unit during the audit presentation? <u>Please include details of the issue in cell J46 to the right and in your FPIC Response.</u>	No		No	<u>This indicator advises if any other issues that the unit should address in the FPIC response letter.</u>