



TOWN OF
HILLSBOROUGH
NORTH CAROLINA



Annual Financial Report
For Fiscal year ended June 30, 2022

Presented by the Financial Services Department

Melissa Bishop, Interim Finance Director

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TOWN OF HILLSBOROUGH, NORTH CAROLINA

Annual Financial Report

Fiscal Year Ended June 30, 2022



Prepared by the Financial Services Department



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INDEPENDENT AUDITOR'S REPORT

Members of Town Council
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, 2022, 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, 2022, 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. 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, other financial information, the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, based on our audit and the procedures as described above, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matter

The Supplementary Information contains summarized comparative information for the year ended June 30, 2021. The financial statements of the Town, as of and for the year ended June 30, 2021, were audited by other auditors, whose report, dated January 12, 2023, expressed an unmodified opinion on those statements.

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 June 29, 2023 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

PBMares, LLP

Morehead City, North Carolina
June 29, 2023

The seal of Hillsborough County, North Carolina, is centered in the background. It features a shield with a red chief, a white field with a yellow lion, and a red field with a white cross. The shield is surrounded by a circular border containing the text "HILLSBOROUGH" at the top and "NORTH CAROLINA" at the bottom, with the year "1754" in the center.

INTRODUCTORY SECTION (Unaudited)

This section of the Town of Hillsborough's (the "Town") annual financial report presents general information on the Town's organization and the environment in which it operates.



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June 29, 2023

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

The Annual Financial Report of Hillsborough, North Carolina for the fiscal year ended June 30, 2022, is submitted for your review and use. The town, like all other local governments in the state, is required by state law to publish a complete set of financial statements within four months of the close of each fiscal year. The town has not met that threshold the past two fiscal years due to significant turnover in the Financial Services Department from February 2020 through February 2022. At one point the accounting operation was down to 1.4 employees and no finance director. During this two-year period, the town has had six acting/interim finance directors, with a finance director for one year. This level of turnover and inadequate staffing created many gaps, challenges, and operational issues. The 2021 audit was about 15 months late and was completed in January 2023.

While the 2022 audit is several months late, it is complete and operations have stabilized in the Financial Services Department thanks to use of an interim finance director, resources from the Greg W. Isley accounting firm, as well as a financial consultant with significant local government experience. They worked with staff to keep daily operations running and to finish the 2022 audit several months after the 2021 audit was completed in late January. Additionally, an operational analysis was completed in February by our financial consultant. The review identifies potential improvements, such as building redundancy; streamlining inefficient processes; enhancing staff experience via training and cross-training as many are relatively new to government finance; and assisting the new finance director, who started Feb. 6, with a plan to strengthen departmental operations. Management is optimistic that we will be able to prevent a repeat of the challenges from the past two years, as well as make the town's financial services operations more effective, efficient, and resilient during times of employee turnover.

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). 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, a firm of licensed certified public accountants, was selected and awarded the contract for Fiscal Year 2022. 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. Generally accepted accounting principles require 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 auditor's 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 criteria established by Governmental Accounting Standards Board Statement 14 and has determined that the Hillsborough Tourism Development Authority and Hillsborough Tourism Board are required to be included in the financial report.

The town operates its own water and sanitary sewer systems. Its water treatment plant has a capacity of 3 million gallons per day 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 multi-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 to elected to the town 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 plan is expected to be completed by budget adoption in June 2023. The town's mission and vision statements remain unchanged. The following new strategic focus areas were identified and are being developed into five subplans:



Environmental Initiatives

One of the five focus areas for the Hillsborough Strategic Plan is sustainability and resiliency. The town government’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 government.

- 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 is expected to be completed in mid-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.
- Supporting the goal in an adopted town resolution of using 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 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 provides 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, Orange County, 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 40% of Hillsborough's tax base is commercial in nature — a strong indicator of a healthy and diverse property tax base.

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. While there were concerns about the economy due to COVID-19, the issuance of building permits for residential and commercial developments, as well as frequent inquiries from developers, continued to be exceptionally strong through June 2022.



This mural was added in fall 2021 to the building that houses The News of Orange County newspaper in downtown Hillsborough.

Government, Education, and Health Care

Orange County government 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 for 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 more comprehensively assess older patients. The campus also has earned the Joint Commission's Gold Seal of Approval® for Total Hip and



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

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.

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 than previous years.



The Riverwalk greenway is a favorite destination.

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

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

Well known museums and historical sites:

- Alexander Dickson House (late 18th century)
- Ayr Mount (1800s Federal-era plantation house)
- Burwell School Historic Site (1800s)
- Dickerson’s Chapel AME Church (1790)
- First Baptist Church (c.1860/1868)
- Hillsborough United Methodist Church (c.1860)
- Hillsborough Presbyterian Church (c.1816)
- Margaret Lane Cemetery (c.1885)
- Moorefields (c.1785)
- 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
- Hillsborough Heights Park
- Mayo Park
- Murray Street Park
- Kings Highway Park
- River 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 inquires and to experience expansion of existing businesses. The following neighborhoods are under development or will be soon.

- Waterstone, Forest Ridge, and Fiori Hills developments — These are nearly completed and will have added about 1,000 residential units to Hillsborough.
- 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, and 141 were sold by June 2022.

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. The Fiscal Year 2021 budget was the first budget presented to Hillsborough's town board in 23 years that was not in a multi-year format. Hillsborough is one



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.

of the only local governments in the state that uses a multi-year format. During the early stages of COVID-19, it was difficult to accurately project for three months. To minimize wasted time and to help staff focus attention on the most pressing issues, the document was prepared in a traditional one-year format versus a three-year format. Fiscal Year 2022 marked a return to the three-year budget format that has been so successful and dates to 1998.

A level of uncertainty remained while the FY22 budget was being prepared in early to mid-June due to the economy and to not having prior and current year actual information because of the aforementioned delays in the audit process. Thus, a conservative approach was used in developing the budget. Fortunately, this conservative approach worked as the town ended the budget year with a substantial boost to the General Fund balance of \$1.6 million. Again, these funds will be needed to pay for high priority needs and to ensure

sufficient money is saved for emergency situations, especially with weather events becoming more frequent and severe. The Water and Sewer Fund ended the year with an increase in fund balance of \$1.3 million, of which \$691,000 was transferred to various capital projects and reserves. The surplus in the Water and Sewer Fund will be available to help pay for the tens of millions in immediate to near-term capital needs, maintain savings levels necessary to retain the AA bond rating and help improve it, meet bond covenant requirements from the Series 2018 and 2020 revenue bonds to pay for the reservoir expansion, and stay in line with industry standard metrics to keep the fund in a fiscally strong position.

Major Initiatives

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

General Government

- Street Repaving — Annual repaving and road maintenance is funded without debt and uses the town's gas tax allocation from the State Street-Aid Program (Powell Bill) and General Fund revenues to pay for the improvements. The town targets repaving about 5 percent of its road miles annually to have a 20-year repaving cycle. This interval has been identified by some industry experts as the most cost effective in terms of lifecycle costing. Street repaving was greatly reduced in 2021 and 2022 to help pay for an expensive repair project on Valley Forge Road, due to the road crossing being washed out during a storm.
- Valley Forge Stormwater Project — This project, which may exceed \$1 million, is to replace three 90-inch pipes crossing under Valley Forge Road and to rebuild the road. The road has washed out twice in recent years, and

temporary repairs are being monitored weekly until the reconstruction project is complete. The town is eligible for emergency funding assistance through the State of North Carolina to help pay for this project. The town must pay for the repairs first and then seek reimbursement.

Water and Sewer Fund

- Reservoir Phase II — Phase 2 expansion of the West Fork Eno River Reservoir began construction in April 2018 to address long-term water supply needs and to accommodate the type of growth that matches the town's vision. Revenue bonds were sold on May 9, 2018, providing over \$11.1 million in funding for the project. The remaining funds were raised through a bank placement in February 2020 to pay for the remaining road project that was required to finish the project. Debt payments for the project are \$840,550 for FY21, \$839,828 in FY22 and \$840,374 in FY23. Phase 2 will yield an additional 1.2 million gallons per day of water capacity. Phase 2 construction, which included raising a road and bridge, was completed March 30, 2022.



The expansion of the reservoir included replacing a bridge over the reservoir on Carr Store Road in Orange County.

- Wastewater Collection — Developing a detailed evaluation of the system's condition and capacity has started to allow utilities staff to prioritize the most important needs in future years and to determine how much development Hillsborough's system can safely accommodate. Funds are included to address other problem areas, such as inflow and infiltration, line capacity, and pump stations. About \$40 million is anticipated to be needed to address wastewater collection system needs over the next 18 years. The town has applied for a grant to help pay for 70% of the approximately \$8 million required to replace River Pump Station, an aging station that is the largest of two that pump all sewage into the wastewater plant.

Debt Administration

Hillsborough's current debt burden is above the North Carolina state average and below the national average for municipalities, with net overall debt at \$2,989 per capita. The largest part of the outstanding debt is for the Wastewater Treatment Plant and reservoir. Additional debt incurred over recent years will ensure the town has sufficient water supply, especially during dry and drought conditions. Hillsborough suffered from severe water shortages for decades and has since been self-sufficient since Phase 1 of the reservoir was completed in 2000. Debt funding for water and sewer projects will also allow for projected growth and economic development. Responsible financial planning and revenues resulting from growth will ensure the town maintains a stable financial position.

There has been no new general bonded debt over the last 24 fiscal years, and no debt service expenditures on general obligation bonded debt have been incurred in the General Fund during the last 24 fiscal years. The town has avoided a heavy debt load in its General Fund, which has plagued many municipalities. Revenue bonds were issued for the first time to fund the expansion of the West Fork Eno Reservoir for \$11.1 million in FY18. A second revenue bond for \$3.7 million was issued in FY20. Debt payments account for 23 percent of Water and Sewer Fund expenditures. The debt payments are a significant expense for a relatively small utility system especially when coupled with very expensive projects like the Wastewater Treatment Plant upgrade in 2014 that accounts for about \$1 million per year of debt. Using debt financing is the most practical way to pay for expensive maintenance needs on the system.

Financial Policies

The Town of Hillsborough has adopted a policy to maintain a General Fund balance 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 by security type to avoid incurring unreasonable risks inherent in overinvesting in

specific instruments, or maturities. Without exception, no more than 50% of the town's total investment portfolio will be invested in a single security type.

Status Update — GFOA Certificate of Achievement for Excellence in Finance 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 program standards. The report must satisfy both generally accepted accounting principles 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 of Hillsborough 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 2021 and the various staffing challenges discussed earlier. Due to staffing and limited resources, the town will not submit the 2022 report for consideration. Management is optimistic that we will be in a position in the next year or two to again meet or exceed the GFOA standards for excellence in financial reporting.

Acknowledgments

The assistance and dedication of the Financial Services team has been stellar throughout the year, especially during the preparation of this report! During this short period, the staff has worked many with three full-time finance directors and six interims). They've worked exceptionally hard and been patient as we've gone through several challenging situations over the past 24 months. We would like to thank all members of the department who contributed to the audit's preparation and the independent certified public accountants from PBMares for their assistance. A special thanks goes to Greg Isley and staff from his CPA firm who have provided tremendous assistance and frequently gone over and above to help during these challenging times, especially Brian Broom who prepared the financial statements, as well as Melissa Bishop who served as interim finance director from June 2022 to January 2023. Major recognition of gratitude goes to Kai Nelson, the town's financial consultant, who was the lead on this process and worked closely with our dedicated accounting staff to complete this audit just a few months after the 2021 audit was completed. This was a major accomplishment! The audit was a lot of work for everyone to juggle in such a short period of time. The cooperation of each town department is appreciated as we work together in conducting the town's financial operations. We also express our appreciation to the mayor and the members of the Board of Commissioners for their continued support, guidance, and advice in planning and conducting the financial activities of the town responsibly and progressively.

Respectfully submitted,



Eric J. Peterson
Town Manager



David McCole
Finance Director

Town of Hillsborough, North Carolina
Board of Commissioners
For the fiscal year ended June 30, 2022



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

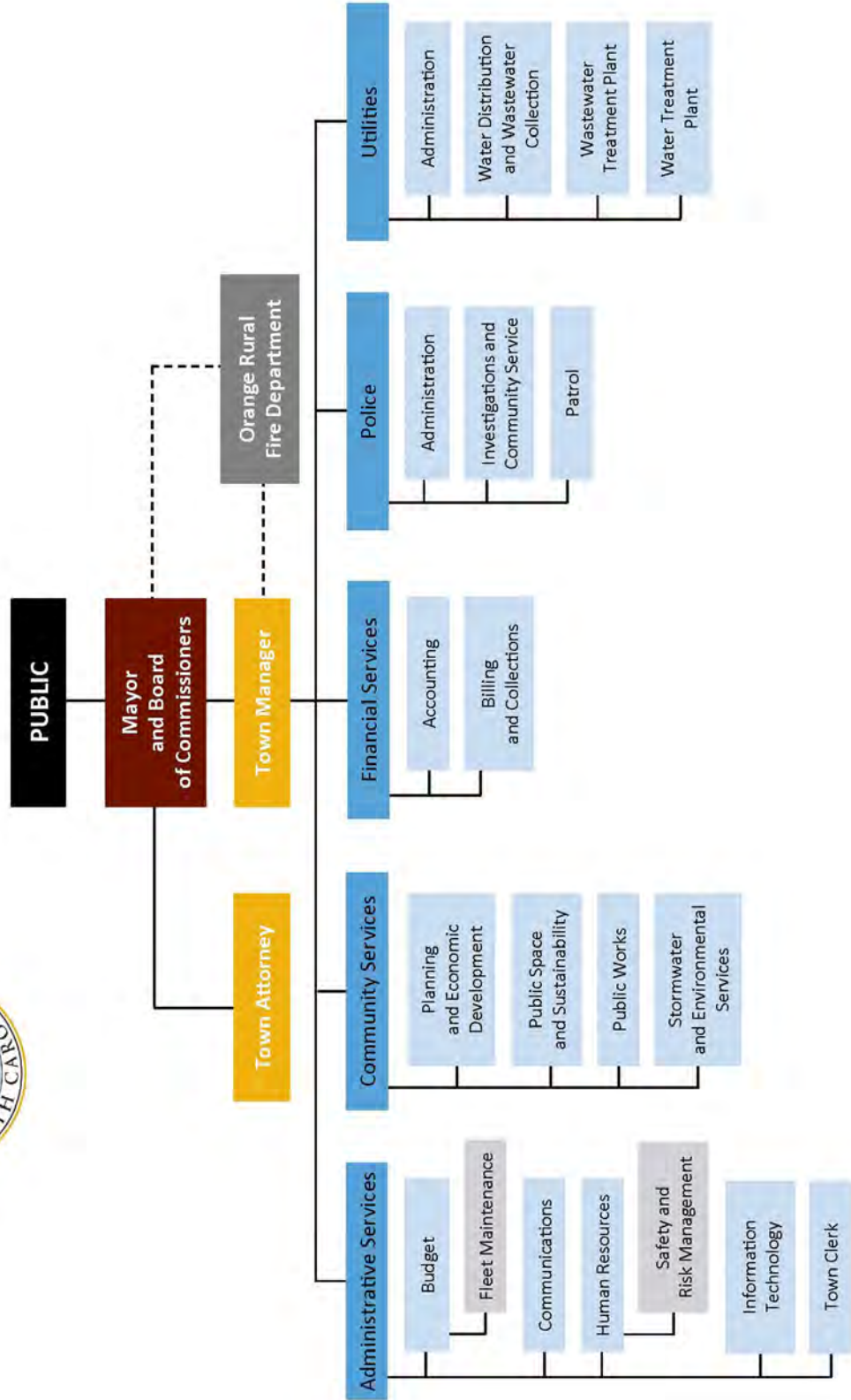
Jenn Weaver – Mayor
Matt Hughes – Mayor Pro Tem
Evelyn Lloyd – Commissioner
Mark Bell – Commissioner
Kathleen Ferguson – Commissioner
Robb English – Commissioner

Town Officials

Eric J. Peterson, Town Manager
Melissa Bishop, Interim Finance Director
Emily Bradford, Budget Director
Jen Della Valle, Administrative Services Director
Margaret Hauth, Assistant Town Manager/Planning Director
Marie Strandwitz, Utilities Director
Sarah Kimrey, Town Clerk
Duane Hampton, Police Chief
Robert Hornik, Town Attorney



ORGANIZATION CHART



The seal of Hillsborough County, North Carolina, is centered in the background. It features a shield with a yellow lion on the left and a yellow unicorn on the right, with three red shells above the lion. The shield is set within a circular border containing the text "HILLSBOROUGH" at the top and "NORTH CAROLINA" at the bottom.

FINANCIAL SECTION

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



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Town of Hillsborough, North Carolina

Management's Discussion and Analysis (Unaudited)

As management of the Town of Hillsborough (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2022. 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

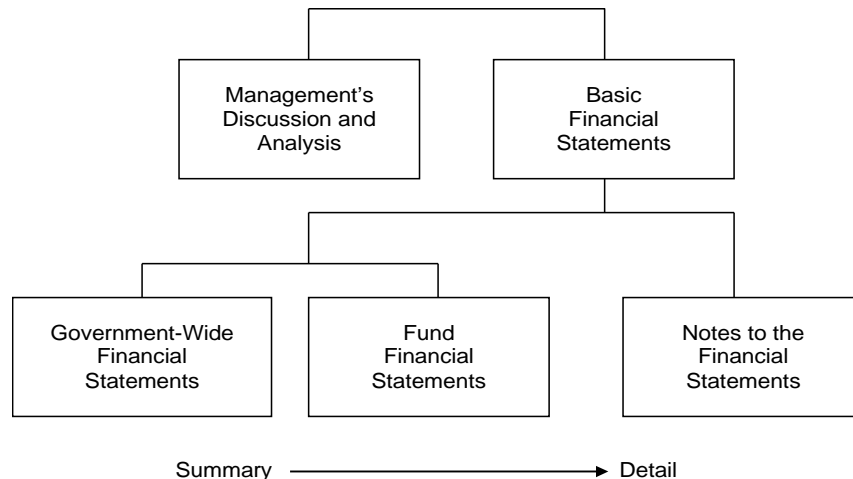
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$91,255,486 which consisted of \$31,510,191 from governmental activities and \$59,745,295 from business-type activities.
- The Town's total net position increased by \$5,664,659 which consisted of \$3,037,245 from governmental activities and \$2,627,414 from business-type activities.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$13,505,597 which consisted primarily of \$12,004,024 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 \$8,818,131, or 80 percent of total General Fund expenditures.
- The Town's total debt decreased by \$2,106,534 during the current fiscal year. No new long-term debt was issued but the Town implemented the new lease standard which added an additional \$109,365 to long-term liabilities as of the close of the current fiscal year.
- The Town obtained an AA bond rating from S&P (Standard & Poors) on May 2, 2018 in connection with the issuance of its Combined Utility Systems Revenue Bonds, Series 2018.

Overview of the Basic Financial Statements

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

Required Components of the Basic Financial Statements

Figure 1



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

Basic financial statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short- and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 10) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: (1) the governmental funds statements; (2) the budgetary comparison statements; (3) the proprietary fund statements; and (4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes section**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide financial statements

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

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

The government-wide statements are divided into three categories: (1) governmental activities; (2) business-type activities; and (3) component units. The governmental activities include most of the Town's basic services such as public safety, fire, street maintenance, solid waste collection, planning, public spaces, parks, cemetery and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include stormwater as well as the water and sewer services offered by the Town. The final category is the component units. Although legally separate from the Town, the Tourism Development Authority and the Tourism Board are important to the Town. The Town exercises control over these entities by appointing its members and remits a percentage of taxes collected to each of these entities. The government-wide financial statements are on pages 14 through 16 of this report.

Fund financial statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Hillsborough, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

The Town adopts an annual budget for its General Fund, as required by North Carolina General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current-period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: (1) the original budget as adopted by the Board; (2) the final budget as amended by the Board; (3) the actual resources, charges to appropriations, and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds - The Town has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer activity and stormwater activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 28 through 62 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 63 of this report.

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

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 \$91,255,486 as of June 30, 2022. The Town's net position increased by \$5,664,659 for the fiscal year ended June 30, 2022.

The largest portion of net position (68%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, equipment, distribution and collection systems and infrastructure, less any related debt still outstanding that was issued to acquire those items). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$12,205,720 (13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$17,210,137 (19%) is unrestricted and may be used to meet the Town's ongoing obligation to citizens and creditors.

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

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

Table 1

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
ASSETS						
Current assets and other assets	\$ 14,917,559	\$ 12,291,198	\$ 25,480,089	\$ 24,393,053	\$ 40,397,648	\$ 36,684,251
Capital assets, net	23,921,068	23,358,683	64,165,950	63,049,803	88,087,018	86,408,486
Total assets	38,838,627	35,649,881	89,646,039	87,442,856	128,484,666	123,092,737
DEFERRED OUTFLOWS OF RESOURCES						
	1,917,401	1,785,856	737,520	693,975	2,654,921	2,479,831
LIABILITIES						
Long-term liabilities	6,177,094	7,903,503	27,423,493	29,582,030	33,600,587	37,485,533
Other liabilities	1,286,434	746,134	2,450,051	1,255,198	3,736,485	2,001,332
Total liabilities	7,463,528	8,649,637	29,873,544	30,837,228	37,337,072	39,486,865
DEFERRED INFLOWS OF RESOURCES						
	1,782,309	313,154	764,720	181,722	2,547,029	494,876
NET POSITION						
Net investment in capital assets	21,085,633	20,301,129	40,753,996	38,001,109	61,839,629	58,302,238
Restricted	3,185,893	1,975,532	9,019,827	9,767,476	12,205,720	11,743,008
Unrestricted	7,238,665	6,196,285	9,971,472	9,349,296	17,210,137	15,545,581
Total net position	\$ 31,510,191	\$ 28,472,946	\$ 59,745,295	\$ 57,117,881	\$ 91,255,486	\$ 85,590,827

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

- Increased property tax revenues from the most recently completed property revaluation which was effective January 1, 2021. State law requires every county in North Carolina to revalue real property at least once every eight years. Based on the projected property values, the Town elected to set this year's tax rate at 58.7 cents per \$100 of assessed value which is two cents higher than a revenue neutral tax rate of 56.7 cents. However, the final property valuation received after the Town approved the 2022 rate resulted in additional property tax revenue.
- 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".
- Stronger than expected sales tax revenues as the Town emerges from the pandemic.
- Continued low cost of debt due to low interest rates.

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

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

Table 2

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
REVENUES						
Program revenues:						
Charges for services	\$ 65,563	\$ 89,611	\$ 11,765,799	\$ 11,533,337	\$ 11,831,362	\$ 11,622,948
Operating grants and contributions	601,072	245,914	-	-	601,072	245,914
Capital grants and contributions	-	34,432	1,016,196	289,872	1,016,196	324,304
General revenues:						
Property taxes	9,099,819	7,944,778	-	-	9,099,819	7,944,778
Local option sales taxes	2,868,883	2,048,982	-	-	2,868,883	2,048,982
Unrestricted inter-governmental	1,294,435	1,239,258	-	-	1,294,435	1,239,258
Other revenues	74,400	97,008	15,841	51,590	90,241	148,598
Total revenues	<u>14,004,172</u>	<u>11,699,983</u>	<u>12,797,836</u>	<u>11,874,799</u>	<u>26,802,008</u>	<u>23,574,782</u>
EXPENSES						
Governmental:						
General government	2,263,693	2,076,073	-	-	2,263,693	2,076,073
Public safety	5,577,799	5,018,883	-	-	5,577,799	5,018,883
Transportation	762,381	721,153	-	-	762,381	721,153
Environmental protection	630,024	482,107	-	-	630,024	482,107
Economic and physical development	822,593	382,397	-	-	822,593	382,397
Community activities	324,697	181,859	-	-	324,697	181,859
Parks and recreation	529,674	479,281	-	-	529,674	479,281
Interest on long-term debt	56,066	105,430	-	-	56,066	105,430
Business-type:						
Water and Sewer	-	-	9,528,453	9,326,153	9,528,453	9,326,153
Stormwater	-	-	641,969	582,461	641,969	582,461
Total expenses	<u>10,966,927</u>	<u>9,447,183</u>	<u>10,170,422</u>	<u>9,908,614</u>	<u>21,137,349</u>	<u>19,355,797</u>
TRANSFERS	-	-	-	-	-	-
Change in net position	<u>3,037,245</u>	<u>2,252,800</u>	<u>2,627,414</u>	<u>1,966,185</u>	<u>5,664,659</u>	<u>4,218,985</u>
NET POSITION						
Beginning balances	<u>28,472,946</u>	<u>26,220,146</u>	<u>57,117,881</u>	<u>55,151,696</u>	<u>85,590,827</u>	<u>81,371,842</u>
Ending balances	<u>\$ 31,510,191</u>	<u>\$ 28,472,946</u>	<u>\$ 59,745,295</u>	<u>\$ 57,117,881</u>	<u>\$ 91,255,486</u>	<u>\$ 85,590,827</u>

Governmental activities. Governmental activities increased the Town's net position by \$3,037,245, thereby accounting for 54% of the growth in Town's total net position.

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

Key elements of this increase are as follows:

- Property taxes revenue increased \$1,155,041, or 15%, due to an increase in property values previously noted.
- Sales tax revenue increased over \$819,901, or 40%, due to increased economic activity as the Town emerges from the pandemic.
- Expenses increased but were less than budgeted expectations as previously noted.

Business-type activities. Business-type activities increased the Town's net position by \$2,627,414, accounting for 46% of the growth in the Town's total net position.

Key elements of this increase are as follows:

- The Water and Sewer Fund experienced a slight increase in charges for services with the majority of the increase due to volumetric rate increases offset by decreases in system development fees and other miscellaneous operating revenue.
- The Water and Sewer Fund received capital contributions for dedications and Water and Sewer development in the amount of \$1,016,196 compared to \$289,872 in the prior year.

Financial analysis of the Town of Hillsborough's funds

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

Governmental funds. The focus of the Town's governmental funds is on providing information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town's combined assigned and unassigned fund balance available in the General Fund was \$8,818,131, while total fund balance was \$12,004,024. 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 80% of General Fund expenditures while total fund balance represents 108% of the same amount.

On June 30, 2022, the governmental funds of the Town reported a combined fund balance of \$13,505,597, with a net increase in fund balance of \$2,080,859. As previously noted, this increase is primarily related to increases in property and sales taxes coupled with management's control over operating and capital expenditures.

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

Actual revenues for the General Fund (excluding the Restricted Revenues Fund) were more than the budgeted amount by \$1,686,310 as property and sales tax revenues exceeded expectations. Expenditures were \$2,298,708 less than budgeted, with favorable balances occurring in personnel (\$351,000), capital (\$1 million) and operating (\$903,000) and debt service (\$44,000).

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

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 \$2,549,289 ending the year with total net position of \$56,384,795. The largest portion of its net position is invested in capital assets (\$38,913,506) while \$9,019,827 is restricted for current and future water and sewer projects. The remaining \$9,000,751 is unrestricted which is an increase of \$587,561 from the prior year as revenues exceeded expectations.

Charges for services, in the Water and Sewer Fund, were slightly higher in fiscal year 2022 than 2021 by \$241,621. Revenue associated with volumetric utility billings increased by \$701,000 (roughly 7% with a major portion attributable to rate increases); however, system development fees and other operating revenues decreased by \$326,000 and \$133,000, respectively. 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 \$1 million in ARPA funds which it plans to use for water and sewer capital needs. Other capital reserves consist primarily of system development fees which are assessed on new development to fund capital improvements necessitated by and attributable to that new development or to recoup the costs of existing facilities that serve the new development.

The Town's nonmajor enterprise fund (Stormwater) increased its net position by \$78,125 ending the year with total net position of \$2,811,211. The largest portion of its net position is invested in capital assets (\$1,840,490) while unrestricted net position amounted to \$970,721, a 4% or \$34,615 increase from the previous year. The increase is largely attributed to expenses being less than expected.

Capital asset and debt administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2022, totals \$88,087,018 (net of accumulated depreciation and amortization). These assets include buildings, land, machinery and equipment, infrastructure, park facilities, vehicles and right to use leased assets.

Major capital asset transactions during the year include the following:

- Vehicles and equipment in the governmental funds (\$915,000)
- Valley Forge infrastructure construction progress (\$520,000)
- Implementation of GASB Statement No. 87, *Leases* (\$103,027)
- Odie street paving (\$93,000)
- Mill Creek construction progress (\$799,000)
- 16" OWASA water main construction progress (\$345,000)
- Wastewater system rehabilitation construction progress (\$127,000)
- Wastewater treatment plant filters (\$83,460 – ARPA funding)
- Wastewater treatment plant filter repairs #2 & #3 (\$174,000)
- Valley Forge stormwater infrastructure construction progress (\$100,000)

Major developer-dedicated capital asset transactions during the year include the following:

- Orange County Northern Campus water and sewer system extensions (\$730,000)
- Fiori Hills water and sewer system extensions (\$203,000)

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

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

Table 3

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Nondepreciable:						
Land	\$ 4,879,989	\$ 4,879,989	\$ 6,133,088	\$ 6,133,088	\$ 11,013,077	\$ 11,013,077
Construction in progress	866,599	253,140	3,779,727	2,404,404	4,646,326	2,657,544
Depreciable, net:						
Buildings and improvements	5,714,565	6,156,301	26,501,932	26,805,428	32,216,497	32,961,729
Plant and distribution systems	-	-	24,684,757	24,728,396	24,684,757	24,728,396
Infrastructure	11,138,010	11,371,209	2,261,971	2,338,495	13,399,981	13,709,704
Equipment	397,049	363,621	415,909	508,625	812,958	872,246
Vehicles	821,829	334,423	388,566	131,367	1,210,395	465,790
Right to use leased assets, net	103,027	-	-	-	103,027	-
	<u>\$ 23,921,068</u>	<u>\$ 23,358,683</u>	<u>\$ 64,165,950</u>	<u>\$ 63,049,803</u>	<u>\$ 88,087,018</u>	<u>\$ 86,408,486</u>

Additional information on the Town's capital assets can be found in Note 3.A.6 of the basic financial statements.

Long-term debt. As of June 30, 2022, the Town had outstanding bonded debt of \$12,777,000 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 total debt decreased by \$2,141,233 during the current fiscal year due to debt repayments.

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, 2022 was approximately \$120,977,000. Practically, this statutory limit exceeds the Town's realistic debt capacity. The Town does not have any authorized and unissued bonds at June 30, 2022.

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

Table 4

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Long-term debt:						
Revolving loans	\$ -	\$ -	\$ 12,214,479	\$ 13,275,323	\$ 12,214,479	\$ 13,275,323
Special revenue bonds			12,777,000	13,109,000	12,777,000	13,109,000
Premium on bonds	-	-	807,701	864,186	807,701	864,186
Direct placement-installment purchases	2,726,070	3,357,562	351,031	376,744	3,077,101	3,734,306
Leases payable	109,365	-	-	-	109,365	-
	<u>\$ 2,835,435</u>	<u>\$ 3,357,562</u>	<u>\$ 26,150,211</u>	<u>\$ 27,625,253</u>	<u>\$ 28,985,646</u>	<u>\$ 30,982,815</u>

Additional information regarding the Town's long-term debt can be found in Note 3.B.10 of the basic financial statements.

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

Economic factors and next year's budgets and rates

The following key economic indicators reflect the stability and prosperity of the Town:

- *Low unemployment. Orange County's unemployment rate of 3.5% as of June 30, 2022, is below the state average of 3.6%.*
- *No additional debt was issued in 2022 nor expected to be issued in 2023.*
- *Maintain a property tax collection rate that exceeds 99%.*

Budget highlights for the fiscal year ending June 30, 2023

Governmental Activities - The Town's largest source of revenue is property tax revenue. The 2023 budget maintains the Town's tax rate at 58.7 cents per \$100 of assessed property value which is a two-cent increase over the 56.7 revenue neutral tax rate noted in 2022. Other budget highlights in brief:

- Funds for fire service to provide for market-rate compensation adjustments and establishment over several years of funding for annual debt service requirements associated with the construction of a new fire station.
- Significant funding for merit raises, market rate salary adjustments and pay plan implementation.
- Climate and sustainability initiatives estimated to cost \$300,000.
- Design funds for the Public Works facility and relocation estimated to cost \$100,000.
- Street repaving and maintenance estimated to cost \$448,000.
- Police department restructuring estimated to cost \$75,000.

Business-type Activities - The Town increased water and sewer rates by 4.5 percent and 2.0 percent for fiscal year ending 2023 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:

- Major system improvements reflected in the following projects:
 - River sewer pump station replacement.
 - Lawndale sewage basin – inflow & infiltration rehabilitation.
 - Eno River sewer outfall/interceptor replacement and upsize.
 - Adron Thompson facility repairs and upgrades.
 - Fire hydrant and valve replacement.
 - OWASA booster pump station for emergency water supply.
 - US 70 Business Water Main Improvement and Replacement Project.
- The Town has received over \$1 million in ARPA funds with plans to use the funds on various water and sewer projects over the next few years.
- Numerous other small maintenance, repair, replacement projects/equipment, and preliminary engineering reports.
- Three (3) additional positions to address system growth and deferred maintenance.

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

The Town did not adjust its stormwater rates for the fiscal year ending June 30, 2023. 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.

Requests for information

This report is designed to provide an overview of the Town's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, Town of Hillsborough, 105 East Corbin Street, Post Office Box 429, Hillsborough, North Carolina 27278 or Finance@hillsboroughnc.gov.

Basic Financial Statements

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



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Town of Hillsborough, North Carolina
Statement of Net Position
June 30, 2022

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
ASSETS					
Cash and investments:					
Unrestricted	\$ 12,445,221	\$ 13,086,745	\$ 25,531,966	\$ 414,673	\$ 437,548
Restricted	727,833	10,634,242	11,362,075	-	-
Receivables:					
Taxes receivable, net	142,128	-	142,128	-	-
Accounts receivable, net	82,509	1,759,102	1,841,611	-	-
Due from other governments	1,435,229	-	1,435,229	88	17
Due from related governments	62,039	-	62,039	-	95,067
Accrued interest receivable	22,600	-	22,600	-	-
Capital assets:					
Non-depreciable	5,746,588	9,912,815	15,659,403	-	-
Depreciable, net	18,071,453	54,253,135	72,324,588	-	-
Right to Use leased assets, net	103,027	-	103,027	-	-
Total assets	<u>38,838,627</u>	<u>89,646,039</u>	<u>128,484,666</u>	<u>414,761</u>	<u>532,632</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,917,401</u>	<u>737,520</u>	<u>2,654,921</u>	<u>-</u>	<u>-</u>
LIABILITIES					
Accounts payable and accrued liabilities	1,091,071	628,727	1,719,798	1,110	20,407
Payable from restricted assets	-	556,779	556,779	-	-
Other current liabilities	61,096	30,709	91,805	-	-
Unearned revenue	-	1,057,636	1,057,636	-	-
Accrued interest payable	39,200	176,200	215,400	-	-
Due to related governments	95,067	-	95,067	62,039	-
Long-term liabilities:					
Due within one year	695,365	1,620,962	2,316,327	-	-
Due in more than one year	5,481,729	25,802,531	31,284,260	-	-
Total liabilities	<u>7,463,528</u>	<u>29,873,544</u>	<u>37,337,072</u>	<u>63,149</u>	<u>20,407</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,782,309</u>	<u>764,720</u>	<u>2,547,029</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	21,085,633	40,753,997	61,839,630	-	-
Restricted for:					
Stabilization by state statute	2,458,060	-	2,458,060	88	95,084
Streets	576,846	-	576,846	-	-
Restricted revenues	150,987	-	150,987	-	-
Capital projects	-	8,104,367	8,104,367	-	-
Perpetual maintenance	-	915,460	915,460	-	-
Unrestricted	7,238,665	9,971,471	17,210,136	351,524	417,141
Total net position	<u>\$ 31,510,191</u>	<u>\$ 59,745,295</u>	<u>\$ 91,255,486</u>	<u>\$ 351,612</u>	<u>\$ 512,225</u>

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

Town of Hillsborough, North Carolina
Statement of Activities
Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 2,258,786	\$ 58,658	\$ 12,529	\$ -
Public safety	5,548,753	65	8,881	-
Transportation	762,381	-	379,367	-
Environmental protection	630,024	780	7,299	-
Economic and physical development	822,593	-	-	-
Community activities and projects	324,697	-	192,996	-
Parks and recreation	528,308	6,060	-	-
Interest on long-term obligations	91,385	-	-	-
Total governmental activities	<u>10,966,927</u>	<u>65,563</u>	<u>601,072</u>	<u>-</u>
Business-type activities:				
Water and sewer	9,528,453	11,045,705	-	1,016,196
Stormwater	641,969	720,094	-	-
Total business-type activities	<u>10,170,422</u>	<u>11,765,799</u>	<u>-</u>	<u>1,016,196</u>
Total primary government	<u>\$ 21,137,349</u>	<u>\$ 11,831,362</u>	<u>\$ 601,072</u>	<u>\$ 1,016,196</u>
COMPONENT UNITS				
Hillsborough Tourism Development Authority	\$ 39,277	\$ -	\$ -	\$ -
Hillsborough Tourism Board	364,245	-	-	-
Total component units	<u>\$ 403,522</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GENERAL REVENUES

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

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of year

Net Revenue (Expense) and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Tourism Development Authority	Tourism Board
\$ (2,187,599)	\$ -	\$ (2,187,599)	\$ -	\$ -
(5,539,807)	-	(5,539,807)	-	-
(383,014)	-	(383,014)	-	-
(621,945)	-	(621,945)	-	-
(822,593)	-	(822,593)	-	-
(131,701)	-	(131,701)	-	-
(522,248)	-	(522,248)	-	-
(91,385)	-	(91,385)	-	-
<u>(10,300,292)</u>	<u>-</u>	<u>(10,300,292)</u>	<u>-</u>	<u>-</u>
-	2,533,448	2,533,448	-	-
-	78,125	78,125	-	-
-	2,611,573	2,611,573	-	-
<u>(10,300,292)</u>	<u>2,611,573</u>	<u>(7,688,719)</u>	<u>-</u>	<u>-</u>
-	-	-	(39,277)	-
-	-	-	-	(364,245)
-	-	-	(39,277)	(364,245)
9,099,819	-	9,099,819	-	-
2,868,883	-	2,868,883	-	-
-	-	-	105,815	445,428
3,773	-	3,773	-	-
1,294,435	-	1,294,435	-	-
33,284	15,841	49,125	-	-
37,343	-	37,343	-	-
<u>13,337,537</u>	<u>15,841</u>	<u>13,353,378</u>	<u>105,815</u>	<u>445,428</u>
3,037,245	2,627,414	5,664,659	66,538	81,183
<u>28,472,946</u>	<u>57,117,881</u>	<u>85,590,827</u>	<u>285,074</u>	<u>431,042</u>
<u>\$ 31,510,191</u>	<u>\$ 59,745,295</u>	<u>\$ 91,255,486</u>	<u>\$ 351,612</u>	<u>\$ 512,225</u>

**Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds
June 30, 2022**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 10,645,346	\$ 1,799,875	\$ 12,445,221
Receivables:			
Taxes receivable, net	142,128	-	142,128
Accounts receivable, net	82,509	-	82,509
Due from other governments	1,337,733	97,496	1,435,229
Due from component units	62,039	-	62,039
Restricted assets:			
Cash and investments	<u>727,833</u>	<u>-</u>	<u>727,833</u>
 Total assets	 <u>\$ 12,997,588</u>	 <u>\$ 1,897,371</u>	 <u>\$ 14,894,959</u>
LIABILITIES			
Accounts payable	\$ 422,611	\$ 395,798	\$ 818,409
Accrued liabilities	272,662	-	272,662
Due to component units	95,067	-	95,067
Unearned revenue	58,469	-	58,469
Other liabilities	<u>2,627</u>	<u>-</u>	<u>2,627</u>
 Total liabilities	 <u>851,436</u>	 <u>395,798</u>	 <u>1,247,234</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes receivable, net	<u>142,128</u>	<u>-</u>	<u>142,128</u>
FUND BALANCES			
Restricted for:			
Stabilization by state statute	2,458,060	-	2,458,060
Streets	576,846	-	576,846
Restricted revenues	150,987	-	150,987
Committed for:			
Capital projects	-	1,501,573	1,501,573
Assigned for:			
Subsequent year's expenditures	743,482	-	743,482
Unassigned	<u>8,074,649</u>	<u>-</u>	<u>8,074,649</u>
 Total fund balances	 <u>12,004,024</u>	 <u>1,501,573</u>	 <u>13,505,597</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 12,997,588</u>	 <u>\$ 1,897,371</u>	 <u>\$ 14,894,959</u>

**Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds
June 30, 2022**

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

Total fund balances, governmental funds		\$ 13,505,597
Reconciliation of amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:		
Capital assets and right to use assets used in governmental activities are not financial resources and; therefore, not reported in the funds:		
Non-depreciable capital assets	5,746,588	
Depreciable capital assets:		
Cost	28,429,474	
Accumulated depreciation	<u>(10,358,021)</u>	23,818,041
Right to Use leased assets:		
Cost	144,064	
Accumulated amortization	<u>(41,037)</u>	103,027
Deferred outflows of resources are not financial resources; therefore, the amounts are not reported in the funds:		
Local Government Employees' Retirement System ("LGERS")	1,339,142	
Law Enforcement Officers' Special Separation Allowance ("LEO")	379,091	
Other post employment benefits ("OPEB")	<u>199,168</u>	1,917,401
Certain assets are not available to pay for current period expenditures; therefore, the balances are deferred in the funds:		
Property taxes receivable		142,128
Certain assets are not considered financial resources; therefore, the balances are not recorded in the funds:		
Accrued interest receivable on unpaid property taxes		22,600
Deferred inflows of resources are not financial resources; therefore, the amounts are not reported in the funds:		
Local Government Employees' Retirement System ("LGERS")	(1,339,808)	
Law Enforcement Officers' Special Separation Allowance ("LEO")	(202,984)	
Other post employment benefits ("OPEB")	<u>(239,517)</u>	(1,782,309)
Long-term liabilities are not due and payable in the current period; therefore, the liabilities are not recognized or accrued in the funds:		
Installment purchase contracts	(2,726,070)	
Leases liability	(109,365)	
Net pension liability - LGERS	(844,033)	
Total pension liability - LEO	(1,172,974)	
Total OPEB liability	(876,026)	
Compensated absences payable	<u>(448,626)</u>	(6,177,094)
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>(39,200)</u>
Net position of governmental activities		<u>\$ 31,510,191</u>

**Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2022**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Ad valorem taxes	\$ 9,099,860	\$ -	\$ 9,099,860
Other taxes and licenses	13,171	-	13,171
Unrestricted intergovernmental revenues	4,102,038	-	4,102,038
Restricted intergovernmental revenues	397,751	192,996	590,747
Use and rental fees	126,002	-	126,002
Contributions and donations	650	-	650
Investment earnings	33,284	-	33,284
Miscellaneous revenues	39,718	-	39,718
	<u>13,812,474</u>	<u>192,996</u>	<u>14,005,470</u>
EXPENDITURES			
Current:			
General government	2,043,577	44,057	2,087,634
Public safety	5,177,014	108,010	5,285,024
Transportation	611,813	-	611,813
Environmental protection	1,220,110	-	1,220,110
Economic and physical development	607,716	634,769	1,242,485
Community activities and projects	131,701	192,996	324,697
Parks and recreation	532,836	-	532,836
Debt service:			
Principal retirement	666,191	-	666,191
Interest and fiscal charges	97,885	-	97,885
	<u>11,088,843</u>	<u>979,832</u>	<u>12,068,675</u>
Revenues over (under) expenditures	<u>2,723,631</u>	<u>(786,836)</u>	<u>1,936,795</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	1,499,083	1,499,083
Transfers to other funds	(1,309,270)	(189,813)	(1,499,083)
Lease liabilities issued	144,064	-	144,064
	<u>(1,165,206)</u>	<u>1,309,270</u>	<u>144,064</u>
Other financing sources (uses), net	<u>(1,165,206)</u>	<u>1,309,270</u>	<u>144,064</u>
Net change in fund balances	<u>1,558,425</u>	<u>522,434</u>	<u>2,080,859</u>
Fund balances, beginning of year	<u>10,445,599</u>	<u>979,139</u>	<u>11,424,738</u>
Fund balances, end of year	<u>\$ 12,004,024</u>	<u>\$ 1,501,573</u>	<u>\$ 13,505,597</u>

**Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2022**

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

Net change in fund balances - total governmental funds \$ 2,080,859

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In addition, the book value of assets disposed is not reported in the governmental funds; however this amount is netted against any proceeds from the disposal of assets in the Statement of Activities.

Capital outlay	1,644,432
Depreciation expense	(1,158,165)
Capitalized right to use asset capital expenditures	144,064
Amortization of right to use leased assets	(41,037)
Net book value of assets disposed	(26,909)

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	602
Net change in accrued interest on property taxes	(1,900)

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

Lease liabilities issued	(144,064)
Principal retirement	666,191

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	6,500
Change in accrued compensated absences	(177,243)
Pension expense - LGERS	164,689
Pension expense - LEOSSA	(129,535)
OPEB expense	8,761

Changes in net position of governmental activities	\$ 3,037,245
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Town of Hillsborough, North Carolina
Statement of Revenues and Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 8,733,000	\$ 8,753,627	\$ 9,099,860	\$ 346,233
Other taxes and licenses	13,100	8,600	13,171	4,571
Unrestricted intergovernmental revenues	2,882,420	2,847,420	4,102,038	1,254,618
Restricted intergovernmental revenues	260,000	273,767	286,651	12,884
Use and rental fees	102,500	102,500	126,002	23,502
Investment earnings	2,000	2,000	33,284	31,284
Miscellaneous revenues	34,000	26,500	39,718	13,218
Total revenues	<u>12,027,020</u>	<u>12,014,414</u>	<u>13,700,724</u>	<u>1,686,310</u>
EXPENDITURES				
Current:				
General government	2,692,783	3,004,602	2,327,405	677,197
Public safety	5,228,714	5,612,279	5,306,959	305,320
Transportation	1,230,582	1,325,094	627,540	697,554
Environmental protection	1,282,407	1,699,277	1,295,093	404,184
Economic and physical development	512,168	703,368	607,716	95,652
Community activities and projects	529,170	229,642	226,277	3,365
Parks and recreation	848,707	805,170	689,734	115,436
Contingency	400,000	-	-	-
Total expenditures	<u>12,724,531</u>	<u>13,379,432</u>	<u>11,080,724</u>	<u>2,298,708</u>
Revenues over (under) expenditures	<u>(697,511)</u>	<u>(1,365,018)</u>	<u>2,620,000</u>	<u>3,985,018</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(616,800)	(1,309,270)	(1,309,270)	-
Transfers from other funds	60,000	-	-	-
Installment purchase obligations issued	974,000	300,017	-	(300,017)
Lease liabilities issued	-	-	144,064	144,064
Other financing sources (uses), net	<u>417,200</u>	<u>(1,009,253)</u>	<u>(1,165,206)</u>	<u>(155,953)</u>
APPROPRIATED FUND BALANCE	<u>280,311</u>	<u>2,374,271</u>	<u>-</u>	<u>(2,374,271)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,454,794</u>	<u>\$ 1,454,794</u>
Fund balance, beginning of year			<u>10,398,243</u>	
Fund balance, end of year			<u>11,853,037</u>	
LEGALLY BUDGETED FUNDS THAT ARE CONSOLIDATED INTO THE GENERAL FUND FOR REPORTING PURPOSES:				
Restricted Revenues Fund:				
Fund balance, beginning			47,356	
Total revenues			111,750	
Total expenditures			<u>(8,119)</u>	
Fund balance, ending (Exhibit 4)			<u>\$ 12,004,024</u>	

Town of Hillsborough, North Carolina
Statement of Net Position
Proprietary Funds
June 30, 2022

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments - Unrestricted	\$ 11,956,197	\$ 1,130,548	\$ 13,086,745
Cash and investments - Restricted	10,634,242	-	10,634,242
Accounts receivable, net	1,728,970	30,132	1,759,102
Total current assets	<u>24,319,409</u>	<u>1,160,680</u>	<u>25,480,089</u>
Noncurrent assets:			
Capital assets:			
Land and construction-in-progress	9,779,002	133,813	9,912,815
Depreciable assets, net	52,546,458	1,706,677	54,253,135
Capital assets, net	<u>62,325,460</u>	<u>1,840,490</u>	<u>64,165,950</u>
Total assets	<u>86,644,869</u>	<u>3,001,170</u>	<u>89,646,039</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>675,869</u>	<u>61,651</u>	<u>737,520</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	517,091	111,636	628,727
Payable from restricted assets:			
Accounts payable - capital projects	1,800	-	1,800
Customer deposits	554,979	-	554,979
Other current liabilities	30,709	-	30,709
Unearned revenue	1,057,636	-	1,057,636
Accrued interest payable	176,200	-	176,200
Current portion of long-term liabilities	1,607,885	13,077	1,620,962
Total current liabilities	<u>3,946,300</u>	<u>124,713</u>	<u>4,071,013</u>
Long-term liabilities:			
Long-term debt	24,666,425	-	24,666,425
Other long-term liabilities	1,072,232	63,874	1,136,106
Total noncurrent liabilities	<u>25,738,657</u>	<u>63,874</u>	<u>25,802,531</u>
Total liabilities	<u>29,684,957</u>	<u>188,587</u>	<u>29,873,544</u>
DEFERRED INFLOWS OF RESOURCES	<u>701,697</u>	<u>63,023</u>	<u>764,720</u>
NET POSITION			
Net investment in capital assets	38,913,507	1,840,490	40,753,997
Restricted for water and sewer projects	8,104,367	-	8,104,367
Restricted for perpetual maintenance	915,460	-	915,460
Unrestricted	9,000,750	970,721	9,971,471
Total net position	<u>\$ 56,934,084</u>	<u>\$ 2,811,211</u>	<u>\$ 59,745,295</u>

Town of Hillsborough, North Carolina
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2022

Exhibit 7

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 10,545,070	\$ 718,994	\$ 11,264,064
System Development Fees	263,891	-	263,891
Other operating revenues	236,744	1,100	237,844
	<u>11,045,705</u>	<u>720,094</u>	<u>11,765,799</u>
OPERATING EXPENSES			
Personnel services	2,619,345	256,511	2,875,856
Operating expenses	4,321,928	328,968	4,650,896
Depreciation	1,819,090	56,490	1,875,580
	<u>8,760,363</u>	<u>641,969</u>	<u>9,402,332</u>
Total operating expenses	<u>8,760,363</u>	<u>641,969</u>	<u>9,402,332</u>
Operating income	<u>2,285,342</u>	<u>78,125</u>	<u>2,363,467</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	15,841	-	15,841
Amortization of premium on bonds payable	56,485	-	56,485
Loss on disposal of capital assets	(15,700)	-	(15,700)
Interest and fees	(808,875)	-	(808,875)
	<u>(752,249)</u>	<u>-</u>	<u>(752,249)</u>
Non-operating revenues (expenses), net	<u>(752,249)</u>	<u>-</u>	<u>(752,249)</u>
Income before capital contributions	<u>1,533,093</u>	<u>78,125</u>	<u>1,611,218</u>
CAPITAL CONTRIBUTIONS			
Capital contributions	<u>1,016,196</u>	<u>-</u>	<u>1,016,196</u>
Change in net position	2,549,289	78,125	2,627,414
Net position, beginning of year	<u>54,384,795</u>	<u>2,733,086</u>	<u>57,117,881</u>
Net position, end of year	<u>\$ 56,934,084</u>	<u>\$ 2,811,211</u>	<u>\$ 59,745,295</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, 2022**

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 10,988,456	\$ 720,469	\$ 11,708,925
Cash paid for goods and services	(4,101,116)	(329,430)	(4,430,546)
Cash paid to employees	(2,734,292)	(263,567)	(2,997,859)
Net cash provided by operating activities	<u>4,153,048</u>	<u>127,472</u>	<u>4,280,520</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(2,134,182)	-	(2,134,182)
Principal payments on long-term debt	(1,418,557)	-	(1,418,557)
Interest payments on long-term debt	(815,575)	-	(815,575)
Cash received from capital contributions	1,141,096	-	1,141,096
Net cash used by capital and related financing activities	<u>(3,227,218)</u>	<u>-</u>	<u>(3,227,218)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	15,841	-	15,841
Net increase in cash and cash equivalents	941,671	127,472	1,069,143
Cash and cash equivalents, beginning of year	<u>21,648,768</u>	<u>1,003,076</u>	<u>22,651,844</u>
Cash and cash equivalents, end of year	<u>\$ 22,590,439</u>	<u>\$ 1,130,548</u>	<u>\$ 23,720,987</u>
CASH AND CASH EQUIVALENTS			
Unrestricted	\$ 11,956,197	\$ 1,130,548	\$ 13,086,745
Restricted	<u>10,634,242</u>	<u>-</u>	<u>10,634,242</u>
Total cash and cash equivalents	<u>\$ 22,590,439</u>	<u>\$ 1,130,548</u>	<u>\$ 23,720,987</u>

**Town of Hillsborough, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2022**

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 2,285,342	\$ 78,125	\$ 2,363,467
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,819,090	56,490	1,875,580
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
Accounts receivable	(18,268)	375	(17,893)
Deferred outflows of resources for pensions	5,989	(991)	4,998
Deferred outflows of resources for OPEB	(46,116)	(2,427)	(48,543)
Accounts payable and accrued liabilities	241,063	1,326	242,389
Deposits	(40,149)	-	(40,149)
Other current liabilities	1,168	-	1,168
Total OPEB liability	53,720	2,828	56,548
Net pension liability	(679,917)	(65,102)	(745,019)
Deferred inflows of resources for pensions	542,531	54,313	596,844
Deferred inflows of resources for OPEB	(13,154)	(692)	(13,846)
Compensated absences payable	1,749	3,227	4,976
	<u>\$ 4,153,048</u>	<u>\$ 127,472</u>	<u>\$ 4,280,520</u>
Net cash provided by operating activities			
Supplemental schedule of noncash investing and financing activities			
Capital asset additions included in accounts payable and accrued liabilities	<u>\$ 1,800</u>	<u>\$ 100,000</u>	<u>\$ 101,800</u>
Net book value of assets disposed	<u>\$ 15,700</u>	<u>\$ -</u>	<u>\$ 15,700</u>
Capital contribution from developer	<u>\$ 932,736</u>	<u>\$ -</u>	<u>\$ 932,736</u>

Town of Hillsborough, North Carolina
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2022

	<u>Custodial Fund</u>
ASSETS	
Cash and investments - restricted	\$ -
Receivables:	
Due from other governments	<u>22,356</u>
Total assets	22,356
LIABILITIES	
Payable to third-party trustee	<u>22,356</u>
NET POSITION	
Restricted for:	
Individuals, organizations and other governments	<u><u>\$ -</u></u>

Town of Hillsborough, North Carolina
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2022

	<u>Custodial Fund</u>
ADDITIONS	
Special assessment revenue	\$ 485,433
DEDUCTIONS	
Payment to third party trustee	<u>496,918</u>
Change in fiduciary net position	(11,485)
Fiduciary net position, beginning of year	<u>11,485</u>
Fiduciary net position end of year	<u><u>\$ -</u></u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting entity

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

Hillsborough Tourism Development Authority (the "Authority")

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

Hillsborough Tourism Board (the "Tourism Board")

The Tourism Board was created on November 8, 1993, by resolution of the Town, under the authority of the North Carolina General Assembly. The Tourism Board is responsible for promoting tourism within the Town of Hillsborough. The Tourism Board receives revenues through a one percent prepared food and beverage tax, which is levied and collected by the Town and remitted net of administration fees. The Tourism Board is composed of nine members appointed by the Town's Board of Commissioners.

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

B. Basis of presentation

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

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

Town of Hillsborough, North Carolina Notes to Financial Statements

Fund financial statements: The fund financial statements provide information about the Town's funds, including the fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies result from nonexchange transactions. Other nonoperating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state grants, and various other taxes and licenses. The primary expenditures are for general government administration, public safety, street maintenance and construction, and sanitation services. The Town also uses a restricted revenue fund to account for certain revenues. It is not required to be reported as a special revenue fund and is therefore combined with the General Fund.

The Town reports the following nonmajor governmental funds:

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

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

Public Works Building Capital Project Fund. This fund was used to account for, project management, construction, construction inspection, and water and sewer utilities for a new Public Works Building. This fund was closed out as of June 30, 2022 with residual fund balance transferred to the General Capital Projects Fund.

Public Safety Building Capital Project Fund. This fund was used to account for construction costs for the renovation of the Public Safety Building. This fund was closed out as of June 30, 2022 with residual fund balance transferred to 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.

Town of Hillsborough, North Carolina
Notes to Financial Statements

C. Measurement focus and basis of accounting

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

Government-wide, proprietary, and fiduciary fund financial statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value 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 Financial Statements

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

E. Assets, liabilities, deferred outflows/inflows of resources and 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. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than six months.

(2) Cash and cash equivalents

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

(3) Restricted assets

The Water and Sewer Fund has unexpended debt proceeds that are classified as restricted assets because their use is completely restricted to the purpose for which the debt agreements were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can only be expended for the purposes of maintaining, repairing, constructing, reconstruction or widening of local streets per G.S. 136-41.4. In addition, contributions from developers that are restricted by Town ordinance are restricted to the purpose of the donation.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Town of Hillsborough Restricted Cash

Governmental activities:	
General Fund:	
Streets	\$ 576,846
Restricted revenues	<u>150,987</u>
Total governmental activities	<u>727,833</u>
Business-type activities:	
Water and Sewer Fund:	
Unspent debt proceeds	2,740,057
Federal funds - ARPA	1,057,636
Customer deposits	554,979
Perpetual maintenance	915,460
Water and sewer capital needs	<u>5,366,110</u>
Total business-type activities	<u>10,634,242</u>
Total restricted cash	<u>\$ 11,362,075</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, 2021. As allowed by state law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town’s General Fund, ad valorem tax revenues are reported net of such discounts.

(5) **Allowances for doubtful accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables written off in prior years.

(6) **Prepaid items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund statements, and expensed as items are used.

(7) **Capital assets**

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

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

Town of Hillsborough, North Carolina
Notes to Financial Statements

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.

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

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

(8) “Right to Use” Leased Assets

The Town has recorded “right to use” lease assets in connection with the implementation of GASB Statement No. 87. The right to use leased assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use leased assets are amortized on a straight-line basis over the life of the related lease.

(9) 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.

(10) 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.

(11) 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

Town of Hillsborough, North Carolina Notes to Financial Statements

estimated to be used in the next fiscal year has been designated as a current liability and included in the long-term liabilities due within one year on the government-wide financial statements. Compensated absences for governmental activities are liquidated in the General Fund and compensated absences for business-type activities are liquidated in the appropriate enterprise fund.

The Town temporarily adjusted the above policy for the year ended June 30, 2022 due to COVID. The maximum accumulation of earned vacation leave increased to 360 hours through December 31, 2022. Subsequent to December 31, 2022, the maximum accumulation of earned vacation reverted back to 240 hours.

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.

(12) Net position/fund balances

Net position

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

Fund balances

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

The governmental fund types classify fund balances as follows:

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.

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

Town of Hillsborough, North Carolina

Notes to Financial Statements

of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

Assigned for subsequent year's expenditures - Portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation in the budget ordinance which expires on June 30th of the following year.

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

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

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

(13) Defined benefit cost-sharing plans

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

2. Stewardship, Compliance and Accountability

A. *Significant Violations of Finance-Related Legal and Contractual Provisions*

- Contractual Violation

The "Contract to Audit Accounts" contains a provision requiring that the audit report be submitted to the State and Local Government Finance Division within four months of the fiscal year-end. Therefore, the audited financial statements for the fiscal year ended June 30, 2022, are due by October 31, 2022. The submission of the Town's audited financial statements is substantially late in violation of the submission requirement. The Town believes this was an isolated situation due to turnover in the Town's Finance staff that occurred in the 2021 and 2022. The Town has engaged additional contractual resources to assist the Town with the preparation of year-end financial information in order to submit audited financial statements in a timelier manner. Additionally, the Town has also retained an experienced finance officer after the position had been vacant for over six months. These corrective actions have improved the timeliness of the current year audit engagement with the Town and expects to return to compliance for the fiscal year ending June 30, 2023.

3. Detail Notes on All Funds

A. Assets

(1) Deposits and Investments

All of the deposits of the Town, the Authority, and the Tourism Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's, the Authority's, or the Tourism Board's agents in the entities' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is 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 \$4,571,361 and a bank balance of \$4,640,496 at June 30, 2022. Of the bank balance, \$328,593 was covered by federal depository insurance and \$4,311,903 in demand deposits were covered under the Pooling Method. The Town had \$1,050 in petty cash on hand at June 30, 2022.

The Authority's deposits had a carrying amount \$414,673 and bank balance of \$414,938 at June 30, 2022. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$164,938 was covered under the Pooling Method.

The Tourism Board's deposits had a carrying amount of \$437,548 and a bank balance of \$438,250 at June 30, 2022. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$188,250 of demand deposits were covered under the Pooling Method.

Town of Hillsborough, North Carolina
Notes to Financial Statements

Investments

The following table summarizes the Town’s investment balances at June 30, 2022:

<u>Investments by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2022</u>	<u>Maturity</u>	<u>Rating</u>
North Carolina Capital Management Trust - Governmental Portfolio	Level 1	<u>\$ 32,321,630</u>	N/A	AAAm

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

Level of fair value hierarchy:

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

The Town does not have a formal investment policy.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town’s investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town’s investment in the NCCMT - Government Portfolio carried a credit rating of AAAm by Standard & Poor’s as of June 30, 2022.

(3) Due from other governments

Amounts due from other governments consist of the following:

	<u>Governmental Activities</u>
General Fund:	
Sales and use tax distribution	\$ 971,731
Utilities franchise and telecommunications tax	152,809
Sales tax refunds	128,929
Other government agencies	<u>84,264</u>
Total General Fund	1,337,733
Other governmental funds:	
Federal government - CDBG	<u>97,496</u>
Total due from other governments	<u>\$ 1,435,229</u>

(4) Receivables - allowances for doubtful accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2022 are net of the following allowances for doubtful accounts:

Town of Hillsborough, North Carolina
Notes to Financial Statements

	Governmental Activities
General Fund:	
Property taxes receivable	\$ 40,000
	Business-type Activities
Water and Sewer Fund:	
Accounts receivable	\$ 236,617
Stormwater Fund:	
Accounts receivable	6,113
	\$ 242,730
Total allowance for doubtful accounts	

(5) Due from related governments

The Town - Amounts due from related governments consist of \$62,039 owed to the Town from the Authority for reimbursement of occupancy taxes incorrectly calculated and remitted to the Authority. The oversight was identified and corrected after year-end.

The Tourism Board - Amounts due from related governments consist of \$95,067 owed to the Tourism Board from the Town for food and beverage taxes collected by the Town and remitted to the Tourism Board.

(6) Capital assets

The following table summarizes capital asset activity for the Town's governmental activities during the year ended June 30, 2022.

	Beginning Balances	Additions	Deletions	Ending Balances
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 4,879,989	\$ -	\$ -	\$ 4,879,989
Construction-in-progress	253,140	613,459	-	866,599
	<u>5,133,129</u>	<u>613,459</u>	<u>-</u>	<u>5,746,588</u>
Capital assets being depreciated:				
Buildings and improvements	9,180,670	23,635	-	9,204,305
Infrastructure	13,107,948	92,746	-	13,200,694
Equipment	1,092,987	146,032	37,432	1,201,587
Vehicles	4,373,609	768,560	319,281	4,822,888
	<u>27,755,214</u>	<u>1,030,973</u>	<u>356,713</u>	<u>28,429,474</u>
Less accumulated depreciation for:				
Buildings and improvements	3,024,369	465,371	-	3,489,740
Infrastructure	1,736,739	325,945	-	2,062,684
Equipment	729,366	85,695	10,523	804,538
Vehicles	4,039,186	281,154	319,281	4,001,059
	<u>9,529,660</u>	<u>1,158,165</u>	<u>329,804</u>	<u>10,358,021</u>
Capital assets being depreciated, net	<u>18,225,554</u>	<u>(127,192)</u>	<u>26,909</u>	<u>18,071,453</u>
Capital assets, net	<u>\$ 23,358,683</u>	<u>\$ 486,267</u>	<u>\$ 26,909</u>	<u>\$ 23,818,041</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

Depreciation expense was charged to the following functions:

General government	\$ 263,803
Public safety	270,925
Transportation	382,174
Economic and physical development	147,239
Environmental protection	94,024
	<u>\$ 1,158,165</u>

The following tables summarize capital asset activity for the Town's business-type activities during the year ended June 30, 2022.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Water and sewer:</i>				
Capital assets not depreciated:				
Land	\$ 6,099,275	\$ -	\$ -	\$ 6,099,275
Construction-in-progress	2,404,404	1,275,323	-	3,679,727
	<u>8,503,679</u>	<u>1,275,323</u>	<u>-</u>	<u>9,779,002</u>
Capital assets being depreciated:				
Buildings and improvements	38,619,805	374,331	-	38,994,136
Plant and distribution systems	36,125,022	932,736	-	37,057,758
Infrastructure	753,434	-	-	753,434
Equipment	1,861,646	8,993	41,877	1,828,762
Vehicles	1,036,413	316,044	43,748	1,308,709
	<u>78,396,320</u>	<u>1,632,104</u>	<u>85,625</u>	<u>79,942,799</u>
Less accumulated depreciation for:				
Buildings and improvements	11,814,377	677,827	-	12,492,204
Plant and distribution systems	11,396,626	976,375	-	12,373,001
Infrastructure	153,098	23,195	-	176,293
Equipment	1,378,029	98,548	41,877	1,434,700
Vehicles	905,046	43,145	28,048	920,143
	<u>25,647,176</u>	<u>1,819,090</u>	<u>69,925</u>	<u>27,396,341</u>
Capital assets being depreciated, net	<u>52,749,144</u>	<u>(186,986)</u>	<u>15,700</u>	<u>52,546,458</u>
Capital assets, net	<u>\$ 61,252,823</u>	<u>\$ 1,088,337</u>	<u>\$ 15,700</u>	<u>\$ 62,325,460</u>

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Stormwater:</i>				
Capital assets not depreciated:				
Land	\$ 33,813	\$ -	\$ -	\$ 33,813
Construction-in-progress	-	100,000	-	100,000
	<u>33,813</u>	<u>100,000</u>	<u>-</u>	<u>133,813</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

	Beginning Balances	Additions	Deletions	Ending Balances
Business-type activities:				
<i>Stormwater (Continued):</i>				
Capital assets being depreciated:				
Infrastructure	\$ 2,133,177	\$ -	\$ -	\$ 2,133,177
Equipment	31,606	-	-	31,606
Vehicles	20,762	-	-	20,762
	<u>2,185,545</u>	<u>-</u>	<u>-</u>	<u>2,185,545</u>
Less accumulated depreciation for:				
Infrastructure	395,018	53,329	-	448,347
Equipment	6,598	3,161	-	9,759
Vehicles	20,762	-	-	20,762
	<u>422,378</u>	<u>56,490</u>	<u>-</u>	<u>478,868</u>
Capital assets being depreciated, net	<u>1,763,167</u>	<u>(56,490)</u>	<u>-</u>	<u>1,706,677</u>
Capital assets, net	<u>\$ 1,796,980</u>	<u>\$ 43,510</u>	<u>\$ -</u>	<u>\$ 1,840,490</u>

(7) Right to Use Leased Assets

The Town is the lessee for non-cancellable leases of several assets. The Town recognizes lease liabilities and intangible assets for the right to use leased assets in the Town's governmental activities. The Town does not have any leases used in business-type activities that meet the criteria of the new lease standard. The lease liabilities are discussed in Note 3.B., Leases. The right-to-use assets are being amortized on a straight-line basis over the lease terms. The following is a summary of the Town's lease activity for the year ended June 30, 2022:

	Beginning Balances	Additions	Deletions	Ending Balances
Governmental activities:				
Right to Use Leased Assets:				
Land improvements	\$ -	\$ 5,763	\$ -	\$ 5,763
Buildings	-	103,215	-	103,215
Equipment	-	35,086	-	35,086
	<u>-</u>	<u>144,064</u>	<u>-</u>	<u>144,064</u>
Less accumulated amortization for:				
Land improvements	-	1,235	-	1,235
Buildings	-	31,538	-	31,538
Equipment	-	8,264	-	8,264
	<u>-</u>	<u>41,037</u>	<u>-</u>	<u>41,037</u>
Right to Use leased assets, net	<u>\$ -</u>	<u>\$ 103,027</u>	<u>\$ -</u>	<u>\$ 103,027</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(8) Construction commitments

The Town has active construction projects as of June 30, 2022 with the following remaining commitments:

	<u>Spent to Date</u>	<u>Estimated Remaining Commitment</u>
Governmental Projects:		
Transportation Improvement Project ("TIP")	\$ 28,062	\$ 1,050,938
Valley Forge Road Project	644,959	558,958
NC 86 Renovation Project	10,000	2,215,982
Other projects	143,543	565,103
Business-type Projects:		
Mill Creek Road Project	2,971,253	306,543
WTP projects - ARPA	83,460	140,000
West Fork Eno Reservoir Project	-	735,734
Various water and sewer projects	1,237,845	2,295,454
	<u>\$ 5,119,122</u>	<u>\$ 7,868,712</u>

B. Liabilities

(1) Pension plans and postemployment obligations

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

Plan description. The Town is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the state of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers ("LEOs") of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report ("ACFR") for the state of North Carolina. The State's ACFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Benefits provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible

Town of Hillsborough, North Carolina
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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, 2022 was 12.1% of compensation for law enforcement officers and 11.35% 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 \$766,857 for the year ended June 30, 2022.

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, 2022, of \$1,225,190 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 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, 2021 (measurement date), was 0.07989%, which was a decrease of 0.01226% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Town recognized pension expense of \$458,991. The Town reported, at June 30, 2022, deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 389,777	\$ -
Changes in assumptions and/or other inputs	769,732	-
Net difference between projected and actual earnings on pension plan investments	-	1,750,429
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,518	194,422
Contributions subsequent to the measurement date	766,857	-
	<u>\$ 1,943,884</u>	<u>\$ 1,944,851</u>
Total deferrals		

\$766,857 of the amount 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 ended June 30, 2023.

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

Years ending June 30:

2023	\$ 54,918
2024	(94,687)
2025	(192,413)
2026	<u>(535,642)</u>
Total	<u>\$ (767,824)</u>

Actuarial assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25 to 8.25%, including inflation and productivity factor
Investment rate of return	6.50%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2019.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100.0%</u>	

Town of Hillsborough, North Carolina
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The information above is based on 30-year expectations developed with the consulting actuary for the 2020 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 2.5 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)	<u>\$ 4,756,085</u>	<u>\$ 1,225,190</u>	<u>\$ (1,680,532)</u>

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

(b) Law Enforcement Officers’ Special Separation Allowance

(i) Plan description.

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. The Separation Allowance’s membership, at December 31, 2020 (valuation date), consisted of:

Inactive members currently receiving benefits	2
Active plan members	<u>25</u>
Total	<u><u>27</u></u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(ii) *Summary of significant accounting policies*

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

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

(iii) *Actuarial assumptions:*

The entry age actuarial cost method was used in the December 31, 2020 valuation. The total pension liability in the December 31, 2020 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 (includes inflation at 2.50% and real wage growth of 0.75%)
Discount rate	2.25 percent (includes inflation at 2.50%)

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

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

(iv) *Change in actuarial assumptions:*

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

The Municipal Bond Index Rate increased from 1.93 percent to 2.25 percent.

(v) *Contributions:*

The Town is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$25,494 as benefits came due for the reporting period.

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

At June 30, 2022, the Town reported a total pension liability of \$1,172,974. The total pension liability was based on a December 31, 2020 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2021 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2022, the Town recognized pension expense of \$155,462.

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 91,434	\$ 166,029
Changes in assumptions and/or other inputs	272,600	36,955
Benefit payments and administrative costs made subsequent to the measurement date	<u>15,057</u>	<u>-</u>
Total deferrals	<u>\$ 379,091</u>	<u>\$ 202,984</u>

The \$15,057 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:

2023	\$ 58,188
2024	51,565
2025	43,567
2026	40,395
2027	<u>(32,665)</u>
Total	<u>\$ 161,050</u>

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

The following presents the Town's total pension liability calculated using the discount rate of 2.25 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 (1.25 percent) or 1-percentage-point higher (3.25 percent) than the current rate:

	<u>1% Decrease (1.25%)</u>	<u>Discount Rate (2.25%)</u>	<u>1% Increase (3.25%)</u>
Total pension liability	<u>\$ 1,274,211</u>	<u>\$ 1,172,974</u>	<u>\$ 1,080,554</u>

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

	<u>2021</u>
Beginning balance	\$ 1,316,618
Service cost	73,164
Interest on the total pension liability	25,142
Differences between expected and actual experience in the measurement of the total pension liability	(182,736)
Changes in assumptions and/or other inputs	(31,409)
Benefit payments	<u>(27,805)</u>
Ending balance	<u>\$ 1,172,974</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 458,991	\$ 155,462	\$ 614,453
Pension liabilities	1,225,190	1,172,974	2,398,164
Proportionate share of net pension liability	0.07989%	N/A	N/A
Deferred outflows of resources:			
Differences between expected and actual experience	389,777	91,434	481,211
Changes in assumptions and/or other inputs	769,732	272,600	1,042,332
Changes in proportion and differences between contributions and proportionate share of contributions	17,518	-	17,518
Contributions, benefit payments, and administrative costs paid subsequent to the measurement date	766,857	15,057	781,914
Deferred inflows of resources:			
Differences between expected and actual experience	-	166,029	166,029
Changes in assumptions and/or other inputs	-	36,955	36,955
Net difference between projected and actual earnings on plan investments	1,750,429	-	1,750,429
Changes in proportion and differences between contributions and proportionate share of contributions	194,422	-	194,422

(d) Supplemental Retirement Income Plan

Plan description. The Town contributes to the Supplemental Retirement Income Plan (the "Plan"), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to all permanent full-time employees, as well as law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. All employees begin participation at the date of employment. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the ACFR for the state of North Carolina. The State's ACFR includes the pension trust fund financial statements for the Internal Revenue Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. The Town makes an equal contribution of 5 percent of monthly salary to all other permanent full-time employees. Also, the participants may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2022 were \$567,941, which consisted of \$346,476 from the Town and \$221,465 from employees.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(2) Other postemployment benefit

Healthcare Benefits

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

<u>Retired Employees' Years of Creditable Service</u>	<u>Law Enforcement</u>		<u>Non-Law Enforcement</u>	
	<u>Hired Before February 9, 2009</u>	<u>Hired On or After February 9, 2009</u>	<u>Hired Before February 9, 2009</u>	<u>Hired On or After February 9, 2009</u>
Less than 20 years' continuous service	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
20 or more years' continuous service:				
Before age 52	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
Age 52 to 55	Full coverage paid for by Town	Not eligible for coverage	Not eligible for coverage	Not eligible for coverage
Age 55 until eligible for Medicare	Full coverage paid for by Town	Not eligible for coverage	Full coverage paid for by Town	Not eligible for coverage
30 or more years' continuous service:				
Before age 57	Full coverage paid for by Town	Not eligible for coverage	Full coverage paid for by Town	Not eligible for coverage
Age 57 to 60	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town	Not eligible for coverage
Age 60 until eligible for Medicare	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town	Full coverage paid for by Town

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

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

Town of Hillsborough, North Carolina
Notes to Financial Statements

Total OPEB liability

The Town's total OPEB liability of \$1,460,043 was measured as of June 30, 2021 and was determined by an actuarial valuation as of June 30, 2021.

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

Inflation and wage inflation	2.50 percent and 3.25 percent, respectively
Real wage growth	0.75 percent
Salary increases	3.25 to 8.41 percent, including inflation and varying by position classes
Discount rate	2.16 percent
Healthcare cost trend rates	7.00 percent decreasing to an ultimate rate of 4.50 percent by 2031

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

Changes in the total OPEB liability

	<u>2021</u>
Beginning balance	\$ 1,318,673
Service cost	48,010
Interest on the total pension liability	29,433
Differences between expected and actual experience in the measurement of the total pension liability	(34,606)
Changes in assumptions and/or other inputs	168,641
Net benefit payments and implicit subsidy credit	<u>(70,108)</u>
Ending balance	<u>\$ 1,460,043</u>

The net benefit payments shown above include the implicit subsidy (if any) for the year. Changes in assumptions and other inputs reflect a change in the discount rate from 2.21 percent to 2.16 percent.

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

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

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

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.16 percent) or 1 percentage point higher (3.16 percent) than the current rate:

	<u>1% Decrease (1.16%)</u>	<u>Discount Rate (2.16%)</u>	<u>1% Increase (3.16%)</u>
Total OPEB liability	<u>\$ 1,575,391</u>	<u>\$ 1,460,043</u>	<u>\$ 1,353,304</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

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:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Healthcare</u> <u>Trend Rate</u>	<u>1%</u> <u>Increase</u>
Total OPEB liability	<u>\$ 1,325,747</u>	<u>\$ 1,460,043</u>	<u>\$ 1,613,245</u>

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

The Town recognized OPEB expense of \$50,329 for the year ended June 30, 2022. The Town reported, at June 30, 2022, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences between expected and actual experience	\$ 30,566	\$ 340,684
Changes in assumptions and/or other inputs	263,381	58,510
Benefit payments and administrative costs made subsequent to the measurement date	<u>37,999</u>	<u>-</u>
Total deferrals	<u>\$ 331,946</u>	<u>\$ 399,194</u>

\$37,999 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 ended June 30, 2023. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30:

2023	\$ (28,190)
2024	(28,190)
2025	(28,190)
2026	(25,878)
2027	(17,889)
Thereafter	<u>23,090</u>
Total	<u>\$ (105,247)</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(3) Other employment benefit

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

(4) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities at June 30, 2022 were as follows:

	Governmental Activities		
	General Fund	Other Governmental Funds	Total
Accounts payable to vendors	\$ 422,611	\$ 395,798	\$ 818,409
Accrued payroll and related liabilities	272,662	-	272,662
Other	-	-	-
	<u>\$ 695,273</u>	<u>\$ 395,798</u>	<u>\$ 1,091,071</u>
	Business-type Activities		
	Water and Sewer Fund	Stormwater Fund	Total
Accounts payable to vendors	\$ 418,715	\$ 101,443	\$ 520,158
Accrued payroll and related liabilities	99,902	10,193	110,095
Other	274	-	274
	<u>\$ 518,891</u>	<u>\$ 111,636</u>	<u>\$ 630,527</u>
	Component Units		
	The Authority	The Tourism Board	Total
Accounts payable to vendors	\$ 1,110	\$ 20,407	\$ 21,517
Accrued payroll and related liabilities	-	-	-
Other	-	-	-
	<u>\$ 1,110</u>	<u>\$ 20,407</u>	<u>\$ 21,517</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(5) Due to related governments

The amounts due to related governments are the inverse of the corresponding receivables disclosed in Note 3.A.(5).

(6) Unearned revenue

Unearned revenue consists of unspent federal funds in the amount of \$1,057,636 received under the “American Rescue Plan Act of 2021” (“ARPA”). The federal funds have eligibility requirements that must be met before the revenue can be recognized.

(7) Deferred outflows and inflows of resources

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

	<u>Modified Accrual</u>	<u>Full Accrual</u>
Governmental activities:		
Pension - LGERS	\$ -	\$ 1,339,142
Pension - LEOSSA	-	379,091
OPEB	-	199,168
Total	<u>\$ -</u>	<u>\$ 1,917,401</u>
Business-type activities:		
Pension - LGERS		\$ 604,742
OPEB		132,778
Total		<u>\$ 737,520</u>

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

	<u>Modified Accrual</u>	<u>Full Accrual</u>
Governmental activities:		
Unavailable revenue:		
Property taxes receivable	\$ 142,128	\$ -
Pension - LGERS	-	1,339,808
Pension - LEOSSA	-	202,984
OPEB	-	239,517
Total governmental activities	<u>\$ 142,128</u>	<u>\$ 1,782,309</u>
Business-type activities:		
Pension - LGERS		\$ 605,043
OPEB		159,677
Total business-type activities		<u>\$ 764,720</u>

(8) Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$5 million per occurrence; auto liability coverage of \$5 million per occurrence; property coverage up to the total insurance values of the property policy; and workers’ compensation coverage up to statutory limits. The property/liability and workers compensation pools are reinsured through commercial companies for

Town of Hillsborough, North Carolina
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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 (\$63,995,731); general liability (\$5 million per occurrence); law enforcement liability (\$5 million per occurrence); public employees scheduled bond (\$60,000 - includes \$50,000 for the finance director and \$10,000 for the deputy tax collector), public employees blanket bond/crime (\$10,000); computer equipment (\$786,100); municipal equipment (\$985,307); fine arts (\$500,000); and public officials' liability (\$5 million per occurrence). There have been no significant reductions in insurance coverage in the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The old motor pool facility is in an area of the state that has been mapped and designated an "A" area (an area close to a river) by the Federal Emergency Management Agency. Flood coverage on the old, dilapidated facility has been discontinued since the building is now used for storage only. Other town structures are designated as "B, C and X" areas (low-risk areas) and are insured for flood damage through the Interlocal Risk Financing Fund of North Carolina pool for \$5 million per occurrence and aggregate with a \$50,000 deductible. There is no coverage through the Interlocal Fund for structures in any flood zone other than "B, C, and X."

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

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

(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 3.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 April 2008, in the amount of \$1,226,000 for the construction of a Town Park and Improvements. The note is payable in 30 semi-annual payments of \$40,867 plus interest at 2.22%, and is secured by such assets. \$ 81,734
- Note payable to BB&T, executed in July 2013, in the amount of \$438,057 for the refinance of a note payable for the purchase of land for municipal operations. The note is payable in 21 semi-annual payments of \$20,860 plus interest at 2.22%, and is secured by land. The previous note payable on the land for municipal operations included interest at 3.92%. 62,580
- 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-

Town of Hillsborough, North Carolina
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annual payments of \$36,482 plus interest at 2.44%, and is secured by real property and a building. The previous note payable on the fleet maintenance facility included interest at 3.79%.	\$ 182,410
<ul style="list-style-type: none"> Note payable to BB&T, executed August 2014, in the amount of \$615,368 for the purchase of land for municipal operations. The note is payable in 30 semi-annual payments of \$20,512 plus interest and matures in August 2029. Interest is payable at 2.88% and the note payable is secured by the land. 	307,683
<ul style="list-style-type: none"> Note payable to BB&T, executed September 2017, in the amount of \$465,522 for the purchase of police vehicles. The note is payable in nine semi-annual payments of \$54,509 with interest payable at 1.86%, and is secured by the vehicles. 	54,006
<ul style="list-style-type: none"> Note payable to Capital One, executed April 2018, in the amount of \$2,770,000 to finance renovations for the Town's North Campus location and the Town Barn. The note is payable in fifteen annual payments of \$239,296 with interest payable at 3.56%, and is secured by the mortgaged property. This note is allocated 83.65% to governmental activities, and 16.35% to business-type activities, and accordingly, the annual payments made out of the general fund will be \$200,171, which commenced on January 1, 2019. 	1,795,954
<ul style="list-style-type: none"> Note payable to U.S. Bancorp, executed December 2020, in the amount of 300,000 to finance the purchase of a garbage truck. The note is payable in five annual payments of \$62,617 with interest payable at 1.44%, and is secured by the garbage truck. 	<u>241,703</u>
	2,726,070
Less: current portion	<u>(486,819)</u>
	<u>\$ 2,239,251</u>

The future minimum payments for direct placement installment purchases, at June 30, 2022, related to governmental activities are as follows:

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 486,819	\$ 83,010	\$ 569,829
2024	335,922	71,556	407,478
2025	284,464	62,476	346,940
2026	254,062	54,772	308,834
2027	197,720	47,315	245,035
2028-2032	973,793	134,052	1,107,845
2033	193,290	6,881	200,171
	<u>\$ 2,726,070</u>	<u>\$ 460,062</u>	<u>\$ 3,186,132</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(a) Direct Placement Installment purchases

Business-type activities:

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

	\$	351,031
Less: current portion		<u>(26,628)</u>
	\$	<u>324,403</u>

The future minimum payments for direct placement installment purchases, at June 30, 2022, related to business-type activities are as follows:

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 26,628	\$ 12,497	\$ 39,125
2024	27,576	11,549	39,125
2025	28,558	10,567	39,125
2026	29,574	9,550	39,124
2027	30,627	8,498	39,125
2028-2032	170,288	25,336	195,624
2033	37,780	1,345	39,125
	<u>\$ 351,031</u>	<u>\$ 79,342</u>	<u>\$ 430,373</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, 2022.

(b) Leases payable

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, 2022 was \$4,528 with accumulated amortization of \$1,235.

	\$	4,408
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- The Town is a lessee of a 36-month lease of a building used as a police training facility. An initial lease liability was recorded in the amount of \$103,215. The Town is required to make monthly payments of \$3,150. The lease has an interest rate of 0.6320%. The net book value of the right to use asset for the year ended June 30, 2022 was \$71,677 with accumulated amortization of \$31,538.

	78,323
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Town of Hillsborough, North Carolina
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<ul style="list-style-type: none"> The Town is a lessee of a 60-month lease of multi-functional devices. An initial lease liability was recorded in the amount of \$24,111. The Town is required to make monthly payments of \$406. The lease has an interest rate of .04130%. There are variable payment components of the lease. The net book value of the right to use asset for the year ended June 30, 2022 was \$20,601 with accumulated amortization of \$3,510. 	\$ 20,522
<ul style="list-style-type: none"> The Town is a lessee of a 27-month lease of multi-functional devices. An initial lease liability was recorded in the amount of \$10,975. The Town is required to make monthly payments of \$409. The lease has an interest rate of 0.5140%. There are variable payment components of the lease. The net book value of the right to use asset for the year ended June 30, 2022 was \$6,221 with accumulated amortization of \$4,754. 	6,112
	109,365
Less current portion	(49,546)
	<u>\$ 59,819</u>

The future minimum leases payments, at June 30, 2022, related to governmental activities are as follows:

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 49,546	\$ 494	\$ 50,040
2024	47,378	203	47,581
2025	6,368	41	6,409
2026	4,856	16	4,872
2027	1,217	1	1,218
	<u>\$ 109,365</u>	<u>\$ 755</u>	<u>\$ 110,120</u>

(c) 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, 2022 was \$304,891.
- On October 6, 2011, the Town was approved for a maximum loan amount of \$18,894,640 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Clean Water State Revolving Fund. The loan proceeds were used for a Wastewater Treatment Plant Upgrade and Expansion Project. In 2014, the Town was approved for a maximum loan in the amount of \$17,810,007 plus interest from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan is repayable in equal principal payments of \$890,500 plus interest of 2.455% through fiscal year ending 2034. The total amount outstanding at June 30, 2022 was \$10,686,004.

Town of Hillsborough, North Carolina
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- On October 6, 2014, the Town was approved for a maximum loan amount of \$2,029,398 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan proceeds are being used for the Waterstone Elevated Water Tank Project. The first payment was made on the note in April 2016. The loan is repayable in a principal payment of \$72,078 due on May 1, 2019, followed by equal principal payments of \$94,122 annually on May 1st, with no interest, through fiscal year ending 2035. The total amount outstanding at June 30, 2022 was \$1,223,584.

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

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,060,845	\$ 270,451	\$ 1,331,296
2024	1,060,845	246,563	1,307,408
2025	1,060,845	222,672	1,283,517
2026	1,060,845	198,784	1,259,629
2027	984,622	174,894	1,159,516
2028-2032	4,923,113	546,544	5,469,657
2033-2035	2,063,364	65,586	2,128,950
	<u>\$ 12,214,479</u>	<u>\$ 1,725,494</u>	<u>\$ 13,939,973</u>

(d) Special revenue bonds payable

Business-type activities:

- On May 24, 2018, the City issued \$10,155,000 of special revenue bonds secured by water and sewer utility revenues for improvements to the water and sewer system, including renovation and expansion of the Town's West Fork of the Eno Reservoir; \$6,500,000 were issued as serial bonds and \$3,655,000 were issued as term bonds. The purchase price of the bonds was \$11,180,846, resulting in a premium upon issuance of \$1,025,846. The serial bonds carry interest rates of 4.00% to 5.00% and mature between October 1, 2020, and October 1, 2038. The term bonds were divided into two lots with \$1,765,000 paying 3.375% due between October 1, 2039 and October 1, 2040, and \$1,890,000 paying 3.50% due between October 1, 2041 and October 1, 2042. All term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates. \$10,105,000 remains outstanding at June 30, 2022.

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

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 30,000	\$ 447,469	\$ 477,469
2024	30,000	445,969	475,969
2025	30,000	444,469	474,469
2026	30,000	442,969	472,969
2027	35,000	441,344	476,344
2028-2032	1,260,000	2,125,844	3,385,844
2033-2037	3,415,000	1,477,718	4,892,718
2038-2042	4,315,000	575,602	4,890,602
2043	960,000	16,800	976,800
	<u>\$ 10,105,000</u>	<u>\$ 6,418,184</u>	<u>\$ 16,523,184</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(e) 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. \$2,672,000 remains outstanding at June 30, 2022.

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

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 310,000	\$ 52,906	\$ 362,906
2024	317,000	46,768	363,768
2025	325,000	40,490	365,490
2026	333,000	34,056	367,056
2027	336,000	27,463	363,463
2028-2030	1,051,000	41,857	1,092,857
	<u>\$ 2,672,000</u>	<u>\$ 243,540</u>	<u>\$ 2,915,540</u>

(f) Debt Covenants

Business-type activities:

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

The debt service coverage ratio calculation is as follows:

	<u>2022</u>
Operating revenues	\$ 11,045,705
Operating expenses (excluding depreciation)	(6,941,273)
Operating income	4,104,432
Nonoperating revenues (expenses)	(752,249)
Income available for debt service - {A}	<u>\$ 3,352,183</u>
Unrestricted net position (system fund balance)	<u>\$ 9,000,751</u>
15% of Unrestricted Net Position - {B}	<u>\$ 1,350,113</u>
Total Balance for 120% Parity ({A}+{B})	<u>\$ 4,702,296</u>
Debt service, principal and interest (Revenue bond only)	<u>\$ 839,828</u>
Debt service coverage ratio on first-lien debt	<u>5.60</u>
Debt service all debt (total balance for 100%)	<u>\$ 2,234,132</u>
Debt service coverage ratio on all debt together	<u>1.50</u>

Town of Hillsborough, North Carolina
Notes to Financial Statements

(g) Changes in long-term liabilities

The following table summarizes changes in the Town's long-term liabilities during the year ended June 30, 2022.

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
Direct placement installment purchases	\$ 3,357,562	\$ -	\$ 631,492	\$ 2,726,070	\$ 486,819
Leases payable	-	144,064	34,699	109,365	49,546
Compensated absences	271,383	336,259	159,016	448,626	159,000
Total OPEB liability	791,204	84,822	-	876,026	-
Net pension liability - LGERS	2,166,736	-	1,322,703	844,033	-
Total pension liability - LEOSSA	1,316,618	-	143,644	1,172,974	-
Total Governmental activities	\$ 7,903,503	\$ 565,145	\$ 2,291,554	\$ 6,177,094	\$ 695,365
Business-type activities:					
<i>Water and sewer:</i>					
Direct placement installment purchases	\$ 376,744	\$ -	\$ 25,713	\$ 351,031	\$ 26,628
Revolving loans payable	13,275,323	-	1,060,844	12,214,479	1,060,845
Special revenue bonds payable	13,109,000	-	332,000	12,777,000	340,000
Premium on bonds payable	864,186	-	56,485	807,701	56,312
Compensated absences	293,283	125,877	124,128	295,032	124,100
Total OPEB liability	501,096	53,720	-	554,816	-
Net pension liability - LGERS	1,026,401	-	679,917	346,484	-
Total - water and sewer	29,446,033	179,597	2,279,087	27,346,543	1,607,885
<i>Stormwater:</i>					
Compensated absences	9,850	17,819	14,592	13,077	13,077
Total OPEB liability	26,373	2,828	-	29,201	-
Net pension liability - LGERS	99,775	-	65,102	34,673	-
Total - stormwater	135,998	20,647	79,694	76,951	13,077
Total business-type activities	\$ 29,582,031	\$ 200,244	\$ 2,358,781	\$ 27,423,494	\$ 1,620,962

(h) 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, 2022 was approximately \$99,729,000 and a legal debt margin of approximately \$96,371,000 after deducting certain outstanding debt balances.

Town of Hillsborough, North Carolina
Notes to Financial Statements

(i) **Special assessment debt**

Town issued \$4,630,000 of Special Assessment Revenue Bonds (in October, 2013) to finance the construction of public infrastructure in the Waterstone District. The Town is in no manner obligated to repay this special assessment debt and functions only as a custodial for the property owners by remitting collections of special assessments to the Trustee. The outstanding balance of special assessment debt at June 30, 2022 was \$870,000.

C. Interfund balances and activity

(1) Transfers to/from other funds

<u>Fund</u>	<u>General Capital Projects Fund</u>	<u>General Capital Reserve Fund</u>	<u>Transfers to other Funds</u>
General Fund	\$ 1,009,270	\$ 300,000	\$ 1,309,270
Public Works Building Capital Project	128,200	-	128,200
Public Safety Building Capital Project	61,613	-	61,613
Transfers from other funds	\$ 1,199,083	\$ 300,000	\$ 1,499,083

The transfers from the General Fund were for various capital projects. The transfers from the Public Works Building and Public Safety Building capital project funds to the General Capital Projects Fund are residual balances from completed projects that will be appropriated for future capital projects.

<u>Fund</u>	<u>Utilities Capital Improvements Fund</u>	<u>Sewer System Development Fee Reserve</u>	<u>Water System Development Fee Reserve</u>	<u>Transfers within the Water and Sewer Fund</u>
Water and Sewer Operating Fund	\$ 429,200	\$ 112,424	\$ 149,408	\$ 691,032
Water System Development Fee Reserve Fund	30,000	-	-	30,000
Sewer System Development Fee Reserve Fund	380,000	-	-	380,000
Transfers within the Water and Sewer Fund	\$ 839,200	\$ 112,424	\$ 149,408	\$ 1,101,032

The above transfer activity was budgeted for various purposes within the Town's Water and Sewer system. The above funds are combined and reported as the Water and Sewer Fund and all transfers within these funds are eliminated.

Town of Hillsborough, North Carolina
Notes to Financial Statements

D. Net Position/Fund Balances

(1) Net Investment in capital assets

	Governmental Activities	Business-type Activities	
		Water and Sewer	Stormwater
Capital assets, net	\$ 23,921,068	\$ 62,325,460	\$ 1,840,490
Less:			
Capital related debt	(2,835,435)	(25,342,510)	-
Unamortized premium on capital related debt	-	(807,701)	-
Accounts payable from restricted assets	-	(1,800)	-
Add:			
Unspent debt proceeds	-	2,740,057	-
Net investment in capital assets	<u>\$ 21,085,633</u>	<u>\$ 38,913,506</u>	<u>\$ 1,840,490</u>

(2) Fund Balance

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

General Fund:	
Total fund balance	\$ 12,004,024
Less:	
Stabilization by state statute	2,458,060
Restricted for streets	576,846
Restricted revenues	150,987
Appropriated in next year's budget	743,482
Fund balance policy - 33% of operating expenditures	<u>3,659,318</u>
Available fund balance	<u>\$ 4,415,331</u>

The outstanding encumbrances, reflected in stabilization by state statute, are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. Outstanding encumbrances in the General Fund at June 30, 2022 were \$975,779.

4. 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.

5. Contingencies

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

6. Subsequent Events

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

- a. The federal government's American Rescue Plan Act of 2021 included \$2,282,192 of funding allocated to the Town. The Town received the first half of this funding during the year ended June 30, 2022 and received the final installment on July 22, 2022. The funds will be used to finance water and sewer system improvements. The balance of the unspent funds is recorded as unearned revenue and will be recognized as the eligibility requirements are met.
- b. The Town increased water and sewer rates effective July 1, 2022 by 4.5 percent and 2.0 percent, respectively. The water rate increases are intended to provide funding for existing debt service requirements and self-funding of future capital improvements. The sewer rate increases are intended to partially provide for future capital improvements.

7. Change in Accounting Principle

The Town implemented GASB Statement No. 87, *Leases* (effective July 1, 2021). The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset. As such, there was no effect on beginning net position.



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Required Supplementary Financial Data (Unaudited)

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

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

Management's Discussion and Analysis (pages 4 through 13) is also RSI. It is presented immediately before the basic financial statements.



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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 1,316,618	\$ 783,583	\$ 727,333	\$ 641,574	\$ 566,336
Service cost	73,164	54,522	46,881	49,048	37,358
Interest on the total pension liability	25,142	25,173	26,226	19,749	21,303
Difference between expected and actual experience in the measurement of the total pension liability	(182,736)	96,611	(28,494)	80,147	(520)
Changes of assumptions or other inputs	(31,409)	379,515	25,289	(29,947)	45,993
Benefit payments	(27,805)	(22,786)	(13,652)	(33,238)	(28,896)
Other changes	-	-	-	-	-
Ending balance	<u>\$ 1,172,974</u>	<u>\$ 1,316,618</u>	<u>\$ 783,583</u>	<u>\$ 727,333</u>	<u>\$ 641,574</u>

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 556,718	N/A	N/A	N/A	N/A
Service cost	36,956	N/A	N/A	N/A	N/A
Interest on the total pension liability	19,286	N/A	N/A	N/A	N/A
Difference between expected and actual experience in the measurement of the total pension liability	-	N/A	N/A	N/A	N/A
Changes of assumptions or other inputs	(13,621)	N/A	N/A	N/A	N/A
Benefit payments	(33,003)	N/A	N/A	N/A	N/A
Other changes	-	N/A	N/A	N/A	N/A
Ending balance	<u>\$ 566,336</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to the Schedule:

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

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

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 1,172,974	\$ 1,316,618	\$ 783,583	\$ 727,333	\$ 641,574
Covered payroll	1,658,837	1,914,214	1,831,895	1,830,296	1,670,805
Total pension liability as a percentage of covered payroll	<u>70.71%</u>	<u>68.78%</u>	<u>42.77%</u>	<u>39.74%</u>	<u>38.40%</u>
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total pension liability	\$ 566,336	N/A	N/A	N/A	N/A
Covered payroll	1,650,937	N/A	N/A	N/A	N/A
Total pension liability as a percentage of covered payroll	<u>34.30%</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to the Schedule:

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

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

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

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

Notes to the Schedule:

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

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

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

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:

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

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Hillsborough's proportion of the net pension liability (asset) (%)	<u>0.0799%</u>	<u>0.0922%</u>	<u>0.0906%</u>	<u>0.0931%</u>	<u>0.0919%</u>
Hillsborough's proportion of the net pension liability (asset) (\$)	<u>\$ 1,225,190</u>	<u>\$ 3,292,912</u>	<u>\$ 2,472,850</u>	<u>\$ 2,209,362</u>	<u>\$ 1,404,436</u>
Hillsborough's covered payroll	<u>\$ 6,495,627</u>	<u>\$ 6,389,923</u>	<u>\$ 5,936,460</u>	<u>\$ 5,695,125</u>	<u>\$ 5,750,308</u>
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>18.86%</u>	<u>51.53%</u>	<u>41.66%</u>	<u>38.79%</u>	<u>24.42%</u>
Plan fiduciary net position as a percentage of the total pension liability (1)	<u>95.51%</u>	<u>88.61%</u>	<u>90.86%</u>	<u>91.63%</u>	<u>94.18%</u>
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Hillsborough's proportion of the net pension liability (asset) (%)	<u>0.0924%</u>	<u>0.0838%</u>	<u>0.0809%</u>	<u>0.0797%</u>	<u>N/A</u>
Hillsborough's proportion of the net pension liability (asset) (\$)	<u>\$ 1,961,038</u>	<u>\$ 376,224</u>	<u>\$ (477,164)</u>	<u>\$ 960,691</u>	<u>N/A</u>
Hillsborough's covered payroll	<u>\$ 5,235,777</u>	<u>\$ 4,861,624</u>	<u>\$ 4,672,868</u>	<u>\$ 4,428,097</u>	<u>N/A</u>
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>37.45%</u>	<u>7.74%</u>	<u>-10.21%</u>	<u>21.70%</u>	<u>N/A</u>
Plan fiduciary net position as a percentage of the total pension liability (1)	<u>91.47%</u>	<u>98.09%</u>	<u>102.47%</u>	<u>94.35%</u>	<u>N/A</u>

Notes to the Schedule:

N/A - Information prior to the implementation of GASB Statement No. 68 does not exist. This schedule is building to be a ten year schedule as information becomes available.

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

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

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 766,857	\$ 632,182	\$ 587,827	\$ 478,756	\$ 440,572
Contributions in relation to the contractually required contribution	<u>766,857</u>	<u>632,182</u>	<u>587,827</u>	<u>478,756</u>	<u>440,572</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hillsborough's covered payroll	<u>\$ 6,532,666</u>	<u>\$ 6,495,627</u>	<u>\$ 6,389,923</u>	<u>\$ 5,936,460</u>	<u>\$ 5,695,125</u>
Contributions as a percentage of covered payroll	<u>11.74%</u>	<u>9.73%</u>	<u>9.20%</u>	<u>8.06%</u>	<u>7.74%</u>
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 429,432	\$ 356,396	\$ 357,402	\$ 333,343	N/A
Contributions in relation to the contractually required contribution	<u>429,432</u>	<u>356,396</u>	<u>357,402</u>	<u>333,343</u>	<u>N/A</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>N/A</u>
Hillsborough's covered payroll	<u>\$ 5,750,308</u>	<u>\$ 5,235,777</u>	<u>\$ 4,861,624</u>	<u>\$ 4,672,868</u>	<u>N/A</u>
Contributions as a percentage of covered payroll	<u>7.47%</u>	<u>6.81%</u>	<u>7.35%</u>	<u>7.13%</u>	<u>N/A</u>

Notes to the Schedule:

N/A - Information prior to the implementation of GASB Statement No. 68 does not exist. This schedule is building to be a ten year schedule as information becomes available.



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Supplementary Information

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

This section contains the following information:

Combining statements and individual fund schedules

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

Other schedules

- Ad valorem ("property") tax schedules



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**Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2022 (with Comparative Actual Amounts for 2021)**

	<u>2022</u>		Variance Positive (Negative)	<u>2021</u>
	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
REVENUES				
Ad valorem taxes:				
Current	\$ 8,735,627	\$ 9,070,713	\$ 335,086	\$ 7,934,385
Penalties and interest	18,000	29,147	11,147	22,967
	<u>8,753,627</u>	<u>9,099,860</u>	<u>346,233</u>	<u>7,957,352</u>
Other taxes and licenses:				
Gross receipts on short-term rental property	3,500	3,773	273	9,510
Privilege licenses	100	840	740	713
Motor vehicle license fees	-	1,259	1,259	342
Solid waste disposal	5,000	7,299	2,299	5,845
	<u>8,600</u>	<u>13,171</u>	<u>4,571</u>	<u>16,410</u>
Unrestricted intergovernmental revenues:				
Local option sales tax	1,774,500	2,868,883	1,094,383	2,048,982
Franchise tax	550,000	612,720	62,720	596,383
Beer and wine tax	30,000	38,422	8,422	32,615
Food and beverage tax	420,820	472,244	51,424	397,198
Occupancy tax	72,100	108,989	36,889	72,042
Other	-	780	780	730
	<u>2,847,420</u>	<u>4,102,038</u>	<u>1,254,618</u>	<u>3,147,950</u>
Restricted intergovernmental revenues:				
Powell Bill	273,767	273,767	-	197,962
Covid Relief Funding	-	-	-	86,448
Other	-	12,884	12,884	7,471
	<u>273,767</u>	<u>286,651</u>	<u>12,884</u>	<u>291,881</u>
Use and rental fees:				
Zoning permits	50,000	58,658	8,658	72,843
Cable franchise	50,000	61,219	11,219	53,859
Fire inspection fees and permits	-	65	65	13,323
Park usage fees	2,500	6,060	3,560	2,695
Parking fines	-	-	-	20
	<u>102,500</u>	<u>126,002</u>	<u>23,502</u>	<u>142,740</u>
Investment earnings	<u>2,000</u>	<u>33,284</u>	<u>31,284</u>	<u>3,295</u>
Miscellaneous revenues	<u>26,500</u>	<u>39,718</u>	<u>13,218</u>	<u>85,674</u>
Total revenues	<u>12,014,414</u>	<u>13,700,724</u>	<u>1,686,310</u>	<u>11,645,302</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2022 (with Comparative Actual Amounts for 2021)

	<u>2022</u>		<u>2021</u>	
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
EXPENDITURES				
General government:				
Governing body:				
Personnel services		\$ 48,256		\$ 48,165
Other services and charges		176,788		184,186
Reimbursement from enterprise funds		(142,538)		(120,826)
	<u>\$ 160,788</u>	<u>82,506</u>	<u>\$ 78,282</u>	<u>111,525</u>
Facility Management:				
Personnel services		45,708		
Other services and charges		74,871		59,684
Debt Service Payments		205,078		200,171
Reimbursement from enterprise funds		(96,844)		(90,949)
	<u>261,317</u>	<u>228,813</u>	<u>32,504</u>	<u>168,906</u>
Administration:				
Personnel services		1,085,006		959,074
Other services and charges		464,315		369,506
Capital outlay		10,975		37,433
Reimbursement from enterprise funds		(798,534)		(701,964)
	<u>867,942</u>	<u>761,762</u>	<u>106,180</u>	<u>664,049</u>
Finance:				
Personnel services		325,072		367,559
Other services and charges		158,505		153,684
Reimbursement from enterprise funds		(289,201)		(271,046)
	<u>369,113</u>	<u>194,376</u>	<u>174,737</u>	<u>250,197</u>
Information Services:				
Personnel services		142,865		134,663
Other services and charges		521,163		353,571
Reimbursement from enterprise funds		(469,887)		(254,682)
	<u>333,204</u>	<u>194,141</u>	<u>139,063</u>	<u>233,552</u>
Planning:				
Personnel services		407,575		362,084
Other services and charges		75,120		80,363
	<u>600,555</u>	<u>482,695</u>	<u>117,860</u>	<u>442,447</u>
Fleet Maintenance:				
Personnel services		312,731		291,665
Other services and charges		187,617		128,803
Capital outlay		15,478		5,516
Debt service payments		78,750		80,530
Reimbursement from enterprise funds		(211,464)		(214,600)
	<u>411,683</u>	<u>383,112</u>	<u>28,571</u>	<u>291,914</u>
Total general government	<u>3,004,602</u>	<u>2,327,405</u>	<u>677,197</u>	<u>2,162,590</u>

**Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2022 (with Comparative Actual Amounts for 2021)**

	<u>2022</u>			<u>2021</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
Public safety:				
Police department:				
Personnel services		\$ 3,156,895		\$ 2,694,133
Other services and charges		350,176		344,153
Capital outlay		243,643		-
Debt service payments		138,064		109,017
	<u>\$ 3,997,095</u>	<u>3,888,778</u>	<u>\$ 108,317</u>	<u>3,147,303</u>
Fire inspections/code enforcement:				
Personnel services		370		92,293
Other services and charges		-		5,094
	<u>373</u>	<u>370</u>	<u>3</u>	<u>97,387</u>
Safety:				
Personnel services		118,799		111,020
Other services and charges		70,254		41,797
Reimbursement from enterprise funds		(120,417)		(79,464)
	<u>126,536</u>	<u>68,636</u>	<u>57,900</u>	<u>73,353</u>
Fire protection:				
Other services and charges		1,349,175		1,214,763
Capital outlay		-		212,208
Debt service payments		-		50,201
	<u>1,488,275</u>	<u>1,349,175</u>	<u>139,100</u>	<u>1,477,172</u>
Total public safety	<u>5,612,279</u>	<u>5,306,959</u>	<u>305,320</u>	<u>4,795,215</u>
Transportation:				
Street department/Powell Bill:				
Personnel services		194,839		265,077
Other services and charges		286,420		200,471
Capital outlay		130,554		25,086
Debt service payments		15,727		41,018
	<u>1,325,094</u>	<u>627,540</u>	<u>697,554</u>	<u>531,652</u>
Total transportation	<u>1,325,094</u>	<u>627,540</u>	<u>697,554</u>	<u>531,652</u>
Environmental protection:				
Sanitation department:				
Personnel services		343,469		269,339
Other services and charges		191,486		153,532
Capital outlay		675,878		-
Debt service payments		74,983		32,255
	<u>1,688,177</u>	<u>1,285,816</u>	<u>402,361</u>	<u>455,126</u>

**Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2022 (with Comparative Actual Amounts for 2021)**

	<u>2022</u>		Variance Positive (Negative)	<u>2021</u>
	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
Cemetery:				
Other services and charges	\$ 11,100	\$ 9,277	\$ 1,823	\$ 3,334
	<u>1,699,277</u>	<u>1,295,093</u>	<u>404,184</u>	<u>458,460</u>
Economic and physical development:				
Tourism:				
Personnel Services		54,724		34,097
Other services and charges		552,992		411,569
	<u>703,368</u>	<u>607,716</u>	<u>95,652</u>	<u>445,666</u>
Total economic and physical development	<u>703,368</u>	<u>607,716</u>	<u>95,652</u>	<u>445,666</u>
Community activities and projects:				
Other services and charges		131,701		161,859
Debt service payments		94,576		96,683
Total community activities and projects	<u>229,642</u>	<u>226,277</u>	<u>3,365</u>	<u>258,542</u>
Parks and recreation:				
Personnel services		186,138		163,933
Other services and charges		353,189		307,762
Capital Outlay		5,763		20,954
Debt service payments		156,898		235,919
Reimbursement from enterprise funds		(12,254)		(13,368)
Total parks and recreation	<u>805,170</u>	<u>689,734</u>	<u>115,436</u>	<u>715,200</u>
Contingency	-	-	-	-
Total expenditures	<u>13,379,432</u>	<u>11,080,724</u>	<u>2,298,708</u>	<u>9,367,325</u>
Revenues over (under) expenditures	<u>(1,365,018)</u>	<u>2,620,000</u>	<u>3,985,018</u>	<u>2,277,977</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended June 30, 2022 (with Comparative Actual Amounts for 2021)

	2022		Variance Positive (Negative)	2021
	Final Budget	Actual		Actual
OTHER FINANCING SOURCES (USES)				
Transfer to other funds:				
General Capital Improvements Fund	\$ (764,270)	\$ (764,270)	\$ -	\$ (149,263)
General Capital Improvements Fund	(75,000)	(75,000)	-	-
General Capital Improvements Fund	-	-	-	(325,737)
General Capital Improvements Fund	(20,000)	(20,000)	-	(4,500)
General Capital Improvements Fund	(150,000)	(150,000)	-	-
Restricted Revenue Fund	-	-	-	(20,000)
General Capital Reserve Fund	(300,000)	(300,000)	-	-
Rail Station Capital Project	-	-	-	(34,000)
Transfer from other funds:				
Riverwalk - CMAQ Fund	-	-	-	5,403
Installment purchase obligations issued	300,017	-	(300,017)	300,000
Lease liabilities issued	-	144,064	144,064	-
Other financing sources (uses), net	(1,009,253)	(1,165,206)	(155,953)	(228,097)
APPROPRIATED FUND BALANCE	2,374,271	-	(2,374,271)	-
Net change in fund balance	<u>\$ -</u>	1,454,794	<u>\$ 1,454,794</u>	2,049,880
Fund balance, beginning		10,398,243		8,348,363
Fund balance, ending		<u>\$ 11,853,037</u>		<u>\$ 10,398,243</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Restricted Revenue Fund
From inception and for the year ended June 30, 2022

	Project Authorization	Actual		Total To Date	Variance Positive (Negative)
		Prior Years	Current Year		
REVENUES					
Restricted intergovernmental revenues	\$ 413,100	\$ 204,028	\$ 111,100	\$ 315,128	\$ (97,972)
Contributions and donations	79,847	79,197	650	79,847	-
Total revenues	<u>492,947</u>	<u>283,225</u>	<u>111,750</u>	<u>394,975</u>	<u>(97,972)</u>
EXPENDITURES					
Current:					
General government:					
Administration	4,610	-	-	-	4,610
Planning	414,931	181,600	-	181,600	233,331
Public safety:					
Police	27,970	9,299	8,119	17,418	10,552
Community Activity and Projects:					
Affordable housing projects	64,970	64,970	-	64,970	-
Parks and recreation	466	-	-	-	466
Total expenditures	<u>512,947</u>	<u>255,869</u>	<u>8,119</u>	<u>263,988</u>	<u>248,959</u>
Revenues over (under) expenditures	<u>(20,000)</u>	<u>27,356</u>	<u>103,631</u>	<u>130,987</u>	<u>150,987</u>
OTHER FINANCING SOURCES					
Transfer from other funds:					
Transfer from General Fund	20,000	20,000	-	20,000	-
Total other financing sources	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 47,356</u>	103,631	<u>\$ 150,987</u>	<u>\$ 150,987</u>
Fund balance, beginning			<u>47,356</u>		
Fund balance, ending			<u>\$ 150,987</u>		

Town of Hillsborough, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2022

	Special	Capital Projects Funds			Total Nonmajor Governmental Funds
	Revenue Fund	Consolidated General Capital Projects	Public Works Building Capital Project	Public Safety Building Capital Project	
	CDBG Fund				
ASSETS					
Cash and investments	\$ -	\$ 1,799,875	\$ -	\$ -	\$ 1,799,875
Due from other governments	97,496	-	-	-	97,496
Total assets	<u>\$ 97,496</u>	<u>\$ 1,799,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,897,371</u>
LIABILITIES					
Accounts payable and accrued liabilities	97,496	\$ 298,302	\$ -	\$ -	\$ 395,798
Total liabilities	<u>97,496</u>	<u>298,302</u>	<u>-</u>	<u>-</u>	<u>395,798</u>
FUND BALANCES					
Committed for:					
Capital projects	-	1,501,573	-	-	1,501,573
Total fund balances	<u>-</u>	<u>1,501,573</u>	<u>-</u>	<u>-</u>	<u>1,501,573</u>
Total liabilities and fund balances	<u>\$ 97,496</u>	<u>\$ 1,799,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,897,371</u>

Town of Hillsborough, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2022

	Special	Capital Projects Funds			Total Nonmajor Governmental Funds
	Revenue Fund	Consolidated General Capital Projects	Public Works Building Capital Project	Public Safety Building Capital Project	
	CDBG Fund				
REVENUES					
Restricted intergovernmental revenues	\$ 192,996	\$ -	\$ -	\$ -	\$ 192,996
Contributions and donations	-	-	-	-	-
Investment earnings	-	-	-	-	-
Total revenues	192,996	-	-	-	192,996
EXPENDITURES					
Current:					
General government	-	44,057	-	-	44,057
Public safety	-	108,010	-	-	108,010
Economic and physical development	-	634,769	-	-	634,769
Community activities and projects	192,996	-	-	-	192,996
Total expenditures	192,996	786,836	-	-	979,832
Revenues under expenditures	-	(786,836)	-	-	(786,836)
OTHER FINANCING SOURCES (USES)					
Transfer from other funds	-	1,499,083	-	-	1,499,083
Transfer to other funds	-	-	(128,200)	(61,613)	(189,813)
Other financing sources (uses), net	-	1,499,083	(128,200)	(61,613)	1,309,270
Net change in fund balances	-	712,247	(128,200)	(61,613)	522,434
Fund balances, beginning	-	789,326	128,200	61,613	979,139
Fund balances, ending	\$ -	\$ 1,501,573	\$ -	\$ -	\$ 1,501,573

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, 2022

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental revenues:					
Community Development Block Grant ("CDBG")	\$ 600,000	\$ -	\$ 192,996	\$ 192,996	\$ (407,004)
Total revenues	600,000	-	192,996	192,996	(407,004)
EXPENDITURES					
Community activities and projects:					
Administration	60,000	-	17,545	17,545	42,455
Public services	540,000	-	175,451	175,451	364,549
Total expenditures	600,000	-	192,996	192,996	407,004
Revenues over expenditures	-	-	-	-	-
OTHER FINANCING SOURCES					
Transfer from other funds	-	-	-	-	-
Net change in fund balance	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning			-		
Fund balance, ending			\$ -		

**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, 2022**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Restricted intergovernmental revenue:					
Transportation improvement					
Project (TIP)	\$ 986,000	\$ -	\$ -	\$ -	\$ (986,000)
Exchange Club Rd Bridge Project	126,447	-	-	-	(126,447)
Contributions and donations:					
Connectivity projects	8,000	19,146	-	19,146	11,146
Total revenues	<u>1,120,447</u>	<u>19,146</u>	<u>-</u>	<u>19,146</u>	<u>(1,101,301)</u>
EXPENDITURES					
General government:					
Connectivity projects	72,500	8,340	44,057	52,397	20,103
Fiber Loop Project	300,000	-	-	-	300,000
Public Safety:					
Fire Station Project	75,000	-	-	-	75,000
Economic and physical development:					
Transportation improvement					
Project (TIP)	1,079,000	3,834	24,228	28,062	1,050,938
Valley Forge Road Project	1,203,917	44,418	600,541	644,959	558,958
NC 86 Renovation Project	2,225,982	-	10,000	10,000	2,215,982
Exchange Club Rd Bridge Project	170,000	-	-	-	170,000
Other:					
Construction	-	91,146	-	91,146	(91,146)
Total expenditures	<u>5,126,399</u>	<u>147,738</u>	<u>678,826</u>	<u>826,564</u>	<u>4,299,835</u>
Revenues under expenditures	<u>(4,005,952)</u>	<u>(128,592)</u>	<u>(678,826)</u>	<u>(807,418)</u>	<u>3,198,534</u>
OTHER FINANCING SOURCES					
Transfer from General Fund:					
Connectivity Projects	64,500	44,500	20,000	64,500	-
Fiber Loop Project	300,000	150,000	150,000	300,000	-
Fire Station Project	75,000	-	75,000	75,000	-
Valley Forge Road Project	1,203,917	555,000	648,917	1,203,917	-
NC 86 Renovation Project	225,982	-	71,800	71,800	(154,182)
Exchange Club Rd Bridge Project	43,553	-	43,553	43,553	-
Transportation Improvement Projec	93,000	34,000	-	34,000	(59,000)
Transfers from other funds:					
Rail Station Project - TIP	-	19,290	-	19,290	19,290
Public Safety Building Project - to be reappropriated	-	-	61,613	61,613	61,613
Public Works Building Project - to be reappropriated	-	-	128,200	128,200	128,200
Proceeds from Installment Financing:					
NC 86 Renovation Project	2,000,000	-	-	-	(2,000,000)
Total other financing sources	<u>4,005,952</u>	<u>802,790</u>	<u>1,199,083</u>	<u>2,001,873</u>	<u>(2,004,079)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 674,198</u>	<u>520,257</u>	<u>\$ 1,194,455</u>	<u>\$ 1,194,455</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, 2022**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
FUND BALANCE					
Fund balance, beginning (General Capital Projects Fund)			\$ 674,198		
Fund balance, ending				1,194,455	
<p>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</p>					
Fund balance, beginning (Capital Reserve Fund)			115,128		
Public Safety:					
Waterstone Police			(108,010)		
Transfers from other funds			<u>300,000</u>		
Fund balance, ending (Consolidated General Capital Projects Fund)			<u>\$ 1,501,573</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, 2022

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Investment earnings	\$ 12,034	\$ -	\$ -	\$ -	\$ (12,034)
Total revenues	12,034	-	-	-	(12,034)
EXPENDITURES					
General Government:					
Sustainability	300,000	-	-	-	300,000
Public Safety:					
Waterstone Police	108,010	-	108,010	108,010	-
Total expenditures	408,010	-	108,010	108,010	300,000
Revenues over expenditures	(395,976)	-	(108,010)	(108,010)	287,966
OTHER FINANCING SOURCES (USES)					
Transfer to other funds	(609,024)	-	-	-	609,024
Transfer from other funds:					
General fund - General	300,000	-	300,000	300,000	-
General fund - Police	105,000	-	-	-	(105,000)
General fund - Fire	600,000	-	-	-	(600,000)
Residual from closed projects	-	115,128	-	115,128	115,128
Other financing sources (uses), net	395,976	115,128	300,000	415,128	19,152
Net change in fund balance	<u>\$ -</u>	<u>\$ 115,128</u>	191,990	<u>\$ 307,118</u>	<u>\$ 307,118</u>
Fund balance, beginning			115,128		
Fund balance, ending			<u>\$ 307,118</u>		

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Public Works Building Capital Project
From inception and for the year ended June 30, 2022

	Actual			Total To Date
	Prior Years	Current Year	Closed Out Projects	
EXPENDITURES				
Environmental protection:				
Design	\$ 25,982	\$ -	\$ (25,982)	\$ -
Construction	-	-	-	-
Total expenditures	<u>25,982</u>	<u>-</u>	<u>(25,982)</u>	<u>-</u>
Revenues under expenditures	(25,982)	-	25,982	-
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	154,182	-	(154,182)	-
Transfer to General Capital Projects Fund	<u>-</u>	<u>(128,200)</u>	<u>128,200</u>	<u>-</u>
Other financing sources (uses), net	<u>154,182</u>	<u>(128,200)</u>	<u>(25,982)</u>	<u>-</u>
Net change in fund balance	<u>\$ 128,200</u>	<u>(128,200)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning		<u>128,200</u>		
Fund balance, ending		<u>\$ -</u>		

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Public Safety Building Capital Project
From inception and for the year ended June 30, 2022

	Actual			Total To Date
	Prior Years	Current Year	Closed Out Projects	
EXPENDITURES				
Public safety:				
Construction	\$ -	\$ -	\$ -	\$ -
Miscellaneous	1,354	-	(1,354)	-
Total expenditures	1,354	-	(1,354)	-
Revenues under expenditures	(1,354)	-	1,354	-
OTHER FINANCING SOURCES				
Transfer from General Fund	62,967	-	(62,967)	-
Transfer to General Capital Projects Fund	-	(61,613)	61,613	-
Total other financing sources	62,967	(61,613)	(1,354)	-
Net change in fund balance	<u>\$ 61,613</u>	(61,613)	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning		61,613		
Fund balance, ending		<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, 2022 (with Comparative Actual Amounts for 2021)**

	2022		Variance Favorable (Unfavorable)	2021
	Budget	Actual		Actual
REVENUES				
Operating revenues:				
Water charges	\$ 5,000,000	\$ 5,247,699	\$ 247,699	\$ 4,942,081
Sewer charges	5,089,000	5,297,371	208,371	4,901,924
System development fees	261,832	263,891	2,059	590,332
Other receipts	191,175	236,744	45,569	396,474
Total operating revenues	<u>10,542,007</u>	<u>11,045,705</u>	<u>503,698</u>	<u>10,830,811</u>
Non-operating revenues:				
Investment earnings	255	1,341	1,086	375
Total revenues	<u>10,542,262</u>	<u>11,047,046</u>	<u>504,784</u>	<u>10,831,186</u>
EXPENDITURES				
Engineering:				
Personnel services	433,093	348,249	84,844	410,691
Other services and charges	2,826,893	2,201,572	625,321	1,888,758
Total engineering	<u>3,259,986</u>	<u>2,549,821</u>	<u>710,165</u>	<u>2,299,449</u>
Billing and collection:				
Personnel services	351,378	326,543	24,835	312,566
Other services and charges	352,947	302,853	50,094	348,294
Capital outlay	31,000	-	31,000	-
Debt service payments	39,125	39,125	-	39,125
Total billing and collection	<u>774,450</u>	<u>668,521</u>	<u>105,929</u>	<u>699,985</u>
Water treatment plant:				
Personnel services	590,402	509,732	80,670	592,720
Other services and charges	493,212	421,838	71,374	275,065
Repairs and maintenance	246,914	252,169	(5,255)	144,167
Debt service payments	86,360	86,360	-	91,314
Total water treatment plant	<u>1,416,888</u>	<u>1,270,099</u>	<u>146,789</u>	<u>1,103,266</u>
Water distribution:				
Personnel services	562,555	544,750	17,805	504,850
Other services and charges	290,335	242,575	47,760	207,782
Repairs and maintenance	108,050	52,276	55,774	46,024
Capital outlay	116,171	94,007	22,164	13,561
Debt service payments	101,470	94,122	7,348	98,624
Total water distribution	<u>1,178,581</u>	<u>1,027,730</u>	<u>150,851</u>	<u>870,841</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, 2022 (with Comparative Actual Amounts for 2021)

	<u>2022</u>		Variance Favorable (Unfavorable)	<u>2021</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
EXPENDITURES (Continued)				
Wastewater collection:				
Personnel services	\$ 560,477	\$ 472,258	\$ 88,219	\$ 490,130
Other services and charges	438,534	187,665	250,869	255,024
Repairs and maintenance	219,243	109,386	109,857	75,875
Capital outlay	496,439	347,701	148,738	-
Debt service payments	-	-	-	15,082
Total wastewater collection	<u>1,714,693</u>	<u>1,117,010</u>	<u>597,683</u>	<u>836,111</u>
Wastewater treatment plant:				
Personnel services	559,162	553,011	6,151	502,927
Other services and charges	373,090	322,808	50,282	314,200
Repairs and maintenance	236,574	184,886	51,688	178,517
Debt service payments	1,174,704	1,174,704	-	1,196,565
Total wastewater treatment plant	<u>2,343,530</u>	<u>2,235,409</u>	<u>108,121</u>	<u>2,192,209</u>
Reservoir:				
Other services and charges	42,501	25,212	17,289	22,419
Repairs and maintenance	28,708	13,688	15,020	9,904
Debt service payments	839,828	839,821	7	840,441
Total reservoir	<u>911,037</u>	<u>878,721</u>	<u>32,316</u>	<u>872,764</u>
Total expenditures	<u>11,599,165</u>	<u>9,747,311</u>	<u>1,851,854</u>	<u>8,874,625</u>
Revenues over (under) expenditures	<u>(1,056,903)</u>	<u>1,299,735</u>	<u>2,356,638</u>	<u>1,956,561</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Utilities Capital Improvements Fund	(429,200)	(429,200)	-	(150,000)
Transfer to Water System Development Reserve Fund	(149,408)	(149,408)	-	(333,054)
Transfer to Sewer System Development Reserve Fund	(112,424)	(112,424)	-	(257,278)
Transfer from Water Capital Reserve Fund	-	-	-	175,000
Transfer from Utilities Capital Improvements Fund	-	-	-	2,388
Transfer from Water and Sewer Capital Reserve Fund	-	-	-	3,761
Insurance proceeds	-	-	-	49,360
Other financing uses, net	<u>(691,032)</u>	<u>(691,032)</u>	<u>-</u>	<u>(509,823)</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, 2022 (with Comparative Actual Amounts for 2021)

	<u>2022</u>			<u>2021</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual</u>
Revenues over expenditures and other financing uses, net	\$ (1,747,935)	\$ 608,703	\$ 2,356,638	\$ 1,446,738
APPROPRIATED FUND BALANCE	<u>1,747,935</u>	<u>-</u>	<u>(1,747,935)</u>	<u>-</u>
Revenues and appropriated fund balance over expenditures and other financing uses, net	<u>\$ -</u>	<u>\$ 608,703</u>	<u>\$ 608,703</u>	<u>\$ 1,446,738</u>
Reconciliation from budgetary basis (modified accrual) to the full accrual basis of accounting:				
Revenues and appropriated fund balance over expenditures and other financing uses, net		\$ 608,703		\$ 1,446,738
Reconciling items:				
Revenue activity:				
Investment earnings - enterprise capital projects		2,212		524
Investment earnings - enterprise capital reserves		12,288		1,331
Capital contributions - ARPA Fund		83,460		-
Personnel activity:				
Pension expense - LGERS		131,397		(176,030)
OPEB expense		5,550		(16,610)
Payroll accrual - compensated absences		(1,749)		(68,010)
Capital outlay activity:				
Capital outlay		441,708		13,561
Depreciation		(1,819,090)		(1,685,728)
Loss on disposal of capital assets		(15,700)		-
Contributed capital		932,736		289,872
Noncapitalized expenditures - enterprise capital projects		(5,000)		(325)
Long-term debt activity:				
Payment of principal on notes, bonds and installment		1,418,557		1,424,933
Interest expense accrual adjustment		6,700		7,226
Amortization of premium on bonds payable		56,485		49,455
Internal transfer activity:				
Transfer to Water and Sewer Capital Projects		691,032		740,332
Transfer from Water and Sewer Capital Projects		-		(181,149)
Change in net position		<u>\$ 2,549,289</u>		<u>\$ 1,846,120</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, 2022

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES					
Capital outlay:					
EDD water line extension	509,404	27,438	-	27,438	481,966
Churton Street main replacement	430,000	-	-	-	430,000
16" Water connection under I-40	565,000	159,541	344,598	504,139	60,861
Booster pump station	180,000	33,094	2,499	35,593	144,407
Adron Thompson Facility Revovation	290,000	-	-	-	290,000
Churton Street sewer replacement	500,000	310,090	-	310,090	189,910
River pump station	433,800	32,110	1,690	33,800	400,000
Wastewater system rehab	415,895	25,385	127,200	152,585	263,310
Gov Burke Rd water main replace.	30,000	-	-	-	30,000
WTP filters repairs 2 and 3	179,200	-	174,200	174,200	5,000
Total expenditures	3,533,299	587,658	650,187	1,237,845	2,295,454
Revenues under expenditures	(3,533,299)	(587,658)	(650,187)	(1,237,845)	2,295,454
OTHER FINANCING SOURCES					
Transfer from other funds:					
Water and Sewer Operating Fund	2,198,895	1,769,695	429,200	2,198,895	-
Water Capital Reserve Fund	754,404	724,404	30,000	754,404	-
Sewer Capital Reserve Fund	580,000	200,000	380,000	580,000	-
Total other financing sources	3,533,299	2,694,099	839,200	3,533,299	-
Revenues and other financing sources over expenditures	\$ -	\$ 2,106,441	\$ 189,013	\$ 2,295,454	\$ 2,295,454

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, 2022

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Investment earnings	\$ 213,793	\$ 213,205	\$ 542	\$ 213,747	\$ (46)
EXPENDITURES					
West Fork Eno Reservoir:					
Design	139,711	-	-	-	139,711
Construction	596,023	-	-	-	596,023
Total expenditures	735,734	-	-	-	735,734
Revenues over (under) expenditures	(521,941)	213,205	542	213,747	735,688
OTHER FINANCING SOURCES					
Transfer from other funds	521,941	521,941	-	521,941	-
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 735,146</u>	<u>\$ 542</u>	<u>\$ 735,688</u>	<u>\$ 735,688</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, 2022

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Investment earnings	\$ 6,796	\$ 6,644	\$ 1,670	\$ 8,314	\$ 1,518
EXPENDITURES					
Design	132,468	120,690	-	120,690	11,778
Land Aquisition	5,500	5,202	-	5,202	298
Construction Administration	310,000	266,232	29,098	295,330	14,670
Construction	2,458,323	1,663,369	770,237	2,433,606	24,717
Miscellaneous	371,505	111,425	5,000	116,425	255,080
Total expenditures	3,277,796	2,166,918	804,335	2,971,253	306,543
Revenues under expenditures	(3,271,000)	(2,160,274)	(802,665)	(2,962,939)	308,061
OTHER FINANCING SOURCES					
Issuance of installment purchase agreement	3,271,000	3,271,000	-	3,271,000	-
Total other financing sources	3,271,000	3,271,000	-	3,271,000	-
Revenues and other other financing sources over (under) expenditures	\$ -	\$ 1,110,726	\$ (802,665)	\$ 308,061	\$ 308,061

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, 2022

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Capital contributions	\$ 1,066,190	\$ 1,066,190	\$ -	\$ 1,066,190	\$ -
Investment earnings	300,868	389,471	12,288	401,759	100,891
Total revenues	<u>1,367,058</u>	<u>1,455,661</u>	<u>12,288</u>	<u>1,467,949</u>	<u>100,891</u>
EXPENDITURES					
Capital improvements - water	794,415	-	-	-	794,415
Capital improvements - sewer	1,949,845	-	-	-	1,949,845
Total expenditures	<u>2,744,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,744,260</u>
Revenues over (under) expenditures	<u>(1,377,202)</u>	<u>1,455,661</u>	<u>12,288</u>	<u>1,467,949</u>	<u>2,845,151</u>
OTHER FINANCING SOURCES (USES)					
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)	-
Water and sewer capital project funds	(1,299,553)	(1,299,553)	-	(1,299,553)	-
Water System Development Fund	(1,106,017)	(1,106,017)	-	(1,106,017)	-
Sewer System Development Fund	(1,014,608)	(1,014,608)	-	(1,014,608)	-
Other financing sources (uses), net	<u>1,377,202</u>	<u>1,377,202</u>	<u>-</u>	<u>1,377,202</u>	<u>-</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 2,832,863</u>	<u>\$ 12,288</u>	<u>\$ 2,845,151</u>	<u>\$ 2,845,151</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, 2022

	Project Authorization	Actual		Total To Date	Variance Positive (Negative)
		Prior Years	Current Year		
REVENUES					
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-
Total revenues	-	-	-	-	-
EXPENDITURES					
Capital improvements - water	-	-	-	-	-
Total expenditures	-	-	-	-	-
Revenues over expenditures	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
Transfers from other funds:					
Water and sewer capital reserve	1,069,404	1,106,017	-	1,106,017	36,613
Water and sewer operating fund	784,406	596,183	149,408	745,591	(38,815)
Transfers to other funds:					
Utility Capital Project - EDD water line	(259,404)	(259,404)	-	(259,404)	-
Utility Capital Project - 16" water connect.	(465,000)	(465,000)	-	(465,000)	-
Utility Capital Project - U.S. 70 Design	(345,000)	-	-	-	345,000
Utility Capital Project - U.S. 70 Phase 1	(429,998)	-	-	-	429,998
Utility Capital Project - Gov Burke Wtr Main	(179,408)	-	(30,000)	(30,000)	149,408
Water and sewer operating fund - debt service	(175,000)	(175,000)	-	(175,000)	-
Other financing sources (uses), net	-	802,796	119,408	922,204	922,204
Revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 802,796	\$ 119,408	\$ 922,204	\$ 922,204

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, 2022

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES					
Capital outlay:					
Future capital improvements	-	-	-	-	-
Revenues over expenditures	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
Transfers from other funds:					
Water and Sewer Capital Project fund	1,249,170	1,265,385	-	1,265,385	16,215
Water and Sewer Capital Project fund	512,424	200,000	112,424	312,424	(200,000)
Transfers to other funds:					
River Pump upgrade project	(512,424)	(200,000)	(200,000)	(400,000)	112,424
Collection sysytem rehab project	(1,249,170)	-	(180,000)	(180,000)	1,069,170
Other financing sources (uses), net	-	1,265,385	(267,576)	997,809	997,809
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 1,265,385	\$ (267,576)	\$ 997,809	\$ 997,809

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, 2022

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
REVENUES					
Capital contributions:					
Federal funds-ARPA	\$ 223,460	\$ -	\$ 83,460	\$ 83,460	\$ (140,000)
Investment earnings	-	-	-	-	-
Total revenues	223,460	-	83,460	83,460	(140,000)
EXPENDITURES					
Capital improvements-WTP Filters	83,460	-	83,460	83,460	-
Capital improvements-WTP Paving	90,000	-	-	-	90,000
Capital improvements-WTP SCADA Update	50,000	-	-	-	50,000
Total expenditures	223,460	-	83,460	83,460	140,000
Revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Other Financing Uses
Budget and Actual (Non-GAAP) - Stormwater Fund
Year Ended June 30, 2022 (with Comparative Actual Amounts for 2021)

	2022		2021	
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
REVENUES				
Operating revenues:				
Stormwater charges	\$ 696,963	\$ 718,994	\$ 22,031	\$ 702,276
Other operating revenues	500	1,100	600	250
Total revenues	697,463	720,094	22,631	702,526
EXPENDITURES				
Operating expenditures:				
Personnel services	287,757	265,355	22,402	267,202
Other services and charges	309,793	241,651	68,142	177,178
Repairs and maintenance	183,646	87,317	96,329	60,499
Total expenditures	781,196	594,323	186,873	504,879
Revenues over (under) expenditures	(83,733)	125,771	209,504	197,647
OTHER FINANCING USES				
Transfers to other funds	-	-	-	(100,000)
APPROPRIATED FUND BALANCE	83,733	-	(83,733)	-
	<u>\$ -</u>	<u>125,771</u>	<u>\$ 125,771</u>	<u>97,647</u>
Reconciliation from budgetary basis (modified accrual) to the full accrual basis of accounting:				
Depreciation expense		(56,490)		(56,490)
Payroll accrual - compensated absences		(3,227)		(3,538)
Pension expense - LGERS		11,780		(19,018)
OPEB expense		291		1,464
Stormwater capital projects fund:				
Transfer from Stormwater operating fund		-		100,000
Change in net position		<u>\$ 78,125</u>		<u>\$ 120,065</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, 2022

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES					
Capital outlay:					
Valley Forge Road infrastructure	100,000	-	100,000	100,000	-
Revenues over expenditures	(100,000)	-	(100,000)	(100,000)	-
OTHER FINANCING SOURCES					
Transfer from other funds:					
Stormwater operating fund	100,000	100,000	-	100,000	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 100,000</u>	(100,000)	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>100,000</u>		
Fund balance, end of year			<u>\$ -</u>		

**Town of Hillsborough, North Carolina
 Schedule of Ad Valorem Taxes Receivable
 Year ended June 30, 2022**

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Ending Balance</u>
2021-2022	\$ -	\$ 9,003,418	\$ 8,934,342	\$ 69,076
2020-2021	73,103	-	30,701	42,402
2019-2020	28,932	-	11,806	17,126
2018-2019	23,507	-	8,744	14,763
2017-2018	14,446	-	5,475	8,971
2016-2017	9,741	-	3,762	5,979
2015-2016	5,800	-	1,523	4,277
2014-2015	5,878	-	1,178	4,700
2013-2014	8,505	-	736	7,769
2012-2013	10,034	-	2,969	7,065
2011-2012	4,580	-	4,580	-
	<u>\$ 184,526</u>	<u>\$ 9,003,418</u>	<u>\$ 9,005,816</u>	182,128
				(40,000)
				<u>\$ 142,128</u>

Less: allowance for uncollectible accounts

Ad valorem taxes receivable, net

RECONCILIATION OF COLLECTIONS AND CREDITS TO RECORDED REVENUE

Ad valorem taxes - General Fund	\$ 9,099,860
Penalties and interest	(29,147)
Statutory write-off after 10 years	(4,580)
Other adjustments	<u>(60,317)</u>
	<u>\$ 9,005,816</u>

Town of Hillsborough, North Carolina
Analysis of Current Tax Levy
Year Ended June 30, 2022

Schedule 21

	Town-Wide		Total Levy		
	(1) Property Valuation	Rate	(2) Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
ORIGINAL LEVY					
Property taxed at current year's rate	\$ 1,409,396,734	0.587	\$ 8,273,159	\$ 8,273,159	\$ -
Motor vehicle license fees, tax and tag together	124,405,225		730,259	-	730,259
Total property valuation	<u>\$ 1,533,801,959</u>				
Net levy			9,003,418	8,273,159	730,259
Uncollected taxes at year-end			69,076	69,076	-
Current year's taxes collected			<u>\$ 8,934,342</u>	<u>\$ 8,204,083</u>	<u>\$ 730,259</u>
Collection percentage			<u>99.23%</u>	<u>99.17%</u>	<u>100.00%</u>

Notes to Schedule:

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



COMPLIANCE SECTION

This section of the Town of Hillsborough's (the "Town") annual financial report presents the independent auditors' reports on compliance and controls as required by the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (aka "Yellow Book").

North Carolina General Statute ("NCGS") 159-34 establishes rules and regulations related to annual audit requirements. NCGS 159-34(b) authorizes the Local Government Commission to, *"issue rules and regulations for the purpose of improving the quality of auditing and the quality and comparability of reporting pursuant to this section or any similar section of the General Statutes"*. As such, units that expended more than \$100,000 in combined federal and state awards is required to have an annual audit performed in accordancd with audit standards generally accepted in the United States of America and the Yellow Book.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Members of Town Council
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, and the aggregate remaining fund information of the Town of Hillsborough (the Town) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated June 29, 2023.

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 Town's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-002, 2022-003, and 2022-004 that we consider to be significant deficiencies.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2022-001.

Town's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Morehead City, North Carolina
June 29, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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

Criteria: North Carolina General Statute 159-34 (NC G.S. 159-34) requires the submission of the annual audit four months past the end of the fiscal year, with an extended due date at five months past the end of the fiscal year.

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

Effect: The Town has not complied with NC G.S. 159-34.

Cause: The main cause is due to staff turnover.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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