



# TOWN OF HILLSBOROUGH NORTH CAROLINA



## **Annual Financial Report For Fiscal year ended June 30, 2021**

**Presented by the Financial Services Department**

**Melissa Bishop, Interim Finance Director**

**Richard Duke, Financial Analyst**



***This page left intentionally blank.***

# **TOWN OF HILLSBOROUGH, NORTH CAROLINA**

**Annual Financial Report**

**Fiscal Year Ended June 30, 2021**



**Prepared by the Financial Services Department**



## Table of Contents

### Introductory Section

Letter of Transmittal .....	i
List of Principal Officials .....	x
Organization Chart .....	xi
GFOA Certificate of Achievement .....	xii

### Financial Section

Report of Independent Auditor .....	1
Management's Discussion and Analysis .....	3

### Basic Financial Statements

<b>Exhibit</b>	<b>Government-Wide Financial Statements:</b>	
1	Statement of Net Position .....	12
2	Statement of Activities .....	13
	<b>Fund Financial Statements:</b>	
3	Balance Sheet - Governmental Funds .....	15
4	Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	17
5	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund .....	19
6	Statement of Net Position - Proprietary Funds .....	20
7	Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds .....	21
8	Statement of Cash Flows - Proprietary Funds .....	22
9	Statement of Fiduciary Net Position - Fiduciary Fund .....	24
10	Statement of Changes in Fiduciary Net Position - Fiduciary Fund .....	25
	<b>Notes to Financial Statements .....</b>	<b>26</b>

### Required Supplementary Financial Data

#### Schedule

	<b>Law Enforcement Officers' Special Separation Allowance Required Supplementary Information:</b>	
RSI-1	Schedules of Changes in Total Pension Liability .....	59
RSI-2	Schedules of Total Pension Liability as a Percentage of Covered Payroll .....	60
	<b>OPEB Retirement Plan Required Supplementary Information:</b>	
RSI-3	Schedules of Changes in the Total OPEB Liability and Related Ratios .....	61
	<b>Local Government Employees' Retirement System Required Supplementary Information:</b>	
RSI-4	Schedules of Proportionate Share of Net Pension Liability (Asset) .....	62
RSI-5	Schedules of Contributions .....	63

**Supplementary Information:**

**Combining and Individual Fund Financial Statements Section**

Schedule

**Governmental Funds:**

1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund.....	64
2	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Restricted Revenue Fund.....	69
3	Combining Balance Sheet - Nonmajor Governmental Funds.....	70
4	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds .....	72
5	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Capital Projects Fund.....	74
6	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Capital Reserve Fund .....	75
7	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Riverwalk CMAQ Capital Project Fund.....	76
8	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Rail Station Capital Project Fund .....	77
9	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Public Works Building Capital Project Fund .....	78
10	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Public Safety Building Capital Project Fund .....	79

**Enterprise Funds:**

11	Schedule of Revenues, Expenditures, and Other Financing Sources - Budget and Actual (Non-GAAP) - Water and Sewer Fund .....	80
12	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) – Utilities Capital Improvements Fund .....	83
13	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) – West Fork ENO Reservoir Project Fund.....	84
14	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) – Mill Creek Road Project Fund .....	85
15	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) - Water and Sewer Capital Reserve Fund .....	86
16	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) - Water System Development Reserve Fund.....	87
17	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) - Sewer System Development Reserve Fund .....	88
18	Schedule of Revenues, Expenditures and Other Financing Uses - Budget and Actual (Non-GAAP) - Stormwater Fund .....	89
19	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) - Stormwater Capital Improvements Fund .....	90

**Other Schedules**

20	Schedule of Ad Valorem Taxes Receivable .....	91
21	Analysis of Current Tax Levy .....	92

**Compliance Section**

	<b>Independent Auditors' 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 .....</b>	<b>93</b>
--	---	-----------



**This page was intentionally left blank.**

## ***Introductory Section***



**This page was intentionally left blank.**





January 12, 2023

Honorable Mayor Weaver,  
Board of Town Commissioners,  
and Citizens of Hillsborough  
Hillsborough, North Carolina 27278

The Annual Financial Report of the Town of Hillsborough, North Carolina for the fiscal year ended June 30, 2021, 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. Unfortunately, due to a variety of circumstances, including losing a significant number of key staff, including two finance directors over the past 18 months, production of the financial statements has been delayed a little over 14 months. Outside accounting and finance experts with significant local government experience were contracted to help the town complete the 2021 audit, as well as work on and complete the 2022 audit, conduct a SWOT (strengths, weaknesses, opportunities, and threats) review to identify potential improvements such as adding staff and redundancy with the department, streamlining inefficient processes, building staff experience as many are relatively new to government finance, and assist with the selection of a new Finance Director. We are optimistic that focusing in these areas will prevent a repeat of having the audit process significantly delayed, as well as making the Town's financial services operations more effective, efficient, and resilient during times of employee turnover in the future.

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 Cherry Bekaert LLP, a firm of licensed certified public accountants, was selected and awarded the contract for the Fiscal Year 2021. 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 & Analysis and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditor.

### **COVID-19**

Fiscal year 2021 was challenging due to the continued impacts of COVID-19. The Town closed its offices to the public on March 16, 2020. This closure continued through all Fiscal Year 2021. Many employees of the Town continued to work remotely during this time. All town departments had to make continual adjustments to deal with the evolving challenges brought on by COVID.

## **Profile of the Government**

Founded in 1754, Hillsborough, the county seat of Orange County, is located at the intersection of interstates 85 and 40, near several urban centers and universities. The small-town setting is six to 30 miles from Chapel Hill, Durham, and Raleigh. Hillsborough's 7,809 residents have easy access to employment opportunities within the Research Triangle Park area. Within Hillsborough, the economy is centered on government, retail, service providers, and manufacturing. Orange County and the Town of Hillsborough are major local employers. The Town's historical sites attract many tourists.

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 police, fire inspection and protection, parks, planning, public spaces, street maintenance, solid waste collection, stormwater, and cemetery. The Town provides financial support to certain boards, agencies, and commissions to assist their efforts in serving citizens. The Town 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. The Town's water treatment plant has a capacity of three million gallons per day (MGD) and is currently treating an average daily flow of about 1.6 MGD. The Town's water system serves approximately 6,500 customers, which includes Town residents and customers from outlying areas. The sanitary sewer system has a treatment capacity of 3 MGD, with a current average daily treated discharge of approximately 0.8 MGD.

The Town offers a seven-week course, The Citizen's Academy, aimed at helping citizens increase their knowledge of town government, as well as their interest and ability in influencing and participating in town decisions. The 2020 and 2021 courses were canceled due to COVID-19.



Historic town clock at the old courthouse in downtown

## Environmental Initiatives

The town government 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 of the 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. Work continued on the Comprehensive-Sustainability Plan that is expected to be completed in late 2022 or early 2023.
- 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, non-profit 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.
- The Town has adopted a resolution supporting the goal of using 100 percent clean energy by 2050 and fostering a resilient and sustainable community.
- As a designated Tree City USA, the town's Public Space Division and Tree Board work to protect the town's trees and educate citizens about the importance of urban forestry.
- Hillsborough is a Bee City USA. The town works to raise awareness of the role pollinators play in sustaining more than 75 percent of the world's plant species and helps expand pollinator-friendly practices and environments in town. The town's Public Space Division and Tree Board are working in partnership with the Hillsborough Garden Club to develop the program and educational materials, including actions residents can take.
- The Town's Stormwater and Environmental Services Division was created to comply with many state and federal mandates for environmental stewardship.
- The town has partnered with Orange County for curbside collections of recyclables throughout the town and to provide collection bins for recyclables downtown and along the Riverwalk greenway. The town has invested in a battery-powered cart for use by Public Works Department employees when collecting trash and recyclables along Riverwalk. Additionally, the town collects appliances and scrap metal for recycling.
- The Water Distribution and Wastewater Collection Division works to prevent sanitary sewer overflows and environmental damage they cause. The division's fats, oil, and grease program included educational presentations at schools and public events about keeping these blockage-causing substances out of the Town's sewer system.



Cates Creek Park Pollinator Garden

## Local Economy

The Town of Hillsborough, Orange County, and the Research Triangle Park area are considered to be among the most desirable areas of the country to live and work, according to several national surveys. The economy of Hillsborough is diversified with government, education, healthcare, wholesale and retail businesses, as well as numerous service providers. Approximately 40% of Hillsborough's tax base is commercial in nature - this is 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. While there were concerns about the economy due to COVID-19, the issuance of building permits and for residential and commercial developments, as well as frequent inquiries from developers continued to be exceptionally strong through June 2021.

### **Government, Education, and Healthcare**

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 Old Orange County Courthouse (c. 1844) is 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 thirteen schools throughout the county. Three of the thirteen schools are within the town limits and seven more are served by Hillsborough's water and sewer system.

Durham Tech has a 20-acre campus in Hillsborough. The 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.

University of North Carolina (UNC) Medical Center operates a UNC Health Care Hillsborough Campus, which is a 68-bed community hospital. The facility includes a Medical Office Building, Emergency Department, Outpatient Surgery, and Inpatient Services. The hospital is the first in North Carolina to receive the Geriatric Emergency Department Accreditation (GEDA) from the American College of Emergency Physicians (ACEP). This certifies that staff has been specially trained to assess older patients more comprehensively. UNC is one of about 20 hospitals accredited nationwide. Even though the hospital recently opened in 2015, expansion plans have been submitted and going through the development review process. The expansion will add an estimated 100 jobs, 30 rehabilitation beds, 50 acute care beds, and a dialysis unit.

### **Recreational, Visitor, and Cultural Events**

The Town's three percent hotel/motel and one 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 cancelled between July 1, 2020 and June 30, 2021, there were far more public events during this period than the previous year.

The Tourism Development Authority (TDA), 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 BBQ Festival
- Moorefields Bluegrass Festival
- River Park Concert
- Historic Hillsborough Half Marathon & 5K
- Handmade Parade
- Hillsborough Halloween Spirits Tours
- Solstice Celebration Lantern Walk
- Hillsborough Holiday Parade and Tree Lighting
- Candlelight Holiday Home Tour



Ayr Mount is a Federal-era plantation house built in 1815 in Hillsborough by William Kirkland.

Hillsborough is rich with museums and historical sites.

- Alexander Dickson House (late 18<sup>th</sup>-century)
- Ayr Mount (1800's Federal-era plantation house)
- Burwell School Historic Site (1800's)
- Hillsborough Presbyterian Church (c.1816)
- Margaret Lane Cemetery (c.1885)
- Moorefields (c.1785)
- Occaneechi Village Replica Site
- Old Orange County Courthouse (c.1844)
- Dickerson's Chapel AME Church (1790)
- First Baptist Church (c.1860/1868)
- Hillsborough United Methodist Church (c.1860)
- 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 opportunities abound in Hillsborough.

- Cates Creek Park
- Mayo Park
- Murray Street Park
- Gold Park
- Hillsborough Heights Park
- Kings Highway Park
- Calvin Street Greenway
- Riverwalk
- Historic Occaneechee Speedway Trail
- Turnip Patch Park
- Exchange Park
- Fairview Park
- Hillsborough Youth Athletic Association baseball fields
- River Park
- Cates Creek Greenway
- Occaneechee Mountain State Natural Area
- Kings Highway Park

- Duke Forest
- Ayr Mount
- Occoneechee Golf Club
- Central Recreation Center
- Triangle Area Polo Club & Arena
- Orange County Sportsplex

### **Residential Growth**

Hillsborough's population will increase significantly over the next few years. The Town continues to receive commercial inquiries and experience expansion of existing businesses. The following neighborhoods are under development or will be in the near future.

- The Waterstone, Forest Ridge, and Fiori Hills developments are near completion. When finished they will have added about 1,000 residential units to Hillsborough.
- The Collins Ridge master plan includes 950 dwellings (houses, townhouses, and apartments) and 88 affordable rental units. The first homes were sold in June 2021.



Elevated section of Riverwalk

## **Long-Term Financial Planning**

For quite a few years 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. COVID-19 is a health and economic crisis that needs no further explanation as everyone is acutely aware of its impacts. It's further complicated due to the difficulty in forecasting the length and severity of the financial impacts on global, national, and local economies, especially if there is a second or third wave of infections.

Revenue assumptions are critical as they are the primary factor in determining expenditure limits for the budget. Assumptions from local governments across North Carolina varied wildly as budgets were being developed for the fiscal year 2021, with far greater ranges than anyone on the budget team has ever seen. There were no common baselines when it came to projecting key revenue sources, such as property tax collection rates, sales taxes, Powell Bill (state gas tax), food and beverage, accommodations tax, water and sewer revenues, and many others.

The fiscal year 2021 budget was the first budget presented to Hillsborough's town board in the last 23 years that was not in a multi-year format. Hillsborough is one of the only local governments in the state that uses a multi-year format. During budget development while in the early stages of COVID-19, it was difficult to accurately project for three months, much less three years. To minimize wasted time and help everyone focus attention on the most pressing issues, the document was prepared in a traditional one-year format. Hopefully, the situation will stabilize going into the fiscal year 2022 and staff can resume with the multi-year format that's been so successful.

Due to the uncertainty, the following approaches were used in developing the FY22 budget: 1) simplify and prioritize, 2) increase options and 3) prepare for more tight budgets ahead.



1. Simplify and prioritize by focusing on the basics: core service delivery, asset maintenance, and retaining employees since skill, experience, and know-how are a service organization's most important resource. Most everything else will need to wait until the situation stabilizes, then financial condition and priorities can be reassessed.

2. Increase options to have the financial flexibility to deal with the unexpected issues that will arise, especially if FY21 turned out to be difficult year. Increasing options was achieved through conservative projections on the revenue side and trimming expenses to protect the town's financial reserves. Many requests, even those that have been planned for some time have been cut, delayed, or reduced. Most vacant positions that were frozen in late FY20 remained frozen through much or all FY21. Making tough decisions early in the pandemic and during FY21 budget adoption (June 2020) provided more options for the town to weather unexpected challenges. Underestimating potential financial impacts creates significant risks for the organization and its ability to serve our community. Being overly optimistic with revenue estimates means potentially having to make significant mid-year cuts- this narrows options and unnecessarily makes the situation more complicated. If things turn out to be better than projected, then it's a relatively easy adjustment to add unfunded items back into the budget.

3. Prepare for more tight budgets ahead. While everyone hopes the recovery will be quick and robust it's important to remember that during recessions governments are often the last to feel the impact, compared to businesses, but also last to recover. After emerging from the recession there is usually a backlog of deferred vehicle and equipment replacements, and other maintenance projects to address before high priority projects can be funded, thus further extending the length of the recovery. Figuring out how to pay for backlogged needs, implementing priorities from the Comprehensive-Sustainability Plan, paying for significant maintenance needs on the aging water and sewer system, and other needs will be a major challenge exiting the pandemic and in future years.

Fortunately, the conservative approach in developing the FY21 budget worked as the town ended the year with a substantial boost to the General Fund balance of \$1.97M. Again, these funds will be needed to pay for high priority needs and ensure sufficient money is saved for emergency situations that's more important than ever with weather events becoming more frequent and severe. The Water and Sewer Fund end the year with an increase in net position of \$1.85M.

## **Major Initiatives**

The Town's future capital plans are established in a seven-year Capital Improvement Plan which 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 re-paving and road maintenance is funded without debt and uses the Town's Powell Bill (gas tax allocation) and General Fund revenues to pay for the improvements. No re-paving was performed this year to help pay for the expensive repair project on Valley Forge Road, due to the road crossing being washed out during a storm.
- Valley Forge Stormwater Project – The purpose of this project that may exceed \$1.0 million is to replace three 90" pipes crossing under Valley Forge Road and rebuild the road. The road has washed out twice in recent years and temporary repairs are having to be monitored weekly until the reconstruction project is complete. The town is eligible for 75% emergency funding assistance through the State of North Carolina to help pay for this project, but the town must pay for the repairs first, then seek reimbursement.

### **Water and Sewer Fund**

- Reservoir Phase II -To address long-term water supply needs and accommodate the type of growth that matches the Town's vision, Phase 2 expansion of the West Fork Eno River Reservoir began construction in April 2018. 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 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 is expected to be completed by late 2021.



Piano key weir at the West Fork Reservoir during construction

- **Wastewater Collection.** The process was started of developing a detailed evaluation of the system's condition and capacity 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 & infiltration," line capacity, pump stations, etc. It's anticipated that approximately \$40 million alone will be needed to address wastewater collection system needs over the next 19 years.

## **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 \$3,227 per capita. The largest part of the outstanding debt is for the wastewater treatment plant and the reservoir. Additional debt incurred over recent years will ensure 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 23 fiscal years, and no debt service expenditures on general obligation bonded debt have been incurred in the General Fund during the last 23 fiscal years. The Town has avoided a heavy debt load, which has plagued many municipalities, in its General Fund. 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 issue for \$3.7 million was issued in FY20. Debt payments on a non-GAAP basis account for 25.7% 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 \$1.0 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 over-investing 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.

## Other Information

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hillsborough for its annual comprehensive financial report (ACFR) for the fiscal year ended June 30, 2020. 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.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report that conforms to program standards. The annual report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. The Town of Hillsborough has received a Certificate of Achievement for the last 26 consecutive years (fiscal years ended 1994 through 2020). Unfortunately, that long consecutive streak will come to an end due to the audit submission being significantly late and thus not eligible for submission.

## Acknowledgments

We appreciate the assistance and dedication of the Finance Department staff throughout the year, especially during the preparation of this report. During this short period, the staff has worked with at least six finance directors (two full-time and four interims). They've worked exceptionally hard and been patient as we've worked through several challenging situations over the past 18 months. We would like to thank all members of the department who contributed to its preparation and the independent Certified Public Accountants, Cherry Bekaert LLP, for their assistance. A special thanks goes to the staff of the Greg Isley, CPA firm who has provided tremendous assistance and frequently gone over and above to help during these challenging times. 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



Melissa Bishop  
Interim Finance Director

# Town of Hillsborough Board of Commissioners 2020-2021



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

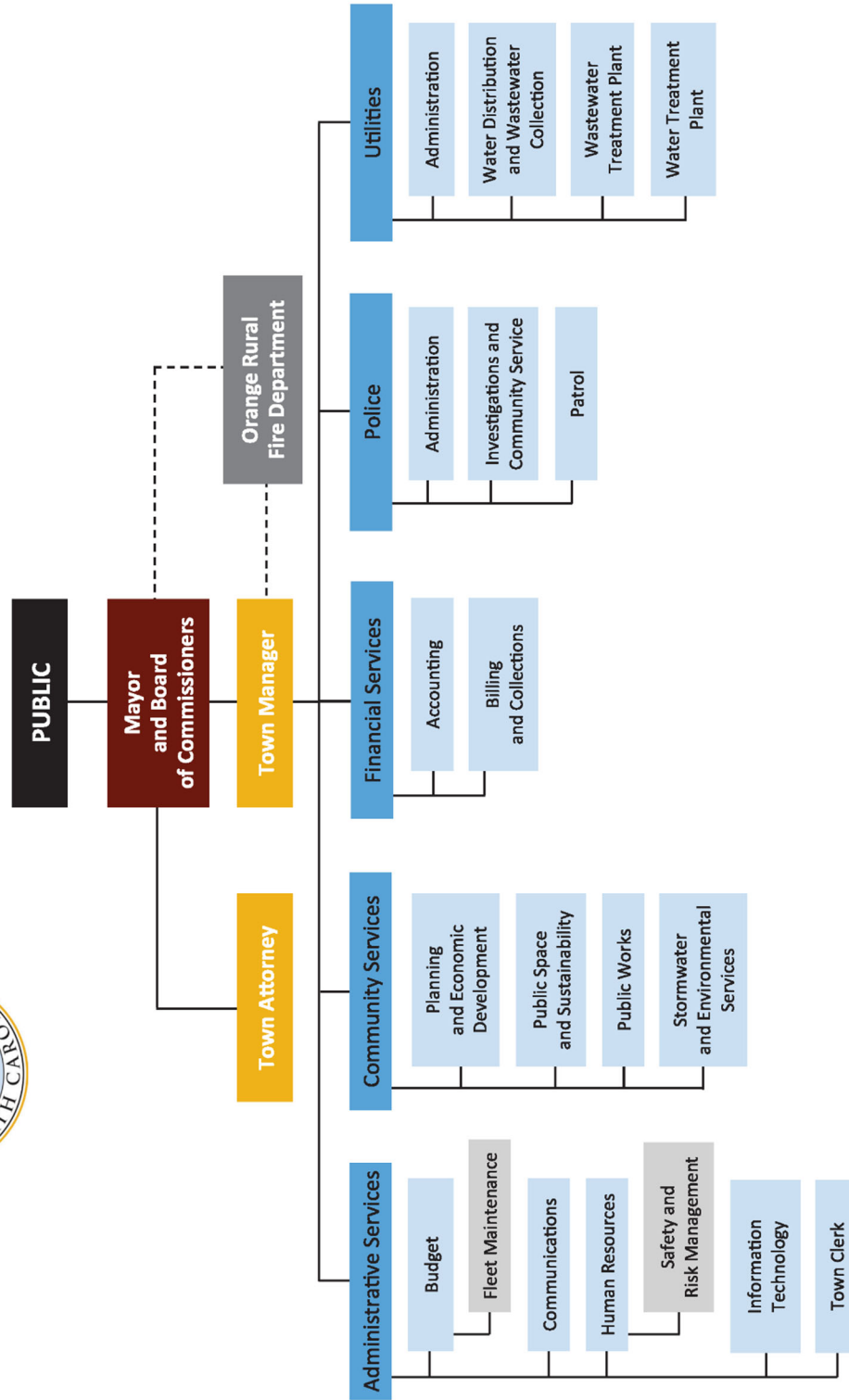
**Jenn Weaver** – Mayor  
**Matt Hughes** – Mayor Pro Tem  
**Evelyn Lloyd** – Commissioner  
**Mark Bell** – Commissioner  
**Kathleen Ferguson** - Commissioner  
**Robb English** – Commissioner

## 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





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Town of Hillsborough  
North Carolina**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2020

*Christopher P. Morill*

Executive Director/CEO





**This page was intentionally left blank.**

## ***Financial Section***



**This page was intentionally left blank.**

## **Report of Independent Auditor**

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

### **Report on the Financial Statements**

We have audited the accompanying 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, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Hillsborough Tourism Board and Hillsborough Tourism and Development Authority were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the 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, and the aggregate remaining fund information of the Town as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary financial data, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required 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 auditing standards generally accepted in the United States of America, 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 and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements of the Town. The introductory section, combining and individual fund statements and schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2023 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of the report is 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 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 the Town's internal control over financial reporting and compliance.

*Cherry Bekaert LLP*

Raleigh, North Carolina  
January 12, 2023

## Town of Hillsborough, North Carolina Management's Discuss and Analysis

---

As management of the Town of Hillsborough (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2021. 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

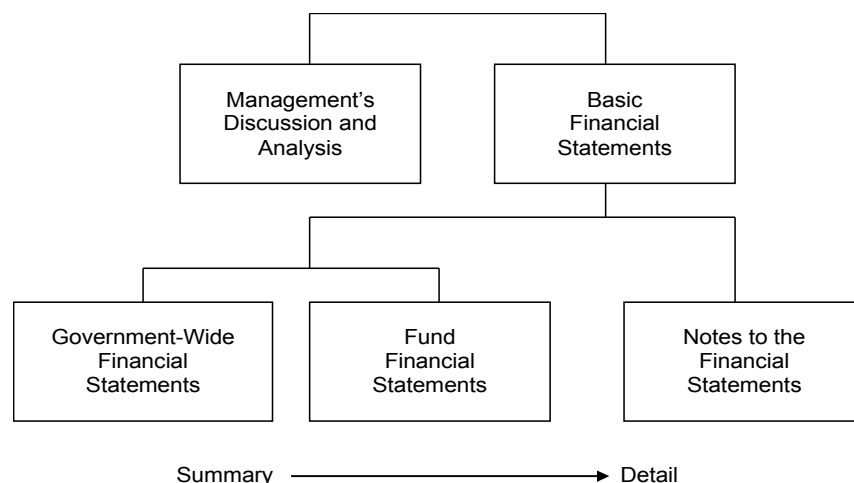
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$85,590,827 which consisted of \$28,472,946 from governmental activities and \$57,117,881 from business-type activities.
- The Town's total net position increased by \$4,218,985 which consisted of \$2,252,800 from governmental activities and \$1,966,185 from business-type activities.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$11,424,738 which consisted primarily of \$10,445,599 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 \$8,470,067, or 89.14% of total General Fund expenditures.
- The Town's total debt decreased by \$1,910,226 during the current fiscal year. No new bonds were issued in FY21; however, the Town executed an installment purchase contract in the amount of \$300,000.
- The Town obtained an AA bond rating from S&P (Standard & Poors) on May 2, 2018.

### Overview of the Financial Statements

This discussion and analysis are 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 Annual Financial Report**

**Figure 1**





## Town of Hillsborough, North Carolina Management's Discuss and Analysis

---

### **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 12 through 14 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 Discuss and Analysis

---

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 an agency 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 26 through 58 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 59 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 \$85,590,827 as of June 30, 2021. The Town's net position increased by \$4,218,985 for the fiscal year ended June 30, 2021.

The largest portion of net position (68.12%) 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, \$11,743,008 (13.72%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$15,545,581 (18.16%) is unrestricted and may be used to meet the Town's ongoing obligation to citizens and creditors.

**Town of Hillsborough, North Carolina**  
**Management's Discuss and Analysis**

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

**Table 1**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>ASSETS</b>						
Current assets and other assets	\$ 12,291,198	\$ 9,707,979	\$ 24,393,053	\$ 24,187,465	\$ 36,684,251	\$ 33,895,444
Capital assets, net	23,358,683	23,573,145	63,049,803	62,459,019	86,408,486	86,032,164
Total assets	35,649,881	33,281,124	87,442,856	86,646,484	123,092,737	119,927,608
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	1,785,856	1,182,611	693,975	489,909	2,479,831	1,672,520
<b>LIABILITIES</b>						
Long-term liabilities	7,903,503	7,303,538	29,582,030	30,574,754	37,485,533	37,878,292
Other liabilities	746,134	537,216	1,255,198	1,232,365	2,001,332	1,769,581
Total liabilities	8,649,637	7,840,754	30,837,228	31,807,119	39,486,865	39,647,873
<b>DEFERRED INFLOWS OF RESOURCES</b>	313,154	402,835	181,722	177,578	494,876	580,413
<b>NET POSITION</b>						
Net investment in capital assets	20,301,129	19,779,745	38,001,109	38,149,486	58,302,238	57,929,231
Restricted	1,975,532	1,851,081	9,767,476	5,857,366	11,743,008	7,708,447
Unrestricted	6,196,285	4,589,320	9,349,296	11,144,844	15,545,581	15,734,164
Total net position	\$ 28,472,946	\$ 26,220,146	\$ 57,117,881	\$ 55,151,696	\$ 85,590,827	\$ 81,371,842

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage in excess of 99%.
- Many departments finishing the year with expenditures under budget.
- Revenues in the General Fund and Water and Sewer Fund exceeded expenditures and expenses in the respective funds.
- Continued low cost of debt due to low interest rates.

**Town of Hillsborough, North Carolina**  
**Management's Discuss and Analysis**

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

**Table 2**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 89,611	\$ 316,812	\$ 11,533,337	\$ 10,936,743	\$ 11,622,948	\$ 11,253,555
Operating grants and contributions	245,914	267,790	-	-	245,914	267,790
Capital grants and contributions	34,432	236,211	289,872	996,128	324,304	1,232,339
General revenues:						
Property taxes	7,944,778	7,389,956	-	-	7,944,778	7,389,956
Local option sales taxes	2,048,982	1,719,865	-	-	2,048,982	1,719,865
Other taxes	-	30,986	-	-	-	30,986
Unrestricted inter-governmental	1,239,258	1,055,076	-	-	1,239,258	1,055,076
Other revenues	97,008	315,031	51,590	92,368	148,598	407,399
Total revenues	<u>11,699,983</u>	<u>11,331,727</u>	<u>11,874,799</u>	<u>12,025,239</u>	<u>23,574,782</u>	<u>23,356,966</u>
<b>EXPENSES</b>						
Governmental:						
General government	2,076,073	2,391,829	-	-	2,076,073	2,391,829
Public safety	5,018,883	5,559,342	-	-	5,018,883	5,559,342
Transportation	721,153	1,024,817	-	-	721,153	1,024,817
Environmental protection	482,107	558,337	-	-	482,107	558,337
Economic and physical development	382,397	557,378	-	-	382,397	557,378
Community activities	181,859	166,373	-	-	181,859	166,373
Parks and recreation	479,281	511,512	-	-	479,281	511,512
Interest on long-term debt	105,430	121,076	-	-	105,430	121,076
Business-type:						
Water and Sewer	-	-	9,326,153	8,807,373	9,326,153	8,807,373
Stormwater	-	-	582,461	527,372	582,461	527,372
Total expenses	<u>9,447,183</u>	<u>10,890,664</u>	<u>9,908,614</u>	<u>9,334,745</u>	<u>19,355,797</u>	<u>20,225,409</u>
<b>TRANSFERS</b>	<u>-</u>	<u>197,852</u>	<u>-</u>	<u>(197,852)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>2,252,800</u>	<u>638,915</u>	<u>1,966,185</u>	<u>2,492,642</u>	<u>4,218,985</u>	<u>3,131,557</u>
<b>NET POSITION</b>						
Beginning balances	<u>26,220,146</u>	<u>25,581,231</u>	<u>55,151,696</u>	<u>52,659,054</u>	<u>81,371,842</u>	<u>78,240,285</u>
Ending 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>

**Governmental activities.** Governmental activities increased the Town's net position by \$2,252,800, thereby accounting for 53.4% of the growth in Town's total net position.

## Town of Hillsborough, North Carolina Management's Discuss and Analysis

---

Key elements of this increase are as follows:

- Property taxes revenue increased over \$554,822.
- Sales tax revenue increased over \$329,117.

**Business-type activities.** Business-type activities increased the Town's net position by \$1,966,185, accounting for 46.6% 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 decrease in charges for services due to COVID-19. The Town also delayed several expenses due to the pandemic that were still not fully expended as of the end of the year thereby generating a favorable increase in net position for the year.
- The Water and Sewer Fund received capital contributions for dedications and Water and Sewer development in the amount of \$289,872.

### ***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 \$8,470,067, while total fund balance was \$10,445,599. 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 89.14% of General Fund expenditures.

On June 30, 2021, the governmental funds of the Town reported a combined fund balance of \$11,424,738, with a net increase in fund balance of \$2,382,691. This increase is primarily related revenues exceeding expenditures in the General Fund as the Town implemented measures to control expenditures resulting from the pandemic.

**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 operating revenues for the General Fund were more than the budgeted amount by \$1,834,861 as tax revenues exceeded expectations. Expenditures were \$1,483,202 less than budgeted, primarily due to the impacts of COVID-19, delaying of purchases and managing personnel expenses through vacancies.

**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 \$1,846,120 ending the year with total net position of \$54,384,795. The largest portion of its net position is invested in capital assets (\$36,204,129) while \$9,767,476 is restricted for current and future water and sewer projects. The remaining \$8,423,190 is unrestricted which is a decrease from the prior year because of the Town's

## Town of Hillsborough, North Carolina Management's Discuss and Analysis

reassessment of its capital reserves. 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 \$120,065 ending the year with total net position of \$2,733,086. The largest portion of its net position is invested in capital assets (\$1,796,980) while unrestricted net position amounted to \$936,106, a 23.24% or \$176,556 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, 2021, totals \$86,408,486 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, infrastructure, park facilities and vehicles.

Major capital asset transactions during the year include the following:

- Police Building Improvements (\$249,033)
- ORFD Land Exchange (\$212,208)

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

- Daphine Drive Water & Sewer (\$114,910)
- Waterstone Senior Housing Water & Sewer (\$135,433)
- Waterstone Medical Office Building Sewer (\$39,529)

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

**Table 3**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Nondepreciable:						
Land	\$ 4,879,989	\$ 4,657,781	\$ 6,133,088	\$ 6,133,088	\$ 11,013,077	\$ 10,790,869
Construction in progress	253,140	145,692	2,404,404	11,067,121	2,657,544	11,212,813
Depreciable, net:						
Buildings and improvements	6,156,301	6,200,611	26,805,428	16,922,750	32,961,729	23,123,361
Plant and distribution systems	-	-	24,935,499	25,299,114	24,935,499	25,299,114
Infrastructure	11,371,209	11,653,410	2,338,495	2,395,631	13,709,704	14,049,041
Equipment	363,621	325,571	301,522	407,414	665,143	732,985
Vehicles	334,423	590,080	131,367	233,901	465,790	823,981
	<u>\$ 23,358,683</u>	<u>\$ 23,573,145</u>	<u>\$ 63,049,803</u>	<u>\$ 62,459,019</u>	<u>\$ 86,408,486</u>	<u>\$ 86,032,164</u>

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

## Town of Hillsborough, North Carolina Management's Discuss and Analysis

**Long-term debt.** As of June 30, 2021, the Town had outstanding bonded debt of \$13,109,000 which represents bonds secured solely by specified revenue sources (revenue bonds). The remainder of the Town's debt represents revolving loans payable and installment purchases secured solely by revenues of the project or specified purchases.

The Town's total debt decreased by \$1,910,226 during the current fiscal year due to debt repayments which were partially offset by \$300,000 in additional installment purchases.

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 was approximately \$96,370,000.

TOWN OF HILLSBOROUGH, NORTH CAROLINA Condensed Long-Term Debt						
Table 4						
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Long-term debt:						
Revolving loans	\$ -	\$ -	\$ 13,275,323	\$ 14,336,167	\$ 13,275,323	\$ 14,336,167
Special revenue bonds			13,109,000	13,426,000	13,109,000	13,426,000
Premium on bonds	-	-	864,186	913,641	864,186	913,641
Direct placement-installment purchases	3,357,562	3,793,400	376,744	423,833	3,734,306	4,217,233
	<u>\$ 3,357,562</u>	<u>\$ 3,793,400</u>	<u>\$ 27,625,253</u>	<u>\$ 29,099,641</u>	<u>\$ 30,982,815</u>	<u>\$ 32,893,041</u>

Additional information regarding the Town's long-term debt can be found in Note 3.B.9 of the basic financial statements.

### ***Economic factors and next year's budgets and rates***

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

- *Low unemployment. Orange County's unemployment rate of 4.1% as of June 30, 2021, is below the state average of 5.0%.*
- *Effective tax rate increase of 2.0 cents per \$100*
- *No general obligation debt in the General Fund.*

### ***Budget highlights for the fiscal year ending June 30, 2022***

Governmental Activities - The Town increased its property tax rate by two cents (58.7 cents per \$100 property value) in the fiscal 2022 budget to fund climate and sustainability priorities. Orange County's property re-valuation was effective beginning in fiscal 2022 resulting in a revenue neutral tax rate of 56.7 cents. Other budget highlights in brief:

- Climate and sustainability initiatives - \$150,000
- Design funds for the Public Works facility and relocation - \$200,000
- Public works equipment - \$1,034,000
- Downtown fire station "ramp up" funding - \$75,000



## **Town of Hillsborough, North Carolina Management's Discuss and Analysis**

---

Business-type Activities - The Town increased water and sewer rates by 4.5 percent and 2.0 percent for fiscal year ending 2022. 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 provide for future capital improvements. Other budget highlights in brief:

- River sewer pump station land acquisition (\$200,000)
- Adron Thompson facility repairs and upgrades design funds (\$250,000)
- Infrastructure Rehabilitation (\$1,406,000)

The Town did not adjust its stormwater rates in FY22. 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](mailto:Finance@hillsboroughnc.gov).



**This page was intentionally left blank.**

## ***Basic Financial Statements***



**This page was intentionally left blank.**

**Town of Hillsborough, North Carolina**  
**Statement of Net Position**  
**June 30, 2021**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
<b>ASSETS</b>					
Cash and investments:					
Unrestricted	\$ 10,389,454	\$ 12,127,949	\$ 22,517,403	\$ 261,409	\$ 334,824
Restricted	742,945	10,523,895	11,266,840	-	-
Receivables:					
Taxes receivable, net	141,526	-	141,526	-	-
Accounts receivable, net	90,981	1,741,209	1,832,190	-	-
Due from other governments	901,792	-	901,792	87	16
Due from primary government	-	-	-	25,860	102,676
Accrued interest receivable	24,500	-	24,500	-	-
Capital assets:					
Non-depreciable	5,133,129	8,537,492	13,670,621	-	-
Depreciable, net	18,225,554	54,512,311	72,737,865	-	-
Total assets	35,649,881	87,442,856	123,092,737	287,356	437,516
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension and OPEB deferrals	1,785,856	693,975	2,479,831	-	-
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	511,324	286,338	797,662	2,282	6,474
Payable from restricted assets	-	756,419	756,419	-	-
Other current liabilities	60,574	29,541	90,115	-	-
Accrued interest payable	45,700	182,900	228,600	-	-
Due to component units	128,536	-	128,536	-	-
Long-term liabilities:					
Due within one year	740,492	1,614,142	2,354,634	-	-
Due in more than one year	7,163,011	27,967,888	35,130,899	-	-
Total liabilities	8,649,637	30,837,228	39,486,865	2,282	6,474
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension and OPEB deferrals	313,154	181,722	494,876	-	-
<b>NET POSITION</b>					
Net investment in capital assets	20,301,129	38,001,109	58,302,238	-	-
Restricted for:					
Stabilization by state statute	1,532,595	-	1,532,595	25,947	102,692
Streets	395,581	-	395,581	-	-
Restricted revenues	47,356	-	47,356	-	-
Capital projects	-	8,853,357	8,853,357	-	-
Perpetual maintenance	-	914,119	914,119	-	-
Unrestricted	6,196,285	9,349,296	15,545,581	259,127	328,350
Total net position	\$ 28,472,946	\$ 57,117,881	\$ 85,590,827	\$ 285,074	\$ 431,042

**Town of Hillsborough, North Carolina**  
**Statement of Activities**  
**Year Ended June 30, 2021**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 2,076,073	\$ 72,843	\$ 7,471	\$
Public safety	5,018,883	13,343	11,636	20,000
Transportation	721,153	-	197,962	14,432
Environmental protection	482,107	730	5,845	-
Economic and physical development	382,397	-	23,000	-
Community activities and projects	181,859	-	-	-
Parks and recreation	479,281	2,695	-	-
Interest on long-term obligations	105,430	-	-	-
Total governmental activities	9,447,183	89,611	245,914	34,432
Business-type activities:				
Water and sewer	9,326,153	10,830,811	-	289,872
Stormwater	582,461	702,526	-	-
Total business-type activities	9,908,614	11,533,337	-	289,872
Total primary government	\$ 19,355,797	\$ 11,622,948	\$ 245,914	\$ 324,304
COMPONENT UNITS				
Hillsborough Tourism				
Development Authority	\$ 52,913	\$ -	\$ -	\$ -
Hillsborough Tourism Board	343,210	-	-	-
Total component units	\$ 396,123	\$ -	\$ -	\$ -
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
\$ (1,995,759)	\$ -	\$ (1,995,759)	\$ -	\$ -
(4,973,904)	-	(4,973,904)	-	-
(508,759)	-	(508,759)	-	-
(475,532)	-	(475,532)	-	-
(359,397)	-	(359,397)	-	-
(181,859)	-	(181,859)	-	-
(476,586)	-	(476,586)	-	-
(105,430)	-	(105,430)	-	-
(9,077,226)	-	(9,077,226)	-	-
-	1,794,530	1,794,530	-	-
-	120,065	120,065	-	-
-	1,914,595	1,914,595	-	-
(9,077,226)	1,914,595	(7,162,631)	-	-
-	-	-	(52,913)	-
-	-	-	-	(343,210)
-	-	-	(52,913)	(343,210)
7,944,778	-	7,944,778	-	-
2,048,982	-	2,048,982	-	-
-	-	-	71,412	370,443
9,510	-	9,510	-	-
1,239,258	-	1,239,258	-	-
3,295	2,230	5,525	-	-
84,203	49,360	133,563	-	-
11,330,026	51,590	11,381,616	71,412	370,443
2,252,800	1,966,185	4,218,985	18,499	27,233
26,220,146	55,151,696	81,371,842	266,575	403,809
<u>\$ 28,472,946</u>	<u>\$ 57,117,881</u>	<u>\$ 85,590,827</u>	<u>\$ 285,074</u>	<u>\$ 431,042</u>

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



**Town of Hillsborough, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2021**

**Exhibit 3**  
**(2 pages)**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and investments	\$ 9,402,433	\$ 987,021	\$ 10,389,454
Receivables:			
Taxes receivable, net	141,526	-	141,526
Accounts receivable, net	90,981	-	90,981
Due from other governments	901,792	-	901,792
Restricted assets:			
Cash and investments	742,945	-	742,945
<b>Total assets</b>	<b>\$ 11,279,677</b>	<b>\$ 987,021</b>	<b>\$ 12,266,698</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 260,871	\$ 7,882	\$ 268,753
Accrued liabilities	242,571	-	242,571
Due to component units	128,536	-	128,536
Unearned revenue	52,469	-	52,469
Other liabilities	8,105	-	8,105
<b>Total liabilities</b>	<b>692,552</b>	<b>7,882</b>	<b>700,434</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes receivable, net	141,526	-	141,526
<b>FUND BALANCES</b>			
Restricted for:			
Stabilization by state statute	1,532,595	-	1,532,595
Streets	395,581	-	395,581
Restricted revenues	47,356	-	47,356
Committed for:			
Capital projects	-	979,139	979,139
Assigned for:			
Subsequent year's expenditures	280,311	-	280,311
Unassigned	8,189,756	-	8,189,756
<b>Total fund balances</b>	<b>10,445,599</b>	<b>979,139</b>	<b>11,424,738</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 11,279,677</b>	<b>\$ 987,021</b>	<b>\$ 12,266,698</b>

**Town of Hillsborough, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2021**

**Exhibit 3**  
**(2 pages)**

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

Total fund balances, governmental funds \$ 11,424,738

Reconciliation of amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds:

Non-depreciable assets:

Land 4,879,989  
Construction in progress 253,140

Depreciable assets:

Cost 27,755,214  
Accumulated depreciation (9,529,660)

Capital assets, net of accumulated depreciation 23,358,683

Deferred outflows of resources are not financial resources; therefore, the amounts are not reported in the funds:

Local Government Employees' Retirement System ("LGERS") 1,173,125  
Law Enforcement Officers' Special Separation Allowance ("LEO") 486,377  
Other post employment benefits ("OPEB") 126,354

Total deferred outflows of resources 1,785,856

Certain assets are not available to pay for current period expenditures; therefore, the balances are deferred in the funds:

Property taxes receivable 141,526

Certain assets are not considered financial resources; therefore, the balances are not recorded in the funds:

Accrued interest receivable on unpaid property taxes 24,500

Deferred inflows of resources are not financial resources; therefore, the amounts are not reported in the funds:

Local Government Employees' Retirement System ("LGERS") (15,777)  
Law Enforcement Officers' Special Separation Allowance ("LEO") (37,091)  
Other post employment benefits ("OPEB") (260,286)

Total deferred inflows of resources (313,154)

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 (3,357,562)  
Net pension liability - LGERS (2,166,736)  
Total pension liability - LEO (1,316,618)  
Total OPEB liability (791,204)  
Compensated absences payable (271,383)

Total long-term liabilities (7,903,503)

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 (45,700)

Net position of governmental activities \$ 28,472,946

**Town of Hillsborough, North Carolina**  
**Statement of Revenues and Expenditures and Changes in**  
**Fund Balances - Governmental Funds**  
**Year Ended June 30, 2021**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Ad valorem taxes	\$ 7,957,352	\$ -	\$ 7,957,352
Other taxes and licenses	16,410	-	16,410
Unrestricted intergovernmental revenues	3,147,950	-	3,147,950
Restricted intergovernmental revenues	322,756	-	322,756
Use and rental fees	142,740	-	142,740
Contributions and donations	8,722	8,000	16,722
Investment earnings	3,295	-	3,295
Miscellaneous revenues	85,674	-	85,674
Total revenues	11,684,899	8,000	11,692,899
<b>EXPENDITURES</b>			
Current:			
General government	1,753,937	2,385	1,756,322
Public safety	4,878,848	57,347	4,936,195
Transportation	490,634	-	490,634
Environmental protection	426,205	-	426,205
Economic and physical development	445,666	48,252	493,918
Community activities and projects	181,859	-	181,859
Parks and recreation	479,281	-	479,281
Debt service:			
Principal retirement	735,838	-	735,838
Interest and fiscal charges	109,956	-	109,956
Total expenditures	9,502,224	107,984	9,610,208
Revenues over (under) expenditures	2,182,675	(99,984)	2,082,691
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to other funds	(513,500)	(24,693)	(538,193)
Transfers from other funds	5,403	532,790	538,193
Installment purchase obligations issued	300,000	-	300,000
Other financing sources (uses), net	(208,097)	508,097	300,000
Net change in fund balances	1,974,578	408,113	2,382,691
Fund balances, beginning of year	8,471,021	571,026	9,042,047
Fund balances, end of year	\$ 10,445,599	\$ 979,139	\$ 11,424,738

**Town of Hillsborough, North Carolina**  
**Statement of Revenues and Expenditures and Changes in**  
**Fund Balances - Governmental Funds**  
**Year Ended June 30, 2021**

**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	\$ 2,382,691
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 expense as follows:	
Capital outlay	735,929
Depreciation expense	(965,377)
Net book value adjustment	(5,014)
Non-cash contribution of capital assets is not a current financial resource and therefore, is not reported in the governmental fund statements.	20,000
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.	(12,159)
Net change in accrued interest on property taxes.	(757)
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:	
Installment purchase obligations issued	(300,000)
Principal retirement	735,838
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in accrued interest on long-term debt	4,526
Change in accrued compensated absences	50,583
Pension expense - LGERS	(423,496)
Pension expense - LEOSSA	(34,702)
OPEB expense	64,738
Changes in net position of governmental activities	<u>\$ 2,252,800</u>

**Town of Hillsborough, North Carolina**  
**Statement of Revenues and Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2021**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>				
Ad valorem taxes	\$ 6,849,000	\$ 7,038,557	\$ 7,957,352	\$ 918,795
Other taxes and licenses	12,200	12,392	16,410	4,018
Unrestricted intergovernmental revenues	2,310,000	2,350,852	3,147,950	797,098
Restricted intergovernmental revenues	151,000	257,449	291,881	34,432
Use and rental fees	104,700	104,925	142,740	37,815
Investment earnings	24,000	2,940	3,295	355
Miscellaneous revenues	21,500	43,326	85,674	42,348
Total revenues	9,472,400	9,810,441	11,645,302	1,834,861
<b>EXPENDITURES</b>				
Current:				
General government	2,167,706	2,348,687	1,929,038	419,649
Public safety	5,016,453	5,337,166	5,028,767	308,399
Transportation	996,879	689,188	531,652	157,536
Environmental protection	743,352	792,558	458,460	334,098
Economic and physical development	370,879	593,879	445,666	148,213
Community activities and projects	224,474	340,645	258,542	82,103
Parks and recreation	728,207	739,243	715,200	24,043
Contingency	250,000	9,161	-	9,161
Total expenditures	10,497,950	10,850,527	9,367,325	1,483,202
Revenues over (under) expenditures	(1,025,550)	(1,040,086)	2,277,977	3,318,063
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	(34,000)	(533,500)	(533,500)	-
Transfers from other funds	-	-	5,403	5,403
Installment purchase obligations issued	310,000	297,388	300,000	2,612
Other financing sources (uses), net	276,000	(236,112)	(228,097)	8,015
<b>APPROPRIATED FUND BALANCE</b>	749,550	1,276,198	-	(1,276,198)
Net change in fund balance	\$ -	\$ -	2,049,880	\$ 2,049,880
Fund balance, beginning of year			8,348,363	
Fund balance, end of year			10,398,243	
<b>LEGALLY BUDGETED FUNDS THAT ARE CONSOLIDATED INTO THE GENERAL FUND FOR REPORTING PURPOSES:</b>				
Restricted Revenues Fund:				
Fund balance, beginning			122,658	
Total revenues			39,597	
Total expenditures			(134,899)	
Transfer from other funds			20,000	
Fund balance, ending (Exhibit 4)			\$ 10,445,599	

**Town of Hillsborough, North Carolina**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2021**

	<b>Water and Sewer Fund</b>	<b>Nonmajor Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments - Unrestricted	\$ 11,124,873	\$ 1,003,076	\$ 12,127,949
Cash and investments - Restricted	10,523,895	-	10,523,895
Accounts receivable, net	1,710,702	30,507	1,741,209
Total current assets	23,359,470	1,033,583	24,393,053
Noncurrent assets:			
Capital assets:			
Land and construction-in-progress	8,503,679	33,813	8,537,492
Depreciable assets, net	52,749,144	1,763,167	54,512,311
Capital assets, net	61,252,823	1,796,980	63,049,803
Total assets	84,612,293	2,830,563	87,442,856
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension and OPEB deferrals	635,742	58,233	693,975
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	276,028	10,310	286,338
Payable from restricted assets:			
Accounts payable - capital projects	161,291	-	161,291
Customer deposits	595,128	-	595,128
Other current liabilities	29,541	-	29,541
Accrued interest payable	182,900	-	182,900
Current portion of long-term liabilities	1,605,542	8,600	1,614,142
Total current liabilities	2,850,430	18,910	2,869,340
Long-term liabilities:			
Long-term debt	26,150,210	-	26,150,210
Other long-term liabilities	1,690,280	127,398	1,817,678
Total noncurrent liabilities	27,840,490	127,398	27,967,888
Total liabilities	30,690,920	146,308	30,837,228
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	7,473	726	8,199
OPEB deferrals	164,847	8,676	173,523
Pension and OPEB deferrals	172,320	9,402	181,722
<b>NET POSITION</b>			
Net investment in capital assets	36,204,129	1,796,980	38,001,109
Restricted for water and sewer projects	8,853,357	-	8,853,357
Restricted for perpetual maintenance	914,119	-	914,119
Unrestricted	8,413,190	936,106	9,349,296
Total net position	\$ 54,384,795	\$ 2,733,086	\$ 57,117,881

**Town of Hillsborough, North Carolina**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2021**

**Exhibit 7**

	<b>Water and Sewer Fund</b>	<b>Nonmajor Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 9,844,005	\$ 702,276	\$ 10,546,281
System Development Fees	590,332	-	590,332
Other operating revenues	396,474	250	396,724
Total operating revenues	10,830,811	702,526	11,533,337
<b>OPERATING EXPENSES</b>			
Personnel services	3,074,534	288,294	3,362,828
Operating expenses	3,766,354	237,677	4,004,031
Depreciation	1,685,728	56,490	1,742,218
Total operating expenses	8,526,616	582,461	9,109,077
Operating income	2,304,195	120,065	2,424,260
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	2,230	-	2,230
Amortization of premium on bonds payable	49,455	-	49,455
Insurance proceeds	49,360	-	49,360
Interest and fees	(848,992)	-	(848,992)
Non-operating revenues (expenses), net	(747,947)	-	(747,947)
Income before capital contributions	1,556,248	120,065	1,676,313
<b>CAPITAL CONTRIBUTIONS</b>			
Capital contributions	289,872	-	289,872
Change in net position	1,846,120	120,065	1,966,185
Net position, beginning of year	52,538,675	2,613,021	55,151,696
Net position, end of year	\$ 54,384,795	\$ 2,733,086	\$ 57,117,881

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, 2021**

	<b>Water and Sewer Fund</b>	<b>Nonmajor Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 10,793,638	\$ 703,938	\$ 11,497,576
Cash paid for goods and services	(3,726,164)	(237,187)	(3,963,351)
Cash paid to employees	(2,828,031)	(267,539)	(3,095,570)
Net cash provided by operating activities	4,239,443	199,212	4,438,655
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(2,063,213)	-	(2,063,213)
Principal payments on long-term debt	(1,424,933)	-	(1,424,933)
Interest payments on long-term debt	(856,218)	-	(856,218)
Cash received from insurance claims	49,360	-	49,360
Net cash used by capital and related financing activities	(4,295,004)	-	(4,295,004)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments	2,230	-	2,230
Net increase (decrease) in cash and cash equivalents	(53,331)	199,212	145,881
Cash and cash equivalents, beginning of year	21,702,099	803,864	22,505,963
Cash and cash equivalents, end of year	<u>\$ 21,648,768</u>	<u>\$ 1,003,076</u>	<u>\$ 22,651,844</u>
<b>CASH AND CASH EQUIVALENTS</b>			
Unrestricted	\$ 11,124,873	\$ 1,003,076	\$ 12,127,949
Restricted	10,523,895	-	10,523,895
Total cash and cash equivalents	<u>\$ 21,648,768</u>	<u>\$ 1,003,076</u>	<u>\$ 22,651,844</u>

**Town of Hillsborough, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2021**

	<b>Water and Sewer Fund</b>	<b>Nonmajor Fund</b>	<b>Total</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income	\$ 2,304,195	\$ 120,065	\$ 2,424,260
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,685,728	56,490	1,742,218
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
Accounts receivable	(61,334)	1,412	(59,922)
Prepaid expense	215	-	215
Deferred outflows of resources for pensions	(126,951)	(19,992)	(146,943)
Deferred outflows of resources for OPEB	(55,366)	(1,757)	(57,123)
Accounts payable and accrued liabilities	25,828	153	25,981
Deposits	11,517	-	11,517
Other current liabilities	12,644	-	12,644
Total OPEB liability	60,094	5,812	65,906
Net pension liability	305,140	39,070	344,210
Deferred inflows of resources for pensions	(2,159)	(60)	(2,219)
Deferred inflows of resources for OPEB	11,882	(5,519)	6,363
Compensated absences payable	68,010	3,538	71,548
Net cash provided by operating activities	<u>\$ 4,239,443</u>	<u>\$ 199,212</u>	<u>\$ 4,438,655</u>
<b>Supplemental schedule of noncash investing and financing activities</b>			
Capital asset additions included in accounts payable and accrued liabilities	<u>\$ 54,408</u>	<u>\$ -</u>	<u>\$ 54,408</u>
Capital contribution from developer	<u>\$ 289,872</u>	<u>\$ -</u>	<u>\$ 289,872</u>

**Town of Hillsborough, North Carolina**  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund**  
**June 30, 2021**

---

	<b>Custodial Fund</b>
	<hr/>
<b>ASSETS</b>	
Cash and investments - restricted	\$ -
Receivables:	
Due from other governments	<hr/> 12,114
Total assets	12,114
<b>LIABILITIES</b>	
Payable to third-party trustee	<hr/> 629
<b>NET POSITION</b>	
Restricted for:	
Individuals, organizations and other governments	<hr/> <hr/> \$ 11,485

**Town of Hillsborough, North Carolina**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund**  
**Year Ended June 30, 2021**

---

	<u>Custodial Fund</u>
<b>ADDITIONS</b>	
Special assessment revenue	\$ 509,820
<b>DEDUCTIONS</b>	
Payment to third party trustee	<u>498,335</u>
Change in fiduciary net position	11,485
Fiduciary net position, beginning of year	<u>-</u>
Fiduciary net position end of year	<u><u>\$ 11,485</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:

*Consolidated General Capital Projects Fund.* This fund is used to accumulate expenditures related to multiple capital projects budgeted to be completed within one year. The General Capital Reserve Fund is consolidated in the General Capital Projects Fund.

*Riverwalk CMAQ Capital Project Fund.* Three important sidewalk components are grouped for funding purposes through the Congestion Mitigation and Air Quality program within the Department of Transportation. Riverwalk provides a viable alternative to driving by allowing many residents of Hillsborough to walk or bike into downtown, whether for work, shopping, or recreation. These sidewalk connections are along Eno Mountain Road and provide access into the Occoneechee State natural area (connecting to Gold Park); South Nash Street near the commercial area and the rail trestle, and Calvin Street, connecting to Gold Park and Riverwalk.

*Rail Station Capital Project Fund.* This fund will account for design, engineering, construction and construction oversight of the passenger rail station which is approximately 6,000 square foot building with about 100 parking spaces, utilities, and site access.

*Public Works Building Capital Project Fund.* This fund will account for design, project management, construction, construction inspection, and water and sewer utilities for a new Public Works Building.

*Public Safety Building Capital Project Fund.* This fund will account for construction costs for the renovation of the Public Safety Building.

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 ("WS Capital Projects Funds") and three capital reserve funds have been consolidated with the Water and Sewer Fund.

The Town reports the following nonmajor enterprise fund:

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

***C. Measurement focus and basis of accounting***

In accordance with North Carolina General Statutes ("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 acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue, because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the subsequent year. Also, as of September 1, 2013, state law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the state of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the state at year-end on behalf of the Town, are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Orange County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual, because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.



***D. Budgetary data***

The Town's budgets are adopted by the governing board as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Water and Sewer Fund, and the Stormwater Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for all governmental 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 General Fund and the Water and Sewer Fund have 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	\$ 395,581
Unspent debt proceeds - garbage truck	300,008
Restricted revenues	<u>47,356</u>
Total governmental activities	<u>742,945</u>
Business-type activities:	
Water and Sewer Fund:	
Unspent debt proceeds	2,737,850
Customer deposits	595,128
Perpetual maintenance	914,119
Water and sewer capital needs	<u>6,276,798</u>
Total business-type activities	<u>10,523,895</u>
Total restricted cash	<u><u>\$ 11,266,840</u></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, 2020. 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><b>Asset Class</b></u>	<u><b>Estimated Useful Lives</b></u>
Buildings and building improvements	30 years
Infrastructure	40 years
Plant and distribution systems	50 years
Furnishings, fixtures, equipment and computers	5 to 10 years
Vehicles	3 to 5 years

(8) Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion: pension deferrals and OPEB deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has three items that meet the criterion for this category: taxes receivable, pension deferrals and OPEB deferrals.

(9) Long-term obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities, or proprietary fund-type statement of net position. Long-term debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method that approximates the effective interest method. Long-term debt is reported net of the applicable premiums or discounts. Debt issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether withheld from the actual debt proceeds received or not, are reported as debt service expenditures.

(10) Compensated absences

The vacation policy of the Town provides for the accumulation of up to 240 hours earned vacation leave, with such leave being fully vested when earned. Any vacation leave accumulated over 240 hours at December 31<sup>st</sup> is converted to sick leave. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability and included in the long-term liabilities due within one year on the government-wide financial statements.

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

(11) Net position/fund balances

**Net position**

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

**Fund balances**

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

The governmental fund types classify fund balances as follows:

*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 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. Unassigned fund balances may be assigned by the Town Board, Town Manager, or Finance Director for specific purposes through the budget process or agenda items. Although managed as dedicated to specific areas, amounts are available for appropriation by the Town Board.

*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.

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

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

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

(12) Defined benefit cost-sharing plans

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

## **2. Stewardship, Compliance and Accountability**

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

- Contractual Violation

The "Contract to Audit Accounts", for all local units of government in North Carolina, states that all audits are to be performed and the report of audit submitted to the State and Local Government Finance Division within four months of the fiscal year-end. In other words, the audited financial statements for the fiscal year ended June 30, 2021 is due on October 31, 2021. The submission of the Town's audited financial statements is substantially late in violation of the "Contract to Audit Accounts". The Town believes this was an isolated situation due to turnover in the Town's Finance staff and the assignment of sufficient resources from the external audit firm engaged to perform the audit. The Town has engaged additional contractual resources to assist the Town and its component units with the preparation of year-end financial information in a timely manner in order to submit audited financial statements in accordance with the "Contract to Audit Accounts".

### **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 \$3,696,071 and a bank balance of \$4,014,140 at June 30, 2021. Of the bank balance, \$328,593 was covered by federal depository insurance and \$3,685,547 in interest-bearing deposits were covered under the Pooling Method. The Town had \$1,050 in petty cash on hand at June 30, 2021.

The Authority's deposits had a carrying amount and bank balance of \$261,409 at June 30, 2021. Of the bank balance, \$250,000 was covered by federal depository insurance and \$11,409 in interest-bearing deposits were covered under the Pooling Method.

The Tourism Board's deposits had a carrying amount of \$334,824 and a bank balance of \$335,526 at June 30, 2021. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$85,526 of demand deposits were covered under the Pooling Method.

##### **Investments**

The following table summarizes the Town's investment balances at June 30, 2021:

<b>Investments by Type</b>	<b>Valuation Measurement Method</b>	<b>Book Value at 6/30/2021</b>	<b>Maturity</b>	<b>Rating</b>
First American Funds, Inc. - Government Obligations Fund Class D	Level 1	\$ 300,008	N/A	AAAm
North Carolina Capital Management Trust - Governmental Portfolio	Level 1	29,787,114	N/A	AAAm
		<u>\$ 30,087,122</u>		

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.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

---

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 and First American Funds, Inc. - Government Obligations Fund Class D carried credit ratings of AAAM by Standard & Poor's as of June 30, 2021.

(3) Due from other governments

Amounts due from other governments consist of the following:

	<b>Governmental Activities</b>
General Fund:	
Sales and use tax distribution	\$ 527,167
Utilities franchise and telecommunications tax	141,202
Sales tax refunds	148,434
Other government agencies	84,989
Total due from other governments	<u>\$ 901,792</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, 2021 are net of the following allowances for doubtful accounts:

	<b>Governmental Activities</b>
General Fund:	
Property taxes receivable	<u>\$ 43,000</u>
	<b>Business-type Activities</b>
Water and Sewer Fund:	
Accounts receivable	\$ 178,000
Stormwater Fund:	
Accounts receivable	4,000
Total allowance for doubtful accounts	<u>\$ 182,000</u>

(5) Due from primary government

Amounts due from the primary government consist of \$25,860 in occupancy taxes and \$102,676 in food and beverage taxes collected by the Town and remitted to the Authority and the Board, respectively.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

(6) Capital assets

Governmental capital asset activity for the year ended June 30, 2021 was as follows:

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balances</b>
<b>Governmental activities:</b>				
Capital assets not depreciated:				
Land	\$ 4,657,781	\$ 222,208	\$ -	\$ 4,879,989
Construction-in-progress	145,692	356,481	249,033	253,140
	<u>4,803,473</u>	<u>578,689</u>	<u>249,033</u>	<u>5,133,129</u>
Capital assets being depreciated:				
Buildings and improvements	8,931,637	249,033	-	9,180,670
Infrastructure	13,062,862	45,086	-	13,107,948
Equipment	971,364	126,637	5,014	1,092,987
Vehicles	4,368,092	5,517	-	4,373,609
	<u>27,333,955</u>	<u>426,273</u>	<u>5,014</u>	<u>27,755,214</u>
Less accumulated depreciation for:				
Buildings and improvements	2,731,026	293,343	-	3,024,369
Infrastructure	1,409,452	327,287	-	1,736,739
Equipment	645,793	83,573	-	729,366
Vehicles	3,778,012	261,174	-	4,039,186
	<u>8,564,283</u>	<u>965,377</u>	<u>-</u>	<u>9,529,660</u>
Capital assets being depreciated, net	<u>18,769,672</u>	<u>(539,104)</u>	<u>5,014</u>	<u>18,225,554</u>
Capital assets, net	<u>\$ 23,573,145</u>	<u>\$ 39,585</u>	<u>\$ 254,047</u>	<u>\$ 23,358,683</u>

Depreciation expense was charged to the following functions:

General government	\$ 236,666
Public safety	283,530
Transportation	328,671
Economic and physical development	81,363
Environmental protection	35,147
	<u>\$ 965,377</u>

Business-type capital asset activity for the year ended June 30, 2021 was as follows:

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balances</b>
<b>Business-type activities:</b>				
<i>Water and sewer:</i>				
Capital assets not depreciated:				
Land	\$ 6,099,275	\$ -	\$ -	\$ 6,099,275
Construction-in-progress	11,067,121	2,029,569	10,692,286	2,404,404
	<u>17,166,396</u>	<u>2,029,569</u>	<u>10,692,286</u>	<u>8,503,679</u>



**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balances</b>
<b>Business-type activities:</b>				
<i>Water and sewer (continued):</i>				
Capital assets being depreciated:				
Buildings and improvements	\$ 27,927,519	\$ 10,692,286	\$ -	\$ 38,619,805
Plant and distribution systems	35,835,150	289,872	-	36,125,022
Infrastructure	739,873	13,561	-	753,434
Equipment	1,861,646	-	-	1,861,646
Vehicles	1,036,413	-	-	1,036,413
	<u>67,400,601</u>	<u>10,995,719</u>	<u>-</u>	<u>78,396,320</u>
Less accumulated depreciation for:				
Buildings and improvements	11,004,769	809,608	-	11,814,377
Plant and distribution systems	10,536,036	653,487	-	11,189,523
Infrastructure	135,730	17,368	-	153,098
Equipment	1,482,401	102,731	-	1,585,132
Vehicles	802,512	102,534	-	905,046
	<u>23,961,448</u>	<u>1,685,728</u>	<u>-</u>	<u>25,647,176</u>
Capital assets being depreciated, net	<u>43,439,153</u>	<u>9,309,991</u>	<u>-</u>	<u>52,749,144</u>
Capital assets, net	<u>\$ 60,605,549</u>	<u>\$ 11,339,560</u>	<u>\$ 10,692,286</u>	<u>\$ 61,252,823</u>
	<b>Beginning Balances</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balances</b>
<b>Business-type activities:</b>				
<i>Stormwater:</i>				
Capital assets not depreciated:				
Land	\$ 33,813	\$ -	\$ -	\$ 33,813
	<u>33,813</u>	<u>-</u>	<u>-</u>	<u>33,813</u>
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	341,689	53,329	-	395,018
Equipment	3,437	3,161	-	6,598
Vehicles	20,762	-	-	20,762
	<u>365,888</u>	<u>56,490</u>	<u>-</u>	<u>422,378</u>
Capital assets being depreciated, net	<u>1,819,657</u>	<u>(56,490)</u>	<u>-</u>	<u>1,763,167</u>
Capital assets, net	<u>\$ 1,853,470</u>	<u>\$ (56,490)</u>	<u>\$ -</u>	<u>\$ 1,796,980</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

(7) Construction commitments

The Town has active construction projects as of June 30, 2021 with the following remaining commitments:

	<u>Spent to Date</u>	<u>Estimated Remaining Commitment</u>
Governmental Projects:		
Transportation Improvement Project ("TIP")	\$ 3,834	\$ 1,075,000
Valley Forge Road Project	44,418	511,000
Public Works Building Project	25,982	128,000
Business-type Projects:		
Mill Creek Road Project	2,166,918	1,111,000
Various water and sewer projects	587,658	2,109,000
	<u>\$ 2,828,810</u>	<u>\$ 4,934,000</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. 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 or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

*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, 2021 was 10.9% of compensation for law enforcement officers and 10.15% 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 \$632,182 for the year ended June 30, 2021.

*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, 2021, of \$3,292,912 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 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, 2020 (measurement date), was 0.09215%, which was a increase of 0.0016% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$1,138,547. The Town reported, at June 30, 2021, deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 415,837	\$ -
Changes in assumptions and/or other inputs	245,057	-
Net difference between projected and actual earnings on pension plan investments	463,389	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	26,400	23,976
Contributions subsequent to the measurement date	632,182	-
Total deferrals	<u>\$ 1,782,865</u>	<u>\$ 23,976</u>

\$632,182 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, 2022. 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:**

2022	\$ 317,591
2023	422,382
2024	249,595
2025	137,139
Total	<u>\$ 1,126,707</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

*Actuarial assumptions.* The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.50 to 8.10%, including inflation and productivity factor
Investment rate of return	7.00%, 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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study as of December 31, 2014.

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, 2020 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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	6.0%	4.0%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2019 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 3.0 percent. All rates of return and inflation are annualized.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

*Discount rate.* The discount rate used to measure the total pension liability was 7.00 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 7.00%, 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Town's proportionate share of the net pension liability	<u>\$ 6,680,960</u>	<u>\$ 3,292,912</u>	<u>\$ 477,206</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, 2019 (valuation date), consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	<u>29</u>
Total	<u>32</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, 2019 valuation. The total pension liability in the December 31, 2019 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%)
Discount rate	1.93 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 decreased from 3.26 percent to 1.93 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 \$28,760 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, 2021, the Town reported a total pension liability of \$1,316,618. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the Town recognized pension expense of \$173,538.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 120,870	\$ 19,124
Changes in assumptions and/or other inputs	348,140	17,967
Benefit payments and administrative costs made subsequent to the measurement date	17,367	-
Total deferrals	<u>\$ 486,377</u>	<u>\$ 37,091</u>

The \$17,367 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:**

2022	\$ 93,020
2023	94,484
2024	87,861
2025	79,863
2026	76,691
Total	<u>\$ 431,919</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 1.93 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 (0.93 percent) or 1-percentage-point higher (2.93 percent) than the current rate:

	<b>1% Decrease (0.93%)</b>	<b>Discount Rate (1.93%)</b>	<b>1% Increase (2.93%)</b>
Total pension liability	<u>\$ 1,433,439</u>	<u>\$ 1,316,618</u>	<u>\$ 1,210,208</u>

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

	<b><u>2021</u></b>
Beginning balance	\$ 783,583
Service cost	54,522
Interest on the total pension liability	25,173
Differences between expected and actual experience in the measurement of the total pension liability	96,611
Changes in assumptions and/or other inputs	379,515
Benefit payments	<u>(22,786)</u>
Ending balance	<u>\$ 1,316,618</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ending December 31, 2019.

**(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:

	<b>LGERS</b>	<b>LEOSSA</b>	<b>Total</b>
Pension expense	\$ 1,138,547	\$ 173,538	\$ 1,312,085
Pension liabilities	3,292,912	1,316,618	4,609,530
Proportionate share of net pension liability	0.09215%	N/A	N/A
<b>Deferred outflows of resources:</b>			
Differences between expected and actual experience	415,837	120,870	536,707
Changes in assumptions and/or other inputs	245,057	348,140	593,197
Net difference between projected and actual earnings on plan investments	463,389	-	463,389
Changes in proportion and differences between contributions and proportionate share of contributions	26,400	-	26,400
Contributions, benefit payments, and administrative costs paid subsequent to the measurement date	632,182	17,367	649,549
<b>Deferred inflows of resources:</b>			
Differences between expected and actual experience	-	19,124	19,124
Changes in assumptions and/or other inputs	-	17,967	17,967
Changes in proportion and differences between contributions and proportionate share of contributions	23,976	-	23,976

**(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 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. 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. Additionally, the Town has elected to include all permanent, full-time employees under this Plan.



**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

*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 has elected to contribute each month an amount equal to 5.0% of each participating general employee's salary. Also, the participants may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2021 were \$537,964, which consisted of \$322,726 from the Town and \$215,238 from employees.

(2) Other postemployment benefit

Healthcare Benefits

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

Retired Employees' Years of Creditable Service	Law Enforcement		Non-Law Enforcement	
	Hired Before February 9, 2009	Hired On or After February 9, 2009	Hired Before February 9, 2009	Hired On or After February 9, 2009
Less than 20 years' 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, 2019, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	3	2
Active plan members	74	31
Total	77	33

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

**Total OPEB liability**

The Town's total OPEB liability of \$1,318,673 was measured as of June 30, 2020 and was determined by an actuarial valuation as of June 30, 2019.

*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 2019 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 3.50 percent, respectively
Real wage growth	1.00%
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Discount rate	2.21 percent
Healthcare cost trend rates	7.00% decreasing to an ultimate rate of 4.50% by 2026

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

**Changes in the total OPEB liability**

	<b><u>2021</u></b>
Beginning balance	\$ 1,175,291
Service cost	35,773
Interest on the total pension liability	40,828
Differences between expected and actual experience in the measurement of the total pension liability	33,091
Changes in assumptions and/or other inputs	123,589
Net benefit payments and implicit subsidy credit	<u>(89,899)</u>
Ending balance	<b><u>\$ 1,318,673</u></b>

The net benefit payments shown above include \$19,700 due to the implicit subsidy. Changes in assumptions and other inputs reflect a change in the discount rate from 3.50% to 2.21%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014, 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, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 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 (1.21 percent) or 1 percentage point higher (3.21 percent) than the current rate:

	<b><u>1% Decrease (1.21%)</u></b>	<b><u>Discount Rate (2.21%)</u></b>	<b><u>1% Increase (3.21%)</u></b>
Total OPEB liability	<u>\$ 1,423,288</u>	<u>\$ 1,318,673</u>	<u>\$ 1,221,766</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>\$ 1,183,047</u>	<u>\$ 1,318,673</u>	<u>\$ 1,475,351</u>

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

The Town recognized OPEB expense of \$33,813 for the year ended June 30, 2021. The Town reported, at June 30, 2021, 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	\$ 35,202	\$ 361,084
Changes in assumptions and/or other inputs	131,134	72,725
Benefit payments and administrative costs made subsequent to the measurement date	<u>44,252</u>	<u>-</u>
Total deferrals	<u>\$ 210,588</u>	<u>\$ 433,809</u>

\$44,252 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, 2022. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Years ending June 30:**

2022	\$ (43,959)
2023	(43,959)
2024	(43,959)
2025	(43,959)
2026	(41,647)
Thereafter	<u>(49,990)</u>
Total	<u>\$ (267,473)</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, 2021 were as follows:

<b>Governmental Activities</b>			
	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Accounts payable to vendors	\$ 260,871	\$ 7,882	\$ 268,753
Accrued payroll and related liabilities	242,571	-	242,571
Other	-	-	-
	<u>\$ 503,442</u>	<u>\$ 7,882</u>	<u>\$ 511,324</u>
<b>Business-type Activities</b>			
	<b>Water and Sewer Fund</b>	<b>Stormwater Fund</b>	<b>Total</b>
Accounts payable to vendors	\$ 357,394	\$ 1,905	\$ 359,299
Accrued payroll and related liabilities	77,806	8,405	86,211
Other	2,119	-	2,119
	<u>\$ 437,319</u>	<u>\$ 10,310</u>	<u>\$ 447,629</u>
<b>Component Units</b>			
	<b>The Authority</b>	<b>The Tourism Board</b>	<b>Total</b>
Accounts payable to vendors	\$ 2,282	\$ 6,474	\$ 8,756
Accrued payroll and related liabilities	-	-	-
Other	-	-	-
	<u>\$ 2,282</u>	<u>\$ 6,474</u>	<u>\$ 8,756</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

---

(5) Due to component units

Amounts due to component units consist of \$25,860 in occupancy taxes and \$102,676 in food and beverage taxes collected by the Town and remitted to the Authority and the Tourism Board, respectively.

(6) Deferred outflows and inflows of resources

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

	<b>Modified Accrual</b>	<b>Full Accrual</b>
Governmental activities:		
Pension - LGERS	\$ -	\$ 1,173,125
Pension - LEOSSA	-	486,377
OPEB	-	126,354
Total	<u>\$ -</u>	<u>\$ 1,785,856</u>
Business-type activities:		
Pension - LGERS		\$ 609,740
OPEB		84,235
Total		<u>\$ 693,975</u>

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

	<b>Modified Accrual</b>	<b>Full Accrual</b>
Governmental activities:		
Unavailable revenue:		
Property taxes receivable	\$ 141,526	\$ -
Pension - LGERS	-	15,777
Pension - LEOSSA	-	37,091
OPEB	-	260,286
Total governmental activities	<u>\$ 141,526</u>	<u>\$ 313,154</u>
Business-type activities:		
Pension - LGERS		\$ 8,199
OPEB		173,523
Total business-type activities		<u>\$ 181,722</u>

(7) Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$5 million per occurrence; auto liability coverage of \$5 million per occurrence; property coverage up to the total insurance values of the property policy; and workers' compensation coverage up to statutory limits. The property/liability and workers compensation pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$1 million, property in excess of \$500,000, and \$1 million up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

## Town of Hillsborough, North Carolina

### Notes to Financial Statements

---

The Town carries commercial insurance for all other risks of loss, including property (\$61,764,807); 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."

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.

#### (8) 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.

#### (9) Long-term obligations

##### (a) **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. \$ 163,467

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%. 104,299

Note payable to BB&T, executed in July 2013, in the amount of \$839,086 for the refinance of a note payable for the purchase of real property and a building to be used as the fleet maintenance facility. The note is payable in 23 semi-annual payments of \$36,482 plus interest at 2.44%, and is secured by real property and a building. The previous note payable on the fleet maintenance facility included interest at 3.79%. 255,374

Note payable to BB&T, executed August 2013, in the amount of \$1,450,000 for the purchase of land for Riverwalk Phases II and III. The note is payable in 20 semi-annual payments of \$72,500 plus interest and matures in August 2023. Interest is payable at 2.35% and the note payable is secured by land. 69,803

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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.	\$ 348,708
Note payable to BB&T, executed December 2016, in the amount of \$317,000 for the purchase of a dump truck and knuckle boom truck. The note is payable in nine semi-annual payments of \$36,637 with interest payable at 1.57%, and is secured by the trucks.	27,874
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.	160,531
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.	1,927,506
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>300,000</u>
	3,357,562
Less current portion	<u>(631,492)</u>
	<u>\$ 2,726,070</u>

The future minimum payments on the notes payable as of June 30, 2021 are as follows:

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 631,492	\$ 97,263	\$ 728,755
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
2027-2031	984,868	166,841	1,151,709
2032-2033	379,935	20,407	400,342
	<u>\$ 3,357,562</u>	<u>\$ 556,325</u>	<u>\$ 3,913,887</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

---

Business-type activities:

Enterprise fund - Water/Sewer Fund:

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.

	\$ 376,744
	376,744
Less current portion	<u>(25,713)</u>
	<u>\$ 351,031</u>

The long-term debt requirements to maturity as of June 30, 2021 for the Enterprise Fund are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b><u>Years ending June 30:</u></b>			
2022	\$ 25,713	\$ 13,412	\$ 39,125
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
2027-2031	164,434	31,190	195,624
2032-2033	74,261	3,989	78,250
	<u>\$ 376,744</u>	<u>\$ 92,754</u>	<u>\$ 469,498</u>

a. The provisions of these loan agreements contain certain financial covenants related to the maintenance of fund balance. At June 30, 2021, the Town was in compliance with such covenants.

**b. General obligation indebtedness**

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, 2021 was approximately \$99,729,000 and a legal debt margin of approximately \$96,371,000 after deducting certain outstanding debt balances.

**c. Revolving loans payable**

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, 2021 was \$381,113.



**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

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, 2021 was \$11,576,504.

On October 6, 2014, the Town was approved for a maximum loan amount of \$2,029,398 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan proceeds are being used for the Waterstone Elevated Water Tank Project. The first payment was made on the note in April 2016. The loan is repayable in a principal payment of \$72,078 due on May 1, 2019, followed by equal principal payments of \$94,122 annually on May 1<sup>st</sup>, with no interest, through fiscal year ending 2035. The total amount outstanding at June 30, 2021 was \$1,317,706.

Annual debt service requirements to maturity for the above revolving loans as of June 30, 2021 are as follows:

	<b>Business-Type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b><u>Years ending June 30:</u></b>			
2022	\$ 1,060,844	\$ 294,341	\$ 1,355,185
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
2027-2031	4,923,112	655,853	5,578,965
2032-2035	3,047,987	131,171	3,179,158
	<u>\$ 13,275,323</u>	<u>\$ 2,019,835</u>	<u>\$ 15,295,158</u>

**d. Special revenue bonds payable**

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. \$10,130,000 remains outstanding at June 30, 2021.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

Annual debt service requirements to maturity for these special revenue bonds payable as of June 30, 2021 are as follows:

		<b>Business-Type Activities</b>		
		<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b><u>Years ending June 30:</u></b>				
2022	\$	25,000	\$ 448,844	\$ 473,844
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

		<b>Business-Type Activities</b>		
		<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b><u>Years ending June 30:</u></b>				
2027-2031	\$	710,000	\$ 2,175,094	\$ 2,885,094
2032-2036		3,245,000	1,644,218	4,889,218
2037-2041		4,140,000	751,321	4,891,321
2042-2043		1,890,000	66,675	1,956,675
		<u>\$ 10,130,000</u>	<u>\$ 6,867,028</u>	<u>\$ 16,997,028</u>

**e. Combined Utility Systems Revenue Bond, Series 2020**

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. \$2,979,000 remains outstanding at June 30, 2021.

Annual debt service requirements to maturity for these special revenue bonds payable as of June 30, 2021 are as follows:

		<b>Business-Type Activities</b>		
		<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b><u>Years ending June 30:</u></b>				
2022	\$	307,000	\$ 58,984	\$ 365,984
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
2027-2030		1,387,000	69,320	1,456,320
		<u>\$ 2,979,000</u>	<u>\$ 302,524</u>	<u>\$ 3,281,524</u>

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

---

**f. Debt Covenant**

The Town is in compliance with the covenants as 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% of the system fund balance to be no less than 120% 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:

Operating revenues	\$ 10,830,811
Operating expenses (2)	<u>(6,840,888)</u>
Operating income	3,989,923
Nonoperating revenues (expenses)	<u>(747,947)</u>
Income available for debt service	3,241,976
15% of Unrestricted Net Position (1)	<u>1,261,979</u>
Total Balance for 120% Parity	<u>\$ 4,503,955</u>
Debt service, principal and interest (Revenue bond only)	\$ 840,550
Debt service coverage ratio on first-lien debt	5.36
Debt service all debt (total balance for 100%)	\$ 2,281,151
Debt service coverage ratio on all debt together	1.42

(1) - System Fund Balance

(2) - Depreciation excluded from operating expenses

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

**g. Changes in long-term debt**

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>	<b>Due Within One Year</b>
<b>Governmental activities:</b>					
Direct placement installment purchases	\$ 3,793,400	\$ 300,000	\$ 735,838	\$ 3,357,562	\$ 631,492
Compensated absences	321,966	58,804	109,387	271,383	109,000
Total OPEB liability	713,705	77,499	-	791,204	-
Net pension liability - LGERS	1,690,884	475,852	-	2,166,736	-
Total pension liability - LEOSSA	783,583	533,035	-	1,316,618	-
Total Governmental activities	<u>\$ 7,303,538</u>	<u>\$ 1,445,190</u>	<u>\$ 845,225</u>	<u>\$ 7,903,503</u>	<u>\$ 740,492</u>
<b>Business-type activities:</b>					
<i>Water and sewer:</i>					
Direct placement installment purchases	\$ 423,833	\$ -	\$ 47,089	\$ 376,744	\$ 25,713
Revolving loans payable	14,336,167	-	1,060,844	13,275,323	1,060,844
Special revenue bonds payable	13,426,000	-	317,000	13,109,000	332,000
Premium on bonds payable	913,641	-	49,455	864,186	56,485
Compensated absences	225,272	198,552	130,541	293,283	130,500
Total OPEB liability	441,002	60,094	-	501,096	-
Net pension liability - LGERS	721,261	305,140	-	1,026,401	-
Total - water and sewer	<u>30,487,176</u>	<u>563,786</u>	<u>1,604,929</u>	<u>29,446,033</u>	<u>1,605,542</u>
<i>Stormwater:</i>					
Compensated absences	6,312	12,137	8,599	9,850	8,600
Total OPEB liability	20,561	5,812	-	26,373	-
Net pension liability - LGERS	60,705	39,070	-	99,775	-
Total - stormwater	<u>87,578</u>	<u>57,019</u>	<u>8,599</u>	<u>135,998</u>	<u>8,600</u>
Total business-type activities	<u>\$30,574,754</u>	<u>\$ 620,805</u>	<u>\$ 1,613,528</u>	<u>\$29,582,031</u>	<u>\$ 1,614,142</u>

Compensated absences, the total pension liability (LEOSSA), the net pension liability (LGERS) and the total OPEB liability for governmental activities have typically been liquidated in the General Fund.

**h. Special assessment debt**

In October 2013, the Town issued \$4,630,000 of Special Assessment Revenue Bonds 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, 2021 was \$1,965,000.

**Town of Hillsborough, North Carolina**  
**Notes to Financial Statements**

**C. Interfund balances and activity**

Transfers to/from other funds

<u>Fund</u>	<u>General Fund</u>	<u>Consolidated General Capital Projects</u>	<u>Transfers to other Funds</u>
General Fund	\$ -	\$ 513,500	\$ 513,500
Rail Station Capital Project	-	19,290	19,290
Riverwalk CMAQ Capital Project	5,403	-	5,403
<b>Transfers from other funds</b>	<b>\$ 5,403</b>	<b>\$ 532,790</b>	<b>\$ 538,193</b>

The transfers from the General Fund were for various capital projects. The transfer from the Rail Station Capital Project was to move the project into the General Capital Projects Fund. The transfer from the Riverwalk CMAQ Capital project was to close out the project.

**D. Net investment in capital assets**

		<u>Business-type Activities</u>	
	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Stormwater</u>
Capital assets, net	\$ 23,358,683	\$ 61,252,823	\$ 1,796,980
Less:			
Capital related debt	(3,357,562)	(27,625,253)	-
Accounts payable from restricted assets	-	(161,291)	-
Add:			
Unspent debt proceeds	300,008	2,737,850	-
	<u>\$ 20,301,129</u>	<u>\$ 36,204,129</u>	<u>\$ 1,796,980</u>

**E. 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	\$ 10,445,599
Less:	
Stabilization by state statute	1,532,595
Restricted for streets	395,581
Restricted revenues	47,356
Appropriated in next year's budget	280,311
Fund balance policy - 33% of operating expenditures	3,135,734
Available fund balance	<u>\$ 5,054,022</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, 2021 were \$539,822.

#### **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**

During 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen that could negatively impact the Town's revenue and operations for an indeterminable period of time. Other financial impacts could occur that are unknown at this time.

#### **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 January 12, 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. Prior to year-end the federal government enacted the American Rescue Plan Act of 2021. Included in this legislation is \$2,282,192 of funding allocated to the town. In August of 2021, the town received the first half of this funding, \$1.14 million and as of the date of this report the town has not spent any of this funding. The town has allocated these funds to water and sewer system improvements.
- b. The Town increased its property tax rate by two cents (58.7 cents per \$100 property value) in the fiscal 2022 budget to fund climate and sustainability priorities. Orange County's property re-valuation was effective beginning in fiscal 2022 resulting in a revenue neutral tax rate of 56.7 cents.
- c. The Town increased water and sewer rates by 4.5 percent and 2.0 percent for fiscal years ending 2022 and 2023, 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 provide for future capital improvements.

#### **7. Change in Accounting Principle**

The Town implemented GASB Statement No. 84, Fiduciary Activities (effective July 1, 2020). This statement establishes criteria for identifying fiduciary activities of all state and local governments and provides guidance on how to report fiduciary activities within the financial statements. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement also describes four fiduciary funds that should be reported if criteria outlined in the statement are met: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The use of agency funds was eliminated. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The cumulative effect of this change had no effect on fund balances or net position.

### ***Required Supplementary Financial Data***

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

- 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.

**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**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 783,583	\$ 727,333	\$ 641,574	\$ 566,336	\$ 556,718
Service cost	54,522	46,881	49,048	37,358	36,956
Interest on the total pension liability	25,173	26,226	19,749	21,303	19,286
Change of benefit terms	-	-	-	-	-
Difference between expected and actual experience in the measurement of the total pension liability	96,611	(28,494)	80,147	(520)	-
Changes of assumptions or other inputs	379,515	25,289	(29,947)	45,993	(13,621)
Benefit payments	(22,786)	(13,652)	(33,238)	(28,896)	(33,003)
Other changes	-	-	-	-	-
Ending balance	<u>\$ 1,316,618</u>	<u>\$ 783,583</u>	<u>\$ 727,333</u>	<u>\$ 641,574</u>	<u>\$ 566,336</u>

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Beginning balance	N/A	N/A	N/A	N/A	N/A
Service cost	N/A	N/A	N/A	N/A	N/A
Interest on the total pension liability	N/A	N/A	N/A	N/A	N/A
Change of benefit terms	N/A	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	N/A
Changes of assumptions or other inputs	N/A	N/A	N/A	N/A	N/A
Benefit payments	N/A	N/A	N/A	N/A	N/A
Other changes	N/A	N/A	N/A	N/A	N/A
Ending balance	<u>N/A</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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 1,316,618	\$ 783,583	\$ 727,333	\$ 641,574	\$ 566,336
Covered payroll	<u>1,914,214</u>	<u>1,831,895</u>	<u>1,830,296</u>	<u>1,670,805</u>	<u>1,650,937</u>
Total pension liability as a percentage of covered payroll	<u>68.78%</u>	<u>42.77%</u>	<u>39.74%</u>	<u>38.40%</u>	<u>34.30%</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total pension liability	N/A	N/A	N/A	N/A	N/A
Covered payroll	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total pension liability as a percentage of covered payroll	<u>N/A</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 \***

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total OPEB Liability</b>					
Service cost	\$ 35,773	\$ 55,105	\$ 56,731	\$ 60,886	N/A
Interest	40,828	60,865	56,550	48,567	N/A
Changes of benefit terms	-	-	-	-	N/A
Difference between expected and actual experience	33,091	(461,361)	8,747	(2,066)	N/A
Changes of assumptions or other inputs	123,590	27,076	(45,522)	(78,864)	N/A
Net benefit payments and implicit subsidy credit (1)	(89,899)	(140,756)	(60,738)	(46,470)	N/A
Net change in total OPEB liability	143,383	(459,071)	15,768	(17,947)	N/A
Total OPEB liability:					
Beginning balance	1,175,290	1,634,361	1,618,593	1,636,540	N/A
Ending balance	<u>\$ 1,318,673</u>	<u>\$ 1,175,290</u>	<u>\$ 1,634,361</u>	<u>\$ 1,618,593</u>	<u>N/A</u>
Covered-employee payroll	<u>\$ 5,736,330</u>	<u>\$ 5,736,330</u>	<u>\$ 5,180,570</u>	<u>\$ 5,180,570</u>	<u>N/A</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>22.99%</u>	<u>20.49%</u>	<u>31.55%</u>	<u>31.24%</u>	<u>N/A</u>

**Notes to the Schedules:**

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

(1) - Net benefit payments shown above include \$19,700 due to the implicit subsidy.

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:

<b>Fiscal year</b>	<b>Rate</b>
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**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Hillsborough's proportion of the net pension liability (asset) (%)	<u>0.0922%</u>	<u>0.0906%</u>	<u>0.0931%</u>	<u>0.0919%</u>	<u>0.0924%</u>
Hillsborough's proportion of the net pension liability (asset) (\$)	<u>\$ 3,292,912</u>	<u>\$ 2,472,850</u>	<u>\$ 2,209,362</u>	<u>\$ 1,404,436</u>	<u>\$ 1,961,038</u>
Hillsborough's covered payroll	<u>\$ 6,389,923</u>	<u>\$ 5,936,460</u>	<u>\$ 5,695,125</u>	<u>\$ 5,750,308</u>	<u>\$ 5,235,777</u>
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>51.53%</u>	<u>41.66%</u>	<u>38.79%</u>	<u>24.42%</u>	<u>37.45%</u>
Plan fiduciary net position as a percentage of the total pension liability (1)	<u>88.61%</u>	<u>91.63%</u>	<u>94.18%</u>	<u>91.47%</u>	<u>98.09%</u>
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Hillsborough's proportion of the net pension liability (asset) (%)	<u>0.0838%</u>	<u>0.0809%</u>	<u>0.0797%</u>	<u>N/A</u>	<u>N/A</u>
Hillsborough's proportion of the net pension liability (asset) (\$)	<u>\$ 376,224</u>	<u>\$ (477,164)</u>	<u>\$ 960,691</u>	<u>N/A</u>	<u>N/A</u>
Hillsborough's covered payroll	<u>\$ 4,861,624</u>	<u>\$ 4,672,868</u>	<u>\$ 4,428,097</u>	<u>N/A</u>	<u>N/A</u>
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>7.74%</u>	<u>-10.21%</u>	<u>21.70%</u>	<u>N/A</u>	<u>N/A</u>
Plan fiduciary net position as a percentage of the total pension liability (1)	<u>99.07%</u>	<u>102.64%</u>	<u>94.35%</u>	<u>N/A</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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 632,182	\$ 587,827	\$ 478,756	\$ 440,572	\$ 429,432
Contributions in relation to the contractually required contribution	<u>632,182</u>	<u>587,827</u>	<u>478,756</u>	<u>440,572</u>	<u>429,432</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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>
Contributions as a percentage of covered payroll	<u>9.73%</u>	<u>9.20%</u>	<u>8.06%</u>	<u>7.74%</u>	<u>7.47%</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 356,396	\$ 357,402	\$ 333,343	N/A	N/A
Contributions in relation to the contractually required contribution	<u>356,396</u>	<u>357,402</u>	<u>333,343</u>	<u>N/A</u>	<u>N/A</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>N/A</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>N/A</u>	<u>N/A</u>
Contributions as a percentage of covered payroll	<u>6.81%</u>	<u>7.35%</u>	<u>7.13%</u>	<u>N/A</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.

## ***Supplementary Information***



**This page was intentionally left blank.**

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2021 (with Comparative Actual Amounts for 2020)**

	<b>2021</b>			<b>2020</b>
	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
<b>REVENUES</b>				
Ad valorem taxes:				
Current	\$ 7,020,557	\$ 7,934,385	\$ 913,828	\$ 7,402,989
Penalties and interest	18,000	22,967	4,967	19,874
	<u>7,038,557</u>	<u>7,957,352</u>	<u>918,795</u>	<u>7,422,863</u>
Other taxes and licenses:				
Gross receipts on short-term rental property	8,000	9,510	1,510	11,517
Privilege licenses	100	713	613	878
Motor vehicle license fees	292	342	50	674
Solid waste disposal	4,000	5,845	1,845	5,663
	<u>12,392</u>	<u>16,410</u>	<u>4,018</u>	<u>18,732</u>
Unrestricted intergovernmental revenues:				
Local option sales tax	1,448,010	2,048,982	600,972	1,719,865
Franchise tax	510,000	596,383	86,383	585,296
Beer and wine tax	25,000	32,615	7,615	32,185
Food and beverage tax	305,212	397,198	91,986	399,918
Occupancy tax	62,460	72,042	9,582	62,107
Other	170	730	560	1,532
	<u>2,350,852</u>	<u>3,147,950</u>	<u>797,098</u>	<u>2,800,903</u>
Restricted intergovernmental revenues:				
Powell Bill	151,000	197,962	46,962	202,395
Federal grants	-	-	-	32,487
Covid Relief Funding	86,449	86,448	(1)	79,973
Other	20,000	7,471	(12,529)	2,357
	<u>257,449</u>	<u>291,881</u>	<u>34,432</u>	<u>317,212</u>
Use and rental fees:				
Zoning permits	50,000	72,843	22,843	215,487
Cable franchise	40,000	53,859	13,859	52,742
Time Warner Cable PEG fees	-	-	-	27,353
Fire inspection fees and permits	10,225	13,323	3,098	15,310
Park usage fees	4,500	2,695	(1,805)	-
Parking fines	200	20	(180)	-
	<u>104,925</u>	<u>142,740</u>	<u>37,815</u>	<u>310,892</u>
Investment earnings	2,940	3,295	355	170,325
Miscellaneous revenues	43,326	85,674	42,348	35,597
Total revenues	<u>9,810,441</u>	<u>11,645,302</u>	<u>1,834,861</u>	<u>11,076,524</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2021 (with Comparative Actual Amounts for 2020)**

	<b>2021</b>			<b>2020</b>
	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
<b>EXPENDITURES</b>				
General government:				
Governing body:				
Personnel services		\$ 48,165		\$ 48,549
Other services and charges		184,186		240,211
Reimbursement from enterprise funds		(120,826)		(118,289)
	<u>\$ 150,796</u>	<u>111,525</u>	<u>\$ 39,271</u>	<u>170,471</u>
Ruffin-Roulhac:				
Other services and charges		17,877		53,551
Debt Service Payments		200,171		200,171
Reimbursement from enterprise funds		(90,949)		(158,148)
	<u>129,789</u>	<u>127,099</u>	<u>2,690</u>	<u>95,574</u>
Administration:				
Personnel services		959,074		1,041,880
Other services and charges		369,506		456,965
Capital outlay		37,433		
Reimbursement from enterprise funds		(701,964)		(691,268)
	<u>808,126</u>	<u>664,049</u>	<u>144,077</u>	<u>807,577</u>
Finance:				
Personnel services		367,559		420,707
Other services and charges		153,684		82,064
Reimbursement from enterprise funds		(271,046)		(236,069)
	<u>333,527</u>	<u>250,197</u>	<u>83,330</u>	<u>266,702</u>
Planning:				
Personnel services		362,084		386,393
Other services and charges		122,170		65,094
	<u>546,974</u>	<u>484,254</u>	<u>62,720</u>	<u>451,487</u>
Motor pool:				
Personnel services		291,665		290,759
Other services and charges		128,803		122,417
Capital outlay		5,516		82,311
Debt service payments		80,530		-
Reimbursement from enterprise funds		(214,600)		(141,277)
	<u>379,475</u>	<u>291,914</u>	<u>87,561</u>	<u>354,210</u>
Total general government	<u>2,348,687</u>	<u>1,929,038</u>	<u>419,649</u>	<u>2,146,021</u>



**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2021 (with Comparative Actual Amounts for 2020)**

	<b>2021</b>			<b>2020</b>
	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
Public safety:				
Police department:				
Personnel services		\$ 2,694,133		\$ 2,828,278
Other services and charges		344,153		285,085
Capital outlay		-		44,069
Debt service payments		109,017		127,206
	<u>\$ 3,304,221</u>	<u>3,147,303</u>	<u>\$ 156,918</u>	<u>3,284,638</u>
Fire inspections/code enforcement:				
Personnel services		92,293		151,411
Other services and charges		5,094		20,389
Debt service payments		-		100,402
	<u>184,151</u>	<u>97,387</u>	<u>86,764</u>	<u>272,202</u>
Safety:				
Personnel services		245,683		164,626
Other services and charges		395,368		502,636
Reimbursement from enterprise funds		(334,146)		(150,399)
	<u>368,306</u>	<u>306,905</u>	<u>61,401</u>	<u>516,863</u>
Fire protection:				
Other services and charges		1,214,763		1,122,806
Capital outlay		212,208		-
Debt service payments		50,201		-
	<u>1,480,488</u>	<u>1,477,172</u>	<u>3,316</u>	<u>1,122,806</u>
Total public safety	<u>5,337,166</u>	<u>5,028,767</u>	<u>308,399</u>	<u>5,196,509</u>
Transportation:				
Street department/Powell Bill:				
Personnel services		265,077		307,219
Other services and charges		200,471		147,052
Capital outlay		25,086		230,040
Debt service payments		41,018		41,018
	<u>689,188</u>	<u>531,652</u>	<u>157,536</u>	<u>725,329</u>
Total transportation	<u>689,188</u>	<u>531,652</u>	<u>157,536</u>	<u>725,329</u>
Environmental protection:				
Sanitation department:				
Personnel services		269,339		276,391
Other services and charges		153,532		145,965
Capital outlay		-		32,758
Debt service payments		32,255		76,323
	<u>785,208</u>	<u>455,126</u>	<u>330,082</u>	<u>531,437</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2021 (with Comparative Actual Amounts for 2020)**

	<b>2021</b>			<b>2020</b>
	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
Cemetery:				
Other services and charges		\$ 3,334		\$ 7,015
	<u>\$ 7,350</u>	<u>3,334</u>	<u>\$ 4,016</u>	<u>7,015</u>
Total environmental protection	<u>792,558</u>	<u>458,460</u>	<u>334,098</u>	<u>538,452</u>
Economic and physical development:				
Tourism:				
Personnel Services		34,097		38,550
Other services and charges		411,569		434,944
	<u>593,879</u>	<u>445,666</u>	<u>148,213</u>	<u>473,494</u>
Total economic and physical development	<u>593,879</u>	<u>445,666</u>	<u>148,213</u>	<u>473,494</u>
Community activities and projects:				
Contributions		-		-
Other services and charges		161,859		159,336
Debt service payments		96,683		98,791
	<u>340,645</u>	<u>258,542</u>	<u>82,103</u>	<u>258,127</u>
Total community activities and projects	<u>340,645</u>	<u>258,542</u>	<u>82,103</u>	<u>258,127</u>
Parks and recreation:				
Personnel services		163,933		161,376
Other services and charges		307,762		375,936
Capital Outlay		20,954		-
Debt service payments		235,919		241,141
Reimbursement from enterprise funds		(13,368)		(25,800)
Total parks and recreation	<u>739,243</u>	<u>715,200</u>	<u>24,043</u>	<u>752,653</u>
Contingency	<u>9,161</u>	<u>-</u>	<u>9,161</u>	<u>-</u>
Total expenditures	<u>10,850,527</u>	<u>9,367,325</u>	<u>1,483,202</u>	<u>10,090,585</u>
Revenues over (under) expenditures	<u>(1,040,086)</u>	<u>2,277,977</u>	<u>3,318,063</u>	<u>985,939</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2021 (with Comparative Actual Amounts for 2020)**

	<b>2021</b>			<b>2020</b>
	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	<b>Actual</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer to other funds:				
General Capital Improvements Fund	\$ (149,263)	\$ (149,263)	\$ -	\$ (80,000)
Restricted Revenue Fund	(20,000)	(20,000)	-	-
General Capital Improvements Fund	(325,737)	(325,737)	-	(176,560)
Riverwalk - CMAQ Fund	-	-	-	(50,343)
General Capital Improvements Fund	(4,500)	(4,500)	-	-
Rail Station Capital Project	(34,000)	(34,000)	-	-
Transfer from other funds:				
Riverwalk - CMAQ Fund	-	5,403	5,403	-
General Capital Improvements Fund	-	-	-	55,368
Downtown Improvements Capital Project Fund	-	-	-	36,487
Installment purchase obligations issued	297,388	300,000	2,612	-
Other financing sources (uses), net	(236,112)	(228,097)	8,015	(215,048)
<b>APPROPRIATED FUND BALANCE</b>	1,276,198	-	(1,276,198)	-
Net change in fund balance	<u>\$ -</u>	2,049,880	<u>\$ 2,049,880</u>	770,891
Fund balance, beginning		8,348,363		7,577,472
Fund balance, ending		<u><u>\$ 10,398,243</u></u>		<u><u>\$ 8,348,363</u></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, 2021**

		<b>Actual</b>			<b>Variance</b>
	<b>Project</b>	<b>Prior</b>	<b>Current</b>	<b>Total</b>	<b>Positive</b>
	<b>Authorization</b>	<b>Years</b>	<b>Year</b>	<b>To Date</b>	<b>(Negative)</b>
<b>REVENUES</b>					
Restricted intergovernmental revenues	\$ 1,007,600	\$ 173,153	\$ 30,875	\$ 204,028	\$ (803,572)
Contributions and donations	79,197	70,475	8,722	79,197	-
Total revenues	1,086,797	243,628	39,597	283,225	(803,572)
<b>EXPENDITURES</b>					
Current:					
General government:					
Administration	4,610	-	-	-	4,610
Planning	1,014,931	76,000	105,600	181,600	833,331
Public safety:					
Police	21,820	-	9,299	9,299	12,521
Community Activity and Projects:					
Affordable housing projects	64,970	44,970	20,000	64,970	-
Parks and recreation	466	-	-	-	466
Total expenditures	1,106,797	120,970	134,899	255,869	850,928
Revenues over (under) expenditures	(20,000)	122,658	(95,302)	27,356	47,356
<b>OTHER FINANCING SOURCES</b>					
Transfer from other funds:					
Transfer from General Fund	20,000	-	20,000	20,000	-
Total other financing sources	20,000	-	20,000	20,000	-
Net change in fund balance	\$ -	\$ 122,658	(75,302)	\$ 47,356	\$ 47,356
Fund balance, beginning			122,658		
Fund balance, ending			\$ 47,356		

**Town of Hillsborough, North Carolina**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2021**

<b>Capital Project Funds</b>			
	<b>Consolidated General Capital Projects</b>	<b>Riverwalk CMAQ Capital Project</b>	<b>Rail Station Capital Project</b>
<b>ASSETS</b>			
Cash and investments	\$ 797,208	\$ -	\$ -
Due from other governments	-	-	-
Total assets	<u>\$ 797,208</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 7,882	\$ -	\$ -
Total liabilities	<u>7,882</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Committed for:			
Capital projects	<u>789,326</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>789,326</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 797,208</u>	<u>\$ -</u>	<u>\$ -</u>

<b>Capital Project Funds</b>		
<b>Public Works Building Capital Project</b>	<b>Public Safety Building Capital Project</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 128,200	\$ 61,613	\$ 987,021
-	-	-
<u>\$ 128,200</u>	<u>\$ 61,613</u>	<u>\$ 987,021</u>
\$ -	\$ -	\$ 7,882
-	-	7,882
<u>128,200</u>	<u>61,613</u>	<u>979,139</u>
<u>128,200</u>	<u>61,613</u>	<u>979,139</u>
<u>\$ 128,200</u>	<u>\$ 61,613</u>	<u>\$ 987,021</u>

**Town of Hillsborough, North Carolina**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2021**

	<b>Capital Project Funds</b>		
	<b>Consolidated General Capital Projects</b>	<b>Riverwalk CMAQ Capital Project</b>	<b>Rail Station Capital Project</b>
<b>REVENUES</b>			
Restricted intergovernmental revenues	\$ -	\$ -	\$ -
Contributions and donations	8,000	-	-
Investment earnings	-	-	-
Total revenues	8,000	-	-
<b>EXPENDITURES</b>			
Current:			
General government	2,385	-	-
Public safety	-	-	-
Economic and physical development	48,252	-	-
Total expenditures	50,637	-	-
Revenues under expenditures	(42,637)	-	-
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer to other funds	-	(5,403)	(19,290)
Transfer from other funds	532,790	-	-
Other financing sources (uses), net	532,790	(5,403)	(19,290)
Net change in fund balances	490,153	(5,403)	(19,290)
Fund balances, beginning	299,173	5,403	19,290
Fund balances, ending	\$ 789,326	\$ -	\$ -

<b>Capital Project Funds</b>		
<b>Public Works Building Capital Project</b>	<b>Public Safety Building Capital Project</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ -	\$ -
-	-	8,000
-	-	-
-	-	8,000
-	-	2,385
-	57,347	57,347
-	-	48,252
-	57,347	107,984
-	(57,347)	(99,984)
-	-	(24,693)
-	-	532,790
-	-	508,097
-	(57,347)	408,113
128,200	118,960	571,026
<u>\$ 128,200</u>	<u>\$ 61,613</u>	<u>\$ 979,139</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, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total To Date</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>					
Transportation Improvement project:					
Restricted intergovernmental	\$ 986,000	\$ -	\$ -	\$ -	\$ (986,000)
Connectivity projects:					
Contributions and donations	8,000	11,146	8,000	19,146	11,146
Total revenues	994,000	11,146	8,000	19,146	(974,854)
<b>EXPENDITURES</b>					
General government:					
Connectivity projects	52,500	5,955	2,385	8,340	44,160
Fiber loop	150,000	-	-	-	150,000
Economic and physical development:					
Transportation improvement project (TIP)	1,079,000	-	3,834	3,834	1,075,166
Valley Forge Road project	555,000	-	44,418	44,418	510,582
Construction	-	91,146	-	91,146	(91,146)
Total expenditures	1,836,500	97,101	50,637	147,738	1,688,762
Revenues under expenditures	(842,500)	(85,955)	(42,637)	(128,592)	713,908
<b>OTHER FINANCING SOURCES</b>					
Transfer from General Fund:					
Connectivity projects	44,500	40,000	4,500	44,500	-
Fiber Loop project	150,000	150,000	-	150,000	-
Valley Forge Road project	555,000	80,000	475,000	555,000	-
Transportation Improvement project	93,000	-	34,000	34,000	(59,000)
Transfer from Rail Station project	-	-	19,290	19,290	19,290
Total other financing sources	842,500	270,000	532,790	802,790	(39,710)
Net change in fund balance	\$ -	\$ 184,045	490,153	\$ 674,198	\$ 674,198
Fund balance, beginning			184,045		
Fund balance, ending			674,198		
Amounts reported for Revenue, Expenditures and Changes in Fund Balance are different for the Budgeted/Actual Statement due to the consolidation of the General Capital Reserve Fund					
Fund balance, beginning (Capital Reserve Fund)			115,128		
Investment earnings			-		
Transfers to other funds			-		
Fund balance, ending (Consolidated General Capital Projects Fund)			\$ 789,326		

**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, 2021**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>					
Capital contributions-Police	\$ 105,000	\$ -	\$ -	\$ -	\$ (105,000)
Capital contributions-Fire	600,000	-	-	-	(600,000)
Investment earnings	12,034	-	-	-	(12,034)
Total revenues	717,034	-	-	-	(717,034)
<b>EXPENDITURES</b>					
Public Safety:					
Waterstone Police	108,010	-	-	-	108,010
Total expenditures	108,010	-	-	-	108,010
Revenues over expenditures	609,024	-	-	-	(609,024)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer to other funds	(609,024)	-	-	-	609,024
Residual from closed projects	-	115,128	-	115,128	115,128
Other financing sources (uses), net	(609,024)	115,128	-	115,128	724,152
Net change in fund balance	<u>\$ -</u>	<u>\$ 115,128</u>	<u>-</u>	<u>\$ 115,128</u>	<u>\$ 115,128</u>
Fund balance, beginning			<u>115,128</u>		
Fund balance, ending			<u>\$ 115,128</u>		

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Riverwalk CMAQ Capital Project**  
**From inception and for the year ended June 30, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Closed Out Projects</b>	<b>Total To Date</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>						
Restricted intergovernmental revenues:						
Federal grants	\$ 1,006,850	\$ 931,572	\$ -	\$ (931,572)	\$ -	\$(1,006,850)
Total revenues	1,006,850	931,572	-	(931,572)	-	(1,006,850)
<b>EXPENDITURES</b>						
Economic and physical development:						
Design	131,778	131,778	-	(131,778)	-	131,778
Construction	1,021,240	944,692	-	(944,692)	-	1,021,240
Administration	105,545	101,412	-	(101,412)	-	105,545
Total expenditures	1,258,563	1,177,882	-	(1,177,882)	-	1,258,563
Revenues under expenditures	(251,713)	(246,310)	-	246,310	-	251,713
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer to General Fund	-	-	(5,403)	5,403	-	-
Transfer from General Fund	251,713	251,713	-	(251,713)	-	(251,713)
Other financing sources (uses), net	251,713	251,713	(5,403)	(246,310)	-	(251,713)
Net change in fund balance balance	\$ -	\$ 5,403	(5,403)	\$ -	\$ -	\$ -
Fund balance, beginning			5,403			
Fund balance, ending			\$ -			

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Rail Station Capital Project**  
**From inception and for the year ended June 30, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total To Date</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>					
Restricted intergovernmental revenues:					
State grants	\$ 870,000	\$ -	\$ -	\$ -	\$ (870,000)
Transit taxes (Article 43)	116,000	-	-	-	(116,000)
Total revenues	986,000	-	-	-	(986,000)
<b>EXPENDITURES</b>					
Economic and Physical Development:					
Design	891,000	13,865	-	13,865	877,135
Legal	27,500	25,845	-	25,845	1,655
Miscellaneous	126,500	-	-	-	126,500
Total expenditures	1,045,000	39,710	-	39,710	1,005,290
Revenues under expenditures	(59,000)	(39,710)	-	(39,710)	19,290
<b>OTHER FINANCING SOURCES</b>					
Transfer from other funds					
General Fund	59,000	59,000	-	59,000	-
Transfer to other funds:					
General Capital Projects Fund	-	-	(19,290)	(19,290)	(19,290)
Other financing sources (uses), net	59,000	59,000	(19,290)	39,710	(19,290)
Net change in fund balance	\$ -	\$ 19,290	(19,290)	\$ -	\$ -
Fund balance, beginning			19,290		
Fund balance, ending			\$ -		

**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, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total To Date</b>	<b>Variance Positive (Negative)</b>
<b>EXPENDITURES</b>					
Environmental protection:					
Design	\$ 75,000	\$ 25,982	\$ -	\$ 25,982	\$ 49,018
Construction	<u>79,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,182</u>
Total expenditures	<u>154,182</u>	<u>25,982</u>	<u>-</u>	<u>25,982</u>	<u>128,200</u>
Revenues under expenditures	(154,182)	(25,982)	-	(25,982)	128,200
<b>OTHER FINANCING SOURCES</b>					
Transfer from General Fund	<u>154,182</u>	<u>154,182</u>	<u>-</u>	<u>154,182</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 128,200</u>	<u>-</u>	<u>\$ 128,200</u>	<u>\$ 128,200</u>
Fund balance, beginning			<u>128,200</u>		
Fund balance, ending			<u>\$ 128,200</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, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Closed Out Projects</b>	<b>Total To Date</b>	<b>Variance Positive (Negative)</b>
<b>EXPENDITURES</b>						
Public safety:						
Construction	\$ 222,855	\$ 180,991	\$ 5,656	\$ (186,647)	\$ -	\$ 222,855
Miscellaneous	84,145	12,049	51,691	(62,386)	1,354	82,791
Contingency	5,000	-	-	-	-	5,000
Total expenditures	312,000	193,040	57,347	(249,033)	1,354	310,646
Revenues under expenditures	(312,000)	(193,040)	(57,347)	249,033	(1,354)	310,646
<b>OTHER FINANCING SOURCES</b>						
Transfer from General Fund -						
Restricted Revenue	135,440	135,440	-	(135,440)	-	(135,440)
Transfer from General Fund	176,560	176,560	-	(113,593)	62,967	(113,593)
Total other financing sources	312,000	312,000	-	(249,033)	62,967	(249,033)
Net change in fund balance	\$ -	\$ 118,960	(57,347)	\$ -	\$ 61,613	\$ 61,613
Fund balance, beginning			118,960			
Fund balance, ending			\$ 61,613			

**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, 2021 (with Comparative Actual Amounts for 2020)**

	2021			2020
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
<b>REVENUES</b>				
Operating revenues:				
Water charges	\$ 4,634,394	\$ 4,942,081	\$ 307,687	\$ 4,980,554
Sewer charges	4,639,608	4,901,924	262,316	4,974,432
System development fees	1,000,000	590,332	(409,668)	456,628
Other receipts	195,439	396,474	201,035	310,880
Total operating revenues	10,469,441	10,830,811	361,370	10,722,494
Non-operating revenues:				
Investment earnings	361	375	14	35,144
Total revenues	10,469,802	10,831,186	361,384	10,757,638
<b>EXPENDITURES</b>				
Engineering:				
Personnel services	445,091	410,691	34,400	363,968
Other services and charges	2,280,947	1,883,541	397,406	1,547,134
Total engineering	2,726,038	2,294,232	431,806	1,911,102
Billing and collection:				
Personnel services	330,719	312,566	18,153	305,356
Other services and charges	434,686	348,294	86,392	282,098
Debt service payments	39,125	39,125	-	39,125
Total billing and collection	804,530	699,985	104,545	626,579
Water plant:				
Personnel services	631,220	592,720	38,500	636,084
Other services and charges	346,079	280,674	65,405	366,440
Repairs and maintenance	267,307	144,167	123,140	58,209
Capital outlay	-	-	-	41,413
Debt service payments	91,315	91,314	1	104,378
Total water plant	1,335,921	1,108,875	227,046	1,206,524
Water distribution:				
Personnel services	541,523	504,850	36,673	495,595
Other services and charges	258,046	207,782	50,264	223,125
Repairs and maintenance	65,197	46,024	19,173	32,617
Capital outlay	55,941	13,561	42,380	11,647
Debt service payments	105,973	98,624	7,349	115,604
Total water distribution	1,026,680	870,841	155,839	878,588

**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, 2021 (with Comparative Actual Amounts for 2020)**

	<b>2021</b>			<b>2020</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>	<b>Actual</b>
<b>EXPENDITURES (Continued)</b>				
Wastewater collection:				
Personnel services	\$ 503,973	\$ 490,130	\$ 13,843	\$ 485,206
Other services and charges	371,037	255,024	116,013	280,395
Repairs and maintenance	232,219	75,875	156,344	147,293
Capital outlay	243,680	-	243,680	198,983
Debt service payments	15,083	15,082	1	71,966
Total wastewater collection	1,365,992	836,111	529,881	1,183,843
Wastewater plant:				
Personnel services	518,066	502,927	15,139	494,701
Other services and charges	400,227	314,200	86,027	245,657
Repairs and maintenance	238,741	178,517	60,224	159,923
Capital outlay	-	-	-	86,200
Debt service payments	1,196,566	1,196,565	1	1,218,427
Total wastewater plant	2,353,600	2,192,209	161,391	2,204,908
Reservoir:				
Other services and charges	29,935	22,027	7,908	21,412
Repairs and maintenance	16,850	9,904	6,946	6,440
Debt service payments	840,550	840,441	109	449,908
Total reservoir	887,335	872,372	14,963	477,760
Total expenditures	10,500,096	8,874,625	1,625,471	8,489,304
Revenues over (under) expenditures	(30,294)	1,956,561	1,986,855	2,268,334
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer to Utilities Capital Improvements Fund	(1,074,404)	(150,000)	924,404	(119,695)
Transfer to Water System Development Reserve Fund	(500,000)	(333,054)	166,946	(263,129)
Transfer to Sewer System Development Reserve Fund	(500,000)	(257,278)	242,722	(193,499)
Transfer from Water and Sewer Capital Projects Fund	-	-	-	349,643
Transfer from Water Capital Reserve Fund	899,404	175,000	(724,404)	97,492
Transfer from Sewer Capital Reserve Fund	200,000	-	(200,000)	-
Transfer from North Campus Project	-	-	-	10,822
Transfer from Utilities Capital Improvements Fund	-	2,388	2,388	-



**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, 2021 (with Comparative Actual Amounts for 2020)**

	2021			2020
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
<b>OTHER FINANCING SOURCES</b>				
<b>(USES) (Continued)</b>				
Transfer from Water and Sewer				
Capital Reserve Fund	\$ -	\$ 3,761	\$ 3,761	\$ -
Insurance proceeds	49,360	49,360	-	-
Contingency	(688)	-	688	-
Other financing sources (uses), net	(926,328)	(509,823)	416,505	(118,366)
Revenues and other financing sources				
(uses) over (under) expenditures	(956,622)	1,446,738	2,403,360	2,149,968
<b>APPROPRIATED FUND BALANCE</b>	956,622	-	(956,622)	-
Revenues and other financing sources				
(uses) over (under) expenditures	\$ -	\$ 1,446,738	\$ 1,446,738	\$ 2,149,968

**Reconciliation from budgetary basis (modified accrual)**  
**to the full accrual basis of accounting:**

Revenues and other financing sources			
(uses) over (under) expenditures	\$ 1,446,738		\$ 2,149,968
Reconciling items:			
Revenue activity:			
Investment earnings - enterprise capital projects	524		46,437
Investment earnings - enterprise capital reserves	1,331		37,481
Personnel activity:			
Pension expense - LGERS	(176,030)		(156,873)
OPEB expense	(16,610)		26,754
Payroll accrual - compensated absences	(68,010)		(4,838)
Capital outlay activity:			
Capital outlay	13,561		338,241
Depreciation	(1,685,728)		(1,695,988)
Loss on disposal of capital assets	-		(83,384)
Contributed capital	289,872		539,500
Noncapitalized expenditures - enterprise capital projec	(325)		-
Long-term debt activity:			
Payment of principal on notes, bonds and installment	1,424,933		1,189,949
Interest expense accrual adjustment	7,226		(15,314)
Amortization of premium on bonds payable	49,455		56,690
Internal transfer activity:			
Transfer to General Fund	-		(208,674)
Transfer to Water and Sewer Capital Projects	740,332		576,323
Transfer from Water and Sewer Capital Projects	(181,149)		(447,135)
Change in net position	\$ 1,846,120		\$ 2,349,137

**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, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>					
Capital outlay:					
EDD water line extension	509,404	27,438	-	27,438	481,966
Churton Street main replacement	430,000	-	-	-	430,000
Orange Gr/Churton sewer proj	40,000	26,595	-	26,595	13,405
16" Water connection under I-40	565,000	47,150	112,391	159,541	405,459
Booster pump station	182,388	31,576	1,518	33,094	149,294
Churton Street sewer replacement	500,000	278,494	5,001	283,495	216,505
River pump station	233,800	6,760	25,350	32,110	201,690
Wastewater system rehab	235,895	25,385	-	25,385	210,510
Total expenditures	2,696,487	443,398	144,260	587,658	2,108,829
Revenues under expenditures	(2,696,487)	(443,398)	(144,260)	(587,658)	2,108,829
<b>OTHER FINANCING SOURCES</b>					
Transfer from other funds:					
Water and Sewer Operating Fund	2,696,487	1,622,083	1,072,016	2,694,099	(2,388)
Revenues and other financing sources over expenditures	\$ -	\$ 1,178,685	\$ 927,756	\$ 2,106,441	\$ 2,106,441

**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, 2021**

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Out Projects	Total to Date
<b>REVENUES</b>					
Investment earnings	\$ 213,793	\$ 213,205	\$ -	\$ -	\$ 213,205
<b>EXPENDITURES</b>					
West Fork Eno Reservoir:					
Design	1,811,063	1,671,352	-	(1,671,352)	-
Construction	9,580,936	8,984,588	325	(8,984,913)	-
Land acquisition	42,304	42,304	-	(42,304)	-
Total expenditures	11,434,303	10,698,244	325	(10,698,569)	-
Revenues over (under) expenditures	(11,220,510)	(10,485,039)	(325)	10,698,569	213,205
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of revenue bonds	10,155,000	10,155,000	-	(10,155,000)	-
Premium on revenue bonds issued	1,025,846	1,025,846	-	(1,025,846)	-
Transfer from other funds	2,248,117	2,248,117	-	(1,726,176)	521,941
Transfer to other funds	(2,208,453)	(2,208,453)	-	2,208,453	-
Other financing sources (uses), net	11,220,510	11,220,510	-	(10,698,569)	521,941
Revenues and other financing sources over (under) expenditures	\$ -	\$ 735,471	\$ (325)	\$ -	\$ 735,146

**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, 2021**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>					
Investment earnings	\$ 6,796	\$ 6,120	\$ 524	\$ 6,644	\$ (152)
<b>EXPENDITURES</b>					
Design	150,000	120,690	-	120,690	29,310
Land Aquisition	5,500	5,202	-	5,202	298
Construction Administration	310,000	49,292	216,940	266,232	43,768
Construction	2,440,791	-	1,663,369	1,663,369	777,422
Miscellaneous	371,505	106,425	5,000	111,425	260,080
Total expenditures	<u>3,277,796</u>	<u>281,609</u>	<u>1,885,309</u>	<u>2,166,918</u>	<u>1,110,878</u>
Revenues under expenditures	<u>(3,271,000)</u>	<u>(275,489)</u>	<u>(1,884,785)</u>	<u>(2,160,274)</u>	<u>1,110,726</u>
<b>OTHER FINANCING SOURCES</b>					
Issuance of installment purchase agreement	3,271,000	3,271,000	-	3,271,000	-
Total other financing sources	<u>3,271,000</u>	<u>3,271,000</u>	<u>-</u>	<u>3,271,000</u>	<u>-</u>
Revenues and other other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 2,995,511</u>	<u>\$ (1,884,785)</u>	<u>\$ 1,110,726</u>	<u>\$ 1,110,726</u>

**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, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total To Date</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>					
Capital contributions	\$ 1,066,190	\$ 1,066,190	\$ -	\$ 1,066,190	\$ -
Investment earnings	300,868	388,140	1,331	389,471	88,603
Total revenues	1,367,058	1,454,330	1,331	1,455,661	88,603
<b>EXPENDITURES</b>					
Capital improvements - water	794,415	-	-	-	794,415
Capital improvements - sewer	1,949,845	-	-	-	1,949,845
Capital improvements - water tower	-	-	-	-	-
Total expenditures	2,744,260	-	-	-	2,744,260
Revenues over (under) expenditures	(1,377,202)	1,454,330	1,331	1,455,661	2,832,863
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds:					
Water operating fund	12,261,329	12,261,329	-	12,261,329	-
Sewer operating fund	403,031	403,031	-	403,031	-
Transfers to other funds:					
Water and sewer operating fund	(7,866,980)	(7,863,219)	(3,761)	(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	1,377,202	1,380,963	(3,761)	1,377,202	-
Revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 2,835,293	\$ (2,430)	\$ 2,832,863	\$ 2,832,863

**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, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total To Date</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>					
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-
Total revenues	-	-	-	-	-
<b>EXPENDITURES</b>					
Capital improvements - water	-	-	-	-	-
Total expenditures	-	-	-	-	-
Revenues over expenditures	-	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>					
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	604,998	263,129	333,054	596,183	(8,815)
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
Water and sewer operating fund - debt serv	(175,000)	-	(175,000)	(175,000)	-
Other financing sources (uses), net	-	1,369,146	(566,350)	802,796	802,796
Revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 1,369,146	\$ (566,350)	\$ 802,796	\$ 802,796

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Sewer System Development Reserve Fund**  
**From inception and for the year ended June 30, 2021**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total To Date</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>					
Capital outlay:					
Future capital improvements	-	-	-	-	-
Revenues over expenditures	-	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds:					
Water and Sewer Capital Project fund	1,249,170	1,008,107	257,278	1,265,385	16,215
Water and Sewer Capital Project fund	200,000	200,000	-	200,000	-
Transfers to other funds:					
River Pump upgrade project	(200,000)	-	(200,000)	(200,000)	-
Collection sysytem rehab project	(1,249,170)	-	-	-	1,249,170
Other financing sources (uses), net	-	1,208,107	57,278	1,265,385	1,265,385
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,208,107</u>	<u>\$ 57,278</u>	<u>\$ 1,265,385</u>	<u>\$ 1,265,385</u>

**Town of Hillsborough, North Carolina**  
**Schedule of Revenues, Expenditures, and Other Financing Uses**  
**Budget and Actual (Non-GAAP) - Stormwater Fund**  
**Year Ended June 30, 2021 (with Comparative Actual Amounts for 2020)**

	2021			2020
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
<b>REVENUES</b>				
Operating revenues:				
Stormwater charges	\$ 701,847	\$ 702,276	\$ 429	\$ 666,355
Other operating revenues	250	250	-	4,522
Total revenues	702,097	702,526	429	670,877
<b>EXPENDITURES</b>				
Operating expenditures:				
Personnel services	272,142	267,202	4,940	265,927
Other services and charges	275,393	177,178	98,215	167,175
Repairs and maintenance	85,991	60,499	25,492	24,593
Capital outlay	-	-	-	33,813
Total expenditures	633,526	504,879	128,647	491,508
Revenues over expenditures	68,571	197,647	129,076	179,369
<b>OTHER FINANCING USES</b>				
Transfers to other funds	(100,000)	(100,000)	-	-
<b>APPROPRIATED FUND BALANCE</b>	31,429	-	(31,429)	-
	<u>\$ -</u>	<u>97,647</u>	<u>\$ 97,647</u>	<u>179,369</u>
<b>Reconciliation from budgetary basis (modified accrual)</b>				
<b>to the full accrual basis of accounting:</b>				
Capital outlay		-		33,813
Depreciation expense		(56,490)		(56,645)
Payroll accrual - compensated absences		(3,538)		(75)
Pension expense - LGERS		(19,018)		(15,614)
OPEB expense		1,464		2,657
Stormwater capital projects fund:				
Transfer from Stormwater operating fund		100,000		-
Change in net position		<u>\$ 120,065</u>		<u>\$ 143,505</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, 2021**

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

## ***Additional Financial Data***

This section contains additional information on property taxes.

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



**This page was intentionally left blank.**

**Town of Hillsborough, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**Year ended June 30, 2021**

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Collections and Credits</b>	<b>Ending Balance</b>
2020-2021	\$ -	\$ 7,956,993	\$ 7,883,890	\$ 73,103
2019-2020	61,315	-	32,383	28,932
2018-2019	35,118	-	11,611	23,507
2017-2018	29,445	-	14,999	14,446
2016-2017	14,896	-	5,155	9,741
2015-2016	9,484	-	3,684	5,800
2014-2015	7,899	-	2,021	5,878
2013-2014	11,020	-	2,515	8,505
2012-2013	12,082	-	2,048	10,034
2011-2012	7,689	-	3,109	4,580
2010-2011	8,405	-	8,405	-
	<u>\$ 197,353</u>	<u>\$ 7,956,993</u>	<u>\$ 7,969,820</u>	184,526
				(43,000)
				<u>\$ 141,526</u>
				Ad valorem taxes receivable, net

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

Ad valorem taxes - General Fund	\$ 7,957,352
Penalties and interest	(22,967)
Statutory write-off after 10 years	8,405
Other adjustments	27,030
	<u>\$ 7,969,820</u>

**Town of Hillsborough, North Carolina**  
**Analysis of Current Tax Levy**  
**Year Ended June 30, 2021**

**Schedule 21**

				<b>Total Levy</b>	
	<b>Town-Wide</b>			<b>Property Excluding Registered Motor Vehicles</b>	<b>Registered Motor Vehicles</b>
	<b>(1) Property Valuation</b>	<b>Rate</b>	<b>(2) Total Levy</b>		
<b>ORIGINAL LEVY</b>					
Property taxed at current year's rate	\$ 1,155,210,161	0.62	\$ 7,162,303	\$ 7,162,303	\$ -
Motor vehicle license fees, tax and tag together	91,741,294		794,690	-	794,690
Total property valuation	<u>\$ 1,246,951,455</u>				
Net levy			7,956,993	7,162,303	794,690
Uncollected taxes at year-end			73,103	73,103	-
Current year's taxes collected			<u>\$ 7,883,890</u>	<u>\$ 7,089,200</u>	<u>\$ 794,690</u>
Collection percentage			<u>99.08%</u>	<u>98.98%</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 page was intentionally left blank.**

**Report of Independent Auditor on Internal Control over Financial Reporting  
and Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and Town Council  
Town of Hillsborough  
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 accompanying 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, North Carolina (the "Town"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 12, 2023. The financial statements of the Hillsborough Tourism Board and the Hillsborough Tourism and Development Authority were not audited in accordance with *Government Auditing Standards*.

**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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

*Cherry Bekaert LLP*

Raleigh, North Carolina  
January 12, 2023