

**Town of Hillsborough
Hillsborough, North Carolina**

Audited Financial Statements

Year Ended June 30, 2025

Town of Hillsborough, North Carolina

Audited Financial Statements

For the Year Ended June 30, 2025

MAYOR AND BOARD OF COMMISSIONERS

Mark Bell, Mayor

Robb English, Mayor Pro-Tem

Meaghun Darab, Commissioner

Matt Hughes, Commissioner

Kathleen Ferguson, Commissioner

Evelyn Lloyd, Commissioner

ADMINISTRATIVE AND FINANCIAL STAFF

Eric J. Peterson, Town Manager

David McCole, Finance Officer

Sarah Kimrey, Town Clerk

Robert Hornik, Town Attorney

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Introductory Section



December 4, 2025

Honorable Mayor Mark Bell,
Board of Commissioners,
and Citizens of Hillsborough, North Carolina

The Annual Financial Report of the Town of Hillsborough, North Carolina (the “Town”) for the fiscal year ended June 30, 2025, is submitted for your review and use. The Town, like all other local governments in the state, is required by state law to publish a complete set of financial statements within four months of the close of each fiscal year.

The Town traditionally produces an Annual Comprehensive Financial Report (“ACFR”), but this will be the fourth year the audit results are shared as an Annual Financial Report (“AFR”). The difference is the ACFR includes a statistical section with a variety of historical information on tax levy, debt levels, population growth, employment levels, operational statistics, and much more.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. As management, we assert that, to the best of our knowledge, this financial report is complete and reliable in all material respects and is reported in a manner designed to fairly present the financial position and results of the operations of the governmental and business-type activities. All disclosures necessary to gain the maximum understanding of the Town’s financial affairs have been included. The Town’s management is responsible for establishing and maintaining an internal control structure that is designed to ensure the Town’s assets are protected from loss, theft, or misuse and to ensure adequate accounting data are compiled to allow for the preparation of financial statements which conform with accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governments. Since the cost of internal controls should not outweigh their benefits, the Town’s internal control structure has been designed to provide reasonable rather than an absolute assurance that the financial statements will be free from material misstatement.

North Carolina statutes and the Town’s ordinance require an annual audit by independent certified public accountants. The accounting firm of S. Preston Douglas & Associates, LLP, a firm of licensed certified public accountants, was selected and awarded the contract for Fiscal Year 2025. The goal of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. An independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and the significant estimates made by management; and evaluating the overall financial statement presentation. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This transmittal letter is designed to complement the Management’s Discussion and Analysis and should be read in conjunction with it. The Town’s MD&A immediately follows the independent auditors’ report.

Profile of the Town and Government

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



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

The Town is operated under the council-manager form of government. Commissioners on the five-member, nonpartisan board serve four-year staggered terms and are elected at large. The mayor, also elected at large, serves a two-year term, chairs the board meetings, and votes when a tie occurs.

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

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

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

Strategic Plan

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

STRATEGIC PLAN

FY2024-26



Adopted 06-26-2023



Environmental Initiatives

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

- Updating and expanding the long-term visioning and planning document (Comprehensive Plan) and combining it with long-term sustainability and climate change initiatives. The Comprehensive Sustainability Plan was adopted June 12, 2023. Serving as an Orange County Climate Council member. The council was formed in 2019 by Orange County and the towns of Carrboro, Chapel Hill, and Hillsborough as a collaborative effort among the municipal governments, the school systems, the University of North Carolina, nonprofit organizations, and residents. The council's mission is to accelerate joint action addressing the climate emergency by sharing successful strategies and identifying equitable opportunities to reduce greenhouse gas emissions, provide stewardship of the natural world, and protect all county residents from climate impacts.
- When adopting the FY22 budget, the Town's governing board directed that the equivalent revenue of approximately two cents on the property tax rate (\$300,000) be saved and/or used to address climate and sustainability priorities. The FY24 budget also includes the same level of funding to assist with priority implementation identified in the Comprehensive Sustainability Plan scheduled for completion in late 2022. The FY22-24 funds combined will provide over \$900,000 available for these efforts.
- Supporting the goal in an adopted town resolution of using 80% clean energy by 2030, then 100 percent clean energy by 2050 and fostering a resilient and sustainable community.
- Working as a designated Tree City USA to protect the Town's trees and educate citizens about the importance of urban forestry through the Public Space and Sustainability Division and the Tree Board.
- Working as a Bee City USA to raise awareness of the role pollinators play in sustaining more than 75 percent of the world's plant species and to help expand pollinator-friendly practices and environments in town. The Public Space and Sustainability Division and Tree Board partner with the Hillsborough Garden Club to develop the program and educational materials, including actions residents can take.
- Operating the Stormwater and Environmental Services Division to comply with many state and federal mandates for environmental stewardship.



- Partnering with Orange County for curbside collections of recyclables throughout the Town and to provide collection bins for recyclables downtown and along the Riverwalk greenway. The Town has invested in a battery-powered cart for use by Public Works Division employees when collecting trash and recyclables along Riverwalk. Additionally, the Town collects appliances and scrap metal for recycling.
- Preventing sanitary sewer overflows and the environmental damage they cause through the Water Distribution and Wastewater Collection Division. The division's fats, oil, and grease program provide educational presentations at schools and public events about keeping these blockage-causing substances out of the Town's sewer system.

Local Economy

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



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

The Town's unemployment rate has been below state and national rates throughout recent history. Traditionally, Orange County has the lowest unemployment rate in North Carolina. This is in part due to a high percentage of residents working for area universities, hospitals, medical offices, and state and local governments that tend to not lose as many employees as private corporations during economic downturns. The issuance of building permits for residential and commercial developments, as well as frequent inquiries from developers, continued to be exceptionally strong through June 2025.

Government, Education, and Health Care

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

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



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

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



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

Recreational, Visitor, and Cultural Events

The Town's 3 percent hotel/motel and 1 percent prepared food and beverage taxes have provided a dedicated resource for promoting Hillsborough as a destination for arts and culture, unique cuisine, outdoor recreation, and historical landmarks. While many events were canceled in 2020 and 2021 due to COVID, these activities have rebounded strongly with far more public events during 2022, 2023, and 2024 than previous years.

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



The Riverwalk greenway is a favorite destination.

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

Well known museums and historical sites:

- Alexander Dickson House (late 18th century)
- Ayr Mount (1800s Federal-era plantation house)
- Burwell School Historic Site (1800s)
- Dickerson's Chapel AME Church (1790)
- First Baptist Church (c.1860/1868)
- Hillsborough United Methodist Church (c.1860)
- Hillsborough Presbyterian Church (c.1816)
- Margaret Lane Cemetery (c.1885)
- Moorefields (c.1785)
- Occaneechi Village Replica Site
- Old Orange County Courthouse (c.1844)
- Old Town Cemetery (c.1757)
- Orange County Historical Museum
- Ruffin-Roulhac House (c.1821)
- St. Matthew's Episcopal Church (c. 1825/1826)

Recreation, sports, and leisure (many activities):

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

Residential Growth

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

Long-Term Financial Planning

The Town's approach to building its budget and a multi-year financial plan has been: 1) take care of what we've got, 2) invest for the future, and 3) minimize rate impacts on the community. Hillsborough is one of the only local governments in the state that uses a multi-year format. It's used the three-year budget format that has been so successful dating back to 1998. While



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

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

The Town's revenues over expenditure was \$3.1 million. The Water and Sewer Fund ended the year with an increase in unrestricted net position (system fund balance) of \$1.5 million bringing the total amount to \$15.1 million. The surplus in the Water and Sewer Fund will be available to help pay for the tens of millions in immediate to near-term capital needs, maintain savings levels necessary to retain the AA bond rating and help improve it, meet bond covenant requirements from the Series 2018 and 2020 revenue bonds to pay for the reservoir expansion, and stay in line with industry standard metrics to keep the fund in a fiscally strong

position.

Major Initiatives

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

General Government

- Passenger Rail/Multi-Modal Station. Approximately \$8.2 million of this \$10.4 million project comes from the State Transportation Improvement Program (TIP), NCDOT Rail TIP, and Transit Tax. The town will be responsible for any costs over that amount and for the cost of the town offices. The earliest construction start is spring of 2028. The projected funding gap and amount to be financed is \$2.2 million, or \$285,000 annual payments on a 10-year installment-financing agreement. If no other funding source is secured, this is the equivalent to a 1.3 cent property tax increase.

- Ridgeway Greenway Northern Segment. Annual contributions (\$333,000) to the project fund reserve capacity to make annual debt service payments. The funds being saved each year have the added benefit of lowering the amount that needs to be borrowed. Construction is projected for late FY28 and another \$5.17 million is needed for this project. Applying the annual \$333,000 contribution towards the \$670,000 debt payments starting in FY29 leaves a funding gap of \$337,000. If no other funding source is located this is the equivalent of a 1.53 cent property tax increase.
- Affordable Housing. In FY24 the board agreed to the “ramp-up” plan where annual spending is increased in this area annually until meeting the equivalent of two cents on the property tax rate at that time, or about \$320,000 in FY27 achieves the town board’s target contribution. The FY26 budget provides an option for utilizing a portion of the reserved housing funds for two pilot projects focused on “safety net” needs for low-income residents of town. The funds would be used for: 1) a home repair/rehabilitation program to keep residents in their current naturally occurring affordable housing; and 2) emergency housing assistance to prevent residents from being displaced from their current housing. Both options are extensions of currently existing programs, reducing the amount of administrative work needed to deliver these funds to residents. These programs are consistent with the town’s Strategic Plan and Comprehensive Sustainability Plan, and also with the actions prioritized by the HOME consortium and Orange County’s housing department.
- Public Works facility and relocation (\$4.7 million). After being in the flood plain, in substandard facilities, with no equipment shelters, and little storage for about 50 years, funds are allocated to move the Public Works Division from their Dimmock’s Mill Road location to the Highway 86 North Facility. As mentioned in the above section, the financing strategy for this project was adjusted in order to preserve fund balance flexibility. The proposed budget includes the use of approximately \$1.1 million in accrued cash for the project and approximately \$3.6 million financed via a 15-year installment purchase agreement. The estimated annual debt service in FY27 and beyond is approximately \$375,000.
- Downtown fire station. Construction is projected for FY28 with the first debt payments occurring in FY29. Continue “ramp-up” savings contribution of \$300,000 but “freeze” the annual contribution at this level instead of increasing it annually by \$75,000 to minimize the proposed tax rate increase. The new downtown station is estimated to cost \$10 million, but a more refined cost will be available once the feasibility study is completed over the next year. These funds are being placed in a capital project fund to help pay for design costs first, decrease the loan amount, and provide a funding source for the annual debt.
- Vehicle Replacement Funds: Police - \$250,000, Solid Waste - \$275,000, Streets - \$85,000 allows replacing expensive vehicles with cash, saves by not paying interest through loans and smooths out the impact on the annual budget.
- Police Department
 - Flock Camera System (\$44,000) – aids in reactive and preventative crime response while allowing collaboration between regional agencies. The annual fee is reduced to \$37,500 in FY27.
 - In-car camera system replacements (FY27 - \$48,000; FY28 - \$50,000).
 - Replace three to four vehicles per year.
 - Social worker – the grant funding for this position was ended unexpectedly in March 2025. The financial plan anticipated taking over this cost starting in July or the beginning of FY26. This will be the third year for this position, but the town will now have to absorb the full cost of an additional \$98,000.
- Public Works
 - Street repaving: \$483,500 (\$327,500 from Powell Bill and \$156,000 from general operating revenues)
 - Garbage truck replacement (\$387,000)
 - Interchangeable dump body allows year-round use of leaf truck chassis (\$45,000)
 - Knuckle boom truck replacement (\$254,000) in FY27

- **Public Space & Sustainability**
 - Sustainability (\$320,000) annual commitment to energy efficiency and carbon reduction goals in operations or other areas
 - Small connectivity projects - \$20,000 per year
 - Cates Creek Basketball Court Design (FY27) - \$20,000
- **Engineering Services**
 - Moves from Utilities Administration to the Community Services Department in FY26 to provide more efficient and responsive service to development-related applications as this places most of the responding operations in the same department. The realignment improves internal coordination between the planning, economic development, public works, stormwater, public space, water and sewer operations. This adds \$143,500 to the General Fund for FY26, thus providing some financial relief to the Water/Sewer Fund and capacity for the utilities director to focus on operations.

Business-type Activities: The Town increased water and sewer rates by 7.5 percent for fiscal year ending 2026. The water and sewer rate increases are intended to provide funding for existing debt service requirements and partial self-funding of future capital improvements. Other budget highlights in brief:

- Water plant generator replacement (\$350,000).
- Sodium Hypochlorite Conversion (\$1.96 million): FY26 design, FY27 construction, FY28 debt payments start.
- Sewer lift station abandonment analysis (\$50,000). Note: reduced from \$90,000.
- Hassell Street Water Tank replacement, yearly “ramp-up” of \$95,000 starting in FY26 to afford projected debt service payments of \$460,000. Design in FY28 with construction in FY29.
- Elizabeth Brady Pump Station & Force Main Upgrade Project design (\$450,000) in FY26 with construction (\$1,050,000) in FY27. Note: construction was phased, delaying \$3,500,000 until FY29.
- Eno River Sewer Interceptor East Project construction (\$2,080,000) in FY27. Note: construction was phased, delaying \$3,120,000 until FY29.
- Exchange Club Interceptor Project construction delayed until FY29 (\$1,100,000).
- Undersized sewer main replacements FY27 (\$500,000)
- Cates Creek Sewer Outfall Upgrade: begin funding “ramp-up” of \$75,000 per year to help make debt service payments on the first phase (approximately \$7 million) of an \$11 million project.
- Sewer Jetter/Flush Truck in FY27: \$222,006.
- Wastewater Treatment Plant Solids Storage Mixing Pump Replacements: \$105,000 during FY26 and FY27.
- Adron Thompson operational facility (\$7.31 million). Annual debt service of \$500,000 begins in FY27.
- Lawndale sewer basin rehabilitation project (\$1.2 million): Annual debt payments of \$33,000 start in FY26.
- Water system master plan annual improvements \$400,000 starting in FY28. Note: \$400,000 was cut from the budget in FY26 and FY27 for an \$800,000 reduction.
- Hydrant and valve replacement project, primarily in the historic district (\$270,000), delayed to FY28.
- Vacuum excavator in FY28: \$155,000

The Town did adjust its stormwater rates for the fiscal year ending June 30, 2026 by \$15 to \$105. The Town is continuing work on improving water quality in the area as well as in the Upper Neuse River Basin. With increased frequency and severity of rain events, drainage is becoming an increasing concern throughout town, therefore funds are included for analysis, planning, engineering, as well as actual maintenance work.

- **Program Updates.** During FY24, the town completed its first ever state stormwater program audit and received approval of an updated Stormwater Master Plan. Audit recommendations that were included in the updated Master Plan include updated written procedures, expanded public input processes and additional outreach and expanded efforts for illicit discharge control, construction site runoff and pollution prevention.

- **Infrastructure Maintenance.** Improved levels of service and updated permit requirements will require additional investments in personnel, equipment and a stormwater capital improvement plan (CIP) to plan for large projects, such as a culvert replacement on Elizabeth Brady Road. The FY26-28 recommended budget includes ramp-up funds for a stormwater CIP. The requested equipment operator and Jet-Vac truck were not able to be funded in the recommended budget.
- **Planning Ahead.** While the Stormwater Fund currently has a sufficient fund balance, the approval of a new Stormwater Technician position in FY24, along with the recommended CIP investments in the FY26-28 budget and overall operating cost increases will rapidly deplete that fund balance without fee adjustments.

Debt Administration

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

There has been no new general bonded debt over the last 29 fiscal years. The Town has avoided a heavy debt load in its General Fund, which has plagued many municipalities. In fact, the long-term debt load in the General Fund is exceptionally small. Revenue bonds were issued for the first time to fund the expansion of the West Fork Eno Reservoir for \$11.1 million in FY2018. A second revenue bond of \$3.7 million was issued in FY2020. Debt payments account for 12 percent of Water and Sewer Fund expenditures. The debt payments are a significant expense for a relatively small utility system especially when coupled with very expensive projects like the Wastewater Treatment Plant upgrade in 2014 that accounts for about \$1 million per year of debt. Using debt financing is the most practical way to pay for expensive maintenance needs on the system.

Financial Policies

The Town has adopted a policy for its General Fund to maintain its available fund balance at a level between 20% and 60% of operating expenditures, with a target of 33% or the equivalent of four months of operating expenditures. The Town has diversified its investment portfolio by security type to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, or maturities. No more than 50% of the Town's total investment portfolio will be invested in a single security type, without exception.

Acknowledgments

The assistance and dedication of the Financial Services team has been stellar throughout the year, especially during the preparation of this report.

We also express our appreciation to the mayor and the members of the Board of Commissioners for their continued support, guidance, and advice in planning and conducting the financial activities of the Town responsibly and progressively.

Respectfully submitted,



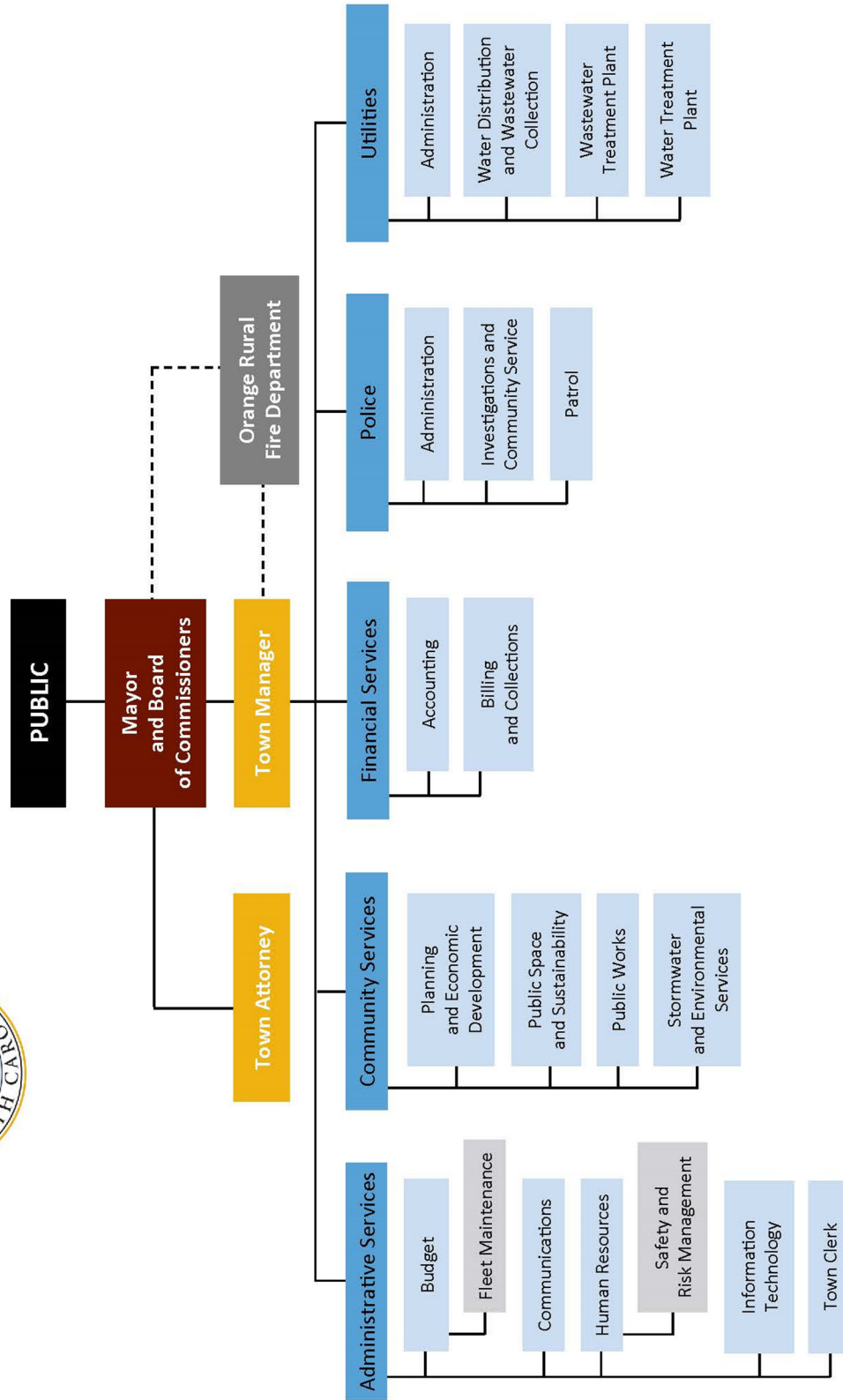
Eric J. Peterson
Town Manager



David McCole
Finance Director



ORGANIZATION CHART



Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
N. C. Association of CPAs

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the General Fund budget to actual comparison, and the aggregate remaining fund information of the Town of Hillsborough (the Town), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the General Fund budget to actual comparison, and the aggregate remaining fund information of the Town, as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town of Hillsborough, North Carolina's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Hillsborough, North Carolina's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Local Governmental Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Liability and Contributions, the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the Schedules of Changes in the Total OPEB Liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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. The combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules, as well as the Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

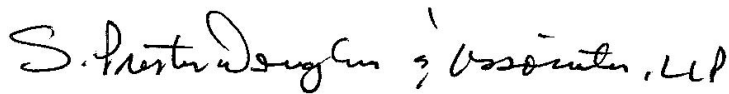
Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2025 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "S. Preston Douglas, CPA". The signature is written in a cursive, flowing style.

Ocean Isle Beach, North Carolina
December 4, 2025

Management's Discussion and Analysis

Town of Hillsborough, North Carolina
Management's Discussion and Analysis
June 30, 2025

Management's Discussion and Analysis

As management of the Town of Hillsborough (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2025. 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 \$112,939,665 which consisted of \$44,732,926 from governmental activities and \$68,206,739 from business-type activities.
- The Town's total net position increased by \$6,902,889 which consisted of \$3,911,972 from governmental activities and \$2,990,917 from business-type activities.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$27,113,297 which consisted primarily of \$17,636,083 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 \$15,323,216, or 109 percent of total expenditures in the General Fund.
- The Town's outstanding debt increased by \$2,705,423 during the fiscal year, primarily due to entering into a financing agreement to renovate the NC 86 North Facility. This new financing provided resources for major improvements to support fleet maintenance and public works operations.

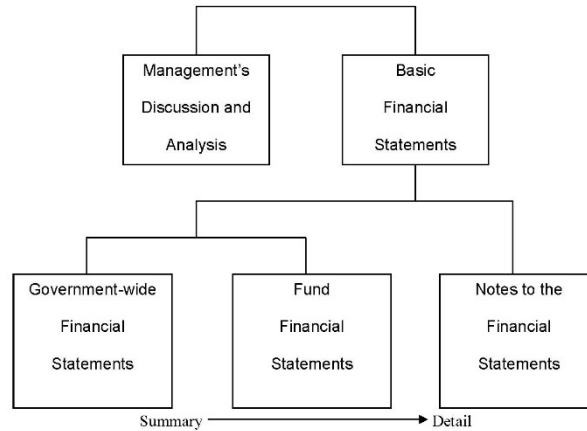
Overview of the Financial Statements

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

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements.

There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

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

Government-Wide Financial Statements. The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, in a manner similar to 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 it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, general administration, streets and highways, and sanitation. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include stormwater as well as the water and sewer services offered by the Town. The final category is the component units. Although legally separate from the Town, the Tourism Development Authority and the Tourism Board are important to the Town. The Town exercises control over these entities by appointing its members and remits a percentage of taxes collected to each of these entities. The government-wide financial statements are on pages 16 through 17 of this report.

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

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

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

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-67 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 68 of this report.

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

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. Figure 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 \$112,939,665 as of June 30, 2025. The Town's net position increased by \$6,902,889 for the fiscal year ended June 30, 2025.

The largest portion of net position (54%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, equipment, distribution and collection systems and infrastructure, less any related debt still outstanding that was issued to acquire those items). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$14,884,122 (13%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$36,768,519 (33%) is unrestricted and may be used to meet the Town's ongoing obligation to citizens and creditors.

The Town of Hillsborough's Net Position
Figure 1

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 28,477,425	\$ 21,792,233	\$ 32,064,830	\$ 30,519,463	\$ 60,542,255	\$ 52,311,696
Capital assets	27,322,477	25,920,013	61,012,794	61,054,195	88,335,271	86,974,208
Deferred outflows of resources	3,080,471	3,024,418	1,288,251	1,337,376	4,368,722	4,361,794
Total assets and deferred outflows of resources	58,880,373	50,736,664	94,365,875	92,911,034	153,246,248	143,647,698
Long-term liabilities outstanding	11,827,613	7,745,506	22,806,188	24,139,333	34,633,801	31,884,839
Other liabilities	1,806,640	1,518,905	3,095,015	3,229,727	4,901,655	4,748,632
Deferred inflows of resources	513,194	651,299	257,933	326,152	771,127	977,451
Total liabilities and deferred inflows of resources	14,147,447	9,915,710	26,159,136	27,695,212	40,306,583	37,610,922
Net position						
Net investment in capital assets	21,990,948	23,767,200	39,296,076	38,277,972	61,287,024	62,045,172
Restricted	2,092,029	2,133,127	12,792,093	12,370,604	14,884,122	14,503,731
Unrestricted	20,649,949	14,920,627	16,118,570	14,567,246	36,768,519	29,487,873
Total net position	\$ 44,732,926	\$ 40,820,954	\$ 68,206,739	\$ 65,215,822	\$ 112,939,665	\$ 106,036,776

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

Government-Wide Financial Analysis (continued)

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

- Based on the projected property values, the Town elected to set this year's tax rate at 60.7 cents per \$100 of assessed value which is an increase of 2 cents from FY 23/24.
- Many departments finished the year with expenditures under budget due to effective management oversight and adherence to statutory requirements contained in North Carolina General Statutes, chapter 159 "Local Government Finance".
- Sales tax grew year over year.
- Continued low cost of debt due to low interest rates.

The Town of Hillsborough's Changes in Net Position
Figure 2

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	\$ 105,306	\$ 124,940	\$ 14,820,449	\$ 14,339,425	\$ 14,925,755	\$ 14,464,365
Operating grants and contributions	799,409	2,935,927	-	-	799,409	2,935,927
Capital grants and contributions	1,299,627	143,020	970,516	4,077,207	2,270,143	4,220,227
General revenues:						
Property taxes	10,516,023	9,949,865	-	-	10,516,023	9,949,865
Local option sales tax	3,419,504	3,355,972	-	-	3,419,504	-
Unrestricted intergovernmental	1,562,293	1,388,706	-	-	1,562,293	1,388,706
Other	1,089,698	1,023,253	1,089,049	1,162,942	2,178,747	2,186,195
Total revenues	18,791,860	18,921,683	16,880,014	19,579,574	35,671,874	35,145,285
Expenses:						
General government	4,003,900	3,036,694	-	-	4,003,900	3,036,694
Public safety	7,160,185	6,319,915	-	-	7,160,185	6,319,915
Transportation	764,281	955,467	-	-	764,281	955,467
Environmental protection	762,577	739,976	-	-	762,577	739,976
Economic and physical development	1,356,804	650,901	-	-	1,356,804	650,901
Community activities	282,453	561,269	-	-	282,453	561,269
Parks and recreation	491,012	643,125	-	-	491,012	643,125
Interest on long-term debt	58,676	69,466	-	-	58,676	69,466
Water and sewer	-	-	12,948,767	12,035,117	12,948,767	12,035,117
Stormwater	-	-	940,330	847,492	940,330	847,492
Total expenses	14,879,888	12,976,813	13,889,097	12,882,609	28,768,985	25,859,422
Increase (decrease) in net position before transfers	3,911,972	5,944,870	2,990,917	6,696,965	6,902,889	12,641,835
Transfers	-	-	-	-	-	-
Change in net position	3,911,972	5,944,870	2,990,917	6,696,965	6,902,889	12,641,835
Net position, beginning	40,820,954	34,876,084	65,215,822	58,518,857	106,036,776	52,325,875
Net position - ending	\$ 44,732,926	\$ 40,820,954	\$ 68,206,739	\$ 65,215,822	\$ 112,939,665	\$ 106,036,776

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

Government-Wide Financial Analysis (continued)

Governmental activities: Governmental activities increased the Town's net position by \$3,911,972 thereby accounting for 57% of the growth in the Town's total net position.

- The total property revenue increased \$566,158, or 6%, due to an increase in property valuations over the prior year.
- Sales tax revenues increased over \$63,532, or 2%, due to increased economic activity.
- Expenses increased but were less than budgeted expectations as previously noted.

Business-type activities: Business-type activities increased the Town's net position by \$2,990,917, accounting for 43% of the growth in the Town's total net position.

- The Water and Sewer Fund experienced an increase in charges for services. The Town increased water and sewer rates by 7.5 percent during the fiscal year.
- Capital grants and contributions decreased from the prior year due to the Town recognizing over \$2 million in ARPA funds in FY 23/24.
- Expenses increased due to higher operating costs; however, total expenses remained below budgeted expectations.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town's combined assigned and unassigned fund balance available in the General Fund was \$15,531,035, while total General Fund balance was \$17,636,083. 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 109% of General Fund expenditures while total fund balance represents 123% of the same amount.

On June 30, 2025, the governmental funds of the Town reported a combined fund balance of \$27,113,297 with a net increase in fund balance of \$6,269,653. As previously noted, this increase is primarily related to increases in property and sales taxes coupled with management's control over operating and capital expenditures.

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

General Fund Budgetary Highlights

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

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

Actual revenues for the General Fund (excluding the Restricted Revenues Fund) were more than the budgeted amount by \$1,289,455 as property and sales tax revenues exceeded expectations. Expenditures were \$2,652,252 less than budgeted, with favorable balances occurring in general government (\$870,170), transportation (\$419,446) and public safety (\$509,746).

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 \$3,000,491, ending the year with total net position of \$65,412,071. The largest portion of its net position is invested in capital assets (\$37,534,649) while \$12,792,093 is restricted for current and future water and sewer projects and perpetual maintenance. The remaining \$15,085,329 is unrestricted which is an increase of \$1,480,262 from the prior year as revenues exceeded expectations.

Charges for services, in the Water and Sewer Fund, were higher in fiscal year 2025 than 2024 by \$1,391,521; however, system development fees decreased by \$1,332,838 and other operating revenues increased by \$299,828. System development fees are a charge assessed on new development to fund capital improvements necessitated by and attributable to that new development or to recoup the costs of existing facilities that serve the new development.

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

The Town's nonmajor enterprise fund (Stormwater) decreased its net position by \$9,574 ending the year with total net position of \$2,794,668. The largest portion of its net position is invested in capital assets (\$1,761,427) while unrestricted net position amounted to \$1,033,241, a 7% or \$71,062 increase from the previous year.

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2025, totals \$88,335,271 (net of accumulated depreciation and amortization). These assets include buildings, land, machinery and equipment, infrastructure, park facilities, vehicles, right to use assets, and subscriptions.

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

- Vehicles and equipment in the governmental funds (\$206,011)
- Infrastructure in the governmental funds (\$2,023,494)
- Skate Park Project (\$349,800)
- NC 86 Renovation Project (\$265,395)
- Adorn Thompson Facility Renovation (\$347,016)
- River pump station (\$642,947)
- Gov Burke Road water main replacement (\$37,950)
- Starfield booster pump station (\$74,899)
- McAdams Road water main replacement (\$54,774)
- Lawndale basin rehabilitation (\$15,461)
- Hasell water tank replacement (\$10,676)
- WTP paving & curbing (\$3,000)

The Town of Hillsborough's Capital Assets
(net of depreciation and amortization)
Figure 3

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Land	\$ 4,879,989	\$ 4,879,989	\$ 6,133,088	\$ 6,133,088	11,013,077	\$ 11,013,077
Construction in progress	904,128	801,564	2,130,558	938,332	3,034,686	1,739,896
Buildings and improvements	5,372,072	5,276,810	23,173,121	24,270,412	28,545,193	29,547,222
Plant and distribution systems	-	-	25,515,161	25,522,174	25,515,161	25,522,174
Infrastructure	14,386,298	12,774,930	3,190,618	3,185,006	17,576,916	15,959,936
Equipment	398,668	439,688	668,356	681,738	1,067,024	1,121,426
Vehicles	1,205,541	1,495,854	201,892	323,445	1,407,433	1,819,299
Right to use assets	174,138	226,019	-	-	174,138	226,019
IT subscriptions	1,643	25,159	-	-	1,643	25,159
Total capital assets, net	\$ 27,322,477	\$ 25,920,013	\$ 61,012,794	\$ 61,054,195	\$ 88,335,271	\$ 86,974,208

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

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

Long-term debt. As of June 30, 2025, the Town had outstanding bonded debt of \$11,735,000 which represents bonds secured solely by specified revenue sources (revenue bonds). The remainder of the Town's debt represents revolving loans payable, installment purchases and leases secured solely by revenues of the project or specified purchases. The Town's outstanding debt (excluding lease and IT subscription liabilities) increased by \$1,750,199 during the fiscal year, primarily due to entering into a financing agreement to renovate the NC 86 North Facility. This new financing provided resources for major improvements to support fleet maintenance and public works operations.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town at June 30, 2025 was approximately \$137,489,000. Practically, this statutory limit exceeds the Town's realistic debt capacity. The Town does not have any authorized and unissued bonds at June 30, 2025.

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

The Town of Hillsborough's Outstanding Liabilities
Figure 4

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Revolving loans	\$ -	\$ -	\$ 9,031,944	\$ 10,092,788	\$ 9,031,944	\$ 10,092,788
Special revenue bonds	-	-	11,735,000	12,090,000	11,735,000	12,090,000
Premium on bonds	-	-	639,331	695,266	639,331	695,266
Installment purchases	5,153,865	1,903,329	268,269	296,827	5,422,134	2,200,156
Lease liabilities	177,664	222,572	-	-	177,664	222,572
IT subscriptions liability	-	26,912	-	-	-	26,912
Total outstanding debt	\$ 5,331,529	\$ 2,152,813	\$ 21,674,544	\$ 23,174,881	\$ 27,006,073	\$ 25,327,694

Economic Factors and Next Year's Budgets and Rates

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

- Low unemployment. Orange County's unemployment rate of 3.2% as of June 30, 2025, is below the state average of 3.6%.
- Debt was issued in 2025 in the amount of \$3.535 million to improve the Town's 86 North Facility. The Town is planning to issue debt in FY26 in the amount of \$7.3 million to renovate and expand the Adron F. Thompson building.
- Maintain a property tax collection rate that exceeds 99%.

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

Budget Highlights for the Fiscal Year Ending June 30, 2026

Governmental Activities: The Town's largest source of revenue is property tax revenue. The 2026 budget had an increase in the Town's tax rate of 5.7 cent from the revenue neutral tax rate of 45.6 cent to 51.3 cents per \$100 of assessed property value. Other budget highlights in brief:

- Passenger Rail/Multi-Modal Station. Approximately \$8.2 million of this \$10.4 million project comes from the State Transportation Improvement Program (TIP), NCDOT Rail TIP, and Transit Tax. The town will be responsible for any costs over that amount and for the cost of the town offices. The earliest construction start is spring of 2028. The projected funding gap and amount to be financed is \$2.2 million, or \$285,000 annual payments on a 10-year installment-financing agreement. If no other funding source is secured, this is the equivalent to a 1.3 cent property tax increase.
- Ridgeway Greenway Northern Segment. Annual contributions (\$333,000) to the project fund reserve capacity to make annual debt service payments. The funds being saved each year have the added benefit of lowering the amount that needs to be borrowed. Construction is projected for late FY28 and another \$5.17 million is needed for this project. Applying the annual \$333,000 contribution towards the \$670,000 debt payments starting in FY29 leaves a funding gap of \$337,000. If no other funding source is located this is the equivalent of a 1.53 cent property tax increase.
- Affordable Housing. In FY24 the board agreed to the "ramp-up" plan where annual spending is increased in this area annually until meeting the equivalent of two cents on the property tax rate at that time, or about \$320,000 in FY27 achieves the town board's target contribution. The FY26 budget provides an option for utilizing a portion of the reserved housing funds for two pilot projects focused on "safety net" needs for low-income residents of town. The funds would be used for: 1) a home repair/rehabilitation program to keep residents in their current naturally occurring affordable housing; and 2) emergency housing assistance to prevent residents from being displaced from their current housing. Both options are extensions of currently existing programs, reducing the amount of administrative work needed to deliver these funds to residents. These programs are consistent with the town's Strategic Plan and Comprehensive Sustainability Plan, and also with the actions prioritized by the HOME consortium and Orange County's housing department.
- Public Works facility and relocation (\$4.7 million). After being in the flood plain, in substandard facilities, with no equipment shelters, and little storage for about 50 years, funds are allocated to move the Public Works Division from their Dimmock's Mill Road location to the Highway 86 North Facility. As mentioned in the above section, the financing strategy for this project was adjusted in order to preserve fund balance flexibility. The proposed budget includes the use of approximately \$1.1 million in accrued cash for the project and approximately \$3.6 million financed via a 15-year installment purchase agreement. The estimated annual debt service in FY27 and beyond is approximately \$375,000.
- Downtown fire station. Construction is projected for FY28 with the first debt payments occurring in FY29. Continue "ramp-up" savings contribution of \$300,000 but "freeze" the annual contribution at this level instead of increasing it annually by \$75,000 to minimize the proposed tax rate increase. The new downtown station is estimated to cost \$10 million, but a more refined cost will be available once the feasibility study is completed over the next year. These funds are being placed in a capital project fund to help pay for design costs first, decrease the loan amount, and provide a funding source for the annual debt.
- Vehicle Replacement Funds: Police - \$250,000, Solid Waste - \$275,000, Streets - \$85,000 allows replacing expensive vehicles with cash, saves by not paying interest through loans and smooths out the impact on the annual budget.

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

Budget Highlights for the Fiscal Year Ending June 30, 2026 (continued)

- Police Department
 - Flock Camera System (\$44,000) – aids in reactive and preventative crime response while allowing collaboration between regional agencies. The annual fee is reduced to \$37,500 in FY27.
 - In-car camera system replacements (FY27 - \$48,000; FY28 - \$50,000).
 - Replace three to four vehicles per year.
 - Social worker – the grant funding for this position was ended unexpectedly in March 2025. The financial plan anticipated taking over this cost starting in July or the beginning of FY26. This will be the third year for this position, but the town will now have to absorb the full cost of an additional \$98,000.
- Public Works
 - Street repaving: \$483,500 (\$327,500 from Powell Bill and \$156,000 from general operating revenues)
 - Garbage truck replacement (\$387,000)
 - Interchangeable dump body allows year-round use of leaf truck chassis (\$45,000)
 - Knuckle boom truck replacement (\$254,000) in FY27
- Public Space & Sustainability
 - Sustainability (\$320,000) annual commitment to energy efficiency and carbon reduction goals in operations or other areas
 - Small connectivity projects - \$20,000 per year
 - Cates Creek Basketball Court Design (FY27) - \$20,000
- Engineering Services
 - Moves from Utilities Administration to the Community Services Department in FY26 to provide more efficient and responsive service to development-related applications as this places most of the responding operations in the same department. The realignment improves internal coordination between the planning, economic development, public works, stormwater, public space, water and sewer operations. This adds \$143,500 to the General Fund for FY26, thus providing some financial relief to the Water/Sewer Fund and capacity for the utilities director to focus on operations.

Business-type Activities: The Town increased water and sewer rates by 7.5 percent for fiscal year ending 2026. The water and sewer rate increases are intended to provide funding for existing debt service requirements and partial self-funding of future capital improvements. Other budget highlights in brief:

- Water plant generator replacement (\$350,000).
- Sodium Hypochlorite Conversion (\$1.96 million): FY26 design, FY27 construction, FY28 debt payments start.
- Sewer lift station abandonment analysis (\$50,000). Note: reduced from \$90,000.
- Hassell Street Water Tank replacement, yearly “ramp-up” of \$95,000 starting in FY26 to afford projected debt service payments of \$460,000. Design in FY28 with construction in FY29.
- Elizabeth Brady Pump Station & Force Main Upgrade Project design (\$450,000) in FY26 with construction (\$1,050,000) in FY27. Note: construction was phased, delaying \$3,500,000 until FY29.
- Eno River Sewer Interceptor East Project construction (\$2,080,000) in FY27. Note: construction was phased, delaying \$3,120,000 until FY29.
- Exchange Club Interceptor Project construction delayed until FY29 (\$1,100,000).
- Undersized sewer main replacements FY27 (\$500,000)
- Cates Creek Sewer Outfall Upgrade: begin funding “ramp-up” of \$75,000 per year to help make debt service payments on the first phase (approximately \$7 million) of an \$11 million project.
- Sewer Jetter/Flush Truck in FY27: \$222,006.
- Wastewater Treatment Plant Solids Storage Mixing Pump Replacements: \$105,000 during FY26 and FY27.

Town of Hillsborough, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2025

Budget Highlights for the Fiscal Year Ending June 30, 2026 (continued)

- Adron Thompson operational facility (\$7.31 million). Annual debt service of \$500,000 begins in FY27.
- Lawndale sewer basin rehabilitation project (\$1.2 million): Annual debt payments of \$33,000 start in FY26.
- Water system master plan annual improvements \$400,000 starting in FY28. Note: \$400,000 was cut from the budget in FY26 and FY27 for an \$800,000 reduction.
- Hydrant and valve replacement project, primarily in the historic district (\$270,000), delayed to FY28.
- Vacuum excavator in FY28: \$155,000

The Town did adjust its stormwater rates for the fiscal year ending June 30, 2026 by \$15 to \$105. The Town is continuing work on improving water quality in the area as well as in the Upper Neuse River Basin. With increased frequency and severity of rain events, drainage is becoming an increasing concern throughout town, therefore funds are included for analysis, planning, engineering, as well as actual maintenance work.

- Program Updates. During FY24, the town completed its first ever state stormwater program audit and received approval of an updated Stormwater Master Plan. Audit recommendations that were included in the updated Master Plan include updated written procedures, expanded public input processes and additional outreach and expanded efforts for illicit discharge control, construction site runoff and pollution prevention.
- Infrastructure Maintenance. Improved levels of service and updated permit requirements will require additional investments in personnel, equipment and a stormwater capital improvement plan (CIP) to plan for large projects, such as a culvert replacement on Elizabeth Brady Road. The FY26-28 recommended budget includes ramp-up funds for a stormwater CIP. The requested equipment operator and Jet-Vac truck were not able to be funded in the recommended budget.
- Planning Ahead. While the Stormwater Fund currently has a sufficient fund balance, the approval of a new Stormwater Technician position in FY24, along with the recommended CIP investments in the FY26-28 budget and overall operating cost increases will rapidly deplete that fund balance without fee adjustments.

Request for Information

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

Basic Financial Statements

Exhibit 1

**Town of Hillsborough, North Carolina
Statement of Net Position
June 30, 2025**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 24,976,856	\$ 14,068,460	\$ 39,045,316	\$ 497,701	\$ 538,184
Taxes receivables (net)	154,530	-	154,530	-	-
Accounts receivable (net)	154,925	4,515,010	4,669,935	-	-
Due from other governments	1,328,196	-	1,328,196	1,079	-
Due from related governments	-	-	-	19,645	112,867
Accrued interest receivable	25,205	-	25,205	-	-
Prepays	13,019	575	13,594	-	-
Restricted cash and cash equivalents	1,824,694	13,480,785	15,305,479	-	-
Total current assets	28,477,425	32,064,830	60,542,255	518,425	651,051
Capital assets:					
Capital assets - nondepreciable	5,784,117	8,263,646	14,047,763	-	-
Capital assets - depreciable, net	21,538,360	52,749,148	74,287,508	-	-
Total capital assets	27,322,477	61,012,794	88,335,271	-	-
Total assets	55,799,902	93,077,624	148,877,526	518,425	651,051
DEFERRED OUTFLOWS OF RESOURCES	3,080,471	1,288,251	4,368,722	-	-
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	974,041	343,534	1,317,575	1,304	-
Payable from restricted assets	-	730,866	730,866	-	-
Other current liabilities	19,264	30,748	50,012	-	-
Current portion of long-term liabilities	595,647	1,832,567	2,428,214	-	-
Unearned revenue	58,576	-	58,576	-	-
Accrued interest payable	26,600	157,300	183,900	-	-
Due to related governments	132,512	-	132,512	-	-
Total current liabilities	1,806,640	3,095,015	4,901,655	1,304	-
Long-term liabilities:					
Due in more than one year	11,827,613	22,806,188	34,633,801	-	-
Total liabilities	13,634,253	25,901,203	39,535,456	1,304	-
DEFERRED INFLOWS OF RESOURCES	513,194	257,933	771,127	-	-
NET POSITION					
Net investment in capital assets	21,990,948	39,296,076	61,287,024	-	-
Restricted for:					
Stabilization by State Statute	1,774,481	-	1,774,481	20,724	112,867
Streets - Powell Bill	69,835	-	69,835	-	-
Restricted revenues	247,713	-	247,713	-	-
Capital projects	-	12,710,134	12,710,134	-	-
Perpetual maintenance	-	81,959	81,959	-	-
Unrestricted	20,649,949	16,118,570	36,768,519	496,397	538,184
Total net position	\$ 44,732,926	\$ 68,206,739	\$ 112,939,665	\$ 517,121	\$ 651,051

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

Exhibit 2

Town of Hillsborough, North Carolina
Statement of Activities
Year Ended June 30, 2025

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Hillsborough Tourism Development Authority	Hillsborough Tourism Board
Primary government:									
Governmental Activities:									
General government	\$ 4,003,900	\$ 98,067	\$ 218,485	\$ -	\$ (3,687,348)	\$ -	\$ (3,687,348)	\$ -	\$ -
Public safety	7,160,185	-	77,038	-	(7,083,147)	-	(7,083,147)	-	-
Transportation	764,281	-	479,881	1,299,627	1,015,227	-	1,015,227	-	-
Environmental protection	762,577	1,789	-	-	(760,788)	-	(760,788)	-	-
Economic and physical development	1,356,804	-	-	-	(1,356,804)	-	(1,356,804)	-	-
Community activities and projects	282,453	-	24,005	-	(258,448)	-	(258,448)	-	-
Parks and recreation	491,012	5,450	-	-	(485,562)	-	(485,562)	-	-
Interest on long-term debt	58,676	-	-	-	(58,676)	-	(58,676)	-	-
Total governmental activities	14,879,888	105,306	799,409	1,299,627	(12,675,546)	-	(12,675,546)	-	-
Business-type activities:									
Water and sewer	12,948,767	13,941,064	-	970,516	-	1,962,813	1,962,813	-	-
Stormwater	940,330	879,385	-	-	-	(60,945)	(60,945)	-	-
Total business-type activities	13,889,097	14,820,449	-	970,516	-	1,901,868	1,901,868	-	-
Total primary government	\$ 28,768,985	\$ 14,925,755	\$ 799,409	\$ 2,270,143	(12,675,546)	1,901,868	(10,773,678)	-	-
Component units:									
Hillsborough Tourism Development Authority	78,256	-	-	-	-	-	-	(78,256)	-
Hillsborough Tourism Board	571,949	-	-	-	-	-	-	-	(571,949)
Total component units	\$ 650,205	\$ -	\$ -	\$ -	-	-	-	(78,256)	(571,949)
General revenues:									
Property taxes, levied for general purpose					10,516,023	-	10,516,023	-	-
Local option sales taxes					3,419,504	-	3,419,504	-	-
Other miscellaneous taxes					9,250	-	9,250	117,763	526,925
Gross receipts on short-term rental property					1,513	-	1,513	-	-
Unrestricted intergovernmental revenues					1,562,293	-	1,562,293	-	-
Investment earnings, unrestricted					831,947	1,089,049	1,920,996	-	-
Miscellaneous					246,988	-	246,988	-	-
Total general revenues not including transfers					16,587,518	1,089,049	17,676,567	117,763	526,925
Total general revenues and transfers					16,587,518	1,089,049	17,676,567	117,763	526,925
Change in net position					3,911,972	2,990,917	6,902,889	39,507	(45,024)
Net position, beginning					40,820,954	65,215,822	106,036,776	477,614	696,075
Net position, ending					\$ 44,732,926	\$ 68,206,739	\$ 112,939,665	\$ 517,121	\$ 651,051

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

**Exhibit 3
(2 Pages)**

**Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds
June 30, 2025**

	General Fund	Consolidated General Capital Projects Fund	Total Non-Major Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 16,759,941	\$ 8,216,915	\$ -	\$ 24,976,856
Receivables, net:				
Taxes	154,530	-	-	154,530
Accounts	154,925	-	-	154,925
Due from other governments	1,316,991	-	11,205	1,328,196
Due from other funds	39,050	-	-	39,050
Prepays	13,019	-	-	13,019
Restricted cash and cash equivalents	317,548	-	1,507,146	1,824,694
Total assets	\$ 18,756,004	\$ 8,216,915	\$ 1,518,351	\$ 28,491,270
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities	\$ 755,039	\$ 218,665	\$ 337	\$ 974,041
Due to other funds	-	-	39,050	39,050
Due to component units	132,512	-	-	132,512
Unearned revenue	58,576	-	-	58,576
Other liabilities	19,264	-	-	19,264
Total liabilities	965,391	218,665	39,387	1,223,443
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Property taxes receivable	154,530	-	-	154,530
Total deferred inflows of resources	154,530	-	-	154,530
<u>FUND BALANCES</u>				
Nonspendable:				
Prepays	13,019	-	-	13,019
Restricted:				
Stabilization by State Statute	1,774,481	-	-	1,774,481
Streets - Powell Bill	69,835	-	-	69,835
Restricted revenues	247,713	-	-	247,713
Community activities and projects	-	-	1,478,964	1,478,964
Committed for:				
Capital projects	-	7,998,250	-	7,998,250
Assigned:				
Subsequent year's expenditures	207,819	-	-	207,819
Unassigned	15,323,216	-	-	15,323,216
Total fund balances	17,636,083	7,998,250	1,478,964	27,113,297
Total liabilities, deferred inflows of resources and fund balances	\$ 18,756,004	\$ 8,216,915	\$ 1,518,351	\$ 28,491,270

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

Town of Hillsborough, North Carolina
Balance Sheet
Governmental Funds (continued)
June 30, 2025

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

Ending fund balance - governmental funds		\$ 27,113,297
Capital assets and right to use assets used in governmental activities are not financial resources and; therefore not reported in the funds:		
Non-depreciable capital assets		5,784,117
Capital assets being depreciated:		
Cost	\$ 34,155,259	
Accumulated depreciation	<u>(12,792,681)</u>	21,362,578
Capital assets being amortized:		
Right to use assets	358,937	
IT subscription agreement	158,621	
Accumulated amortization	<u>(341,776)</u>	175,782
Deferred outflows of resources are not financial resources; therefore the amounts are not reported in the funds:		
Local Government Employees' Retirement System ("LGERS")	2,518,725	
Law Enforcement Officers' Special Separation Allowance ("LEO")	421,375	
Other Post Employment Benefits ("OPEB")	<u>140,371</u>	3,080,471
Certain assets are not available to pay for current period expenditures; therefore, the balances are deferred in the funds:		
Property taxes receivable		154,530
Certain assets are not considered financial resources; therefore, the balances are not recorded in the funds:		
Accrued interest receivable on unpaid property taxes		25,205
Deferred inflows of resources are not financial resources; therefore, the amounts are not reported in the funds:		
Local Government Employees' Retirement System ("LGERS")	(5,239)	
Law Enforcement Officers' Special Separation Allowance ("LEO")	(209,867)	
Other Post Employment Benefits ("OPEB")	<u>(298,088)</u>	(513,194)
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	(5,153,865)	
Lease and IT subscription liabilities	(177,664)	
Net pension liability - LGERS	(4,445,907)	
Total pension liability - LEO	(1,521,239)	
Total OPEB liability	(564,070)	
Compensated absences payable	<u>(560,515)</u>	(12,423,260)
Other accrual adjustments that do not require the use of current financial resources; therefore, the liabilities are not recognized or accrued in the funds:		
Accrued interest payable		<u>(26,600)</u>
Net position of governmental activities		<u>\$ 44,732,926</u>

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

**Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2025**

	General Fund	Consolidated General Capital Projects Fund	Total Non-Major Funds	Total Governmental Funds
Revenues:				
Ad valorem taxes	\$ 10,474,657	\$ -	\$ -	\$ 10,474,657
Other taxes and licenses	10,763	-	-	10,763
Unrestricted intergovernmental	4,981,797	-	-	4,981,797
Restricted intergovernmental	774,884	17,848	24,005	816,737
Use and rental fees	105,306	-	-	105,306
Contributions and donations	520	-	-	520
Investment earnings	829,076	2,871	-	831,947
Miscellaneous	246,988	-	-	246,988
Total revenues	<u>17,423,991</u>	<u>20,719</u>	<u>24,005</u>	<u>17,468,715</u>
Expenditures:				
Current:				
General government	3,106,019	-	-	3,106,019
Public safety	6,685,515	-	-	6,685,515
Transportation	1,789,979	-	-	1,789,979
Environmental protection	682,252	-	-	682,252
Economic and physical development	644,688	452,365	-	1,097,053
Community activities and projects	281,733	-	720	282,453
Parks and recreation	672,031	-	-	672,031
Debt service:				
Principal	356,284	-	-	356,284
Interest and other charges	62,476	-	-	62,476
Total expenditures	<u>14,280,977</u>	<u>452,365</u>	<u>720</u>	<u>14,734,062</u>
Excess (deficiency) of revenues over expenditures	<u>3,143,014</u>	<u>(431,646)</u>	<u>23,285</u>	<u>2,734,653</u>
Other financing sources (uses):				
Proceeds from installment financing	-	3,535,000	-	3,535,000
Transfers (to) from other funds	125,450	(125,450)	-	-
Total other financing sources (uses)	<u>125,450</u>	<u>3,409,550</u>	<u>-</u>	<u>3,535,000</u>
Net change in fund balances	3,268,464	2,977,904	23,285	6,269,653
Fund balances, beginning	<u>14,367,619</u>	<u>5,020,346</u>	<u>1,455,679</u>	<u>20,843,644</u>
Fund balances, ending	<u>\$ 17,636,083</u>	<u>\$ 7,998,250</u>	<u>\$ 1,478,964</u>	<u>\$ 27,113,297</u>

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

Town of Hillsborough, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds to the Statement of Activities
Year Ended June 30, 2025

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

Net change in fund balances - total governmental funds		\$ 6,269,653
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In addition, the book value of assets disposed is not reported in the governmental funds; however this amount is netted against any proceeds from the disposal of assets in the Statement of Activities.		
Capital outlay	\$ 1,428,421	
Depreciation expense	(1,232,339)	
Amortization expense	(75,396)	
Contributed capital	<u>1,281,779</u>	1,402,465
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		41,366
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds:		
Proceeds from installment financing	(3,535,000)	
Principal retirement	<u>356,284</u>	(3,178,716)
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	3,800	
Change in accrued compensated absences	(22,802)	
Pension expense - LGERS	(523,271)	
Pension expense - LEOSA	(107,870)	
OPEB expense	<u>27,347</u>	<u>(622,796)</u>
Total changes in net position of governmental activities		<u>\$ 3,911,972</u>

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

Exhibit 5

Town of Hillsborough, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund
Year Ended June 30, 2025

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 10,270,000	\$ 10,270,000	\$ 10,474,657	\$ 204,657
Other taxes and licenses	9,100	9,100	10,763	1,663
Unrestricted intergovernmental	4,707,100	4,542,100	4,981,797	439,697
Restricted intergovernmental	382,389	390,270	398,601	8,331
Use and rental fees	62,500	61,500	105,306	43,806
Investment earnings	425,000	425,000	829,076	404,076
Miscellaneous	59,000	59,763	246,988	187,225
Total revenues	<u>15,915,089</u>	<u>15,757,733</u>	<u>17,047,188</u>	<u>1,289,455</u>
Expenditures:				
Current:				
General government	3,599,838	4,048,922	3,178,752	870,170
Public safety	6,916,998	7,222,905	6,713,159	509,746
Transportation	2,004,412	2,246,352	1,826,906	419,446
Environmental protection	1,139,199	1,217,943	744,869	473,074
Economic and physical development	585,000	665,000	644,688	20,312
Community activities and projects	732,461	570,129	328,960	241,169
Parks and recreation	693,382	790,366	672,031	118,335
Contingency	450,000	-	-	-
Total expenditures	<u>16,121,290</u>	<u>16,761,617</u>	<u>14,109,365</u>	<u>2,652,252</u>
Revenues over (under) expenditures	<u>(206,201)</u>	<u>(1,003,884)</u>	<u>2,937,823</u>	<u>3,941,707</u>
Other financing sources (uses):				
Transfers (to) from other funds	<u>(3,320,809)</u>	<u>125,450</u>	<u>125,450</u>	<u>-</u>
Sale of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(3,320,809)</u>	<u>125,450</u>	<u>125,450</u>	<u>-</u>
Appropriated fund balance	3,527,010	878,434	-	(878,434)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>3,063,273</u>	<u>\$ 3,063,273</u>
Fund balance, beginning of year			<u>14,327,716</u>	
Fund balance, end of year			<u>17,390,989</u>	
Legally budgeted funds that are consolidated into the General Fund for reporting purposes:				
Restricted Revenues Fund:				
Fund balance, beginning			39,903	
Total revenues			376,803	
Total expenditures			<u>(171,612)</u>	
Fund balance, ending (Exhibit 4)			<u>\$ 17,636,083</u>	

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

Exhibit 6

Town of Hillsborough, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2025

	Water and Sewer Fund	Nonmajor Fund	Total
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 12,864,794	\$ 1,203,666	\$ 14,068,460
Restricted cash and cash equivalents	13,480,785	-	13,480,785
Accounts receivable, net	4,495,013	19,997	4,515,010
Prepays	575	-	575
Total current assets	30,841,167	1,223,663	32,064,830
Capital assets:			
Land and construction in progress	8,229,833	33,813	8,263,646
Capital assets, net of accumulated depreciation	51,021,534	1,727,614	52,749,148
Total capital assets	59,251,367	1,761,427	61,012,794
Total noncurrent assets	59,251,367	1,761,427	61,012,794
Total assets	90,092,534	2,985,090	93,077,624
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension deferrals	1,155,311	132,940	1,288,251
Total deferred outflows of resources	1,155,311	132,940	1,288,251
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued liabilities	322,952	20,582	343,534
Payable from restricted assets:			
Accounts payable - capital projects	91,134	-	91,134
Customer deposits	639,732	-	639,732
Other current liabilities	30,748	-	30,748
Accrued interest payable	157,300	-	157,300
Current portion of long-term liabilities	1,807,767	24,800	1,832,567
Total current liabilities	3,049,633	45,382	3,095,015
Noncurrent liabilities:			
Long-term debt	22,548,505	257,683	22,806,188
Total noncurrent liabilities	22,548,505	257,683	22,806,188
Total liabilities	25,598,138	303,065	25,901,203
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension deferrals	237,636	20,297	257,933
Total deferred inflows of resources	237,636	20,297	257,933
<u>NET POSITION</u>			
Net investment in capital assets	37,534,649	1,761,427	39,296,076
Restricted for water and sewer projects	12,710,134	-	12,710,134
Restricted for perpetual maintenance	81,959	-	81,959
Unrestricted	15,085,329	1,033,241	16,118,570
Total net position	\$ 65,412,071	\$ 2,794,668	\$ 68,206,739

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

Town of Hillsborough, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2025

	Water and Sewer Fund	Nonmajor Fund	Total
Operating revenues:			
Charges for services	\$ 12,974,506	\$ 879,385	\$ 13,853,891
System development fees	111,584	-	111,584
Other operating revenues	854,974	-	854,974
Total operating revenues	<u>13,941,064</u>	<u>879,385</u>	<u>14,820,449</u>
Operating expenses:			
Personnel services	4,172,672	498,722	4,671,394
Operating expenses	5,912,383	360,972	6,273,355
Depreciation	2,210,544	80,636	2,291,180
Total operating expenses	<u>12,295,599</u>	<u>940,330</u>	<u>13,235,929</u>
Operating income (loss)	<u>1,645,465</u>	<u>(60,945)</u>	<u>1,584,520</u>
Nonoperating revenues (expenses):			
Investment earnings	1,037,678	51,371	1,089,049
Amortization of premium on bonds payable	55,935	-	55,935
Gain (loss) on disposal of capital assets	(220)	-	(220)
Interest and fees	(708,883)	-	(708,883)
Total nonoperating revenues (expenses)	<u>384,510</u>	<u>51,371</u>	<u>435,881</u>
Income (loss) before capital contributions	<u>2,029,975</u>	<u>(9,574)</u>	<u>2,020,401</u>
Capital contributions	970,516	-	970,516
Change in net position	3,000,491	(9,574)	2,990,917
Total net position, beginning	62,411,580	2,804,242	65,215,822
Total net position, ending	<u>\$ 65,412,071</u>	<u>\$ 2,794,668</u>	<u>\$ 68,206,739</u>

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

Exhibit 8
(2 Pages)

Town of Hillsborough, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2025

	Water and Sewer Fund	Nonmajor Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 13,941,064	\$ 868,163	\$ 14,809,227
Cash paid for goods and services	(6,952,118)	(364,124)	(7,316,242)
Cash paid to employees	(4,246,755)	(461,221)	(4,707,976)
Net cash provided (used) by operating activities	2,742,191	42,818	2,785,009
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(2,249,999)	-	(2,249,999)
Principal payments on long-term debt	(1,444,402)	-	(1,444,402)
Interest paid on long-term debt	(655,763)	-	(655,763)
Cash received from capital contributions	970,516	-	970,516
Net cash provided (used) by capital and related financing activities	(3,379,648)	-	(3,379,648)
Cash flows from investing activities:			
Interest on investments	1,037,678	51,371	1,089,049
Net cash provided (used) by investing activities	1,037,678	51,371	1,089,049
Net increase (decrease) in cash and cash equivalents	400,221	94,189	494,410
Cash and cash equivalents - beginning of year	25,945,358	1,109,477	27,054,835
Cash and cash equivalents - end of year	\$ 26,345,579	\$ 1,203,666	\$ 27,549,245
Cash and cash equivalents			
Unrestricted	\$ 12,864,794	\$ 1,203,666	\$ 14,068,460
Restricted	13,480,785	-	13,480,785
Total cash and cash equivalents	\$ 26,345,579	\$ 1,203,666	\$ 27,549,245

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

Town of Hillsborough, North Carolina
Statement of Cash Flows (continued)
Proprietary Funds
Year Ended June 30, 2025

	<u>Water and Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 1,645,465</u>	<u>\$ (60,945)</u>	<u>\$ 1,584,520</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	2,210,544	80,636	2,291,180
Other non-operating expenses			
Change in assets, deferred outflows and inflows of resources, and liabilities:			
Accounts receivable	(1,039,645)	(11,222)	(1,050,867)
Prepays	(90)	-	(90)
Accounts payable and accrued liabilities	(171,832)	(3,152)	(174,984)
Deposits	7,894	-	7,894
Other current liabilities	(59,840)	-	(59,840)
OPEB expense	(42,185)	2,925	(39,260)
Pension expense - LGERS	183,942	24,946	208,888
Compensated absences payable	7,938	9,630	17,568
Total adjustments	<u>1,096,726</u>	<u>103,763</u>	<u>1,200,489</u>
Net cash provided (used) by operating activities	<u>\$ 2,742,191</u>	<u>\$ 42,818</u>	<u>\$ 2,785,009</u>
Supplemental schedule of noncash investing and financing activities			
Capital asset additions included in accounts payable and accrued liabilities	<u>\$ 91,134</u>	<u>\$ -</u>	<u>\$ 91,134</u>

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

Notes to the Financial Statements

Town of Hillsborough, North Carolina
Notes to the Financial Statements
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A - Reporting Entity

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

Hillsborough Tourism Development Authority (the “Authority”)

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

Hillsborough Tourism Board (the “Tourism Board”)

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

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

B - Basis of Presentation

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

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

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B - Basis of Presentation (continued)

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

The Town reports the following major governmental funds:

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.

Consolidated General Capital Projects Fund - The General Capital Projects Fund is used to account for capital project activities financed by the Town's General Fund and other funding sources. It accumulates and tracks expenditures for multiple capital projects that span more than one fiscal year. The Committed Funds and General Capital Reserve Funds are consolidated in the General Capital Projects Fund. In prior years, this fund was reported within the nonmajor governmental funds. Due to the increased financial activity in the current year, the Consolidated General Capital Projects Fund now meets the criteria for major fund reporting.

The Town reports the following nonmajor governmental fund:

Special Assessment District Fund - This fund is used to account for improvements in the Waterstone development.

The Town reports the following major enterprise fund:

Water and Sewer Fund - This fund is used to account for the Town's water and sewer operations. For financial reporting purposes, several water and sewer capital project funds including ARPA funded capital projects ("WS Capital Projects Funds") and three capital reserve funds have been consolidated with the Water and Sewer Fund.

The Town reports the following nonmajor enterprise fund:

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

C - Measurement Focus and Basis of Accounting

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of general long-term debt and asset-backed financing are reported as other financing sources.

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

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D - Budgetary Data

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

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

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

1. Deposits and Investments

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

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

2. Cash and Cash Equivalents

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Restricted Assets

The Water and Sewer Fund has unexpended debt proceeds that are classified as restricted assets because their use is completely restricted to the purpose for which the debt agreements were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can only be expended for the purposes of maintaining, repairing, constructing, reconstruction or widening of local streets per G.S. 136-41.4. In addition, contributions from developers that are restricted by Town ordinance are restricted to the purpose of the donation. Perpetual maintenance funds are typically required to be set aside for long-term upkeep, ongoing maintenance obligations, or other purposes established by ordinance, statute, grant agreement, or board action. Water and sewer capital reserve amounts are restricted for future system improvements, replacement of infrastructure, or specific capital projects. Lastly, the Special Assessment District funds are restricted because they are collected specifically for improvements within the Waterstone development.

Town of Hillsborough's Restricted Cash

Governmental Activities:

General Fund:

Streets	\$ 69,835
Restricted revenues	247,713
Special Assessment District Fund	1,507,146
Total Governmental Activities	<u>1,824,694</u>

Business-type Activities:

Water and Sewer Fund:

Unspent debt proceeds	48,960
Customer deposits	639,732
Perpetual maintenance	81,959
Water and sewer capital needs	12,710,134
Total Business-type Activities	<u>13,480,785</u>

Total Restricted Cash	<u><u>\$ 15,305,479</u></u>
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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, 2025.

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Allowance for Doubtful Accounts

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

6. Prepays

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

7. Capital Assets

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

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

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

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

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

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Capital Assets (continued)

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

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

8. Deferred outflows/inflows of resources

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

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

9. Long-term obligations

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

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

10. Compensated absences

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Compensated absences (continued)

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

11. Net Position / Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

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

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

11. Net Position / Fund Balances (continued)

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

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

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

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

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

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

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

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

12. Defined Benefit Cost-Sharing Plans

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A - Assets

1. Deposits

All of the deposits of the Town, the Authority, and the Tourism Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's, the Authority's, or the Tourism Board's agents in the entities' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, the Authority, and the Tourism Board, these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the Authority, the Tourism Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, the Authority, or the Tourism Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Authority and the Tourism Board have no formal policy regarding custodial credit risk for deposits.

The Town's deposits had a carrying amount of \$6,518,658 and a bank balance of \$6,665,236 at June 30, 2025. Of the bank balance, \$328,593 was covered by federal depository insurance and \$6,336,643 in demand deposits were covered under the Pooling Method. The Town had \$3,050 in cash on hand at June 30, 2025.

The Authority's deposits had a carrying amount of \$497,701 and a bank balance of \$507,701 at June 30, 2025. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$257,701 was covered under the Pooling Method.

The Tourism Board's deposits had a carrying amount of \$538,184 and a bank balance of \$538,184 at June 30, 2025. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$288,184 of demand deposits were covered under the Pooling Method.

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A – Assets

2. Investments

The following table summarizes the Town’s investment balances at June 30, 2025:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2025	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Level 1	<u>\$47,829,087</u>	N/A	AAAm

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

Level of fair value hierarchy:

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

A – Assets (continued)

2. Investments (continued)

The Town does not have a formal investment policy.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NCCMT - Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2025.

3. Due from other governments

Amount due from other governments consist of the following:

	Governmental Activities
General Fund:	
Sales and use tax distribution	\$ 908,131
Utilities franchise and telecommunications tax	186,079
Sales tax refunds	222,781
Total General Fund	<u>1,316,991</u>
Other governmental funds:	
Nonmajor funds	<u>11,205</u>
Total due from other governments	<u><u>\$ 1,328,196</u></u>

4. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2025 are net of the following allowance for doubtful accounts:

	Governmental Activities	Business-type Activities
General Fund:		
Property taxes receivable	\$ 5,000	
Water and Sewer Fund:		
Accounts receivable	\$ 1,596,779	
Stormwater Fund:		
Accounts receivable		<u>12,773</u>
Total allowance for doubtful accounts	<u><u>\$ 1,614,552</u></u>	

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

5. Due from related governments

The Authority - Amounts due from related governments consist of \$19,645 owed to the Authority from the Town for occupancy taxes collected by the Town and remitted to the Authority after year-end.

The Tourism Board - Amounts due from related governments consist of \$112,867 owed to the Tourism Board from the Town for food and beverage taxes collected by the Town and remitted to the Tourism Board after year-end.

6. Capital Assets

The following table summarizes capital asset activity for the Town's governmental activities during the year ended June 30, 2025.

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,879,989	\$ -	\$ -	\$ 4,879,989
Construction in progress	801,564	452,364	349,800	904,128
Total capital assets not being depreciated	5,681,553	452,364	349,800	5,784,117
Capital assets being depreciated:				
Buildings and improvements	9,352,450	378,128	-	9,730,578
Infrastructure	15,546,128	2,023,495	-	17,569,623
Equipment	1,350,678	43,968	28,721	1,365,925
Vehicles	5,690,027	162,043	362,938	5,489,132
Total capital assets being depreciated	31,939,283	2,607,634	391,659	34,155,258
Less accumulated depreciation for:				
Buildings and improvements	4,075,640	282,868	-	4,358,508
Infrastructure	2,771,198	412,127	-	3,183,325
Equipment	910,990	84,988	28,721	967,257
Vehicles	4,194,173	452,356	362,938	4,283,591
Total accumulated depreciation	11,952,001	1,232,339	391,659	12,792,681
Total capital assets being depreciated, net	\$ 19,987,282			\$ 21,362,577

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

6. Capital Assets (continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities (continued):				
Capital assets being amortized:				
Right to use assets:				
Land improvements	\$ 5,763	\$ -	\$ -	\$ 5,763
Buildings	294,242	-	-	294,242
Equipment	58,932	-	-	58,932
IT subscriptions	158,621	-	-	158,621
Total capital assets being amortized	<u>517,558</u>	-	-	<u>517,558</u>
Less accumulated amortization for:				
Right to use assets:				
Land improvements	3,705	1,235	-	4,940
Buildings	103,532	41,072	-	144,604
Equipment	25,681	9,573	-	35,254
IT subscriptions	133,462	23,515	-	156,977
Total accumulated amortization	<u>266,380</u>	<u>75,395</u>	-	<u>341,775</u>
Total capital assets being amortized, net	<u>251,178</u>			<u>175,783</u>
Governmental activities capital assets, net	<u><u>\$ 25,920,013</u></u>			<u><u>\$ 27,322,477</u></u>

Depreciation and amortization expense were charged to the following functions:

	<u>Depreciation</u>	<u>Amortization</u>
General government	\$ 663,833	\$ 29,519
Public safety	160,017	45,876
Transportation	63,850	-
Economic and physical development	259,751	-
Environmental protection	84,888	-
Total	<u><u>\$ 1,232,339</u></u>	<u><u>\$ 75,395</u></u>

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

6. Capital Assets (continued)

The following tables summarize capital asset activity for the Town's business-type activities during the year ended June 30, 2025.

Business-type activities:	Beginning			Ending
Water and Sewer Fund	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$ 6,099,275	\$ -	\$ -	\$ 6,099,275
Construction in progress	938,332	1,192,226	-	2,130,558
Total capital assets not being depreciated	7,037,607	1,192,226	-	8,229,833
Capital assets being depreciated:				
Buildings and improvements	38,994,136	18,289	-	39,012,425
Plant and distributions systems	39,382,789	787,144	-	40,169,933
Infrastructure	1,760,823	105,595	-	1,866,418
Equipment	2,106,405	146,745	84,630	2,168,520
Vehicles	1,407,418	-	16,610	1,390,808
Total capital assets being depreciated	83,651,571	1,057,773	101,240	84,608,104
Less accumulated depreciation for:				
Buildings and improvements	14,723,724	1,115,580	-	15,839,304
Plant and distributions systems	13,860,615	794,157	-	14,654,772
Infrastructure	251,332	44,164	-	295,496
Equipment	1,557,400	135,093	84,410	1,608,083
Vehicles	1,083,975	121,550	16,610	1,188,915
Total accumulated depreciation	31,477,046	2,210,544	101,020	33,586,570
Total capital assets being depreciated, net	52,174,525			51,021,534
Water and Sewer Fund capital assets, net	\$ 59,212,132			\$ 59,251,367

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

6. Capital Assets (continued)

Business-type activities:	Beginning			Ending
Stormwater Fund	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$ 33,813	\$ -	\$ -	\$ 33,813
Total capital assets not being depreciated	33,813	-	-	33,813
Capital assets being depreciated:				
Infrastructure	2,233,177	-	-	2,233,177
Equipment	167,981	-	-	167,981
Vehicles	20,762	-	-	20,762
Total capital assets being depreciated	2,421,920	-	-	2,421,920
Less accumulated depreciation for:				
Infrastructure	557,659	55,823	-	613,482
Equipment	35,249	24,813	-	60,062
Vehicles	20,762	-	-	20,762
Total accumulated depreciation	613,670	80,636	-	694,306
Total capital assets being depreciated, net	1,808,250			1,727,614
Stormwater Fund capital assets, net	\$ 1,842,063			\$ 1,761,427
Business-type activities capital assets, net	\$ 61,054,195			\$ 61,012,794

7. Construction commitments

The Town has active construction projects as of June 30, 2025 with the following remaining commitments:

	Spent to Date	Estimated Remaining Commitment
Governmental Projects:		
Transportation Improvement Project ("TIP")	\$ 347,895	\$ 10,091,105
NC 86 Renovation Project	539,390	4,286,592
Fire Station Project	-	750,000
Fiber Loop Project	-	450,000
Other projects	16,844	651,262
Business-type Projects:		
Various water and sewer projects	2,130,559	21,733,386
	\$ 3,034,688	\$ 37,962,345

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by G.S. 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2025 was 15.10% of compensation for law enforcement officers and 13.60% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$1,309,096 for the year ended June 30, 2025.

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

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

The Town reported a liability, at June 30, 2025, of \$6,507,475 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023. The total pension liability was then rolled forward to the measurement date of June 30, 2024 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, 2024 (measurement date), was 0.09653%, which was an increase of 0.01099% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the Town recognized pension expense of \$2,041,254. The Town reported, at June 30, 2025, deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,140,356	\$ 7,667
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investment	884,687	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	352,519	-
Town contributions subsequent to the measurement date	<u>1,309,096</u>	<u>-</u>
Total	<u>\$ 3,686,658</u>	<u>\$ 7,667</u>

The \$1,309,096 reported as deferred outflows of resources related to the Town's contributions subsequent to the measurement date that will be recognized as a decrease of the net pension liability in the year ending June 30, 2026.

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

Year ended June 30:	
2026	\$ 769,633
2027	1,399,089
2028	301,206
2029	(100,033)
2030	-
Thereafter	-
	<u><u>\$2,369,895</u></u>

Actuarial Assumptions. The total pension liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2023 valuation, with the exception of the discount rate, were based the results of an actuarial experience study prepared as of December 21, 2019 and adopted by the of Trustees on January 28, 2021, and amended on January 27, 2022.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2024 are summarized in the following table:

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

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

The information above is based on 30-year expectations developed with the consulting actuary as part of a study conducted in early 2022, and is part of the asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.50 percent. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 11,531,436	\$ 6,507,475	\$ 2,374,576

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. The Separation Allowance's membership, at December 31, 2023 (valuation date), consisted of:

Inactive members receiving benefits	5
Active plan members	<u>32</u>
Total	<u><u>37</u></u>

2. Summary of Significant Accounting Policies

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2023 valuation. The total pension liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	4.28 percent

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

3. Actuarial Assumptions (continued)

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2023.

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

4. Change in actuarial assumptions:

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

The Municipal Bond Index Rate decreased from 4.00 percent to 4.28 percent.

5. Contributions

The Town is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$82,440 as benefits came due for the reporting period.

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

At June 30, 2025, the Town reported a total pension liability of \$1,521,239. The total pension liability was based on a December 31, 2023 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2024 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2025, the Town recognized pension expense of \$200,689.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 285,611	\$ 58,848
Changes of assumptions	82,353	151,019
Town benefit payments and plan administrative expense made subsequent to the measurement date	53,411	-
Total	<u>\$ 421,375</u>	<u>\$ 209,867</u>

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

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

The \$53,411 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources and will be recognized in pension expense for the year ending June 30, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2026	\$ 70,741
2027	(2,319)
2028	30,346
2029	37,708
2030	20,022
Thereafter	1,599
	<u>\$ 158,097</u>

7. Sensitivity of the Town's total pension liability to changes in the discount rate:

The following presents the Town's total pension liability calculated using the discount rate of 4.28 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.28 percent) or 1-percentage-point higher (5.28 percent) than the current rate:

	1% Decrease (3.28%)	Discount Rate (4.28%)	1% Increase (5.28%)
Total pension liability	\$ 1,649,843	\$ 1,521,239	\$ 1,405,835

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

	2025
Beginning balance	\$ 1,356,531
Service cost	72,805
Interest on the total pension liability	52,612
Differences between expected and actual experience in the measurement of the total pension liability	156,358
Changes of assumptions or other inputs	(34,627)
Benefit payments	(82,440)
Ending balance of the total pension liability	<u><u>\$ 1,521,239</u></u>

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$ 2,041,254	\$ 200,689	\$ 2,241,943
Pension Liability	6,507,475	1,521,239	8,028,714
Proportionate share of the net pension liability	0.09653%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	1,140,356	285,611	1,425,967
Changes of assumptions	-	82,353	82,353
Net difference between projected and actual earnings on plan investments	884,687	-	884,687
Changes in proportion and differences between contributions and proportionate share of contributions	352,519	-	352,519
Benefit payments and administrative costs paid subsequent to the measurement date	1,309,096	53,411	1,362,507
Deferred of Inflows of Resources			
Difference between expected and actual experience	7,667	58,848	66,515
Changes of assumptions	-	151,019	151,019
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-

d. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other employees may make voluntary contributions to the plan. Contributions by the Town for the year ended June 30, 2025 were \$132,827.

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

2. Other Postemployment Benefits

Healthcare Benefits

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

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

Membership of the Plan consisted of the following at June 30, 2023, the date of the latest actuarial valuation:

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

2. Other Postemployment Benefits (continued)

The Town's total OPEB liability of \$1,047,558 was measured as of June 30, 2024 and was determined by an actuarial valuation as of June 30, 2023.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.25 to 8.41 percent, including inflation and productivity factor
Discount rate	3.93 percent
Healthcare cost trend rates	Pre-Medicare and Prescription Drug and Prescription Drug 7.00% for 2023 decreasing to an ultimate rate of 4.50% by 2033.

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

Schedule of Changes in Total Pension Liability

	2025
Beginning balance	\$ 1,067,548
Service cost	25,877
Interest on the total pension liability	38,954
Differences between expected and actual experience in the measurement of the total pension liability	(11,923)
Changes of assumptions or other inputs	(20,030)
Benefit payments	(52,868)
Ending balance of the total pension liability	\$ 1,047,558

The net benefit payments shown above include the implicit subsidy (if any) for the year. Changes in assumptions and other inputs reflect a change in the discount rate from 3.65 percent to 3.93 percent.

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2023 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2023 valuation.

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

2. Other Postemployment Benefits (continued)

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.93 percent) or 1 percentage point higher (4.93 percent) than the current rate:

	<u>1% Decrease</u> <u>(2.93%)</u>	<u>Discount rate</u> <u>(3.93%)</u>	<u>1% Increase</u> <u>(4.93%)</u>
Total OPEB Liability	\$ 1,121,185	\$ 1,047,558	\$ 979,634

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% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 958,363	\$ 1,047,558	\$ 1,148,700

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

The Town recognized OPEB expense/(income) of \$(11,169) for the year ended June 30, 2025. The Town reported, at June 30, 2025, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 36,869	\$ 427,333
Benefit payments and administrative costs made subsequent to measurement date	52,558	-
Changes of assumptions or other inputs	<u>171,262</u>	<u>126,260</u>
Total	<u>\$ 260,689</u>	<u>\$ 553,593</u>

The \$52,558 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2026.

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

Year ended June 30:	
2026	\$ (75,047)
2027	(67,058)
2028	(63,907)
2029	(20,952)
2030	(39,559)
Thereafter	<u>(78,938)</u>
	<u>\$ (345,461)</u>

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

3. Other Employment Benefits

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

4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities at June 30, 2025 were as follows:

Governmental Activities			
	General	Other	Total
	Fund	Government Funds	
Accounts payable to vendors	\$ 433,623	\$ 219,002	\$ 652,625
Accrued payroll and related liabilities	321,416	-	321,416
Total	<u>\$ 755,039</u>	<u>\$ 219,002</u>	<u>\$ 974,041</u>

Business-type Activities			
	Water and	Stormwater	Total
	Sewer Fund	Fund	
Accounts payable to vendors	\$ 253,678	\$ 2,779	\$ 256,457
Accrued payroll and related liabilities	160,408	17,803	178,211
Total	<u>\$ 414,086</u>	<u>\$ 20,582</u>	<u>\$ 434,668</u>

5. Due to related governments

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Deferred Outflows and Inflows of Resources

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

Deferred Outflows of Resources:

	Modified Accrual	Full Accrual
Governmental activities:		
Pension - LGERS	\$ -	\$ 2,518,725
Pension - LEOSSA	-	421,375
OPEB	-	140,371
Total	\$ -	\$ 3,080,471
Business-type activities:		
Pension - LGERS		\$ 1,167,933
OPEB		120,318
Total		\$ 1,288,251

7. Deferred Outflows and Inflows of Resources (continued)

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

Deferred Inflows of Resources:

	Modified Accrual	Full Accrual
Governmental activities:		
Unavailable revenue:		
Property taxes receivable	\$ 154,530	\$ -
Pension - LGERS	-	5,239
Pension - LEOSSA	-	209,867
OPEB	-	298,088
Total governmental activities	\$ 154,530	\$ 513,194
Business-type activities:		
Pension - LGERS		\$ 2,429
OPEB		255,504
Total business-type activities		\$ 257,933

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

8. Risk Management

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

The Town carries commercial insurance for all other risks of loss, including property (\$75,622,366); general liability (\$5 million per occurrence); law enforcement liability (\$5 million per occurrence); public employees scheduled bond (\$1,000,000) public employees blanket bond/crime (\$10,000); computer equipment (\$786,100); municipal equipment (\$1,164,754); fine arts (\$500,000); and public officials' liability (\$5 million per occurrence). There have been no significant reductions in insurance coverage in the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

8. Risk Management (continued)

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

In accordance with G.S. 159-29, the Town’s employees that have access to \$100 or more at any given time or the Town’s funds are performance bonded through a commercial surety bond. The finance director is covered by an individual official bond for \$1,000,000.

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

9. Claims and contingent liabilities

The Town has elected to pay the direct cost of employment security benefits in lieu of paying unemployment taxes. A liability for such payments could accrue in the period following the discharge of an employee. See also Note 2.A.(7) for contingent liabilities related to construction commitments.

10. Long-term obligations

a. Direct Placement Installment Purchases

Governmental activities:

- Note payable to Truist, executed in August 2014, in the amount of \$615,368 for the purchase of land for municipal operations. The note is payable in 30 semi-annual payments of \$20,512 plus interest and matures in August 2029. Interest is payable at 2.88% and the note payable is secured by the land.

\$ 184,610
- 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.

1,372,527

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

10. Long-term obligations (continued)

a. Direct Placement Installment Purchases (continued)

Note payable to U.S. Bancorp, executed December 2020, in the amount of \$300,000 to finance the purchase of a garbage truck. The note is payable in five annual payments of \$62,617 with interest payable at 1.44%, and is secured by the garbage trucks.	\$ 61,728
Note payable to JPMorgan Chase Bank N.A., executed June 2025, in the amount of \$3,535,000 to finance the renovation of the NC 86 North Facility for fleet maintenance and public works. The note bears interest at 4.12%, with annual principal payments of \$236,000 and interest payable semiannually on February 1 and August 1. The final payment is due August 1, 2040. The note is secured by the NC 86 North Facility.	3,535,000
	5,153,865
Less: current portion	(254,062)
	<u>\$ 4,899,803</u>

The future minimum payments for direct placement installment purchases, at June 30, 2025, related to governmental activities are as follows:

Governmental Activities:			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 254,062	\$ 142,562	\$ 396,624
2027	433,720	188,095	621,815
2028	439,299	171,612	610,911
2029	445,075	154,931	600,006
2030	430,545	1,142,543	1,573,088
2031-2035	1,740,164	452,555	2,192,719
2036-2040	1,176,000	169,456	1,345,456
2041	235,000	4,841	239,841
	<u>\$ 5,153,865</u>	<u>\$ 2,426,595</u>	<u>\$ 7,580,460</u>

Business-type activities:

Note payable to Capital One, executed April 2018, in the amount of \$2,770,000, to finance renovations for the Town's North Campus location and the Town Barn. The note is payable in 15 annual payments of \$239,296 with interest payable at 3.56% and is secured by the mortgaged property. This note is allocated 83.65% to governmental activities, and 16.35% business-type activities, and accordingly, the annual payments are made out of the Water and Sewer Fund will be \$39,125, which commenced on January 1, 2019.	\$ 268,269
Less: current portion	(29,574)
	<u>\$ 238,695</u>

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

10. Long-term obligations (continued)

a. Direct Placement Installment Purchases (continued)

The future minimum payments for direct placement installment purchases, at June 30, 2025, related to business-type activities are as follows:

Business-type Activities:			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 29,574	\$ 9,550	\$ 39,124
2027	30,627	8,498	39,125
2028	31,717	7,407	39,124
2029	32,847	6,278	39,125
2030	34,016	5,109	39,125
2031-2033	109,488	7,886	117,374
	<u>\$ 268,269</u>	<u>\$ 44,728</u>	<u>\$ 312,997</u>

The provisions of the direct placement installment purchase agreements contain certain financial covenants related to the maintenance of fund balance. The Town was in compliance with these covenants at June 30, 2025.

b. Lease liabilities

Governmental activities:

- The Town is a lessee of a 60-month lease of a building used as a police training facility. An initial lease liability was recorded in the amount of \$191,027. The Town is required to make monthly payments of \$3,200. The lease has an interest rate of 2.6160%. The net book value of the right to use asset for the year ended June 30, 2025 was \$149,638 with accumulated amortization of \$41,389. \$ 153,841
- The Town is a lessee of a 60-month lease of multi-functional devices. An initial lease liability was recorded in the amount of \$24,111. The Town is required to make monthly payments of \$406. The lease has an interest rate of 0.4130%. There are variable payment components of the lease. The net book value of the right to use asset for the year ended June 30, 2025 was \$6,191 with accumulated amortization of \$17,919. 6,073

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

10. Long-term obligations (continued)

b. Lease liabilities (continued)

- The Town is a lessee of a 60-month lease of multi-functional devices. An initial lease liability was recorded in the amount of \$23,846. The Town is required to make monthly payments of \$424. The lease has an interest rate of 2.6160%. There are variable payment components of the lease. The net book value of the right to use asset for the year ended June 30, 2025 was \$17,487 with accumulated amortization of \$6,359.

	\$	17,750
		177,664
Less current portion		(45,585)
	\$	132,079

The future minimum leases payments, at June 30, 2025, related to governmental activities are as follows:

Governmental Activities:			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 45,585	\$ 4,020	\$ 49,605
2027	44,228	2,912	47,140
2028	45,390	1,758	47,148
2029	42,460	546	43,006
2030	-	-	-
Thereafter	-	-	-
	<u>\$ 177,663</u>	<u>\$ 9,236</u>	<u>\$ 186,899</u>

c. Revolving loans payable

Business-type activities:

- On May 7, 2002, the Town was approved for a maximum loan amount of \$1,802,952 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan proceeds were used to upgrade the water plant. The loan is repayable in equal principal payments of \$76,222 plus interest of 2.66% through fiscal year ending 2026. The total amount outstanding at June 30, 2025 was \$76,223.
- On October 6, 2011, the Town was approved for a maximum loan amount of \$18,894,640 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Clean Water State Revolving Fund. The loan proceeds were used for a Wastewater Treatment Plant Upgrade and Expansion Project. In 2014, the Town was approved for a maximum loan in the amount of \$17,810,007 plus interest from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Clean Water State Revolving Fund. The loan is repayable in equal principal payments of \$890,500 plus interest of 2.455% through fiscal year ending 2034. The total amount outstanding at June 30, 2025 was \$8,014,504.

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

10. Long-term obligations (continued)

c. Revolving loans payable (continued)

- On October 6, 2014, the Town was approved for a maximum loan amount of \$2,029,398 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund. The loan proceeds were used for the Waterstone Elevated Water Tank Project. The first payment was made on the note in April 2016. The loan is repayable in a principal payment of \$72,078 due on May 1, 2019, followed by equal principal payments of \$94,122 annually on May 1st, with no interest, through fiscal year ending 2035. The total amount outstanding at June 30, 2025 was \$941,217.

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

Business-Type Activities:			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 1,060,847	\$ 198,784	\$ 1,259,631
2027	984,622	174,894	1,159,516
2028	984,623	153,032	1,137,655
2029	984,622	131,171	1,115,793
2030	984,623	109,309	1,093,932
2031-2035	4,032,607	218,619	4,251,226
	<u>\$ 9,031,944</u>	<u>\$ 985,809</u>	<u>\$ 10,017,753</u>

d. Special revenue bonds payable

Business-type activities:

- On May 24, 2018, the Town issued \$10,155,000 of special revenue bonds secured by water and sewer utility revenues for improvements to the water and sewer system, including renovation and expansion of the Town's West Fork of the Eno Reservoir; \$6,500,000 were issues as serial bonds and \$3,655,000 were issued as term bonds. The purchase price of the bonds was \$11,180,846, resulting in a premium upon issuance of \$1,025,846. The serial bonds carry interest rates of 4.00% to 5.00% and mature between October 1, 2020, and October 1, 2038. The term bonds were divided into two lots with \$1,765,000 paying 3.375% due between October 1, 2039 and October 1, 2040, and \$1,890,000 paying 3.50% due between October 1, 2041 and October 1, 2042. All term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates. \$10,015,000 remains outstanding at June 30, 2025:

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

10. Long-term obligations (continued)

d. Special revenue bonds payable (continued)

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

Business-Type Activities:			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 30,000	\$ 442,969	\$ 472,969
2027	35,000	441,344	476,344
2028	35,000	439,594	474,594
2029	40,000	437,719	477,719
2030	40,000	435,719	475,719
2031-2035	3,090,000	1,802,593	4,892,593
2036-2040	3,960,000	932,411	4,892,411
2041-2043	2,785,000	147,928	2,932,928
	<u>\$ 10,015,000</u>	<u>\$ 5,080,277</u>	<u>\$ 15,095,277</u>

e. Combined Utility Systems Revenue Bonds (Series 2020)

Business-type activities:

- On February 12, 2020, the Town 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. \$1,720,000 remains outstanding at June 30, 2025.

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

Business-Type Activities:			
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 333,000	\$ 34,056	\$ 367,056
2027	336,000	27,463	363,463
2028	345,000	20,810	365,810
2029	349,000	13,979	362,979
2030	357,000	7,068	364,068
	<u>\$ 1,720,000</u>	<u>\$ 103,376</u>	<u>\$ 1,823,376</u>

f. Debt Covenants

Business-type activities:

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

10. Long-term obligations (continued)

f. Debt Covenants (continued)

The debt service coverage ratio calculation is as follows:

	2025
Operating revenues	\$ 13,941,064
Operating expenses (excluding depreciation)	(10,085,055)
Operating income	3,856,009
Nonoperating revenues (expenses)	384,510
Income available for debts service - {A}	\$ 4,240,519
Unrestricted net position (system fund balance)	\$ 15,085,329
15% of Unrestricted Net Position - {B}	\$ 2,262,799
Total Balance for 120% Parity ({A}+{B})	\$ 6,503,318
Debt service, principal and interest (Revenue bond only)	\$ 839,959
Debt service coverage ratio on first-lien debt	774%
Debt service all debt (total balance for 100%)	\$ 2,162,600
Debt service coverage ratio on all debt together	196%

g. Changes in long-term liabilities

The following table summarizes changes in the Town's long-term liabilities during the year ended June 30, 2025.

	Beginning Balances	Increases	Decreases	Ending Balance	Current Portion
Governmental activities:					
Direct placement installment purchases	\$ 1,903,329	\$ 3,535,000	\$ 284,464	\$ 5,153,865	\$ 254,062
Lease liabilities	222,572	-	44,908	177,664	45,585
IT subscriptions liability	26,912	-	26,912	-	-
Compensated absences	537,713	318,603	295,801	560,515	296,000
Total OPEB liability	568,370	-	4,300	564,070	-
Net pension liability (LGERS)	3,808,363	637,544	-	4,445,907	-
Total pension liability (LEO)	1,356,531	164,708	-	1,521,239	-
Total governmental activity long-term liabilities	\$ 8,423,790	\$ 4,655,855	\$ 656,385	\$ 12,423,260	\$ 595,647

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

10. Long-term obligations (continued)

g. Changes in long-term liabilities (continued)

	Beginning Balances	Increases	Decreases	Ending Balance	Current Portion
Business-type activities:					
<i>Water and sewer:</i>					
Direct placement installment purchases	\$ 296,827	\$ -	\$ 28,558	\$ 268,269	\$ 29,574
Revolving loans payable	10,092,788	-	1,060,844	9,031,944	1,060,847
Revenue bonds payable	12,090,000	-	355,000	11,735,000	363,000
Premium on bonds payable	695,266	-	55,935	639,331	55,746
Compensated absences	384,654	306,533	298,595	392,592	298,600
Total OPEB liability	464,581	-	19,013	445,568	-
Net pension liability (LGRS)	1,668,496	175,072	-	1,843,568	-
Total - water and sewer	25,692,612	481,605	1,817,945	24,356,272	1,807,767
<i>Stormwater:</i>					
Compensated absences	16,932	34,462	24,832	26,562	24,800
Total OPEB liability	34,596	3,325	-	37,921	-
Net pension liability (LGRS)	188,662	29,338	-	218,000	-
Total - stormwater	240,190	67,125	24,832	282,483	24,800
Business-type activity long-term liabilities	\$ 25,932,802	\$ 548,730	\$ 1,842,777	\$ 24,638,755	\$ 1,832,567

h. Legal debt limit and debt margin

The Town is subject to the Local Government Bond Act of North Carolina which limits the amount of debt it can issue to 8 percent of the appraised value of property subject to taxation. The Town's statutory debt limit at June 30, 2025 was approximately \$137,489,000 and a legal debt margin of approximately \$132,335,000 after deducting certain outstanding debt balances.

i. Special assessment debt

Town issued \$4,630,000 of Special Assessment Revenue Bonds (in October, 2013) to finance the construction of public infrastructure in the Waterstone District. The Town is in no manner obligated to repay this special assessment debt and functions only as a custodial for the property owners by remitting collections of special assessments to the Trustee. The debt has been paid in full. The excess funds collected to cover debt service of the issuances was transferred to the Town. The funds are being accounted for as a Special Revenue Funds only to be used for the benefit the Waterstone District.

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

C - Interfund Balances and Activity

Transfers from:	Transfers to:		
	General Capital Projects Fund	General Fund	Total
General Fund	\$ 1,582,309	\$ -	\$ 1,582,309
General Capital Reserve Fund	-	1,707,759	1,707,759
	<u>\$ 1,582,309</u>	<u>\$ 1,707,759</u>	<u>\$ 3,290,068</u>

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

Transfers from:	Transfers to:			
	Utilities Capital Improvements Fund	Water and Sewer Operating Fund	Sewer System Development Fee Reserve	Water System Development Fee Reserve
Water and Sewer Operating Fund	\$ 636,231	\$ -	\$ 1,373,747	\$ 1,315,149
Utilities Capital Improvements Fund	-	213,523	-	-
Sewer System Development Fee Reserve Fund	20,000	-	-	-
	<u>\$ 656,231</u>	<u>\$ 213,523</u>	<u>\$ 1,373,747</u>	<u>\$ 1,315,149</u>
				<u>\$ 3,558,650</u>

Transfers from:	Transfers to:		
	Stormwater Capital Improvements Fund	Stormwater Operating Fund	Total
Stormwater Operating Fund	\$ 750,000	\$ -	\$ 750,000
	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 750,000</u>

D - Net Position/Fund Balances

1. Net Investment in capital assets

	Governmental Activities	Business-type Activities	
		Water and Sewer	Stormwater
Capital assets	\$ 27,322,477	\$ 59,251,367	\$ 1,761,427
Less:			
Capital related debt	(5,331,529)	(21,035,213)	-
Unamortized premium on capital related debt	-	(639,331)	-
Add:			
Unspent debt proceeds	-	48,960	-
Net investment in capital assets	<u>\$ 21,990,948</u>	<u>\$ 37,625,783</u>	<u>\$ 1,761,427</u>

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 2 - DETAIL NOTES ON ALL FUNDS (continued)

D – Net Position/Fund Balances (continued)

2. Fund Balance

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation. The outstanding encumbrances, reflected in stabilization by state statute, are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. Outstanding encumbrances in the General Fund at June 30, 2025 were \$204,939.

Total Fund Balance - General Fund	\$ 17,636,083
Less:	
Nonspendable - prepaids	13,019
Stabilization by State Statute	1,715,905
Restricted for streets	69,835
Restricted revenues	247,713
Appropriated in next year's budget	207,819
Fund balance policy - 33% of operating expenditures	4,712,722
Remaining Fund Balance	\$ 10,669,070

3. Unrestricted Net Position Designations

The Town has appropriated portions of unrestricted net position in the Town's proprietary funds as part of the fiscal year 2025/2026 adopted budget. These appropriations represent internal designations of available resources for future use and do not constitute legal restrictions under generally accepted accounting principles.

As of June 30, 2025, the following amounts of unrestricted net position have been designated through the adopted budget:

- Water and Sewer Fund: \$675,666
- Stormwater Fund: \$182,175

NOTE 3 - JOINTLY GOVERNED ORGANIZATION

The Town, in conjunction with seven counties and 37 other municipalities, established the Triangle J Council of Governments (the "Council"). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board.

NOTE 4 - CONTINGENCIES

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

Town of Hillsborough, North Carolina
Notes to the Financial Statements (continued)
June 30, 2025

NOTE 5 – SUBSEQUENT EVENTS

Subsequent events were evaluated through December 4, 2025, which is the date the financials were available to be issued.

NOTE 6 – RECENTLY IMPLEMENTED AND UPCOMING GASB STATEMENTS

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

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

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

Required Supplementary Financial Data

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

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,356,531	\$ 1,195,633	\$ 1,172,974	\$ 1,316,618	\$ 783,583	\$ 727,333	\$ 641,574	\$ 566,336	\$ 556,718
Service Cost	72,805	61,601	79,139	73,164	54,522	46,881	49,048	37,358	36,956
Interest on the total pension liability	52,612	50,174	26,039	25,142	25,173	26,226	19,749	21,303	19,286
Differences between expected and actual experience in the measurement of the total pension liability	156,358	80,291	168,460	(182,736)	96,611	(28,494)	80,147	(520)	-
Changes of assumptions or other inputs	(34,627)	31,835	(219,644)	(31,409)	379,515	25,289	(29,947)	45,993	(13,621)
Benefit payments	(82,440)	(63,003)	(31,335)	(27,805)	(22,786)	(13,652)	(33,238)	(28,896)	(33,003)
Ending balance of the total pension liability	<u>\$ 1,521,239</u>	<u>\$ 1,356,531</u>	<u>\$ 1,195,633</u>	<u>\$ 1,172,974</u>	<u>\$ 1,316,618</u>	<u>\$ 783,583</u>	<u>\$ 727,333</u>	<u>\$ 641,574</u>	<u>\$ 566,336</u>

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

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 1,521,239	\$ 1,356,531	\$ 1,195,633	\$ 1,172,974	\$ 1,316,618	\$ 783,583	\$ 727,333	\$ 641,574	\$ 566,336
Covered payroll	2,475,235	2,150,451	1,892,468	1,658,837	1,914,214	1,831,895	1,830,296	1,670,805	1,650,937
Total pension liability as a percentage of covered payroll	61.46%	63.08%	63.18%	70.71%	68.78%	42.77%	39.74%	38.40%	34.30%

Notes to the schedules:

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

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

Town of Hillsborough, North Carolina
Schedule of Changes in the Total OPEB Liability and Related Ratios
OPEB Retirement Plan
June 30, 2025

Total OPEB Liability	2025	2024	2023	2022	2021	2020	2019	2018
Service cost	\$ 25,877	\$ 41,492	\$ 53,159	\$ 48,010	\$ 35,773	\$ 55,105	\$ 56,731	\$ 60,886
Interest	38,954	47,832	31,809	29,433	40,828	60,865	56,550	48,567
Differences between expected and actual experiences	(11,923)	(310,860)	31,233	(34,606)	33,091	(461,361)	8,747	(2,066)
Changes of assumptions	(20,030)	22,013	(143,133)	168,641	123,590	27,076	(45,522)	(78,864)
Benefit payments	<u>(52,868)</u>	<u>(84,507)</u>	<u>(81,533)</u>	<u>(70,108)</u>	<u>(89,899)</u>	<u>(140,756)</u>	<u>(60,738)</u>	<u>(46,470)</u>
Net change in total OPEB liability	(19,990)	(284,030)	(108,465)	141,370	143,383	(459,071)	15,768	(17,947)
Total OPEB liability - beginning	<u>1,067,548</u>	<u>1,351,578</u>	<u>1,460,043</u>	<u>1,318,673</u>	<u>1,175,290</u>	<u>1,634,361</u>	<u>1,618,593</u>	<u>1,636,540</u>
Total OPEB liability - ending	<u>\$ 1,047,558</u>	<u>\$ 1,067,548</u>	<u>\$ 1,351,578</u>	<u>\$ 1,460,043</u>	<u>\$ 1,318,673</u>	<u>\$ 1,175,290</u>	<u>\$ 1,634,361</u>	<u>\$ 1,618,593</u>
 Covered payroll	 7,556,644	 7,556,644	 5,323,777	 5,323,777	 5,736,330	 5,736,330	 5,180,570	 5,180,570
Total OPEB liability as a percentage of covered payroll	13.86%	14.13%	25.39%	27.42%	22.99%	20.49%	31.55%	31.24%

Notes to Schedule

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

This schedule will present 10 years of information when available.

<u>Fiscal year</u>	<u>Rate</u>
2018	3.56%
2019	3.89%
2020	3.50%
2021	2.21%
2022	2.16%
2023	3.54%
2024	3.65%
2025	3.93%

Town of Hillsborough, North Carolina
Schedule of Proportionate Share of Net Pension Liability (Asset)
Local Government Employees' Retirement System
Last Ten Fiscal Years
June 30, 2025

	Local Government Employees' Retirement System									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Hillsborough's proportion of the net pension liability (asset) (%)	0.09653%	0.08554%	0.08350%	0.07990%	0.09220%	0.09060%	0.09310%	0.09190%	0.09240%	0.08380%
Hillsborough's proportion of the net pension liability (asset) (\$)	\$ 6,507,475	\$ 5,665,521	\$ 4,708,900	\$ 1,225,190	\$ 3,292,912	\$ 2,472,850	\$ 2,209,362	\$ 1,404,436	\$ 1,961,038	\$ 376,224
Hillsborough's covered-employee payroll	\$ 8,490,229	\$ 7,640,505	\$ 6,532,666	\$ 6,495,627	\$ 6,389,923	\$ 5,936,460	\$ 5,695,125	\$ 5,750,308	\$ 5,235,777	\$ 4,861,624
Hillsborough's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.65%	74.15%	72.08%	18.86%	51.53%	41.66%	38.79%	24.42%	37.45%	7.74%
Plan fiduciary net position as a percentage of the total pension liability	82.49%	82.49%	84.14%	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%

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

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

Town of Hillsborough, North Carolina
Schedules of Contributions
Required Supplementary Information
Last Ten Fiscal Years
June 30, 2025

Local Government Employees' Retirement System

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 1,309,096	\$ 1,122,927	\$ 961,854	\$ 766,857	\$ 632,182	\$ 587,827	\$ 478,756	\$ 440,572	\$ 429,432	\$ 356,396
Contributions in relation to the contractually required contribution	1,309,096	1,122,927	961,854	766,857	632,182	587,827	478,756	440,572	429,432	356,396
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hillsborough's covered-employee payroll	\$ 9,285,666	\$ 8,490,229	\$ 7,640,505	\$ 6,532,666	\$ 6,495,627	\$ 6,389,923	\$ 5,936,460	\$ 5,695,125	\$ 5,750,308	\$ 5,235,777
Contributions as a percentage of covered-employee payroll	14.10%	13.23%	12.59%	11.74%	9.73%	9.20%	8.06%	7.74%	7.47%	6.81%

Supplementary Information

This section contains additional information on property taxes.

This section contains the following information:

Combining statements and individual fund schedules

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

Other schedules

- Ad valorem ("property") tax schedules

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – General Fund
Year Ended June 30, 2025 (with Comparative Actual Amounts for 2024)

	2025		2024
	Budget	Actual	Variance Positive (Negative)
			Actual
Revenues:			
Ad valorem taxes:			
Current	\$ 10,250,000	\$ 10,440,069	\$ 190,069
Penalties and interest	20,000	34,588	14,588
Total	<u>10,270,000</u>	<u>10,474,657</u>	<u>204,657</u>
Other taxes and licenses:			
Gross receipts on short-term rental property	1,000	1,513	513
Privilege licenses	500	1,005	505
Motor vehicle license fees	-	-	-
Solid waste disposal	7,600	8,245	645
Total	<u>9,100</u>	<u>10,763</u>	<u>1,663</u>
Unrestricted intergovernmental:			
Local option sales tax	3,190,000	3,419,504	229,504
Franchise tax	700,000	844,382	144,382
Beer and wine tax	35,000	39,867	4,867
Food and beverage tax	514,100	552,157	38,057
Occupancy tax	103,000	125,877	22,877
Other	-	10	10
Total	<u>4,542,100</u>	<u>4,981,797</u>	<u>439,697</u>
Restricted intergovernmental:			
Powell bill allocation	335,881	335,881	-
Other	54,389	62,720	8,331
Total	<u>390,270</u>	<u>398,601</u>	<u>8,331</u>
Use and rental fees:			
Planning fees	20,000	56,002	36,002
Cable franchise	35,000	41,090	6,090
Street fees	-	975	975
Park usage fees	5,500	5,450	(50)
Other	1,000	1,789	789
Total	<u>61,500</u>	<u>105,306</u>	<u>43,806</u>
Investment earnings	<u>425,000</u>	<u>829,076</u>	<u>404,076</u>
Miscellaneous revenues	<u>59,763</u>	<u>246,988</u>	<u>187,225</u>
Total revenues	<u>\$ 15,757,733</u>	<u>\$ 17,047,188</u>	<u>\$ 1,289,455</u>
			<u>\$ 16,317,812</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual – General Fund (continued)
Year Ended June 30, 2025 (with Comparative Actual Amounts for 2024)

	2025			2024
	Budget	Actual	Variance Positive (Negative)	Actual
Expenditures:				
General government:				
Governing body:				
Personnel services	\$	\$ 46,404	\$	\$ 47,918
Other services and charges		199,777		185,421
Reimbursement from enterprise funds		(128,014)		(121,336)
Total	<u>144,674</u>	<u>118,167</u>	<u>26,507</u>	<u>112,003</u>
Facility management:				
Personnel services		120,842		112,608
Other services and charges		395,460		279,484
Debt service payments		200,171		203,092
Reimbursement from enterprise funds		(250,765)		(207,774)
Total	<u>621,706</u>	<u>465,708</u>	<u>155,998</u>	<u>387,410</u>
Administration:				
Personnel services		813,535		1,368,691
Other services and charges		95,954		243,677
Reimbursement from enterprise funds		(472,934)		(838,431)
Total	<u>476,969</u>	<u>436,555</u>	<u>40,414</u>	<u>773,937</u>
Finance:				
Personnel services		638,966		600,029
Other services and charges		254,501		173,734
Reimbursement from enterprise funds		(464,603)		(402,326)
Total	<u>490,099</u>	<u>428,864</u>	<u>61,235</u>	<u>371,437</u>
Human resources:				
Personnel services		325,898		-
Other services and charges		164,762		-
Reimbursement from enterprise funds		(255,143)		-
Total	<u>272,536</u>	<u>235,517</u>	<u>37,019</u>	<u>-</u>
Communications:				
Personnel services		361,014		-
Other services and charges		35,210		-
Reimbursement from enterprise funds		(206,036)		-
Total	<u>204,861</u>	<u>190,188</u>	<u>14,673</u>	<u>-</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual – General Fund (continued)
Year Ended June 30, 2025 (with Comparative Actual Amounts for 2024)

	2025			2024
	Budget	Actual	Variance Positive (Negative)	Actual
Information services:				
Personnel services	\$	\$ 132,745	\$	\$ 171,723
Other services and charges		780,938		621,038
Capital outlay		-		21,791
Debt service payments		-		47,334
Reimbursement from enterprise funds		(475,115)		(437,867)
Total	<u>601,400</u>	<u>438,568</u>	<u>162,832</u>	<u>424,019</u>
Planning:				
Personnel services		736,351		703,474
Other services and charges		125,770		85,636
Total	<u>1,100,661</u>	<u>862,121</u>	<u>238,540</u>	<u>789,110</u>
Disaster:				
Other services and charges	30,000	9,998		-
Total	<u>30,000</u>	<u>9,998</u>	<u>20,002</u>	<u>-</u>
Engineering services:				
Personnel services		159,002		-
Other services and charges		81,436		-
Reimbursement from enterprise funds		(247,372)		-
Total	<u>106,016</u>	<u>(6,934)</u>	<u>112,950</u>	<u>-</u>
Total general government	<u>\$ 4,048,922</u>	<u>\$ 3,178,752</u>	<u>\$ 870,170</u>	<u>\$ 3,502,519</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual – General Fund (continued)
Year Ended June 30, 2025 (with Comparative Actual Amounts for 2024)

	2025			2024
	Budget	Actual	Variance Positive (Negative)	Actual
Public safety				
Police department:				
Personnel services	\$	\$ 3,844,614	\$	\$ 3,587,611
Other services and charges		546,972		364,748
Capital outlay		99,397		374,556
Debt service payments		-		48,077
Total	<u>4,968,187</u>	<u>4,490,983</u>	<u>477,204</u>	<u>4,374,992</u>
Safety:				
Personnel services		139,992		131,000
Other services and charges		450,721		397,614
Capital outlay		-		32,826
Reimbursement from enterprise funds		(307,171)		(291,949)
Total	<u>312,383</u>	<u>283,542</u>	<u>28,841</u>	<u>269,491</u>
Fire protection:				
Other services and charges		1,938,634		1,751,022
Total	<u>1,942,335</u>	<u>1,938,634</u>	<u>3,701</u>	<u>1,751,022</u>
Total public safety	<u>7,222,905</u>	<u>6,713,159</u>	<u>509,746</u>	<u>6,395,505</u>
Transportation:				
Fleet maintenance:				
Personnel services		388,128		361,427
Other services and charges		194,035		160,147
Capital outlay		34,115		-
Debt service payments		36,927		75,189
Reimbursement from enterprise funds		(318,108)		(318,108)
Total	<u>462,876</u>	<u>335,097</u>	<u>127,779</u>	<u>278,655</u>
Street department/Powell Bill:				
Personnel services		333,239		277,833
Other services and charges		363,743		242,685
Capital outlay		794,827		993,110
Total	<u>1,783,476</u>	<u>1,491,809</u>	<u>291,667</u>	<u>1,513,628</u>
Total transportation	<u>2,246,352</u>	<u>1,826,906</u>	<u>419,446</u>	<u>1,792,283</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual – General Fund (continued)
Year Ended June 30, 2025 (with Comparative Actual Amounts for 2024)

	2025			2024
	Budget	Actual	Variance Positive (Negative)	Actual
Environmental protection:				
Sanitation department:				
Personnel services	\$	\$ 439,308	\$	\$ 396,567
Other services and charges		215,788		227,158
Capital outlay		23,037		493,417
Debt service payments		62,617		62,617
Total	<u>1,201,958</u>	<u>740,750</u>	<u>461,208</u>	<u>1,179,759</u>
Cemetery:				
Other services and charges		4,119		15,648
Total	<u>15,985</u>	<u>4,119</u>	<u>11,866</u>	<u>15,648</u>
Total environmental protection	<u>1,217,943</u>	<u>744,869</u>	<u>473,074</u>	<u>1,195,407</u>
Economic and physical development:				
Tourism:				
Other services and charges		644,688		668,108
Total	<u>665,000</u>	<u>644,688</u>	<u>20,312</u>	<u>668,108</u>
Total economic and physical development	<u>665,000</u>	<u>644,688</u>	<u>20,312</u>	<u>668,108</u>
Community activities and projects:				
Other services and charges		281,733		115,907
Capital outlay		-		15,490
Debt service payments		47,227		69,500
Total community activities and projects	<u>570,129</u>	<u>328,960</u>	<u>241,169</u>	<u>200,897</u>
Parks and recreation:				
Personnel services		215,541		233,350
Other services and charges		449,235		423,539
Capital outlay		21,019		-
Debt service payments		-		1,478
Reimbursement from enterprise funds		(13,764)		(13,764)
Total parks and recreation	<u>790,366</u>	<u>672,031</u>	<u>118,335</u>	<u>644,603</u>
Total expenditures	<u>16,761,617</u>	<u>14,109,365</u>	<u>2,652,252</u>	<u>13,754,719</u>
Revenues over (under) expenditures	<u>(1,003,884)</u>	<u>2,937,823</u>	<u>(3,941,707)</u>	<u>2,563,093</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual – General Fund (continued)
Year Ended June 30, 2025 (with Comparative Actual Amounts for 2024)

	2025			2024
	Budget	Actual	Variance Positive (Negative)	Actual
Other financing sources (uses):				
Transfers (to) other funds:				
General Capital Projects Fund	\$ 1,707,759	\$ 1,707,759	\$ -	\$ 167,500
General Capital Projects Fund	(712,000)	(712,000)	-	(2,006,653)
Committed Funds Fund	(802,957)	(802,957)	-	(605,884)
General Capital Reserve Fund	(67,352)	(67,352)	-	(39,710)
Sale of capital assets	-	-	-	25,951
Total other financing sources (uses)	<u>125,450</u>	<u>125,450</u>	<u>-</u>	<u>(2,458,796)</u>
Appropriated fund balance	<u>878,434</u>	<u>-</u>	<u>(878,434)</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>\$ 3,063,273</u>	<u>3,063,273</u>	<u>\$ 104,297</u>
Fund balance, beginning		<u>14,327,716</u>		<u>14,223,419</u>
Fund balance, ending		<u>\$ 17,390,989</u>		<u>\$ 14,327,716</u>

Schedule 2

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual – Restricted Revenue Fund
From Inception and for the Year Ended June 30, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental	\$ 813,705	\$ 315,004	\$ 376,283	\$ 691,287	\$ (122,418)
Contributions and donations	93,655	103,134	520	103,654	9,999
Total revenues	907,360	418,138	376,803	794,941	(112,419)
Expenditures:					
Economic and physical development:					
Current:					
General government:					
Administration	4,610	-	-	-	4,610
Transportation:					
Streets	73,331	-	-	-	73,331
Public safety:					
Police	57,238	19,825	13,612	33,437	23,801
Community activity and projects:					
Affordable housing projects	64,970	64,970	-	64,970	-
Facility management	7,000	-	-	-	7,000
Information technology	98,145	-	14,000	14,000	84,145
Planning	621,600	313,440	144,000	457,440	164,160
Public space	466	-	-	-	466
Total expenditures	927,360	398,235	171,612	569,847	357,513
Revenues over (under) expenditures	(20,000)	19,903	205,191	225,094	245,094
Other financing sources (uses):					
Transfers from General Fund	20,000	20,000	-	20,000	-
Total other financing sources (uses)	20,000	20,000	-	20,000	-
Net change in fund balance	\$ -	\$ 39,903	205,191	\$ 245,094	\$ 245,094
Fund balance, beginning			<u>39,903</u>		
Fund balance, ending			<u><u>\$ 245,094</u></u>		

Town of Hillsborough, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2025

	<u>Special Revenue Fund</u>		<u>Total</u>
	Special		Nonmajor
	Assessment		Governmental
	District		Fund
	Fund		Fund
Assets:			
Due from other governments	\$ 11,205	\$	11,205
Restricted cash and investments	1,507,146	1,507,146	
Total assets	<u>\$ 1,518,351</u>	<u>\$</u>	<u>1,518,351</u>
Liabilities, deferred inflows of resources and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 337	\$	337
Due to other funds	39,050	39,050	
Total liabilities	<u>39,387</u>	<u>39,387</u>	
Fund balances:			
Restricted for:			
Community activities and projects	1,478,964	1,478,964	
Total fund balances	<u>1,478,964</u>	<u>1,478,964</u>	
Total liabilities and fund balances	<u>\$ 1,518,351</u>	<u>\$</u>	<u>1,518,351</u>

Town of Hillsborough, North Carolina
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2025

	<u>Special Revenue Fund</u>	
	Special Assessment District Fund	Total Nonmajor Governmental Fund
Revenues:		
Restricted intergovernmental	\$ 24,005	\$ 24,005
Total revenues	<u>24,005</u>	<u>24,005</u>
Expenditures:		
Current:		
Economic and physical development	-	-
Community activities and projects	<u>720</u>	<u>720</u>
Total expenditures	<u>720</u>	<u>720</u>
Revenues over (under) expenditures	<u>23,285</u>	<u>23,285</u>
Other financing sources (uses):		
Transfers from other funds	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Revenues and other sources over expenditures and other uses	23,285	23,285
Fund balance, beginning	1,455,679	1,455,679
Fund balance, ending	<u>\$ 1,478,964</u>	<u>\$ 1,478,964</u>

Schedule 5

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - Special Assessment District Fund
From Inception and for the Year Ended June 30, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted:					
Special assessment tax revenues	\$ 418,947	\$ 413,219	\$ 24,005	\$ 437,224	\$ 18,277
Regions Bank grant	1,158,999	1,158,999	-	1,158,999	-
Total revenues	<u>1,577,946</u>	<u>1,572,218</u>	<u>24,005</u>	<u>1,596,223</u>	<u>18,277</u>
Expenditures:					
Community activities and projects:					
Debt service payments	1,561,446	104,142	-	104,142	1,457,304
Collection fees	16,500	12,397	720	13,117	3,383
Total expenditures	<u>1,577,946</u>	<u>116,539</u>	<u>720</u>	<u>117,259</u>	<u>1,460,687</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 1,455,679</u>	<u>23,285</u>	<u>\$ 1,478,964</u>	<u>\$ 1,478,964</u>
Fund balance, beginning			1,455,679		
Fund balance, ending			<u>\$ 1,478,964</u>		

**Schedule 6
(2 pages)**

**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, 2025**

	Actual					Variance
	Project Authorization	Prior Years	Current Year	Closed Out Projects	Total to Date	Positive (Negative)
Revenues:						
Restricted intergovernmental:						
Transportation improvement						
Project ("TIP"):						
Transit tax	\$ 452,000	\$ 261,616	\$ 17,848	\$ -	\$ 279,464	\$ (172,536)
NCDOT grant	870,000	-	-	-	-	(870,000)
State TIP	6,914,000	51,180	-	-	51,180	(6,862,820)
Exchange Club Rd Bridge Project	126,447	-	-	-	-	(126,447)
NCDOT reimbursement Valley Forge	-	1,000,000	-	-	1,000,000	1,000,000
Investment earnings	-	-	2,871	-	2,871	2,871
Total revenues	8,362,447	1,312,796	20,719	-	1,333,515	(7,028,932)
Expenditures:						
General government:						
Connectivity projects	40,103	-	-	-	-	40,103
Fiber Loop Project	450,000	-	-	-	-	450,000
Public safety:						
Fire Station Project	750,000	-	-	-	-	750,000
Economic and physical development:						
Transportation improvement						
Project ("TIP"):	10,439,000	337,769	10,126	-	347,895	10,091,105
NC 86 Renovation Project	4,825,982	273,995	265,395	-	539,390	4,286,592
Exchange Club Rd Bridge Project	170,000	-	16,844	-	16,844	153,156
Community activities and projects:						
Ridgewalk Greenway	458,003	-	-	-	-	458,003
Skate Park Project	350,000	189,800	160,000	(350,000)	(200)	350,200
Total expenditures	17,483,088	801,564	452,365	(350,000)	903,929	16,579,159
Revenues over (under) expenditures	(9,120,641)	511,232	(431,646)	350,000	429,586	9,550,227
Other financing sources (uses):						
Transfer from General Fund:						
Connectivity Projects	40,103	40,103	-	-	40,103	-
Fiber Loop Project	450,000	400,000	50,000	-	450,000	-
Fire Station Project	750,000	450,000	300,000	-	750,000	-
Valley Forge Road Project	-	28,720	-	-	28,720	28,720
NC 86 Renovation Project	1,398,450	1,398,450	29,000	-	1,427,450	29,000
Exchange Club Rd Bridge Project	43,553	43,553	-	-	43,553	-
TIP	34,000	34,000	-	-	34,000	-
Rail Station	39,710	39,710	-	-	39,710	-
Ridgewalk	458,003	125,003	333,000	-	458,003	-
Skate Park	350,000	350,000	-	(350,000)	-	(350,000)

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Capital Projects (continued)
From Inception and for the Year Ended June 30, 2025

	Project Authorization	Prior Years	Actual Current Year	Closed Out Projects	Total to Date	Variance Positive (Negative)
Other financing sources (uses):						
(continued)						
Transfers from other funds:						
Rail Station Project - TIP	\$ 19,290	\$ 19,290	\$ -	\$ -	\$ 19,290	\$ -
Public Safety Building Project - to be reappropriated	1,090,332	61,613	-	-	61,613	(1,028,719)
Public Works Building Project - to be reappropriated	128,200	128,200	-	-	128,200	-
Transfer to General Fund:						
NC 86 Renovation Project	(1,200,668)	-	(1,200,668)	-	(1,200,668)	-
Proceeds from Installment Financing:						
Rail Station Project - TIP	2,110,000	-	-	-	-	(2,110,000)
NC 86 Renovation Project	3,409,668	-	3,535,000	-	3,535,000	125,332
Total other financing sources (uses)	<u>9,120,641</u>	<u>3,118,642</u>	<u>3,046,332</u>	<u>(350,000)</u>	<u>5,814,974</u>	<u>(3,305,667)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 3,629,874</u>	<u>2,614,686</u>	<u>\$ -</u>	<u>\$ 6,244,560</u>	<u>\$ 6,244,560</u>
Fund Balance						
Fund balance, beginning (General Capital Projects Fund)			<u>\$ 3,629,874</u>			
Fund balance, ending			6,244,560			
Amounts reported for Revenue, Expenditures and Changes in Fund Balance are different for the Budgeted/Actual Statement due to the consolidation of the Committed Funds and General Capital Reserve Funds						
Fund balance, beginning (Committed Funds & General Capital Reserve Funds)			1,390,472			
Transfers (to) from other funds			<u>363,218</u>			
Fund balance, ending (Consolidated General Capital Projects Fund)			<u>\$ 7,998,250</u>			

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Capital Reserve Fund
From Inception and for the Year Ended June 30, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive Positive (Negative)
Expenditures:					
General Government:					
Sustainability	\$ 565,000	\$ -	\$ -	\$ -	\$ 565,000
Public Safety:					
Waterstone Police	115,128	108,010	-	108,010	7,118
Total expenditures	<u>680,128</u>	<u>108,010</u>	<u>-</u>	<u>108,010</u>	<u>572,118</u>
Revenues over (under) expenditures	<u>(680,128)</u>	<u>(108,010)</u>	<u>-</u>	<u>(108,010)</u>	<u>572,118</u>
Other financing sources (uses):					
Transfer from other funds:					
General fund - General	115,128	115,128	-	115,128	-
General fund - Sustainability	620,000	620,000	-	620,000	-
General fund - Police	50,000	50,000	-	50,000	-
General fund - Streets	147,500	80,148	67,352	147,500	-
General fund - Solid Waste	144,822	144,822	-	144,822	-
Transfer to other funds:					
General fund - General	<u>(397,322)</u>	<u>(167,500)</u>	<u>(229,822)</u>	<u>(397,322)</u>	<u>-</u>
Total other financing sources (uses)	<u>680,128</u>	<u>842,598</u>	<u>(162,470)</u>	<u>680,128</u>	<u>-</u>
Revenues and other financing sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 734,588</u>	<u>(162,470)</u>	<u>\$ 572,118</u>	<u>\$ 572,118</u>
Fund balance, beginning			<u>734,588</u>		
Fund balance, ending			<u>\$ 572,118</u>		

Schedule 8

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual – Committed Funds Fund
From Inception and for the Year Ended June 30, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Other financing sources (uses):					
Transfers from (to) other funds:					
General Fund - Connectivity	\$ 40,000	\$ 20,000	\$ 20,000	\$ 40,000	\$ -
General Fund - Sustainability	647,000	327,000	320,000	647,000	-
General Fund - Police Station	50,000	50,000	-	50,000	-
General Fund - Affordable Housing	147,193	32,884	114,309	147,193	-
General Fund - Veh-Streets	94,648	81,000	13,648	94,648	-
General Fund - Veh-Solid Waste	480,000	145,000	335,000	480,000	-
General Capital Improvements	(50,000)	-	-	-	50,000
General Fund - Police Station	-	-	(50,000)	(50,000)	(50,000)
General Fund - Veh-Solid Waste	(480,000)	-	(227,269)	(227,269)	252,731
General Fund - Veh-Streets	(94,648)	-	-	-	94,648
General Fund - Sustainability	(647,000)	-	-	-	647,000
General Fund - Connectivity	(40,000)	-	-	-	40,000
General Fund - Affordable Housing	(147,193)	-	-	-	147,193
Total other financing sources (uses)	-	655,884	525,688	1,181,572	1,181,572
Net change in fund balance	\$ -	\$ 655,884	525,688	\$ 1,181,572	\$ 1,181,572
Fund balance, beginning			655,884		
Fund balance, ending			\$ 1,181,572		

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, 2025 (with Comparative Actual Amounts for 2024)

	2025			2024
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Operating revenues:				
Water charges	\$ 6,003,000	\$ 6,436,944	\$ 433,944	\$ 5,797,278
Sewer charges	5,948,000	6,537,562	589,562	5,785,707
System development fees	1,386,227	111,584	(1,274,643)	1,444,422
Other receipts	243,500	854,974	611,474	555,146
Total	13,580,727	13,941,064	360,337	13,582,553
Nonoperating revenues:				
Investment earnings	529,510	631,710	102,200	637,441
Total	529,510	631,710	102,200	637,441
Total revenues	14,110,237	14,572,774	462,537	14,219,994
Expenditures:				
Engineering:				
Personnel services	534,555	447,172	87,383	555,454
Other services and charges	4,124,974	3,185,067	939,907	2,915,773
Capital outlay	-	-	-	31,158
Total	4,659,529	3,632,239	1,027,290	3,502,385
Billing and collection:				
Personnel services	470,556	434,397	36,159	366,379
Other services and charges	414,803	337,778	77,025	432,034
Capital outlay	20,672	18,289	2,383	-
Debt service payments	39,126	39,126	-	39,125
Total	945,157	829,590	115,567	837,538
Water treatment plant:				
Personnel services	838,033	799,190	38,843	713,629
Other services and charges	430,559	382,146	48,413	548,891
Repairs and maintenance	434,426	404,802	29,624	93,625
Capital outlay	193,203	40,000	153,203	107,635
Debt service payments	80,279	80,277	2	82,305
Total	1,976,500	1,706,415	270,085	1,546,085
Water distribution:				
Personnel services	913,247	875,728	37,519	736,606
Other services and charges	480,000	383,384	96,616	298,147
Repairs and maintenance	101,671	80,658	21,013	77,066
Capital outlay	306,373	48,420	257,953	33,871
Debt service payments	94,122	94,122	-	94,122
Total	1,895,413	1,482,312	413,101	1,239,812

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Other Financing Sources
Budget and Actual (Non-GAAP) - Water and Sewer Fund (continued)
Year Ended June 30, 2025 (with Comparative Actual Amounts for 2024)

	2025			2024
	Budget	Actual	Variance Positive (Negative)	Actual
Expenditures (continued)				
Wastewater collection:				
Personnel services	\$ 751,333	\$ 680,479	\$ 70,854	\$ 523,617
Other services and charges	315,879	231,087	84,792	279,679
Repairs and maintenance	322,281	218,297	103,984	296,004
Capital outlay	616,570	197,800	418,770	308,133
Total	2,006,063	1,327,663	678,400	1,407,433
Wastewater treatment plant:				
Personnel services	822,735	786,011	36,724	747,872
Other services and charges	581,366	498,384	82,982	422,056
Repairs and maintenance	147,643	138,369	9,274	168,235
Capital outlay	95,900	49,430	46,470	-
Debt service payments	1,109,119	1,109,119	-	1,130,980
Total	2,756,763	2,581,313	175,450	2,469,143
Reservoir:				
Other services and charges	51,586	40,120	11,466	46,118
Repairs and maintenance	18,375	12,291	6,084	32,048
Debt service payments	839,960	362,672	477,288	320,086
Total	909,921	415,083	494,838	398,252
Total expenditures	15,149,346	11,974,615	3,174,731	11,400,648
Revenues over (under) expenditures	(1,039,109)	2,598,159	3,637,268	2,819,346
Other financing sources (uses):				
Transfer to Utilities Capital				
Improvements Fund	(636,231)	(636,231)	-	(4,056,317)
Transfer to Water System				
Development Reserve Fund	(1,315,149)	(1,315,149)	-	(82,348)
Transfer to Sewer System				
Development Reserve Fund	(1,373,747)	(1,373,747)	-	(59,405)
Transfer from Utilities Capital				
Improvements Fund	213,523	213,523	-	58,893
Transfer from ARPA Fund	-	-	-	2,022,647
Contributed capital assets	-	-	-	(2,005,942)
Capital contributions	-	-	-	2,005,942
Total other financing uses	(3,111,604)	(3,111,604)	-	(2,116,530)
Revenues and other sources				
over expenditures and other uses	(4,150,713)	(513,445)	3,637,268	702,816
Fund balance appropriated	4,150,713	-	4,150,713	-
Net change in fund balance	\$ -	\$ (513,445)	\$ (513,445)	702,816

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Other Financing Sources
Budget and Actual (Non-GAAP) - Water and Sewer Fund (continued)
Year Ended June 30, 2025 (with Comparative Actual Amounts for 2024)

	<u>2025</u>		<u>2024</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			<u>Actual</u>
Revenues and other sources over expenditures and other uses		\$ (513,445)	\$ 702,816
Reconciling items:			
Revenue activity:			
Investment earnings - enterprise capital projects		15,090	50,642
Investment earnings - enterprise capital reserves		390,878	427,009
Grant revenue - Utilities CIF Fund		266,682	-
Release of deferred revenue - ARPA Fund		-	2,071,265
Personnel activity:			
Pension expense - LGERS		(183,942)	(150,725)
OPEB expense		42,185	9,759
Payroll accrual - compensated absences		(7,938)	22,089
Capital outlay activity:			
Capital outlay		353,939	480,797
Depreciation		(2,210,544)	(2,186,637)
Gain (loss) on disposal of capital assets		(220)	211,499
Contributed capital		703,834	2,005,942
Noncapitalized expenditures - enterprise capital projects		(474,469)	(519,296)
Long-term debt activity:			
Payment of principal on notes, bonds and installment purchases		1,444,402	1,435,421
Interest expense accrual adjustment		6,500	6,500
Amortization of premium on bonds payable		55,935	56,123
Internal transfer activity:			
Transfer to water and sewer capital project and reserve funds		3,111,604	2,116,530
Total reconciling items		<u>3,513,936</u>	<u>6,036,918</u>
Change in net position		<u>\$ 3,000,491</u>	<u>\$ 6,739,734</u>

Schedule 10

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, 2025

		Actual				Variance
	Project	Prior	Current	Closed Out	Total to	Positive
	Authorization	Years	Year	Projects	Date	(Negative)
Revenues:						
Capital contributions:						
Grant - FEMA - BRIC	\$ 6,742,175	\$ -	\$ 266,682	\$ -	\$ 266,682	\$ (6,475,493)
Grant - NCEM - Disaster Relief & Mitigation	1,069,275	-	-	-	-	(1,069,275)
Grant - AIA	70,000	-	-	-	-	(70,000)
Total revenues	7,881,450	-	266,682	-	266,682	(7,614,768)
Expenditures:						
Capital outlay:						
Adron Thompson Facility renovation	7,295,600	107,713	347,016	-	454,729	6,840,871
River pump station	9,258,096	33,800	642,947	-	676,747	8,581,349
Wastewater system rehab	357,002	341,028	-	-	341,028	15,974
Gov Burke Rd water main replacement	50,000	-	37,950	-	37,950	12,050
Eno River interceptors	750,000	-	-	-	-	750,000
Starfield booster pump station	1,665,600	-	74,899	-	74,899	1,590,701
US-70 water improvements	305,000	27,340	2,660	-	30,000	275,000
Elizabeth Brady PS & force main upg	300,000	-	2,843	-	2,843	297,157
Exchange club interceptors	380,000	-	-	-	-	380,000
Air release valve replacement	150,000	68,900	-	-	68,900	81,100
Galvanized Water Main Replacement	160,000	-	-	-	-	160,000
Hydrant & valve project	487,647	-	-	-	-	487,647
McAdams road water main replacement	400,000	266,786	54,774	-	321,560	78,440
Lawndale basin rehabilitation	2,100,000	6,930	15,461	-	22,391	2,077,609
Hasell water tank replacement	115,000	28,824	10,676	-	39,500	75,500
WTP paving & curbing	90,000	57,012	3,000	-	60,012	29,988
Total expenditures	23,863,945	938,333	1,192,226	-	2,130,559	21,733,386
Revenues over (under) expenditures	(15,982,495)	(938,333)	(925,544)	-	(1,863,877)	14,118,618
Other financing sources (uses):						
Transfers from other funds:						
Water and Sewer Operating Fund	6,441,307	5,805,078	636,229	-	6,441,307	-
Water and Sewer Capital Reserve Fund	2,157,386	2,157,386	-	-	2,157,386	-
Water System Development Reserve Fund	683,812	683,812	-	-	683,812	-
Sewer System Development Reserve Fund	600,000	580,000	20,000	-	600,000	-
Transfers to other funds:						
Water and Sewer Operating Fund	(1,135,395)	(58,893)	(213,523)	-	(272,416)	862,979
Water System Development Reserve Fund	(381,375)	(381,375)	-	-	(381,375)	-
Proceeds from Installment Financing:	6,500,000	-	-	-	-	(6,500,000)
Proceeds from State Revolving Loan	1,116,760	-	-	-	-	(1,116,760)
Total other financing sources (uses)	15,982,495	8,786,008	442,706	-	9,228,714	(6,753,781)
Revenues and other sources over expenditures and other uses	\$ -	\$ 7,847,675	\$ (482,838)	\$ -	\$ 7,364,837	\$ 7,364,837

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, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Investment earnings	\$ 272,253	\$ 272,253	\$ 15,090	\$ 287,343	\$ 15,090
Total revenues	<u>272,253</u>	<u>272,253</u>	<u>15,090</u>	<u>287,343</u>	<u>15,090</u>
Expenditures:					
West Fork Eno Reservoir:					
Debt service payments	794,194	222,609	474,469	697,078	97,116
Total expenditures	<u>794,194</u>	<u>222,609</u>	<u>474,469</u>	<u>697,078</u>	<u>97,116</u>
Revenues over (under) expenditures	<u>(521,941)</u>	<u>49,644</u>	<u>(459,379)</u>	<u>(409,735)</u>	<u>112,206</u>
Other financing sources (uses):					
Transfer from other funds	521,941	521,941	-	521,941	-
Total other financing sources (uses)	<u>521,941</u>	<u>521,941</u>	<u>-</u>	<u>521,941</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>-</u>	<u>571,585</u>	<u>(459,379)</u>	<u>112,206</u>	<u>112,206</u>
Appropriated fund balance	-	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 571,585</u>	<u>\$ (459,379)</u>	<u>\$ 112,206</u>	<u>\$ 112,206</u>

Schedule 12

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, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Investment earnings	\$ 83,628	\$ 83,628	\$ -	\$ 83,628	\$ -
Total revenues	83,628	83,628	-	83,628	-
Expenditures:					
Design	120,690	120,690	-	120,690	-
Land acquisition	5,202	5,202	-	5,202	-
Construction administration	295,330	295,330	-	295,330	-
Construction	2,433,606	2,433,606	-	2,433,606	-
Miscellaneous	200,572	200,572	-	200,572	-
Debt service payments	299,228	296,687	2,113	298,800	428
Total expenditures	3,354,628	3,352,087	2,113	3,354,200	428
Revenues over (under) expenditures	(3,271,000)	(3,268,459)	(2,113)	(3,270,572)	428
Other financing sources (uses):					
Issuance of installment purchase agreement	3,271,000	3,271,000	-	3,271,000	-
Total other financing sources (uses)	3,271,000	3,271,000	-	3,271,000	-
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ 2,541	\$ (2,113)	\$ 428	\$ 428

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, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Capital contributions	\$ 1,066,190	\$ 1,066,190	\$ -	\$ 1,066,190	\$ -
Investment earnings	1,446,144	1,116,548	390,878	1,507,426	61,282
Total revenues	<u>2,512,334</u>	<u>2,182,738</u>	<u>390,878</u>	<u>2,573,616</u>	<u>61,282</u>
Revenues over (under) expenditures	<u>2,512,334</u>	<u>2,182,738</u>	<u>390,878</u>	<u>2,573,616</u>	<u>61,282</u>
Other financing sources (uses):					
Transfers from other funds:					
Water and Sewer Operating Fund	12,664,360	12,664,360	-	12,664,360	-
Transfers to other funds:					
Water and Sewer Operating Fund	(7,866,980)	(7,866,980)	-	(7,866,980)	-
Utility Capital Improvements Fund	(5,189,089)	(3,456,939)	-	(3,456,939)	1,732,150
Water System Development Reserve Fund	(1,106,017)	(1,106,017)	-	(1,106,017)	-
Sewer System Development Reserve Fund	(1,014,608)	(1,014,608)	-	(1,014,608)	-
Total other financing sources (uses)	<u>(2,512,334)</u>	<u>(780,184)</u>	<u>-</u>	<u>(780,184)</u>	<u>1,732,150</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 1,402,554</u>	<u>\$ 390,878</u>	<u>\$ 1,793,432</u>	<u>\$ 1,793,432</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - Water System Development Reserve Fund
From Inception and For the Year Ended June 30, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Other financing sources (uses):					
Transfers from other funds:					
Water and Sewer Capital Reserve Fund	\$ 1,106,017	\$ 1,106,017	\$ -	\$ 1,106,017	\$ -
Water and Sewer Operating Fund	1,590,655	928,403	1,315,149	2,243,552	652,897
Utility Capital Improvements Fund	381,375	381,375	-	381,375	-
Transfers to other funds:					
Utility Capital Improvements Fund -					
EDD water line	(259,404)	(259,404)	-	(259,404)	-
16" water connection	(465,000)	(465,000)	-	(465,000)	-
U.S. 70 Design	(381,613)	(275,000)	-	(275,000)	106,613
U.S. 70 Phase 1	(1,647,622)	-	-	-	1,647,622
Gov Burke Wtr Main	(149,408)	(149,408)	-	(149,408)	-
Water and Sewer Operating Fund - debt service	(175,000)	(175,000)	-	(175,000)	-
Total other financing sources (uses)	<u>-</u>	<u>1,091,983</u>	<u>1,315,149</u>	<u>2,407,132</u>	<u>2,407,132</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 1,091,983</u>	<u>\$ 1,315,149</u>	<u>\$ 2,407,132</u>	<u>\$ 2,407,132</u>

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP) - Sewer System Development Reserve Fund
From Inception and For the Year Ended June 30, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Other financing sources (uses):					
Transfers from other funds:					
Water and Sewer Operating Fund	\$ 2,407,673	\$ 1,716,127	\$ 1,373,747	\$ 3,089,874	\$ 682,201
Transfers to other funds:					
Utility Capital Improvements Fund -					
River pump upgrade project	(400,000)	(400,000)	-	(400,000)	-
Collection system rehab project	(2,007,673)	(180,000)	(20,000)	(200,000)	1,807,673
Total other financing sources (uses)	<u>-</u>	<u>1,136,127</u>	<u>1,353,747</u>	<u>2,489,874</u>	<u>2,489,874</u>
Revenues and other sources					
over expenditures and other uses	<u>\$ -</u>	<u>\$ 1,136,127</u>	<u>\$ 1,353,747</u>	<u>\$ 2,489,874</u>	<u>\$ 2,489,874</u>

Schedule 16

Town of Hillsborough, North Carolina
Schedule of Revenues, Expenditures, and Other Financing Uses
Budget and Actual (Non-GAAP) – Nonmajor Stormwater Fund
From Inception and For the Year Ended June 30, 2025

	2025			2024
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Operating revenues:				
Stormwater charges	\$ 835,100	\$ 879,385	\$ 44,285	\$ 756,872
Non-operating revenues:				
Investment earnings	27,558	51,371	23,813	47,850
Total	<u>862,658</u>	<u>930,756</u>	<u>68,098</u>	<u>804,722</u>
Total revenues	<u>862,658</u>	<u>930,756</u>	<u>68,098</u>	<u>804,722</u>
Expenditures:				
Operating expenditures:				
Personnel services	492,519	461,221	31,298	399,465
Other services and charges	417,379	303,954	113,425	246,578
Repairs and maintenance	190,350	57,018	133,332	102,172
Capital outlay	12,200	-	12,200	76,390
Total	<u>1,112,448</u>	<u>822,193</u>	<u>290,255</u>	<u>824,605</u>
Total expenditures	<u>1,112,448</u>	<u>822,193</u>	<u>290,255</u>	<u>824,605</u>
Revenues over (under) expenditures	(249,790)	108,563	358,353	(19,883)
Other financing sources (uses):				
Transfer to Stormwater				
Capital Improvements Fund	(100,000)	(75,000)	25,000	-
Total other financing uses	<u>(100,000)</u>	<u>(75,000)</u>	<u>25,000</u>	<u>-</u>
Fund balance appropriated	349,790	-	(349,790)	-
Net change in fund balance	<u>\$ -</u>	<u>33,563</u>	<u>\$ 33,563</u>	<u>(19,883)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Capital outlay		-		76,390
Depreciation expense		(80,636)		(76,734)
Payroll accrual - compensated absences		(9,630)		(1,806)
Pension expense - LGERS		(24,946)		(20,380)
OPEB expense		(2,925)		(356)
Stormwater capital projects funds:				
Transfer from Stormwater operating fund		75,000		-
Change in net position		<u>\$ (9,574)</u>		<u>\$ (42,769)</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, 2025

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Expenditures:					
Capital outlay:					
Elizabeth Brady Road					
Culvert Replacement	\$ 75,000	\$ -	\$ -	\$ -	\$ 75,000
Total expenditures	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Revenues over (under) expenditures	<u>(75,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Other financing sources (uses):					
Transfers from other funds:					
Stormwater operating fund	75,000	-	75,000	75,000	-
Total other financing sources (uses)	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>75,000</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>
Fund balance, beginning of year			<u>-</u>		
Fund balance, end of year			<u>\$ 75,000</u>		

Other Schedules

This section contains additional information on property taxes.

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

Schedule 18

Town of Hillsborough, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2025

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2024</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2025</u>
2024-2025		\$ 10,516,538	\$ 10,451,026	\$ 65,512
2023-2024	56,766	-	21,902	34,864
2022-2023	26,594	-	8,518	18,076
2021-2022	18,499	-	5,308	13,191
2020-2021	11,202	-	2,218	8,984
2019-2020	9,400	-	3,774	5,626
2018-2019	8,079	-	3,096	4,983
2017-2018	4,246	-	2,143	2,103
2016-2017	3,770	-	908	2,862
2015-2016	3,691	-	362	3,329
2014-2015	4,285	-	4,285	-
	<u>\$ 146,532</u>	<u>\$ -</u>	<u>\$ 10,503,540</u>	<u>159,530</u>

Less: allowance for uncollectible accounts - General Fund

(5,000)

Ad valorem taxes receivable - net

\$ 154,530

Reconciliation to revenues:

Ad valorem taxes - General Fund

\$ 10,474,657

Reconciling items:

Penalties and interest, net of discounts

(34,588)

Amount written off after 10 years

(1,739)

Refunds and other adjustments

65,210

Total collections and credits

\$ 10,503,540

Schedule 19

Town of Hillsborough, North Carolina
Analysis of Current Year Tax Levy
For the Year Ended June 30, 2025

	<u>Town-Wide Levy</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy					
Property taxed at current year's rate	\$ 1,560,950,577	0.607	\$ 9,474,970	\$ 9,474,970	\$ -
Registered motor vehicles	<u>157,666,392</u>		<u>1,041,568</u>	<u>-</u>	<u>957,035</u>
Total property valuation	<u><u>\$ 1,718,616,969</u></u>				
Net levy			10,516,538	9,474,970	957,035
Uncollected taxes at June 30, 2025			<u>65,512</u>	<u>65,512</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 10,451,026</u></u>	<u><u>\$ 9,409,458</u></u>	<u><u>\$ 957,035</u></u>
Current levy collection percentage			<u><u>99.38%</u></u>	<u><u>99.31%</u></u>	<u><u>100.00%</u></u>

Compliance Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, 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, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsborough, North Carolina, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprises the Town of Hillsborough's basic financial statements and have issued our report thereon dated December 4, 2025.

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

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Hillsborough's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Hillsborough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

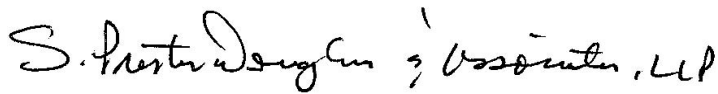
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hillsborough'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "S. Porter Douglas & Associates, LLP". The signature is written in a cursive, flowing style.

Ocean Isle Beach, North Carolina
December 4, 2025

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; In accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

Opinion on Each Major State Program

We have audited the Town of Hillsborough, North Carolina, compliance with the types of compliance requirements described in the OMB Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Hillsborough's major State programs for the year ended June 30, 2025. The Town of Hillsborough's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town of Hillsborough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2025.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report. We are required to be independent of the Town of Hillsborough and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on compliance for each major State program. Our audit does not provide a legal determination of the Town of Hillsborough's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Town of Hillsborough's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Town of Hillsborough's compliance with the requirements of each major State program as a whole.

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

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

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

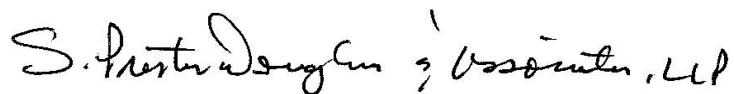
Report on Internal Control Over Compliance

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

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

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

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



Ocean Isle Beach, North Carolina
December 4, 2025

Town of Hillsborough, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2025

Section I. Summary of Auditor's Results
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Financial Statements

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ Yes <u> X </u> No
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ Yes <u> X </u> None reported
• Noncompliance material to financial statements	_____ Yes <u> X </u> No

State Awards

Internal control over major State programs	
• Material weakness(es) identified?	_____ Yes <u> X </u> No
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ Yes <u> X </u> None reported
Type of auditor's report issued on compliance for major State programs:	Unmodified.
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_____ Yes <u> X </u> No

Identification of major State programs:

Names of State Programs

- Powell Bill

Dollar threshold used to distinguish between Type A and Type B programs	\$ 500,000
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

Town of Hillsborough, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2025

Section II. Financial Statement Findings

None reported

Section III. State Award Findings and Questioned Costs

None reported

Schedule 20

**Town of Hillsborough, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2025**

Grantor/Pass-through Grant/Program Title	Federal Assistance Listing Number	Award Number/State Pass-through Grantor's Number	Federal (Direct Pass- through) Expenditures	State Expenditures
Federal Assistance:				
U.S. Department of Homeland Security				
Building Resilient Infrastructure and Communities (BRIC)	97.047		\$ 717,845	\$ -
Total federal assistance			717,845	-
State Assistance:				
N.C. Department of Transportation				
Direct Program:				
Powell Bill		32570	-	572,050
Total state assistance			-	572,050
Total assistance			\$ 717,845	\$ 572,050

Notes to the Schedule of Expenditures of Federal and State Awards:

Note 1: Basis of Presentation

The accompanying schedule of expenditures of Federal and State awards (SEFSA) includes the State grant activity of the Town of Hillsborough under the programs of the federal government and the State of North Carolina for the year ended June 30, 2025. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Hillsborough, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Hillsborough.

Note 2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

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