

Town of Hertford  
Financial Statements  
June 30, 2020



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June 30, 2020**

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Hertford, North Carolina, as of and for the year then ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Hertford's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Hertford ABC Board, which represents 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Hertford ABC Board, is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Hertford's ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order

to design audit procedures that are appropriate in the circumstances including, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

## **Opinions**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Hertford, North Carolina as of June 30, 2020, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 11, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 55 and 56, respectively, and 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 on pages 57 and 58, respectively, be presented to supplement the basic financial statements. Such information, 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 and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hertford's basic financial statements. The combining and individual fund financial statements and schedules, budgetary schedules and other schedules are

presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial schedules, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2021 on our consideration of the Town of Hertford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Hertford's internal control over financial reporting and compliance.

*Jeff Best, CPA, PLLC*  
Belhaven, North Carolina  
September 15, 2021

# Town of Hertford Management's Discussion and Analysis

As management of the Town of Hertford, we offer readers of the Town of Hertford's financial statements this narrative overview and analysis of the financial activities of the Town of Hertford for the fiscal year ended June 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

## **Financial Highlights**

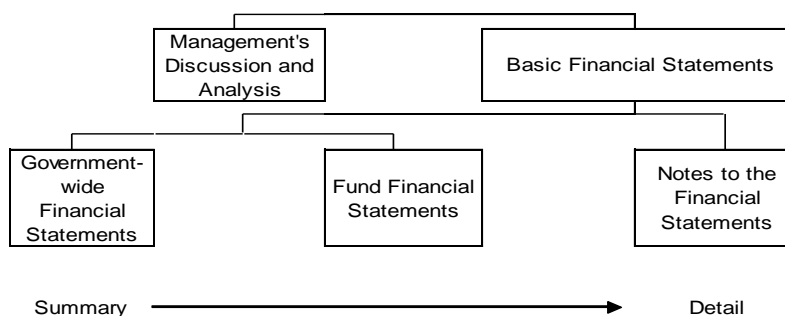
- The assets and deferred outflows of resources of the Town of Hertford exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,375,634 (*net position*).
- The government's total net position decreased by \$832,884, due to a prior period adjustment and a large decrease in governmental activities and a modest increase in business-type activities.
- As of the close of the current fiscal year, the Town of Hertford's governmental funds reported combined ending fund balances of \$1,126,687, with a net change of \$900,618 in fund balance. Approximately 38.67 percent of this total amount, or \$435,704, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$685,983 or 28.82% of total general fund expenditures for the fiscal year.
- The Town of Hertford's total debt decreased by \$570,199 (6.52%) during the current fiscal year. The key factor in this decrease was due to principal payments on long-term debt.

## **Overview of the Financial Statements**

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

### **Required Components of Annual Financial Report**

**Figure 1**



### **Basic Financial Statements**

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

The next statements (Exhibits 3 through 9) 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 three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

### **Government-Wide Financial Analysis**

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town 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 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, transportation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer and electric services offered by the Town of Hertford. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

The government-wide financial statements are on Exhibits 1 and 2 of this report.



### **Fund Financial Statements**

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Hertford, like all other governmental entities in North Carolina, 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 Hertford can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* 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 him or her 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 Hertford 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 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.

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

## Town of Hertford Management's Discussion and Analysis

**Notes to the financial statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 23-54 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 of Hertford's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 55 of this report.

**Interdependence with Other Entities:** The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

### **Government-Wide Financial Analysis**

**Town of Hertford's Net Position  
Figure 2**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 1,505,048	\$ 2,142,231	\$ 2,021,478	\$ 2,165,191	\$ 3,526,526	\$ 4,307,422
Noncurrent assets	-	-	225,000	240,000	225,000	240,000
Capital assets	1,717,931	1,739,382	12,739,901	12,871,485	14,457,832	14,610,867
Deferred outflows of assets	118,641	169,743	84,106	116,220	202,747	285,963
Total assets and deferred outflows of resources	3,341,620	4,051,356	15,070,485	15,392,896	18,412,105	19,444,252
Other liabilities	354,802	101,473	824,333	731,069	1,179,135	832,542
Long-term liabilities	805,897	923,201	6,914,585	7,359,448	7,720,482	8,282,649
Deferred inflows of resources	119,458	114,462	17,396	6,081	136,854	120,543
Total liabilities and deferred inflows of resources	1,280,157	1,139,136	7,756,314	8,096,598	9,036,471	9,235,734
Net position:						
Net investment in capital assets	1,066,776	1,026,982	5,540,789	5,275,868	6,607,565	6,302,850
Restricted	435,704	545,444	-	-	435,704	545,444
Unrestricted	558,983	1,339,794	1,773,382	2,020,430	2,332,365	3,360,224
Total net position	\$ 2,061,463	\$ 2,912,220	\$ 7,314,171	\$ 7,296,298	\$ 9,375,634	\$ 10,208,518

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Hertford exceeded liabilities and deferred inflows by \$9,375,634 as of June 30, 2020. The Town's net position decreased by \$832,884 for the fiscal year ended June 30, 2020. However, the largest portion, 70.48%, reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Hertford uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Hertford's net investment in 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

## Town of Hertford Management's Discussion and Analysis

of the Town of Hertford's net position, \$435,704 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,332,365 is unrestricted.

One particular aspect of the Town's financial operations influenced the total unrestricted governmental net position:

- The tax collection percentage of 95.46% has increased over last year's collection rate of 95.06%. The statewide average is 98.78% but the Town's current rate is comparable to other small towns.

**Town of Hertford Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 334,292	\$ 265,783	\$ 4,276,416	\$ 4,468,738	\$ 4,610,708	\$ 4,734,521
Operating grants and contributions	163,273	147,751	-	-	163,273	147,751
Capital grants and contributions	-	-	509,675	97,167	509,675	97,167
General revenues:						
Property taxes	604,558	604,017	-	-	604,558	604,017
Other taxes	669,405	635,467	-	-	669,405	635,467
Unrestricted investment earnings	940	2,241	225	59	1,165	2,300
Miscellaneous	6,094	11,800	-	5,551	6,094	17,351
<b>Total revenues</b>	<b>1,778,562</b>	<b>1,667,059</b>	<b>4,786,316</b>	<b>4,571,515</b>	<b>6,564,878</b>	<b>6,238,574</b>
<b>Expenses:</b>						
General government	558,894	332,787	-	-	558,894	332,787
Public safety	1,149,175	762,495	-	-	1,149,175	762,495
Transportation	639,771	408,518	-	-	639,771	408,518
Economic and physical development	34,149	29,417	-	-	34,149	29,417
Environmental protection	145,206	142,707	-	-	145,206	142,707
Interest on long-term debt	24,028	27,334	-	-	24,028	27,334
Electric	-	-	2,886,300	2,929,281	2,886,300	2,929,281
Water and Sewer	-	-	1,792,115	1,794,088	1,792,115	1,794,088
<b>Total expenses</b>	<b>2,551,223</b>	<b>1,703,258</b>	<b>4,678,415</b>	<b>4,723,369</b>	<b>7,229,638</b>	<b>6,426,627</b>
Increase (decrease) in net position before transfers	(772,661)	(36,199)	107,901	(151,854)	(664,760)	(188,053)
Transfers	90,028	84,000	(90,028)	(84,000)	-	-
Increase (decrease) in net position	(682,633)	47,801	17,873	(235,854)	(664,760)	(188,053)
<b>Net position, July 1</b>	<b>2,912,220</b>	<b>2,864,419</b>	<b>7,296,298</b>	<b>7,532,152</b>	<b>10,208,518</b>	<b>10,396,571</b>
Net position, beginning, restated	2,744,096	-	-	-	2,744,096	-
<b>Net position, June 30</b>	<b>\$ 2,061,463</b>	<b>\$ 2,912,220</b>	<b>\$ 7,314,171</b>	<b>\$ 7,296,298</b>	<b>\$ 9,375,634</b>	<b>\$ 10,208,518</b>

**Governmental activities:** Governmental activities decreased the Town net position by \$832,884, after transfers. Key elements of this increase are as follows:

- Capital grants and revenues increased significantly from the prior year primarily due to a state grant for sewer improvements.
- The Town used Powell Bill funds from prior years to rebuild and resurface portions of King Street.

## Town of Hertford Management's Discussion and Analysis

- Town staff continues to be proactive and conservative in spending due to the slow economic turn-around in the region and the effects of Covid-19.
- Expenditures were higher for the current year because of an increase in police salaries and wages for vacancies during the year.

**Business-type activities:** Business-type activities increased the Town of Hertford's net assets by \$17,873, after transfers. The key element of this increase are as follows:

- Expenditures were decreased as a result of normal operation.

### Financial Analysis of the Town's Funds

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

**Governmental Funds.** The focus of the Town of Hertford'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 of Hertford's financing requirements.

The general fund is the chief operating fund of the Town of Hertford. At the end of the current fiscal year, Town of Hertford's unassigned fund balance in the general fund was \$685,983, while total fund balance reached 1,126,687. The Governing Body of Town of Hertford has determined that the Town should maintain an unassigned fund balance of 20% 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 an unassigned fund balance of 28.82% of general fund expenditures, while total fund balance represents 47.12% of the same amount.

At June 30, 2020, the governmental funds of Town of Hertford reported a combined fund balance of \$1,126,687, a 44.42% decrease over last year.

**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 amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were more than the budgeted amounts primarily due to unrestricted intergovernmental revenues.

**Proprietary Funds.** The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Electric Fund at the end of the fiscal year amounted to \$1,139,864, and those for the Water and Sewer Fund amounted to \$633,518. The total change in net position for each fund was \$ (1,828) and \$19,701

## Town of Hertford Management's Discussion and Analysis

respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

### Capital Asset and Debt Administration

**Capital assets.** The Town of Hertford's investment in capital assets for its governmental and business-type activities as of June 30, 2020 totals \$14,457,832 (net of accumulated depreciation). These assets include land, buildings and systems, machinery and equipment, park facilities, vehicles, and construction in progress.

**Town of Hertford's Capital Assets  
(Net of Depreciation)  
Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 407,205	\$ 407,205	\$ 379,893	\$ 379,893	\$ 787,098	\$ 787,098
Buildings and systems	208,264	221,689	12,360,008	12,434,305	12,568,272	12,655,994
Machinery and equipment	112,989	23,076	-	-	112,989	23,076
Improvements	522,639	569,915	-	-	522,639	569,915
Vehicles	420,474	509,697	-	-	420,474	509,697
Construction in progress	46,360	7,800	-	57,287	46,360	65,087
<b>Total</b>	<b>\$ 1,717,931</b>	<b>\$ 1,739,382</b>	<b>\$ 12,739,901</b>	<b>\$ 12,871,485</b>	<b>\$ 14,457,832</b>	<b>\$ 14,610,867</b>

Additional information on the Town capital assets can be found in Note III.A.4. of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2020, the Town of Hertford had total debt outstanding of \$8,178,017.

**Town of Hertford's Outstanding Debt  
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Installment purchases	\$ 651,155	\$ 712,400	\$ 392,334	\$ 412,562	\$ 1,043,489	\$ 1,124,962
General obligation bonds	-	-	4,134,000	4,213,000	4,134,000	4,213,000
Revolving Loans	-	-	2,672,778	2,970,055	2,672,778	2,970,055
Net pension liability (LGERS)	125,909	199,633	96,388	146,018	222,297	345,651
Net pension liability (LEO)	46,902	58,218	-	-	46,902	58,218
Compensated absences	33,829	18,363	24,722	17,967	58,551	36,330
<b>Total</b>	<b>\$ 857,795</b>	<b>\$ 988,614</b>	<b>\$ 7,320,222</b>	<b>\$ 7,759,602</b>	<b>\$ 8,178,017</b>	<b>\$ 8,748,216</b>

The Town of Hertford's total debt decreased by \$570,199 (6.52%) during the past fiscal year, primarily due to principal payments on prior debt.

## Town of Hertford Management's Discussion and Analysis

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Hertford is \$9,364,198.

Additional information regarding the Town of Hertford's long-term debt can be found in Note II.B.6., beginning on page 47 of this report.

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

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

- Occupancy rates on office and retail space has increased in spite of Covid-19. The projected trend looks favorable with the addition of an assisted living facility, a dialysis medical facility, a steel manufacturer, and many retail stores opening.
- The population has been stable and will trend stable for the next year, with very small increases to the Census Certified population.
- The Perquimans Commerce Center, which is located within the Town limits, is attracting commercial growth. Several new businesses have recently shown interest in sitting at the Commerce Center area. Economic Developers with ElectriCities continue to actively market the Marine Commerce Center portion of the park at trade shows.
- Next year's budget is strategically aiming to rebuild the fund balance.
- Water and sewer rates are reviewed each budget processing period to be aligned with the 5-year rate study.

### **Budget Highlights for the Fiscal Year Ending June 30, 2021**

**Governmental Activities:** This year's budget was projected to be very similar to last year. The Town Management and Staff have made a concentrated effort to reduce expenditures.

**Business-type Activities:** The water and sewer rates are set on a 5-year plan created by NC Rural Water with an annual increase.

### **Requests for Information**

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Hertford, Post Office Box 32, Hertford, NC 27944. You can also call (252) 426-1969, visit the Town website at [townofhertfordnc.com](http://townofhertfordnc.com) or send an email to the Town Manager at [manager@townofhertfordnc.com](mailto:manager@townofhertfordnc.com).

**Town of Hertford**  
**Statement of Net Position**  
**June 30, 2020**  
**Exhibit 1**

	Primary Government			Town of Hertford ABC Board
	Governmental Activities	Business- type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 989,177	\$ 662,176	\$ 1,651,353	\$ 79,095
Taxes receivables (net)	75,167	-	75,167	-
Receivables (net)	11,073	650,122	661,195	-
Internal balances	(69,950)	69,950	-	-
Due from other governments	197,182	-	197,182	-
Grants receivable	-	509,675	509,675	-
Due from component unit	141,795	-	141,795	-
Inventories	-	-	-	167,161
Prepaid items	-	-	-	5,276
Restricted cash and cash equivalents	160,604	129,555	290,159	-
<b>Total current assets</b>	<b>1,505,048</b>	<b>2,021,478</b>	<b>3,526,526</b>	<b>251,532</b>
Noncurrent assets:				
Note receivable - Winfall settlement	-	225,000	225,000	-
Capital assets (Note 3):				
Land and construction in progress	453,565	379,893	833,458	5,472
Other capital assets, net of depreciation	1,264,366	12,360,008	13,624,374	144,211
<b>Total capital assets</b>	<b>1,717,931</b>	<b>12,739,901</b>	<b>14,457,832</b>	<b>149,683</b>
<b>Total noncurrent assets</b>	<b>1,717,931</b>	<b>12,964,901</b>	<b>14,682,832</b>	<b>149,683</b>
<b>Total assets</b>	<b>3,222,979</b>	<b>14,986,379</b>	<b>18,209,358</b>	<b>401,215</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension deferrals	118,641	84,106	202,747	22,191
<b>Total deferred outflows of resources</b>	<b>118,641</b>	<b>84,106</b>	<b>202,747</b>	<b>22,191</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	302,904	221,537	524,441	72,746
Due to primary government	-	-	-	141,795
Current portion of long-term liabilities	51,898	405,637	457,535	14,306
Payable from restricted assets	-	67,604	67,604	-
Customer deposits	-	129,555	129,555	-
<b>Total current liabilities</b>	<b>354,802</b>	<b>824,333</b>	<b>1,179,135</b>	<b>228,847</b>
Long-term liabilities:				
Due in more than one year	805,897	6,914,585	7,720,482	117,591
<b>Total liabilities</b>	<b>1,160,699</b>	<b>7,738,918</b>	<b>8,899,617</b>	<b>346,438</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Prepaid taxes	290	-	290	-
Pension deferrals	119,168	17,396	136,564	-
<b>Total deferred inflows of resources</b>	<b>119,458</b>	<b>17,396</b>	<b>136,854</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	1,066,776	5,540,789	6,607,565	33,079
Restricted for:				
Stabilization by State Statute	280,100	-	280,100	-
Streets - Powell Bill	71,179	-	71,179	-
Pursuant to loan requirements	84,425	-	84,425	-
Other functions	-	-	-	40,074
Unrestricted	558,983	1,773,382	2,332,365	3,815
<b>Total net position</b>	<b>\$ 2,061,463</b>	<b>\$ 7,314,171</b>	<b>\$ 9,375,634</b>	<b>\$ 76,968</b>

*The accompanying notes are an integral part of these financial statements.*

**Town of Hertford  
Statement of Activities  
For the Fiscal Year Ended June 30, 2020  
Exhibit 2**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Town of Hertford ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 558,894	\$ 334,292	\$ -	\$ -	\$ (224,602)	\$ -	\$ (224,602)	\$ -
Public safety	1,149,175	-	102,128	-	(1,047,047)	-	(1,047,047)	-
Transportation	639,771	-	61,145	-	(578,626)	-	(578,626)	-
Economic and physical development	34,149	-	-	-	(34,149)	-	(34,149)	-
Environmental protection	145,206	-	-	-	(145,206)	-	(145,206)	-
Interest on long-term debt	24,028	-	-	-	(24,028)	-	(24,028)	-
Total governmental activities (See Note 1)	2,551,223	334,292	163,273	-	(2,053,658)	-	(2,053,658)	-
Business-type activities:								
Electric	2,886,300	2,968,459	-	-	-	82,159	82,159	-
Water and sewer	1,792,115	1,307,957	-	509,675	-	25,517	25,517	-
Total business-type activities	4,678,415	4,276,416	-	509,675	-	107,676	107,676	-
Total primary government	\$ 7,229,638	\$ 4,610,708	\$ 163,273	\$ 509,675	(2,053,658)	107,676	(1,945,982)	-
Component Unit:								
ABC Board	\$ 963,637	\$ 1,041,923	\$ -	\$ -	-	-	-	78,286
Total component unit	\$ 963,637	\$ 1,041,923	\$ -	\$ -	-	-	-	78,286
General revenues:								
Taxes:								
Property taxes, levied for general purpose					604,558	-	604,558	-
Other taxes					669,405	-	669,405	-
Unrestricted investment earnings					940	225	1,165	-
Miscellaneous					6,094	-	6,094	952
Profit distributions					-	-	-	(79,238)
Total general revenues not including transfers					1,280,997	225	1,281,222	(78,286)
Transfers					90,028	(90,028)	-	-
Total general revenues and transfers					1,371,025	(89,803)	1,281,222	(78,286)
Change in net position					(682,633)	17,873	(664,760)	-
Net position, beginning					2,912,220	7,296,298	10,208,518	76,968
Prior period adjustment					(168,124)	-	(168,124)	-
Net position, beginning, restated					2,744,096	7,296,298	10,040,394	76,968
Net position, ending					\$ 2,061,463	\$ 7,314,171	\$ 9,375,634	\$ 76,968

*The accompanying notes are an integral part of these financial statements.*



**Town of Hertford**  
**Balance Sheet – Governmental Funds**  
**June 30, 2020**  
**Exhibit 3**

	Major Funds		Total Governmental Funds
	General Fund	King Street Resurface	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 979,087	\$ 10,090	\$ 989,177
Receivables (net):			
Taxes	75,167	-	75,167
Accounts	11,073	-	11,073
Due from other governments	197,182	-	197,182
Due from other funds	(69,950)	-	(69,950)
Due from component unit	141,795	-	141,795
Restricted cash and cash equivalents	155,604	5,000	160,604
Total assets	1,489,958	15,090	1,505,048
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	292,814	10,090	302,904
Total liabilities	292,814	10,090	302,904
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	290	-	290
Property tax receivable	75,167	-	75,167
Total deferred inflows of resources	75,457	-	75,457
<b>FUND BALANCES</b>			
Restricted			
Stabilization by State Statute	280,100	-	280,100
Streets - Powell Bill	71,179	-	71,179
Pursuant to loan requirements	84,425	-	84,425
Assigned			
Subsequent years' expenditures	-	5,000	5,000
Unassigned	685,983	-	685,983
Total fund balances	1,121,687	5,000	1,126,687
Total liabilities, deferred inflow of resources, and fund balances	\$ 1,489,958	\$ 15,090	

*The accompanying notes are an integral part of these financial statements.*

**Town of Hertford**  
**Reconciliation of the Balance Sheet to the**  
**Statement of Net Position – Governmental Funds**  
**June 30, 2020**  
**Exhibit 3**

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

Total fund balance - governmental funds		\$ 1,126,687
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	4,976,934	
Accumulated depreciation	(3,259,003)	
Capital assets (net)		1,717,931
Net pension liability - LGERS		(125,909)
Net pension liability - LEOSSA		(46,902)
Deferred outflows of resources related to pensions are not reported in the funds		118,641
Earned revenues considered deferred inflows of resources in fund statements		75,167
Deferred inflows of resources related to pensions are not reported in the funds		(119,168)
Other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		(684,984)
Net position of governmental activities		\$ 2,061,463

*The accompanying notes are an integral part of these financial statements.*

**Town of Hertford**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balance - Governmental Funds**  
**For the Fiscal Year Ended June 30, 2020**  
**Exhibit 4**

	Major Funds		Total Governmental Funds
	General Fund	King Street Resurface	
<b>REVENUES</b>			
Ad Valorem taxes	\$ 607,967	\$ -	\$ 607,967
Other taxes and licenses	36,017	-	36,017
Unrestricted intergovernmental	724,648	-	724,648
Restricted intergovernmental	158,273	5,000	163,273
Sales and services	247,927	-	247,927
Investment earnings	940	-	940
Miscellaneous	1,199	-	1,199
Total revenues	1,776,971	5,000	1,781,971
<b>EXPENDITURES</b>			
Current:			
General government	661,778	-	661,778
Public safety	1,029,985	-	1,029,985
Transportation	433,030	210,035	643,065
Economic and physical development	25,186	-	25,186
Environmental protection	145,206	-	145,206
Debt Service:			
Principal	61,245	-	61,245
Interest	24,028	-	24,028
Total expenditures	2,380,458	210,035	2,590,493
Excess (deficiency) of revenues over expenditures	(603,487)	(205,035)	(808,522)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers (to) from other funds	(120,007)	210,035	90,028
Installment sale obligation forgiven	(14,000)	-	(14,000)
Total other financing sources (uses)	(134,007)	210,035	76,028
Net change in fund balance	(737,494)	5,000	(732,494)
Fund balances, beginning, as previously reported	2,027,305	-	2,027,305
Prior period adjustment	(168,124)	-	(168,124)
Fund balances, beginning, restated	1,859,181	-	1,859,181
Fund balances, ending	\$ 1,121,687	\$ 5,000	\$ 1,126,687

*The accompanying notes are an integral part of these financial statements.*

**Town of Hertford**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance to the Statement of Activities - Governmental Funds  
For the Fiscal Year Ended June 30, 2020**

**Exhibit 5**

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

Net changes in fund balances - total governmental funds	\$ (732,494)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>	
Capital outlay expenditures which were capitalized	252,862
Depreciation expense for governmental assets	(274,313)
Total	(21,451)
<p>Contributions to the pension plans in the current fiscal year are not included on the Statement of Activities.</p>	
Change in unavailable revenue for tax revenues	(3,409)
<p>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. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	
Principal payments on long-term debt	61,245
<p>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.</p>	
Compensated absences	(15,466)
Pension expense	(31,892)
Total	(47,358)
Total changes in net position of governmental activities	\$ (682,633)

*The accompanying notes are an integral part of these financial statements.*

**Town of Hertford**

**General Fund Statement of Revenues, Expenditures, and Change  
in Fund Balance – Budget to Actual  
For the Fiscal Year Ended June 30, 2020  
Exhibit 6**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Ad Valorem taxes	\$ 570,338	\$ 570,338	\$ 607,967	\$ 37,629
Other taxes and licenses	24,000	24,000	36,017	12,017
Unrestricted intergovernmental	591,637	573,173	724,648	151,475
Restricted intergovernmental	149,700	179,328	158,273	(21,055)
Sales and services	209,335	222,025	247,927	25,902
Investment earnings	500	500	940	440
Miscellaneous	11,000	11,000	1,199	(9,801)
Total revenues	1,556,510	1,580,364	1,776,971	196,607
<b>EXPENDITURES</b>				
Current:				
General government	855,275	825,530	661,778	163,752
Public safety	1,059,004	1,130,072	1,029,985	100,087
Transportation	390,023	496,325	433,030	63,295
Economic and physical development	23,855	27,565	25,186	2,379
Environmental protection	149,373	149,373	145,206	4,167
Debt Service:				
Principal	41,262	19,998	61,245	(41,247)
Interest	24,910	66,172	24,028	42,144
Total expenditures	2,543,702	2,715,035	2,380,458	334,577
Revenue over (under) expenditures	(987,192)	(1,134,671)	(603,487)	531,184
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to (from) other funds	84,000	84,000	(120,007)	(204,007)
Installment sale obligation forgiven	-	-	(14,000)	(14,000)
Total other financing sources (uses)	84,000	84,000	(134,007)	(218,007)
Fund balance appropriated	903,192	1,050,671	-	(1,050,671)
Net change in fund balance	\$ -	\$ -	(737,494)	\$ (737,494)
Fund balances, beginning, as previously reported			2,027,305	
Prior period adjustment			(168,124)	
Fund balances, beginning, restated			1,859,181	
Fund balances, ending			\$ 1,121,687	

*The accompanying notes are an integral part of these financial statements.*

**Town of Hertford**  
**Statement of Fund Net Position – Proprietary Funds**  
**June 30, 2020**  
**Exhibit 7**

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 359,369	\$ 302,807	\$ 662,176
Accounts receivables (net)	399,533	250,589	650,122
Due to (from) other funds	608,221	(538,271)	69,950
Grants receivable	-	509,675	509,675
Restricted cash and cash equivalents	129,555	-	129,555
<b>Total current assets</b>	<b>1,496,678</b>	<b>524,800</b>	<b>2,021,478</b>
Noncurrent assets:			
Note receivable - Winfall settlement	-	225,000	225,000
Capital assets:			
Land and other non-depreciable assets	-	379,893	379,893
Other capital assets (net)	491,165	11,868,843	12,360,008
<b>Capital assets (net)</b>	<b>491,165</b>	<b>12,248,736</b>	<b>12,739,901</b>
<b>Total noncurrent assets</b>	<b>491,165</b>	<b>12,473,736</b>	<b>12,964,901</b>
<b>Total assets</b>	<b>\$ 1,987,843</b>	<b>\$ 12,998,536</b>	<b>\$ 14,986,379</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	40,500	43,606	84,106
<b>Total deferred outflows of resources</b>	<b>40,500</b>	<b>43,606</b>	<b>84,106</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 201,693	\$ 19,844	\$ 221,537
Customer deposits	129,555	-	129,555
Compensated absences - current	2,819	3,362	6,181
Installment loan - current	10,089	10,089	20,178
Bonds payable - current	-	82,000	82,000
Liabilities payable from restricted assets:			
Accounts Payable	-	67,604	67,604
Revolving Loans	-	297,278	297,278
<b>Total current liabilities</b>	<b>344,156</b>	<b>480,177</b>	<b>824,333</b>
Noncurrent liabilities:			
Other noncurrent liabilities:			
Compensated absences - noncurrent	8,456	10,085	18,541
Net pension liability	46,414	49,974	96,388
Installment loan payable, net of current	186,078	186,078	372,156
Bonds payable, net of current	-	4,052,000	4,052,000
Revolving Loans, net of current	-	2,375,500	2,375,500
<b>Total noncurrent liabilities</b>	<b>240,948</b>	<b>6,673,637</b>	<b>6,914,585</b>
<b>Total liabilities</b>	<b>585,104</b>	<b>7,153,814</b>	<b>7,738,918</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	8,377	9,019	17,396
<b>Total deferred inflows of resources</b>	<b>8,377</b>	<b>9,019</b>	<b>17,396</b>
<b>Net Position</b>			
Net investment in capital assets	294,998	5,245,791	5,540,789
Unrestricted	1,139,864	633,518	1,773,382
<b>Total net position</b>	<b>\$ 1,434,862</b>	<b>\$ 5,879,309</b>	<b>\$ 7,314,171</b>

*The accompanying notes are an integral part of these financial statements.*

**Town of Hartford**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position – Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2020**  
**Exhibit 8**

	<b>Major Enterprise Funds</b>		
	Electric Fund	Water and Sewer Fund	Total
<b>Operating revenues:</b>			
Charges for services	\$ 2,967,420	\$ 1,198,698	\$ 4,166,118
Winfall charges	-	77,662	77,662
Water and sewer taps	-	31,597	31,597
Other operating revenues	1,039	-	1,039
<b>Total operating revenues</b>	<b>2,968,459</b>	<b>1,307,957</b>	<b>4,276,416</b>
<b>Operating expenses:</b>			
Salaries and employee benefits	355,170	384,457	739,627
Utilities	2,225,184	175,973	2,401,157
Supplies and other expenses	211,428	287,076	498,504
Depreciation	85,232	724,366	809,598
<b>Total operating expenses</b>	<b>2,877,014</b>	<b>1,571,872</b>	<b>4,448,886</b>
Operating income (loss)	91,445	(263,915)	(172,470)
<b>Nonoperating revenues (expenses):</b>			
Interest on investments	13	212	225
Interest and fees	(9,286)	(220,243)	(229,529)
<b>Total nonoperating revenues (expenses)</b>	<b>(9,273)</b>	<b>(220,031)</b>	<b>(229,304)</b>
Income (loss) before transfers	82,172	(483,946)	(401,774)
Capital contributions	-	509,675	509,675
Transfers to other funds	(84,000)	(6,028)	(90,028)
	(84,000)	503,647	419,647
Change in net position	(1,828)	19,701	17,873
Total net position, beginning	1,436,690	5,859,608	7,296,298
<b>Total net position, ending</b>	<b>\$ 1,434,862</b>	<b>\$ 5,879,309</b>	<b>\$ 7,314,171</b>

*The accompanying notes are an integral part of these financial statements.*

**Town of Hertford**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2020**  
**Exhibit 9**

	<b>Major Enterprise Funds</b>		
	Electric Fund	Water and Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 2,956,916	\$ 1,257,807	\$ 4,214,723
Cash paid for goods and services	(2,419,836)	(453,458)	(2,873,294)
Cash paid to employees for services	(358,202)	(380,871)	(739,073)
Customer deposits received (net)	(6,190)	-	(6,190)
Other operating revenues	1,039	-	1,039
Net cash provided (used) by operating activities	173,727	423,478	597,205
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Increase (decrease) in due to other funds	(492,585)	492,585	-
Transfers to other funds	(84,000)	(6,028)	(90,028)
Net cash provided (used) by noncapital financing activities	(576,585)	486,557	(90,028)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on long-term borrowings	(10,114)	(386,391)	(396,505)
Interest paid on long-term borrowings	(9,286)	(220,243)	(229,529)
Acquisition and construction of capital assets	(47,693)	(562,717)	(610,410)
Net cash provided (used) by capital and related financing activities	(67,093)	(1,169,351)	(1,236,444)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Principal received on note receivable	-	15,000	15,000
Interest on investments	13	212	225
Net cash provided (used) by investing activities	13	15,212	15,225
Net increase (decrease) in cash and cash equivalents	(469,938)	(244,104)	(714,042)
Balances, beginning	958,862	546,911	1,505,773
Balances, ending	\$ 488,924	\$ 302,807	\$ 791,731

*The accompanying notes are an integral part of these financial statements.*



**Town of Hertford**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2020**  
**Exhibit 9**

	<b>Major Enterprise Funds</b>		
	Electric Fund	Water and Sewer Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 91,445	\$ (263,915)	\$ (172,470)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	85,232	724,366	809,598
Change in assets and deferred outflows, and liabilities and deferred inflows of resources			
(Increase) decrease in accounts receivable	(10,504)	(50,150)	(60,654)
(Increase) decrease in deferred outflows of resources - pensions	18,220	13,894	32,114
Increase (decrease) in net pension liability	(27,361)	(22,269)	(49,630)
Increase (decrease) in deferred inflows of resources - pensions	5,305	6,010	11,315
Increase (decrease) in accounts payable and accrued liabilities	16,776	9,591	26,367
Increase (decrease) in customer deposits	(6,190)	-	(6,190)
Increase (decrease) in compensated absences	804	5,951	6,755
Total adjustments	82,282	687,393	769,675
Net cash provided (used) by operating activities	\$ 173,727	\$ 423,478	\$ 597,205

*The accompanying notes are an integral part of these financial statements.*

**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Hertford and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

***A. Reporting Entity***

The Town of Hertford is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

***Town of Hertford ABC Board***

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Hertford ABC Board, US 17 South, Hertford, NC 27944.

***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. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

## Town of Hertford Notes to the Financial Statements

*Fund Financial Statements:* The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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 non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental fund:

**General Fund.** The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are 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 public safety, street maintenance and construction, and sanitation services.

**King Street Resurface Project Fund.** This fund accounts for funds used to resurface King Street between S. Church Street and Edenton Road and between Edenton Road and E. Railroad Avenue.

The Town reports the following major enterprise funds:

**Electric Fund.** This fund is used to account for the Town's electric fund operations.

**Water and Sewer Fund.** This fund is used to account for the Town's water and sewer operations.

**Golden Leaf Foundation Grant FY 2018-117 Fund.** This fund accounts for grant funds used for the rehabilitation of the sewer system due to damage caused by Hurricane Matthew in October 2016. This fund is combined with the water and sewer fund for reporting purposes.

### ***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.

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary 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. Non-exchange 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

## Town of Hertford Notes to the Financial Statements

and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues 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 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. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as 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 current 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 the beer and wine 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 of Hertford because the tax is levied by Perquimans 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. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

***D. Budgetary Data***

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the King Street Resurface Program Fund and the Golden Leaf Foundation Grant FY 2018-117 Project Fund. The enterprise fund project is consolidated with the Water and Sewer Fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

***1. Deposits and Investments***

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

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest 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). The Town's and the ABC Board's investments are reported at fair. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool is measured at fair value. The NCCMT- Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2020, The Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

**2. Cash and Cash Equivalents**

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

**3. Restricted Assets**

The Town is required by the USDA to set aside ten percent (10%) of the current year's note payment as restricted cash in a separate account for ten years or until one payment has accrued or the note is paid out. For the fiscal year ended June 30, 2020, the Town has accumulated \$84,425 in this account and it is shown as restricted assets for 'USDA Reserve'. 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 it can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

**Governmental Activities:**

General Fund	
USDA Reserve	\$ 84,425
Streets - Powell Bill	71,179
Census grant	5,000
Total governmental activities	160,604

**Business-type Activities:**

Electric Fund	
Customer Deposits	129,555
Total business-type activities	129,555
Total restricted cash	\$ 290,159

**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 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2019. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

**5. Allowances for Doubtful Accounts**

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

**6. Inventory and Prepaid Items**

The inventories of the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventories of the ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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

**7. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2016 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2016 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Infrastructure	50 years
Buildings	30 years
Other improvements	25 years
Equipment and furniture	10 years
Automobiles	6 years
Computers	3 years

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

Buildings	20 years
Equipment and furniture	10 years
Automobiles	3-5 years
Computers	3 years

**8. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this

criterion, pension deferrals for the 2020 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category- prepaid taxes, property taxes receivable, and pension deferrals.

### **9. Long-Term Obligations**

In the government-wide financial statements, and 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, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond 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 bond premiums and discounts, as well as bond 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 or not withheld from the actual debt proceeds received or not, are reported as debt service expenditures.

### **10. Compensated Absences**

The vacation policies of the Town and the ABC Board provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds and the ABC Board, 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 in the government-wide financial statements.

Both the Town and the ABC Board's sick leave policies provide 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 the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any 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 are 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 two classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balance 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. The Town does not have any nonspendable fund balances for the governmental fund types.

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

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

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

*Restricted for USDA Reserve* – portion of fund balance that is restricted by revenue source for certain debt related expenditures.

## Town of Hertford Notes to the Financial Statements

*Committed Fund Balance* – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Hertford’s governing body (highest level of decision-making authority). The governing body 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. The Town does not have any committed fund balances for the governmental fund types.

*Assigned fund balance* – portion of fund balance that Town of Hertford intends to use for specific purposes.

*Subsequent year’s expenditures* – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation.

*Unassigned fund balance* – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town of Hertford 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 proceeds, federal funds, State funds, local non-town funds, 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 lastly 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 of Hertford has also 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 at least equal to or greater than 20% of budgeted expenditures. Any portion of the general fund balance in excess 20% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

### **12. Defined Benefit Cost-Sharing Plan**

For purposes of measuring the net pension liability (asset), 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 Employees’ 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 of Hertford’s employer contributions are recognized when due and the Town of Hertford 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.

**13. Subsequent Events – Date of Management Evaluation**

Management has evaluated subsequent events through September 15, 2021, the date on which the financial statements were available to be issued.

Subsequent to year end, and before the financial statements were issued, the North Carolina Office of the State Auditor performed an investigative audit on the Town. They issued their report dated August 2021. The results of this audit and the Town's responses can be found on the NC State Auditor's website. <https://www.auditor.nc.gov/EPSTWeb/reports/investigative/INV-2021-0330.pdf>

**NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

***Excess of Expenditures over Appropriations***

For the fiscal year ended June 30, 2020, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for transfers to other funds by \$204,007. This over-expenditure occurred because while the Town properly budgeted for the Powell Bill expenditures in the General Fund, they failed to amend the budget for transfers when it was determined a new fund was needed to account for those expenditures.

**NOTE III – DETAIL NOTES ON ALL FUNDS**

**A. Assets**

**1. Deposits**

All the deposits of the Town and the ABC 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 or the ABC Board's agents in these units' 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 and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest 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 ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for undercollateralization, 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

**Town of Hertford**  
**Notes to the Financial Statements**

verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2020, the Town's deposits had a carrying amount of \$1,939,948, and a bank balance of \$2,000,426. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$78,645 and the bank balance was \$79,544. All of the bank balance was covered by federal depository insurance. At June 30, 2020, the Town's petty cash fund totaled \$550 and the ABC Board's petty cash fund totaled \$450..

**2. Investments**

At June 30, 2020, the Town of Hertford had \$1,014 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAA by Standard and Poor's. The Town has no formal policy regarding credit risk of its investments.

**3. Receivables – Allowance for Doubtful Accounts**

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2020 are net of the following allowances for doubtful accounts:

<b>General Fund:</b>	
Taxes receivable	\$ 37,299
Accounts receivable	1,203
<hr/>	
Total General Fund	38,502
<b>Enterprise Funds</b>	
Electric Fund - accounts receivable	19,214
Water and Sewer Fund - accounts receivable	12,907
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Total Enterprise Funds	32,121
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Total	\$ 70,623
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**Town of Hertford**  
**Notes to the Financial Statements**

**4. Capital Assets**

**Primary Government.** Capital asset activity for the Primary Government for the year ended June 30, 2020 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 407,205	\$ -	\$ -	\$ 407,205
Construction in progress	7,800	38,560	-	46,360
Total capital assets not being depreciated	415,005	38,560	-	453,565
<b>Capital assets being depreciated:</b>				
Buildings	1,011,287	-	-	1,011,287
Equipment	370,443	100,118	-	470,561
Other Improvements	1,164,406	-	-	1,164,406
Vehicles and motorized equipment	1,762,931	114,184	-	1,877,115
Total capital assets being depreciated	4,309,067	214,302	-	4,523,369
<b>Less accumulated depreciation for:</b>				
Buildings	789,598	13,425	-	803,023
Equipment	347,367	10,205	-	357,572
Other Improvements	594,491	47,276	-	641,767
Vehicles and motorized equipment	1,253,234	203,407	-	1,456,641
Total accumulated depreciation	2,984,690	274,313	-	3,259,003
Total capital assets being depreciated, net	1,324,377			1,264,366
<b>Governmental activity capital assets, net</b>	<u>\$ 1,739,382</u>			<u>\$ 1,717,931</u>

Depreciation expense was charged to functions / programs of the primary government as follows:

General government	\$ 11,340
Public safety	190,320
Transportation	63,690
Cultural and recreational	8,963
<u>Total depreciation expense</u>	<u>\$ 274,313</u>

**Town of Hertford**  
**Notes to the Financial Statements**

	Beginning Balances	Increases	Decreases	Ending balances
<b>Business-type activities</b>				
<b>Electric fund</b>				
<b>Capital assets being depreciated:</b>				
Substation, lines, and other equipment	\$ 2,406,470	\$ -	\$ -	\$ 2,406,470
Equipment	286,052	-	-	286,052
Vehicles	218,211	47,693	-	265,904
Total capital assets being depreciated	2,910,733	47,693	-	2,958,426
<b>Less accumulated depreciation for:</b>				
Substation, lines, and other equipment	1,859,098	57,091	-	1,916,189
Equipment	360,022	10,850	-	370,872
Vehicles	162,909	17,291	-	180,200
Total accumulated depreciation	2,382,029	85,232	-	2,467,261
Total capital assets being depreciated, net	528,704			491,165
<b>Electric fund capital assets, net</b>	<u>528,704</u>			<u>491,165</u>
<b>Water and Sewer Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	379,893	-	-	379,893
Construction in progress	57,287	630,321	687,608	-
Total capital assets not being depreciated	437,180	630,321	687,608	379,893
<b>Capital assets being depreciated:</b>				
Building	1,700	-	-	1,700
Plant, distribution system, and other equipment	22,451,868	687,608	-	23,139,476
Equipment	483,459	-	-	483,459
Vehicles	33,069	-	-	33,069
Total capital assets being depreciated	22,970,096	687,608	-	23,657,704
<b>Less accumulated depreciation for:</b>				
Building	1,700	-	-	1,700
Plant, distribution system, and other equipment	10,565,814	721,265	-	11,287,079
Equipment	457,233	3,101	-	460,334
Vehicles	39,748	-	-	39,748
Total accumulated depreciation	11,064,495	724,366	-	11,788,861
Total capital assets being depreciated, net	11,905,601			11,868,843
<b>Water and sewer fund capital assets, net</b>	<u>12,342,781</u>			<u>12,248,736</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 12,871,485</u>			<u>\$ 12,739,901</u>

**Town of Hertford**  
**Notes to the Financial Statements**

**Discretely presented component units.** Activity for the ABC Board for the year ended June 30, 2020, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 5,472	\$ -	\$ -	\$ 5,472
Total capital assets not being depreciated	5,472	-	-	5,472
<b>Capital assets being depreciated:</b>				
Buildings	36,310	-	-	36,310
Furniture and equipment	242,806	2,760	-	245,566
Leasehold improvements	11,871	-	-	11,871
Total capital assets being depreciated	290,987	2,760	-	293,747
<b>Less accumulated depreciation for:</b>				
Buildings	36,310	-	-	36,310
Furniture and equipment	81,001	20,354	-	101,355
Leasehold improvements	11,871	-	-	11,871
Total accumulated depreciation	129,182	20,354	-	149,536
<b>ABC capital assets, net</b>	<u>\$ 167,277</u>			<u>\$ 149,683</u>

**B. Liabilities**

**1. Pension Plan Obligations**

*a. Local Governmental Employees' Retirement System*

*Plan Description.* The Town of Hertford and the ABC Board are participating employers 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 State 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 Comprehensive Annual Financing Report (CAFR) for the State of North Carolina. The State's CAFR 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, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*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

## Town of Hertford Notes to the Financial Statements

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 General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Hertford 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 of Hertford's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% for general employees and firefighters, 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 of Hertford were \$107,406 for the year ended June 30, 2020.

*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***

At June 30, 2020, the Town reported a liability of \$222,297 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of



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December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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. At June 30, 2019 (measurement date), the Town's proportion was 0.00814%, which was a decrease of 0.00643% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$90,918. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 38,063	\$ -
Changes of assumptions	36,231	-
Net difference between projected and actual earnings on pension plan investments	5,422	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	6,850	40,119
Town contributions subsequent to the measurement date	107,406	-
<b>Total</b>	<b>\$ 193,972</b>	<b>\$ 40,119</b>

\$107,406 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2021	\$ 30,121
2022	6,273
2023	12,117
2024	(2,064)
2025	-
Thereafter	-
<b>Total</b>	<b>\$ 46,447</b>

*Actuarial Assumptions.* The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Inflation	3.0 percent
Salary Increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 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, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

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

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The information above is based on 30-year expectations developed with the consulting actuary for the 2018 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town’s proportionate share of the net pension liability to changes in the discount rate.* The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of net pension liability (asset)	\$ 508,434	\$ 222,297	\$ (15,541)

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

*b. Law Enforcement Officers Special Separation Allowance*

*Plan Description*

The Town of Hertford 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

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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. At December 31, 2018, the Separation Allowance's membership consisted of:

Inactive members currently receiving benefits	-
Active plan members	3
Total	3

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.

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2018 valuation. The total pension liability in the December 31, 2018 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 7.35 percent, including inflation and productivity factor
Investment rate of return	3.26 percent

The discount rate is based on the yield of the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates are based on the MP-2015 Mortality tables with adjustments for mortality improvements.

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation

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Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

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

At June 30, 2020, the Town reported a total pension liability of \$46,902. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension revenue of \$18,655.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,130	\$ 92,926
Changes of assumptions	5,645	3,519
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ 8,775	\$ 96,445

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2021	\$ (22,044)
2022	(22,044)
2023	(21,713)
2024	(21,453)
2025	(416)
Thereafter	-
Total	\$ (87,670)

\$0 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

*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 3.26% percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate

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that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total Pension Liability	\$ 49,109	\$ 46,902	\$ 44,744

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

	<u>2020</u>
Beginning balance	\$ 58,218
Service cost	1,270
Interest on the total pension liability	2,119
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(15,531)
Changes of assumptions or other inputs	826
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	\$ 46,902

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the 5-year period ending December 31, 2014.

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

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

	LGERS	LEOSSA	Total
Pension (revenue) expense	\$ 90,918	\$ (18,655)	\$ 72,263
Pension liability	222,297	46,902	269,199
Proportionate share of the net pension liability	0.00814%	N/A	
 Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 38,063	\$ 3,130	\$ 41,193
Changes of assumptions	36,231	5,645	41,876
Net difference between projected and actual earnings on plan investments	5,422	-	5,422
Changes in proportion and differences between contributions and proportionate share of contributions	6,850	-	6,850
Benefit payments and administrative costs paid subsequent to the measurement date	107,406	-	107,406
 Deferred Inflows of Resources			
Differences between expected and actual experience	-	92,926	92,926
Changes of assumptions	-	3,519	3,519
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	40,119	-	40,119

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

*Plan Description.* The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code 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 may also make voluntary contributions to the plan. Contributions for the year ended June 30, 2020 were \$19,168 which consisted of \$15,994 from the Town and \$3,174 from the law enforcement officers. No amounts were forfeited.

*d. Supplemental Retirement Income Plan for General Employees*

*Plan Description.* The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

*Funding Policy.* The Town has elected to contribute each month an amount equal to 3.75% of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2020 were \$42,445, which consisted of \$31,826 from the Town and \$10,619 from the employees.

**2. Other Employment Benefit**

The Town has 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 service 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 will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. 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.



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**3. Deferred Outflows and Inflows of Resources**

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

Source	Amount
Differences between expected and actual experience	\$ 41,193
Changes of assumptions	41,876
Contributions to pension plan subsequent to the measurement date	107,406
Changes in proportion and differences between Town contributions and proportionate share of contributions	6,850
Net differences between projected and actual earnings on pension plan investments	5,422
Total	\$ 202,747

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

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes (General Fund)	\$ 290	\$ 290
Taxes receivables, less penalties (General Fund)	-	75,167
Differences between expected and actual experience	92,926	-
Changes of assumptions	3,519	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	40,119	-
Total	\$ 136,854	\$ 75,457

**4. 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 two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and worker's compensation coverage up to statutory limits. Employee health coverage up to a \$2 million lifetime limit is provided by Blue Cross & Blue Shield of North Carolina. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for worker's compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage

in any of the past three fiscal years.

The Town carries flood insurance through the North Carolina League of Municipalities Interlocal Risk Financing Fund. This flood insurance covers all of the Town's buildings except one. The Town is seeking flood insurance coverage for this one building through the National Flood Insurance Plan.

In accordance with G.S.159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The town clerk is bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$30,000 per occurrence.

Town of Hertford ABC Board 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 ABC Board has commercial property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage.

Claims have not exceeded coverage in any of the past three fiscal years and there have been no significant reduction in insurance coverage in the prior year.

#### ***5. Claims, Judgments and Contingent Liabilities***

The Town is involved in legal and regulatory matters arising in the ordinary course of operations. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management and the Town attorney that the resolution of outstanding matters will not have a material adverse effect on the financial position or results of operations of the Town.

#### ***6. Long-Term Obligations***

##### ***A. Installment Purchase***

*Serviced by the General Fund, Electric Fund, and Water and Sewer Fund*

In July 2002, the Town entered into an installment purchase contract to finance the purchase of a fire truck. The finance contract requires twenty annual payments of \$5,146, including interest. The interest rate is 4.75%. The balance at June 30, 2020 is \$14,053.

In October 2003, the Town entered into an installment purchase contract to finance the renovations of an ice plant. The finance contract requires annual payments of \$56,645, including interest, beginning September 2004. The interest rate is 4.25%. The debt will be repaid equally from the General Fund, the Electric Fund, and the Water and Sewer Fund. The balance at June 30, 2020 is \$588,501 (\$196,167 each fund).

In March 2008, the Town entered into an installment purchase contract to finance the purchase of a 2008 Freightliner Fire Truck. The finance contract requires 20 annual payments of \$10,632,

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including interest, beginning March 2009. The interest rate is 4.125%. The balance at June 30, 2020 is \$71,205.

In September 2016, the Town entered into a \$388,000 installment purchase contract to finance the purchase of an E-One Typhoon fire truck. The finance contract requires 20 annual payments of \$25,484, including interest, beginning September 2017. The interest rate is 2.750%. The balance at June 30, 2020 is \$342,325.

In December 2017, the Town entered into a \$37,200 installment purchase contract to finance the purchase of three Public Works vehicles. The finance contract requires 7 annual payments of \$6,028, including interest, beginning December 2018. The interest rate is 3.250%. The balance at June 30, 2020 is \$27,405.

The future minimum payments of the installment purchases as of June 30, 2020, including \$334,006 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 43,441	\$ 22,731	\$ 20,177	\$ 17,586	\$ 63,618	\$ 40,317
2022	45,069	21,102	21,103	16,661	66,172	37,763
2023	46,678	19,462	22,019	15,745	68,697	35,207
2024	43,261	17,764	22,975	14,789	66,236	32,553
2025	44,736	16,286	23,933	13,830	68,669	30,116
2026-2030	194,808	58,903	136,367	52,450	331,175	111,353
2031-2035	184,211	25,616	145,760	19,050	329,971	44,666
2036-2039	48,951	2,031	-	-	48,951	2,031
Total	\$ 651,155	\$ 183,895	\$ 392,334	\$ 150,111	\$ 1,043,489	\$ 334,006

***B. General Obligation Indebtedness***

The Town's general obligation bonds issued to finance the construction of facilities utilized in the operations of the Water and Sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due.

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Bonds payable at June 30, 2020 are comprised of the following individual issues:

\$2,961,000 2008 USDA-Water and Sewer serial bonds due in annual installments of \$104,500 to \$165,420 through June 2048, interest at 4.50%. Principal payments began in 2011.	\$ 2,565,000
\$1,063,000 2008 USDA-Water and Sewer serial bonds due in annual installments of \$32,318 to \$57,615 through June 2048, interest at 4.25%. Principal payments began in 2011.	916,000
\$772,000 2008 USDA-Water and Sewer serial bonds due in annual installments of \$22,005 to \$38,300 through June 2048, interest at 3.625%. Principal payments began in 2011.	653,000
<b>Total</b>	<b>\$ 4,134,000</b>

The future minimum payments of the general obligation indebtedness as of June 30, 2020, including \$2,990,478 of interest, are as follows:

Year Ending	General Obligation Indebtedness	
	Principal	Interest
2021	\$ 82,000	\$ 178,026
2022	86,000	174,504
2023	89,000	170,812
2024	94,000	166,989
2025	97,000	162,951
2026-2030	551,000	748,464
2031-2035	681,000	619,196
2036-2040	841,000	459,421
2041-2045	1,022,000	261,911
2046-2049	591,000	48,204
<b>Total</b>	<b>\$ 4,134,000</b>	<b>\$ 2,990,478</b>

**C. Revolving Loans**

The Town's revolving loans issued to finance the construction of facilities utilized in the operations of the Water and Sewer system are reported as long-term debt in the Water and Sewer Fund. All revolving loans are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due.

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Revolving loans payable at June 30, 2020 are comprised of the following individual issues:

\$3,000,000 - 2008 Sewer revolving loan due in annual installments of \$150,000 through May 2028, interest at 0.0%. Payments began in 2009.	\$ 1,200,000
\$375,908 - 2009 Sewer revolving loan due in annual installments of \$18,796 through May 2030, interest at 0.0%. Principal payments began in 2011.	187,954
\$2,441,165 - 2008 Drinking Water revolving loan due in annual installments of \$124,622 to \$241,933 through May 2030, interest at 2.10%. Principal payments began in 2011.	1,220,583
\$128,482 - 2008 Drinking Water revolving loan due in annual installments of \$6,559 to \$12,733 through May 2030, interest at 2.10%. Principal payments began in 2011.	64,241
Total	\$ 2,672,778

The future minimum payments of the revolving loans as of June 30, 2020, including \$148,397 of interest, are as follows:

Year Ending	Revolving Loans	
June 30	Principal	Interest
2021	\$ 297,278	\$ 26,981
2022	297,278	24,283
2023	297,278	21,585
2024	297,278	18,887
2025	297,278	16,188
2026-2030	1,186,388	40,473
Total	\$ 2,672,778	\$ 148,397

At June 30, 2020, Town of Hertford, North Carolina had a legal debt margin of \$9,364,198.

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**D. Changes in Long-Term Liabilities**

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020	Current Portion of Balance
<b>Governmental activities:</b>					
Installment purchases	\$ 712,400	\$ -	\$ 61,245	\$ 651,155	\$ 43,441
Compensated absences	18,363	15,466	-	33,829	8,457
Net pension liability (LGERS)	199,633	-	73,724	125,909	-
Total pension liability (LEOSSA)	58,218	-	11,316	46,902	-
<b>Governmental activity long-term liabilities</b>	<b>\$ 988,614</b>	<b>\$ 15,466</b>	<b>\$ 146,285</b>	<b>\$ 857,795</b>	<b>\$ 51,898</b>
<b>Business-type activities:</b>					
<u>Water and Sewer Fund:</u>					
Installment purchases	\$ 206,281	\$ -	\$ 10,114	\$ 196,167	\$ 10,089
General obligation bonds	4,213,000	-	79,000	4,134,000	82,000
Revolving loans	2,970,055	-	297,277	2,672,778	297,278
Compensated absences	7,496	5,951	-	13,447	3,362
Net pension liability (LGERS)	72,243	-	22,269	49,974	-
<b>Water and Sewer long-term liabilities</b>	<b>7,469,075</b>	<b>5,951</b>	<b>408,660</b>	<b>7,066,366</b>	<b>392,729</b>
<u>Electric Fund</u>					
Installment purchases	206,281	-	10,114	196,167	10,089
Compensated absences	10,471	804	-	11,275	2,819
Net pension liability (LGERS)	73,775	-	27,361	46,414	-
<b>Electric long-term liabilities</b>	<b>290,527</b>	<b>804</b>	<b>37,475</b>	<b>253,856</b>	<b>12,908</b>
<b>Business activity long-term liabilities</b>	<b>\$ 7,759,602</b>	<b>\$ 6,755</b>	<b>\$ 446,135</b>	<b>\$ 7,320,222</b>	<b>\$ 405,637</b>

Compensated absences typically have been liquidated in the General Fund.

**E. Restrictive Covenants**

The Town is required by the USDA to set aside ten percent (10%) of the current year's note payment as restricted cash in a separate account for ten years or until one payment has accrued or the note is paid out. For the fiscal year ended June 30, 2020, the Town has accumulated \$84,425 in this account and it is shown as restricted assets for "USDA Reserve."

**Town of Hertford**  
**Notes to the Financial Statements**

***F. Interfund Balances and Activity***

Balances due to/from other funds at June 30, 2020, consist of the following:

Due from the General Fund to the Electric Fund for general fund operations	\$ 75,639
Due to the General Fund from the Water and Sewer Fund for water and sewer operations	5,689
Due to the Electric Fund from the Water and Sewer Fund for Water / Sewer operations	39,997
Due to the Electric Fund from the Golden Leaf Foundation Grant FY2018-117 Fund for project construction expenses	492,585
<u>Total</u>	<u>\$ 613,910</u>

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to / from other funds at June 30, 2020, consist of the following:

From the Electric Fund to the General Fund for internal service reimbursement	\$ 84,000
From the Water and Sewer Fund to the General Fund for reimbursement of expenses	6,028
<u>Total</u>	<u>\$ 90,028</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs.

***G. Net Investment in Capital Assets***

	Governmental	Business-type
Capital assets	\$ 1,717,931	\$ 12,739,901
less: long-term debt	651,155	7,199,112
<u>Net Investment in capital assets</u>	<u>\$ 1,066,776</u>	<u>\$ 5,540,789</u>

**Town of Hertford**  
**Notes to the Financial Statements**

**H. Fund Balance**

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

Total fund balance - General	\$ 1,121,687
Less:	
Stabilization by State Statute	280,100
Streets - Powell Bill	71,179
Pursuant to loan requirements	84,425
Working Capital / Fund Balance Policy	476,092
<u>Remaining fund balance</u>	<u>\$ 209,891</u>

The Town of Hertford has adopted a minimum fund balance policy for the General Fund which instructs management to maintain an available fund balance of 20% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town.

**NOTE IV – JOINTLY GOVERNED ORGANIZATION**

The Town, in conjunction with twenty other local governments, is a member of the North Carolina Town Electric Agency (Electric Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The twenty-one members, who receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town's purchases of power for the fiscal year ended June 30, 2020, were \$2,225,184.

**NOTE V – RELATED ORGANIZATIONS**

The five-member board of the Town of Hertford Housing Authority is appointed by the Mayor of the Town of Hertford. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Hertford is also disclosed as a related organization in the notes to the financial statements for the Town of Hertford Housing Authority.

**NOTE VI – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

***Federal and State Assisted Programs***

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 monies to the grantor





**Town of Hertford**  
**Notes to the Financial Statements**

agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

**NOTE VII – WINFALL SETTLEMENT**

On July 20, 2015, the Town of Winfall began making payments to the Town of Hertford as a result of a legal settlement. This settlement was in response to disputes arising from a Wastewater Treatment Contract, dated March 1, 2001, which involved the construction of a wastewater treatment plant and the provision of wastewater treatment services by the Town of Hertford. According to the settlement, the Town of Winfall shall pay to the Town of Hertford the sum of \$300,000 to be paid in equal monthly installments of \$1,250 over twenty years. The regular monthly payments shall be submitted along with the regular monthly sewer treatment payments made monthly by the Town of Winfall to the Town of Hertford.

**NOTE VIII – COVID-19 PANDEMIC**

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. Absent any government order or contagion of its workforce, the Town plans to continue its normal operations while taking all reasonable efforts to protect its citizens and employees. The Town's financial position and results of operations as of and for the fiscal year ended June 30, 2020 have not been materially impacted with this pandemic through that date. However, the Town cannot reasonably estimate the length or severity of this pandemic or the extent to which the disruption may materially impact its future financial statements through the distribution of intergovernmental revenues by the State of North Carolina and collection of utilities and property and vehicle taxes. In August 2020, the Town received \$143,292 passed through from Perquimans County.

**NOTE IX – RELEASE OF DEBT**

In November 2016, the Town entered into an installment sale agreement with Perquimans County Schools for the sale of a fire truck in the amount of \$45,000, at 0% interest. The agreement called for Perquimans County Schools to make a down payment of \$3,000, and payments of \$7,000 per year over the next six years. During the fiscal year ended June 30, 2020, Perquimans County Schools made no payment to the Town. As of June 30, 2020, Town wrote off \$14,000 and the balance remaining on the note receivable from Perquimans County Schools is \$14,000.

**NOTE X – PRIOR PERIOD ADJUSTMENT**

During the fiscal year ended June 30, 2020, the Town determined that dispatch fees for two prior years were not recorded in the General Fund accounts payable. Therefore, an adjustment to beginning fund balance has been recorded to account for these items, the net effect of which decreased beginning net position by \$168,124 in the General Fund.

**Town of Hertford**  
**Local Governmental Employees' Retirement System**  
**Schedule of Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Seven Fiscal Years**  
**Schedule 1**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Hertford's' proportion of net pension liability (asset) (%)	0.00814%	0.01457%	0.01598%	0.01412%	0.00177%	0.01635%	0.01630%
Hertford's' proportion of net pension liability (asset) (\$)	\$ 222,297	\$ 345,650	\$ 244,130	\$ 299,674	\$ 79,391	\$ (96,423)	\$ 196,478
Hertford's covered-employee payroll	\$ 890,142	\$ 1,012,509	\$ 1,005,643	\$ 918,096	\$ 927,393	\$ 883,934	\$ 958,183
Hertford's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	24.97%	34.14%	24.28%	32.64%	8.56%	-10.91%	20.51%
Plan fiduciary net position as a percentage of the total pension liability	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

**Town of Hertford**  
**Local Government Employees' Retirement System**  
**Schedule of Contributions**  
**Required Supplementary Information**  
**Last Seven Fiscal Years**  
**Schedule 2**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 107,406	\$ 71,303	\$ 79,077	\$ 76,146	\$ 63,220	\$ 66,561	\$ 63,115
Contributions in relation to the contractually required contribution	107,406	71,303	79,077	76,146	63,220	66,561	63,115
<b>Contribution deficiency (excess)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Hertford's covered-employee payroll	1,162,522	890,142	1,012,509	1,005,643	918,096	927,393	883,934
Contributions as a percentage of covered-employee payroll	9.24%	8.01%	7.81%	7.57%	6.89%	7.18%	7.14%

**Town of Hertford**  
**Law Enforcement Officers' Special Separation Allowance**  
**Schedule of Changes in Total Pension Liability**  
**Required Supplementary Information**  
**Schedule 3**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 58,218	\$ 170,095	\$ 139,181	\$ 131,324
Service cost	1,270	7,058	9,283	11,478
Interest on the total pension liability	2,119	5,375	5,372	4,614
Differences between expected and actual experience in the measurement of the total pension liability	(15,531)	(121,384)	6,247	-
Changes of assumptions or other inputs	826	(2,926)	10,012	(4,093)
Benefit payments	-	-	-	(4,142)
<b>Ending balance of the total pension liability</b>	<b>\$ 46,902</b>	<b>\$ 58,218</b>	<b>\$ 170,095</b>	<b>\$ 139,181</b>

**Town of Hertford**

**Law Enforcement Officers' Special Separation Allowance**

**Schedule of Total Pension Liability as a Percentage of Covered Payroll**

**Required Supplementary Information**

**Schedule 4**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 46,902	\$ 58,218	\$ 170,095	\$ 139,181
Covered payroll	130,733	303,942	378,459	363,794
Total pension liability as a percentage of covered payroll	35.88%	19.15%	44.94%	38.26%

**Notes to the schedules:**

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

**Town of Hertford**  
**General Fund Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance – Budget and Actual**  
**For the Fiscal Year Ended June 30, 2020**  
**Schedule 5**

	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Ad valorem taxes:			
Taxes		\$ 600,145	
Interest		7,822	
Total	\$ 570,338	607,967	\$ 37,629
Other taxes and licenses:			
Privilege licenses		1,475	
Vehicle tags		34,542	
Total	24,000	36,017	12,017
Unrestricted intergovernmental:			
Local option sales taxes		582,654	
Payment in lieu of taxes		9,037	
Telecommunications sales tax		16,855	
Piped natural gas sales tax		3,181	
Video franchise fee		12,633	
Beer and wine tax		9,028	
ABC Profit Distribution		86,365	
Housing authority reimbursement		4,895	
Total	573,173	724,648	151,475
Restricted intergovernmental:			
Powell Bill allocation		56,145	
Perquimans County Fire Department Contribution		75,000	
Volunteer Fire Department Grant		27,128	
Total	179,328	158,273	(21,055)
Sales and services:			
DMV commissions		60,144	
Cemetery services		10,180	
Refuse services		108,456	
Miscellaneous fees and services		69,147	
Total	222,025	247,927	25,902
Investment earnings	500	940	440
Miscellaneous:			
Arrest fees		1,199	
Total	11,000	1,199	(9,801)
Total revenues	1,580,364	1,776,971	196,607

**Town of Hertford**  
**General Fund Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance – Budget and Actual**  
**For the Fiscal Year Ended June 30, 2020**  
**Schedule 5**

	Budget	Actual	Variance Positive (Negative)
<b>EXPENDITURES</b>			
General government:			
Governing Board:			
Salaries and employee benefits		95,145	
Operating expenditures		166,816	
Total	309,609	261,961	47,648
Administration:			
Salaries and employee benefits		137,464	
Operating expenditures		184,288	
Capital outlay		76,985	
Total	521,316	398,737	122,579
DMV Operations:			
Salaries and employee benefits		23,250	
Operating expenditures		2,183	
Total	43,309	25,433	17,876
Reimbursement from other funds			
Total	(48,704)	(24,353)	(24,351)
<hr/>			
Total general government	825,530	661,778	163,752
Public safety:			
Police:			
Salaries and employee benefits		560,094	
Operating expenditures		174,851	
Capital outlay		47,738	
Total	939,156	782,683	156,473
Fire:			
Operating expenditures		123,046	
Capital outlay		38,013	
Total	190,916	161,059	29,857
Dispatch Fees		86,243	
Total	-	86,243	(86,243)
<hr/>			
Total public safety	1,130,072	1,029,985	100,087
Transportation:			
Street and highways:			
Salaries and employee benefits		195,761	
Operating expenditures		162,579	
Capital outlay		74,690	
Total transportation	496,325	433,030	63,295

**Town of Hertford**  
**General Fund Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance – Budget and Actual**  
**For the Fiscal Year Ended June 30, 2020**  
**Schedule 5**

	Budget	Actual	Variance Positive (Negative)
Economic and physical development:			
Main Street program			
Salaries and employee benefits		22,346	
Operating expenditures		2,840	
Total economic and physical development	27,565	25,186	2,379
Environmental protection:			
Cemetery:			
Operating expenditures		22,255	
Total	26,590	22,255	4,335
Sanitation:			
Operating expenditures		122,951	
Total	122,783	122,951	(168)
Total environmental protection	149,373	145,206	4,167
Debt Service:			
Principal		61,245	
Interest		24,028	
Total debt service	86,170	85,273	897
Total expenditures	2,715,035	2,380,458	334,577
Revenue over (under) expenditures	(1,134,671)	(603,487)	531,184
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to other funds:			
King Street Resurface Project		(210,035)	
Transfer from other funds:			
Water and Sewer Fund		6,028	
Electric Fund		84,000	
Installment sale obligation forgiven		(14,000)	
Total other financing sources (uses)	84,000	(134,007)	(218,007)
Fund balance appropriated	1,050,671	-	(1,050,671)
Net change in fund balance	\$ -	(737,494)	\$ (737,494)
Fund balances, beginning, as previously reported		2,027,305	
Prior period adjustment		(168,124)	
Fund balances, beginning, restated		1,859,181	
Fund balances, ending		\$ 1,121,687	



**Town of Hertford**

**King Street Resurface Project Schedule of Revenues, Expenditures, and  
Changes in Fund Balance – Budget and Actual  
From Inception and For the Fiscal Year Ended June 30, 2020  
Schedule 6**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues</b>					
Restricted intergovernmental:					
National League of Cities grant	\$ 5,000	\$ -	\$ 5,000	\$ 5,000	\$ -
Total revenues	5,000	-	5,000	5,000	-
<b>Expenditures</b>					
Census grant expenditures	5,000	-	-	-	5,000
Resurfacing	207,467	-	201,962	201,962	5,505
Design services	4,800	-	4,800	4,800	-
Bid services	1,850	-	2,067	2,067	(217)
Construction services	27,335	-	1,206	1,206	26,129
Construction contingency	12,410	-	-	-	12,410
Total expenditures	258,862	-	210,035	210,035	48,827
Revenues over (under) expenditures	(253,862)	-	(205,035)	(205,035)	48,827
<b>Other Financing Sources (Uses)</b>					
Transfer in - General Fund Powell Bill reserves	253,862	-	210,035	210,035	(43,827)
Total other financing sources (uses)	253,862	-	210,035	210,035	(43,827)
Revenues and other sources over (under) expenditures	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ 5,000

**Town of Hertford**  
**Electric Fund Schedule of Revenues and**  
**Expenditures – Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2020**  
**Schedule 7**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Operating revenues:			
Charges for services		\$ 2,967,420	
Other operating revenues		1,039	
Total operating revenues	\$ 3,092,016	2,968,459	\$ (123,557)
Nonoperating revenues:			
Interest on investments		13	
Total nonoperating revenues	-	13	13
Total revenues	3,092,016	2,968,472	(123,544)
<b>Expenditures</b>			
Electric Operations			
Salaries and employee benefits		358,202	
Maintenance and supplies		7,049	
Administrative service		32,330	
Electric power purchases		2,225,184	
Administrative cost from other funds for services		24,353	
Other expenses		105,669	
Payment in lieu of taxes		9,037	
Insurance		32,990	
Total	2,994,251	2,794,814	199,437
Debt Service			
Principal		10,114	
Interest		9,286	
Total Debt Service	19,400	19,400	-
Total Expenditures	3,013,651	2,814,214	199,437
Revenues over (under) expenditures	78,365	154,258	75,893
Other financing sources (uses):			
Transfer to General Fund	(84,000)	(84,000)	-
Revenues over (under) expenditures and other financing uses	(5,635)	70,258	75,893
Fund balance appropriated	5,635	-	(5,635)
Revenues, other financing sources, and fund balance appropriated over expenditures	\$ -	\$ 70,258	\$ 70,258

**Town of Hertford**  
**Electric Fund Schedule of Revenues and**  
**Expenditures – Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2020**  
**Schedule 7**

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:

(Increase) decrease in accrued vacation	(804)
Increase (decrease) in deferred outflows of resources - pensions	(18,220)
(Increase) decrease in net pension liability	27,361
(Increase) decrease in deferred inflows of resources - pensions	(5,305)
Bond principal and other debt payments	10,114
Depreciation expense	(85,232)
<hr/>	
Total reconciling items	(72,086)
<hr/>	
Change in net position	\$ (1,828)
<hr/>	

**Town of Hertford**  
**Water and Sewer Fund Schedule of Revenues and**  
**Expenditures – Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2020**  
**Schedule 8**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Operating revenues:			
Charges for services		\$ 1,198,698	
Water taps		31,597	
Winfall charges		77,662	
Total operating revenues	\$ 1,323,407	1,307,957	\$ (15,450)
Nonoperating revenues:			
Interest on investments		212	
Total nonoperating revenues	26,660	212	(26,448)
Total revenues	1,350,067	1,308,169	(41,898)
<b>Expenditures</b>			
Water and Sewer Operations:			
Salaries and benefits		380,871	
Administrative service		53,831	
Vehicle expense		13,776	
Material and supplies		33,837	
Maintenance and repairs		72,979	
Other operating expenses		91,774	
Insurance		20,879	
Utility fees		175,973	
	882,609	843,920	38,689
Debt Service			
Principal		386,391	
Interest		220,243	
Total Debt Service	618,448	606,634	11,814
Total Expenditures	1,501,057	1,450,554	50,503
Revenues over (under) expenditures	(150,990)	(142,385)	8,605
Other financing sources (uses):			
Transfers out - General Fund	-	(6,028)	(6,028)
Total other financing sources	-	(6,028)	(6,028)
Revenues and other financing sources over (under expenditures)	(150,990)	(148,413)	2,577
Appropriated net assets	150,990	-	(150,990)
Revenues and fund balance appropriated over expenditures	\$ -	\$ (148,413)	\$ (148,413)

**Town of Hertford**  
**Water and Sewer Fund Schedule of Revenues and**  
**Expenditures – Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2020**  
**Schedule 8**

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:

(Increase) decrease in accrued vacation		(5,951)
Increase (decrease) in deferred outflows of resources - pensions		(13,894)
(Increase) decrease in net pension liability		22,269
(Increase) decrease in deferred inflows of resources - pensions		(6,010)
Principal retirement		386,391
Depreciation expense		(724,366)
Capital contributions		509,675
Total reconciling items		168,114
Change in net position		\$ 19,701

**Town of Hertford**

**Golden Leaf Foundation Grant FY 2018-117 Fund**

**Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)**

**From Inception and For the Fiscal Year Ended June 30, 2020**

**Schedule 9**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues</b>					
Restricted intergovernmental:					
Golden Leaf Foundation FY2018-117	\$ 637,094	\$ 127,419	\$ 509,675	\$ 637,094	\$ -
Total revenues	637,094	127,419	509,675	637,094	-
<b>Expenditures</b>					
Sanitary sewer construction	390,600	-	390,655	390,655	(55)
Asphalt replacement	113,994	-	113,994	113,994	-
Design, permitting, and bid services	50,000	50,000	-	50,000	-
Construction observation	65,000	2,128	62,872	65,000	-
Construction administration	17,500	5,029	12,471	17,500	-
Construction contingency	50,459	130	50,329	50,459	-
Total expenditures	687,553	57,287	630,321	687,608	(55)
Revenues over (under) expenditures	(50,459)	70,132	(120,646)	(50,514)	(55)
<b>Other Financing Sources (Uses)</b>					
Town Match	50,459	-	50,514	50,514	55
Total other financing sources (uses)	50,459	-	50,514	50,514	55
Revenues and other sources (uses) over (under) expenditures	\$ -	\$ 70,132	\$ (70,132)	\$ -	\$ -

**Town of Hertford**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2020**  
**Schedule 10**

<b>Fiscal Year</b>	<b>Uncollected Balance June 30, 2019</b>	<b>Additions</b>	<b>Credits and Collections</b>	<b>Uncollected Balance June 30, 2020</b>
2019-2020	\$ -	\$ 588,402	\$ 561,689	\$ 26,713
2018-2019	29,080	14,324	28,139	15,265
2017-2018	17,696	-	3,713	13,983
2016-2017	10,880	-	1,941	8,939
2015-2016	10,439	-	1,903	8,536
2014-2015	8,799	-	1,074	7,725
2013-2014	8,778	-	416	8,362
2012-2013	9,044	-	288	8,756
2011-2012	7,948	-	120	7,828
2010-2011	6,729	-	370	6,359
2009-2010	5,033	-	5,033	-
	<b>\$ 114,426</b>	<b>\$ 602,726</b>	<b>\$ 604,686</b>	<b>112,466</b>
<b>Less: allowance for uncollectible accounts:</b>				
General Fund				37,299
<b>Ad Valorem taxes receivable - net:</b>				
General Fund			\$	75,167
<b>Reconciliation to revenues</b>				
Ad valorem taxes - General Fund			\$	607,967
<b>Reconciling items:</b>				
Interest collected				(7,822)
Taxes written off				4,541
Subtotal				(3,281)
<b>Total collections and credits</b>			<b>\$</b>	<b>604,686</b>

**Town of Hertford**  
**Analysis of Current Tax Levy – Town-Wide Levy**  
**June 30, 2020**  
**Schedule 11**

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current rate	\$ 120,663,617	0.47	\$ 567,119	\$ 510,743	\$ 56,376
Discoveries					
Public Utilities	4,702,128	0.47	22,100	22,100	-
Other	117,234	0.47	551	551	-
Abatements	(291,064)	0.47	(1,368)	(1,368)	-
<b>Total property valuation</b>	<b>\$ 125,191,915</b>				
Net levy			588,402	532,026	56,376
Unpaid (by taxpayer) taxes at June 30, 2020			26,713	26,713	-
Current year's taxes collected			\$ 561,689	\$ 505,313	\$ 56,376
Current levy collection percentage			95.46%	94.98%	100.00%



**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  
The Board of Commissioners  
Town of Hertford, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Hertford, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the Town of Hertford's basic financial statements, and have issued our report thereon dated September 15, 2021. Our report includes a reference to other auditors who audited the financial statements of the Town of Hertford ABC Board, as described in our report on the Town of Hertford's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Hertford ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Hertford'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 Hertford'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 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 20-01 through 20-06 that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hertford's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in accompanying schedule of findings and questioned costs as item 20-06.

### Town of Hertford's Response to Findings

The Town of Hertford's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.



Jeff Best CPA, PLLC  
Belhaven, North Carolina  
September 15, 2021

**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 Hertford, North Carolina

**Report on Compliance for Each Major State Program**

We have audited the Town of Hertford, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Hertford's major state program for the year ended June 30, 2020. The Town of Hertford's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Town of Hertford's major state program based on our audit of the types of compliance requirements referred to above. 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 applicable sections of Title 2 US *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the *State Single Audit Implementation Act*. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Hertford's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town of Hertford's compliance.

**Opinion on Each Major State Program**

In our opinion, the Town of Hertford 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, 2020.

## Report on Internal Control Over Compliance

Management of the Town of Hertford is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Hertford's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's 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 the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Jeff Best CPA, PLLC  
Belhaven, North Carolina  
September 15, 2021

**Town of Hertford**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2020**

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?   X   Yes        No

Significant Deficiency(s) identified?        Yes   X   None Reported

Noncompliance material to financial statements noted   X   Yes        No

*State Awards*

Internal control over major State programs:

Material weakness(es) identified?        Yes   X   No

Significant Deficiency(s) identified?        Yes   X   None Reported

Noncompliance material to State award:        Yes   X   No

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   X   No

Identification of major State programs

Name of State Program or Cluster  
 Disaster Recovery Act of 2016, House Bill 2

**Town of Hertford**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2020**

**Section II - Financial Statement Findings**

**Material Weakness**

**20-01 Segregation of Duties**

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Town personnel in the cash receipts and governmental fund receipts, revenues, and receivables functions.

Effect: Transactions could be mishandled.

Cause: There are limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for the lack of separation.

Views of responsible officials and planned corrective action: The Town agrees with this finding. The Town will work to develop procedures to segregate duties as much as possible.

**20-02 Bank Reconciliations**

Criteria: The Town should prepare bank reconciliations monthly and maintain accurate financial records.

Condition: The Town did not prepare timely bank reconciliations and incorrect entries were made in the Water and Sewer Fund that materially understated revenues and cash.

Effect: The financial records were materially misstated.

Cause: The Town is not preparing bank reconciliation timely and properly reviewing their financial records.

Recommendation: The Town should prepare all bank reconciliations timely.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will put procedures in place to ensure the bank reconciliations are timely prepared.

**Town of Hertford**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2020**

**20-03 Timely Financial Reporting**

Criteria: The Town should have a system in place to ensure the timeliness of financial reporting.

Condition: Effective financial reporting requires timely access to information for management and other users of the financial statements.

Effect: The Town's management and other users of the financial statements do not have timely information for decision-making and monitoring of the Town's financial position and adherence to laws, regulations, and other requirements.

Cause: Turnover in key positions in the Finance and Administrative Departments caused delays in preparing information for the annual audit and preparation of the financial statements.

Recommendation: The Town should evaluate the allocation of internal resources dedicated to financial reporting to ensure adequate resources are available for year-end close and annual financial reporting purposes. Management should consult with outside accountants or auditors if additional assistance is required in order to prepare for the annual audit, determine appropriate accounting for complex transactions, or prepare the financial statements.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will dedicate adequate resources to ensure timely completion of the audit and financial statements.

**20-04 Prior Period Adjustment - Accounts Payable**

Criteria: The Town should review their account records to ensure all expenditures and payables are recorded in the proper period.

Condition: Accounts Payable for emergency services dispatch fees payable to Perquimans County for the fiscal years ended June 30, 2018 and 2019 were not recorded in the proper period.

Effect: The Town's financial statements were misstated.

Cause: The Town was disputing the amount of the fees and in the process, overlooked booking the payable.

Recommendation: We recommend the Town thoroughly review all invoices to ensure the expenditure and payable is recorded in the proper period.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will put procedures in place to ensure the inclusion of all payables in the proper period.

**Town of Hertford**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2020**

**20-05 Accounts Payable - Dispatch Fees**

Criteria: The Town should review their account records to ensure all expenditures and payables are properly recorded.

Condition: Accounts Payable for emergency services dispatch fees payable to Perquimans County was not recorded.

Effect: The Town's financial statements were misstated.

Cause: The Town was disputing the amount of the fees and in the process, overlooked booking the payable.

Recommendation: We recommend the Town thoroughly review all invoices to ensure the expenditure and payable is recorded.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will put procedures in place to ensure the inclusion of all expenditures and payables.

**Material Noncompliance**

**20-06 Excess of Expenditures over Appropriations**

Criteria: GS 159-8(a) states all monies received or expended by a local government or public authority should be included in the budget or project ordinance.

Condition: The Town expended \$204,007 more in transfers to other funds in the General Fund than appropriated in the annual budget ordinance.

Effect: Monies were spent that had not been appropriated.

Cause: Budget amendments were not adopted to account for excess expenditures.

Recommendation: Budget amendments should be made periodically to ensure that all expenditures are properly appropriated. Disbursements should be periodically reviewed and budget amendments adopted to ensure that monies will not be spent until appropriated.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will implement the recommendation.

**Section III - State Award Findings and Questioned Costs**

None reported



**Town of Hertford  
Corrective Action Plan  
For the Year Ended June 30, 2020**

**EARNELL BROWN**  
MAYOR  
**PAMELA W. HURDLE**  
TOWN MANAGER  
**OLGA SIMPSON**  
TOWN CLERK  
**BENJAMIN M. GALLOP**  
TOWN ATTORNEY



**TOWN COUNCIL:**

**ASHLEY HODGES**  
MAYOR PRO TEM  
**QUENTIN JACKSON**  
**FRANK NORMAN**  
**JERRY MIMLITSCH**

Town of Hertford, North Carolina  
Corrective Action Plan  
For the Fiscal Year Ended June 30, 2020

**Section II - Financial Statement Findings**

**Findings Material Weakness**

**20-01 Segregation of Duties**

Name of contact person: Pamela Hurdle, Town Manager

Corrective Action: The duties will be separated as much as possible and alternate controls will be used to compensate for lack of separation. The Board and staff will be involved in providing some of the controls to provide more segregation of duties. Use of contracted personnel will also help to segregate duties.

Proposed Completion Date: October 15, 2021.

**20-02 Bank Reconciliation**

Name of contact person: Pamela Hurdle, Town Manager

Corrective Action: The Town is in the process of contracting with a CPA firm knowledgeable with the local government accounting in North Carolina to provide accounting and other financial services to the Town until the Town is able to hire qualified personnel.

Proposed Completion Date: October 15, 2021.

**Town of Hertford  
Corrective Action Plan  
For the Year Ended June 30, 2020**

**20-03 Timely Financial Reporting**

Name of contact person: Pamela Hurdle, Town Manager

Corrective Action: The Town is in the process of contracting with a CPA firm knowledgeable with the local government accounting in North Carolina to provide accounting and other financial services to the Town which should enable more timely financial reporting in the future.

Proposed Completion Date: October 15, 2021.

**20-04 Prior Period Adjustment - Accounts Payable**

Name of contact person: Pamela Hurdle, Town Manager

Corrective Action: The Town is in the process of contracting with a CPA firm knowledgeable with the local government accounting in North Carolina to provide accounting and other financial services to the Town until the Town is able to hire qualified personnel.

Proposed Completion Date: October 15, 2021.

**20-05 Accounts Payable - Dispatch Fees**

Name of contact person: Pamela Hurdle, Town Manager

Corrective Action: The Town is in the process of contracting with a CPA firm knowledgeable with the local government accounting in North Carolina to provide accounting and other financial services to the Town until the Town is able to hire qualified personnel..

Proposed Completion Date: October 15, 2021.

**20-06 Excess of Expenditures over Appropriations**

Name of contact person: Pamela Hurdle, Town Manager

Corrective Action: The Town is in the process of contracting with a CPA firm knowledgeable with the local government accounting in North Carolina to provide accounting and other financial services to the Town until the Town is able to hire qualified personnel.  
By contracting with the CPA firm, management expects the accounting duties to be done more timely, so that management will have more accurate data to identify and prepare budget amendments.



**Town of Hertford  
Corrective Action Plan  
For the Year Ended June 30, 2020**

Proposed Completion Date: November 30, 2021.

Section III – State Award Findings and Questioned Costs  
None reported.

**Town of Hertford**  
**Schedule of Expenditures of State Awards**  
**For the Fiscal Year Ended June 30, 2020**

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>State</u> <u>Pass-through</u> <u>Grantor's</u> <u>Number</u>	<u>State</u> <u>Expenditures</u>
<b>State Awards:</b>		
<u>NC Dept. of Transportation</u>		
Powell Bill Funds	DOT-4	\$ 32,898
King Street Resurface Project	DOT-4	210,035
Total N.C. Dept. of Transportation		242,933
<u>NC Dept. of Commerce</u>		
Passed-through from the Golden Leaf Foundation:		
Disaster Recovery Act of 2016, House Bill 2		
Golden Leaf Foundation Grant FY 2018-117	XXXX	630,321
<u>NC Dept. of Insurance</u>		
Office of the State Fire Marshall		
Fire/Rescue Grants and Relief Fund Program	XXXX	27,128
Total State Awards		\$ 900,382

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

1 Basis of Presentation

The accompanying schedule of expenditures of State awards (SESA) includes the State grant activity of the Town of Hertford under the programs of the State of North Carolina for the year ended June 30, 2020. The information in this SESA 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 Hertford, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Hertford.

2 Summary of Significant Accounting Policies

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