

Town of Hertford
Financial Statements
June 30, 2017



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**Town of Hertford
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June 30, 2017**

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INDEPENDENT AUDITORS' 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, 2017, 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 statement 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, 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 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, business-type activities, the discretely presented component unit, and each major fund of the Town of Hertford, North Carolina as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, 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.

Emphasis of Matter

As discussed in Note VII of the financial statements, the Town made an adjustment to increase fund balance in the electric fund in order to correct an error in the prior period's financials. Our opinion is not modified with respect to this matter.

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 12 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 51 and 52, 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 53 and 54, 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 evident to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America 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 schedules, 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 January 17, 2018 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 the Town of Hertford's internal control over financial reporting and compliance.

Cary Riggs & Ingram, L.L.C.

Belhaven, North Carolina
January 17, 2018

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, 2017. 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

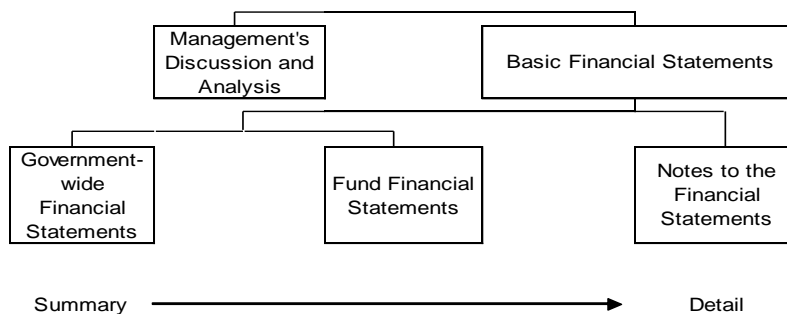
- The assets and deferred outflows of resources of the Town of Hertford exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,422,291 (*net position*).
- The government's total net position decreased by \$31,185, due to decreases in business-type activities.
- As of the close of the current fiscal year, the Town of Hertford's governmental funds reported combined ending fund balances of \$1,953,400, with a net change of \$32,772 in fund balance. Approximately 29.20 percent of this total amount, or \$570,344, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,383,056 or 74.00% of total general fund expenditures for the fiscal year.
- The Town of Hertford's total debt increased by \$390,228 (4.29%) during the current fiscal year. The key factor in this increase was due to the purchase of a ladder truck for the fire department through a USDA loan.

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 General Statutes also can be found in this part of the statements.

Government-wide financial statements. The government-wide financial statements are designed to provide the reader with a broad overview of the Town 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 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

Town of Hertford Management's Discussion and Analysis

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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between 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 or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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.

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 23-48 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 retirement benefits to its employees. Required supplementary information can be found beginning on page 51 of this report.

Town of Hertford Management's Discussion and Analysis

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

The Town of Hertford's Net Position

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 2,038,583	\$ 2,008,188	\$ 1,863,609	\$ 1,617,525	\$ 3,902,192	\$ 3,625,713
Capital assets	1,933,407	1,429,765	14,357,171	15,125,196	16,290,578	16,554,961
Deferred outflows of assets	174,175	42,602	97,381	25,460	271,556	68,062
Total assets and deferred outflows of resources	4,146,165	3,480,555	16,318,161	16,768,181	20,464,326	20,248,736
Other liabilities	417,772	104,351	814,729	795,690	1,232,501	900,041
Long-term liabilities	774,422	393,079	8,005,240	8,393,944	8,779,662	8,787,023
Deferred inflows of resources	20,203	26,428	9,670	15,620	29,873	42,048
Total liabilities and deferred inflows of resources	1,212,397	523,858	8,829,638	9,205,254	10,042,035	9,729,112
Net position:						
Net investment in capital assets	1,127,426	1,035,819	5,979,979	6,363,873	7,107,405	7,399,692
Restricted	570,344	571,414	-	-	570,344	571,414
Unrestricted	1,235,998	1,349,464	1,508,544	1,199,054	2,744,542	2,548,518
Total net position	\$ 2,933,768	\$ 2,956,697	\$ 7,488,523	\$ 7,562,927	\$ 10,422,291	\$ 10,519,624

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Hertford exceeded liabilities and deferred inflows by \$10,422,291 as of June 30, 2017. The Town net position decreased by \$31,185 for the fiscal year ended June 30, 2017. However, the largest portion, 68.19%, reflects the Town 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 of the Town of Hertford's net position, \$570,344 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,744,542 is unrestricted. During the fiscal year 2017, the Town determined that the accounts payables in the Electric Fund was not recorded correctly. A restatement was made to increase fund balance in the Electric Fund by \$60,534.

Town of Hertford Management's Discussion and Analysis

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

- The tax collection percentage of 96.40% has increased over last year's collection rate of 95.76%. The statewide average is 98.34% 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	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 366,031	\$ 280,099	\$ 4,304,853	\$ 4,251,021	\$ 4,670,884	\$ 4,531,120
Operating grants and contributions	151,488	141,757	-	-	151,488	141,757
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	601,220	590,178	-	-	601,220	590,178
Other taxes	671,508	609,659	-	-	671,508	609,659
Unrestricted investment earnings	739	1,206	304	435	1,043	1,641
Miscellaneous	26,052	19,779	27,810	300,000	53,862	319,779
Total revenues	1,817,038	1,642,678	4,332,967	4,551,456	6,150,005	6,194,134
Expenses:						
General government	277,684	228,822	-	-	277,684	228,822
Public safety	928,923	764,220	-	-	928,923	764,220
Transportation	408,945	341,038	-	-	408,945	341,038
Economic and physical development	27,867	35,082	-	-	27,867	35,082
Environmental protection	137,364	138,336	-	-	137,364	138,336
Interest on long-term debt	16,502	16,904	-	-	16,502	16,904
Electric	-	-	2,787,906	2,749,333	2,787,906	2,749,333
Water and Sewer	-	-	1,595,999	1,584,067	1,595,999	1,584,067
Total expenses	1,797,285	1,524,402	4,383,905	4,333,400	6,181,190	5,857,802
Increase (decrease) in net position before transfers	19,753	118,276	(50,938)	218,056	(31,185)	336,332
Transfers	84,000	84,000	(84,000)	(84,000)	-	-
Increase (decrease) in net position	103,753	202,276	(134,938)	134,056	(31,185)	336,332
Net position, July 1	2,956,697	2,686,514	7,562,927	7,682,114	10,519,624	10,368,628
Net position, beginning, restated	2,830,015	2,754,421	7,623,461	7,428,871	10,453,476	10,183,292
Net position, June 30	\$ 2,933,768	\$ 2,956,697	\$ 7,488,523	\$ 7,562,927	\$ 10,422,291	\$ 10,519,624

Governmental activities: Governmental activities increased the Town net position by \$103,753, after transfers. Key elements of this decrease are as follows:

- State shared revenues, while much better than last fiscal year were still projected with a conservative growth estimate. Those projections were met.
- The Town used Powell Bill funds from prior years to continue a patching and paving program.
- Town staff continues to be proactive and conservative in spending due to the slow economic turn-around in the region.

Town of Hertford Management's Discussion and Analysis

Business-type activities: Business-type activities decreased the Town of Hertford's net assets by \$134,938, after transfers. The key elements of this decrease are as follows:

- The Town placed in service significant capital assets in prior years which resulted in additional depreciation expense in the current year.
- The Town of Winfall, as a customer, has taken major strides to curb inflow and infiltration issues within their collections system. As such, they have significantly reduced the amount of waste water that is sent to the Hertford Plant for treatment. The significant portion of the Water and Sewer Fund Budget regarding Winfall is extremely hard to predict.
- The Town of Winfall begin making installment payments for the settlement between the two towns over disputed charges for the sewer plant project.

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 \$1,383,056, while total fund balance reached \$1,953,400. 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 74.00% of general fund expenditures, while total fund balance represents 104.51% of the same amount.

At June 30, 2017, the governmental funds of Town of Hertford reported a combined fund balance of \$1,953,400, a 1.68% increase 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 because the Town collected more taxes throughout the year than what was expected. The projection, as with all past years, was based on an average of collection rates from prior years.

Town of Hartford Management's Discussion and Analysis

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 \$725,815, and those for the Water and Sewer Fund amounted to \$782,729. The total change in net position for each fund was \$141,497 and \$(276,435) 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 Hartford's investment in capital assets for its governmental and business-type activities as of June 30, 2017 totals \$16,290,578 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

**Town of Hartford's Capital Assets
Figure 4
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 407,205	\$ 407,205	\$ 379,893	\$ 379,893	\$ 787,098	\$ 787,098
Buildings and systems	248,540	261,965	13,977,278	14,745,303	14,225,818	15,007,268
Machinery and equipment	35,133	108,877	-	-	35,133	108,877
Improvements	643,492	625,863	-	-	643,492	625,863
Vehicles	599,037	25,855	-	-	599,037	25,855
Total	\$ 1,933,407	\$ 1,429,765	\$ 14,357,171	\$ 15,125,196	\$ 16,290,578	\$ 16,554,961

Additional information on the Town capital assets can be found in Note III.A.3. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2017, the Town of Hartford had total debt outstanding of \$9,683,204.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Installment purchases	\$ 805,981	\$ 393,571	\$ 450,580	\$ 468,436	\$ 1,256,561	\$ 862,007
Compensated absences	39,668	37,477	21,510	21,213	61,178	58,690
Net pension liability (LGERS)	192,209	49,694	107,465	29,697	299,674	79,391
Net pension liability (LEO)	139,181	126,682	-	-	139,181	126,682
Revolving Loans	-	-	3,564,610	3,861,888	3,564,610	3,861,888
General obligation bonds	-	-	4,362,000	4,431,000	4,362,000	4,431,000
Total	\$ 1,177,039	\$ 607,424	\$ 8,506,165	\$ 8,812,234	\$ 9,683,204	\$ 9,419,658

The Town of Hartford's total debt increased by \$28,278 (0.29%) during the past fiscal year, primarily due to new installment loans and 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 \$9,144,021.

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 have been level from year to year, with some turnover in businesses. It is projected that this trend will continue given the economic condition of the region and how it is reflected in individual spending habits. Locally this trend looks as if it will continue, but statewide trends look more favorable and that should become a reality here as well. Just when is hard to predict.
- The population has been stable and will trend stable for the next year, with very small decrease to the Census Certified population. We do not expect substantial growth. There has been at least one new residential property under construction during the last two fiscal year cycles, something that was completely curbed after the 2008 housing market downturn. There has been a substantial growth in home renovations in Hertford in the last 2 years.
- The Perquimans Commerce Centre, which is located within the Town limits, is attracting commercial growth. Several new businesses have recently shown interest in siting at the Commerce Center. Economic Developers with Electricities continue to actively market the Marine Commerce Center portion of the park at trade shows. State Representative Bill Steinburg has asked for \$2.88 million in the General Assembly's budget to help start the basin project at the marine commerce park.

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities: This year's budget was projected to be very similar to last year's with the exception of some large capital asset purchases, assets that will be in service for 20 plus years. The Town Management and Staff have made a concentrated effort to reduce expenditures.

Business – type Activities: The water and sewer rates are set to remain stable for the coming year, with no adjustment projected. Electric customers' rates dropped by roughly 7%. There is the need, however to begin to rebuild fund balance within the enterprise funds now that plant expansion and construction are complete and wholesale electric rates are at an almost 20 year low.



Town of Hertford Management's Discussion and Analysis

Requests for Information

This report is designed to provide an overview of the Town 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 or send an email to the Town Manager at manager@townofhertfordnc.com.

Town of Hertford
Statement of Net Position
June 30, 2017
Exhibit 1

	Primary Government			Town of Hertford ABC Board
	Governmental Activities	Business- type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,324,304	\$ 946,103	\$ 2,270,407	\$ 105,922
Taxes receivables (net)	69,737	-	69,737	-
Receivables (net)	16,026	515,840	531,866	-
Internal balances	(1,864)	1,864	-	-
Due from other governments	228,405	-	228,405	-
Due from component unit	100,600	-	100,600	-
Inventories	-	-	-	119,618
Prepaid items	-	-	-	2,385
Restricted cash and cash equivalents	301,375	129,802	431,177	-
Total current assets	2,038,583	1,593,609	3,632,192	227,925
Noncurrent assets:				
Note receivable - Winfall settlement	-	270,000	270,000	-
Capital assets (Note 3):				
Land and construction in progress	407,205	379,893	787,098	5,472
Other capital assets, net of depreciation	1,526,202	13,977,278	15,503,480	22,759
Total capital assets	1,933,407	14,357,171	16,290,578	28,231
Total noncurrent assets	1,933,407	14,627,171	16,560,578	28,231
Total assets	3,971,990	16,220,780	20,192,770	256,156
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	174,175	97,381	271,556	20,701
Total deferred outflows of resources	174,175	97,381	271,556	20,701
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	15,156	183,999	199,155	88,527
Customer deposits	-	129,802	129,802	-
Due to primary government	-	-	-	100,600
Long-term liabilities:				
Net pension liability	192,209	107,465	299,674	10,398
Total pension liability	139,181	-	139,181	-
Due within one year	71,226	393,463	464,688	-
Due in more than one year	774,422	8,005,240	8,779,662	-
Total liabilities	1,192,194	8,819,968	10,012,162	199,525
DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	(555)	-	(555)	-
Pension deferrals	20,758	9,670	30,428	364
Total deferred inflows of resources	20,203	9,670	29,873	364
NET POSITION				
Net investment in capital assets	1,127,426	5,979,979	7,107,405	28,231
Restricted for:				
Stabilization by State Statute	342,877	-	342,877	-
Streets - Powell Bill	227,467	-	227,467	-
Other functions	-	-	-	32,771
Unrestricted	1,235,998	1,508,544	2,744,542	15,966
Total net position	\$ 2,933,768	\$ 7,488,523	\$ 10,422,291	\$ 76,968

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

**Town of Hertford
Statement of Activities
For the Fiscal Year Ended June 30, 2017
Exhibit 2**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Town of Hertford ABC Board
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 277,684	\$ 366,031	\$ 25,147	\$ -	\$ 113,494	\$ -	\$ 113,494	\$ -
Public safety	928,923	-	67,500	-	(861,423)	-	(861,423)	-
Transportation	408,945	-	58,841	-	(350,104)	-	(350,104)	-
Economic and physical development	27,867	-	-	-	(27,867)	-	(27,867)	-
Environmental protection	137,364	-	-	-	(137,364)	-	(137,364)	-
Interest on long-term debt	16,502	-	-	-	(16,502)	-	(16,502)	-
Total governmental activities (See Note 1)	1,797,285	366,031	151,488	-	(1,279,766)	-	(1,279,766)	-
Business-type activities:								
Electric	2,787,906	2,999,241	-	14,162	-	225,497	225,497	-
Water and sewer	1,595,999	1,305,612	-	13,952	-	(276,435)	(276,435)	-
Total business-type activities	4,383,905	4,304,853	-	28,114	-	(50,938)	(50,938)	-
Total primary government	\$ 6,181,190	\$ 4,670,884	\$ 151,488	\$ 28,114	(1,279,766)	(50,938)	(1,330,704)	-
Component Unit:								
ABC Board	\$ 770,033	\$ 852,051	\$ -	\$ -	-	-	-	82,018
Total component unit	\$ 770,033	\$ 852,051	\$ -	\$ -	-	-	-	82,018

General revenues:

Taxes:				
Property taxes, levied for general purpose	601,220	-	601,220	-
Other taxes	671,508	-	671,508	-
Unrestricted investment earnings	739	-	739	-
Miscellaneous	26,052	-	26,052	1,262
Profit distributions	-	-	-	(83,280)
Total general revenues not including transfers	1,299,519	-	1,299,519	(82,018)
Transfers	84,000	(84,000)	-	-
Total general revenues and transfers	1,383,519	(84,000)	1,299,519	(82,018)
Change in net position	103,753	(134,938)	(31,185)	-
Net position, beginning	2,956,697	7,562,927	10,519,624	76,968
Restatement	(126,682)	-	(126,682)	-
Prior period adjustment	-	60,534	60,534	-
Net position, beginning, restated	2,830,015	7,623,461	\$ 10,453,476	76,968
Net position, ending	\$ 2,933,768	\$ 7,488,523	\$ 10,422,291	\$ 76,968

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

Town of Hertford
Balance Sheet and Reconciliation of the Balance Sheet to the
Statement of Net Position – Governmental Funds
June 30, 2017
Exhibit 3

	Major Funds	Total Governmental Funds
	General	Funds
ASSETS		
Cash and cash equivalents	\$ 1,324,304	\$ 1,324,304
Receivables (net):		
Taxes	69,737	69,737
Accounts	16,026	16,026
Due from other governments	228,405	228,405
Due from other funds	(1,864)	(1,864)
Due from component unit	100,600	100,600
Restricted cash and cash equivalents	301,375	301,375
Total assets	2,038,583	2,038,583
LIABILITIES		
Accounts payable and accrued liabilities	15,156	15,156
Total liabilities	15,156	15,156
DEFERRED INFLOWS OF RESOURCES		
Prepaid taxes	290	290
Property tax receivable	69,737	69,737
Total deferred inflows of resources	70,027	70,027
FUND BALANCES		
Restricted		
Stabilization by State Statute	342,877	342,877
Streets - Powell Bill	227,467	227,467
Unassigned	1,383,056	1,383,056
Total fund balances	1,953,400	1,953,400
Total liabilities, deferred inflow of resources, and fund balances	\$ 2,038,583	
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	4,489,464	
Accumulated depreciation	(2,556,057)	
Capital assets (net)		1,933,407
Net pension liability - LGERS		(192,209)
Net pension liability - LEOSSA		(139,181)
Deferred outflows of resources related to pensions are not reported in the funds		174,175
Liabilities for earned revenues considered deferred inflows in fund statement		70,582
Deferred inflows of resources related to pension are not reported in the funds		(20,758)
Some liabilities, including installment purchases and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(845,648)
Net position of governmental activities		\$ 2,933,768

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

Town of Hertford
Statement of Revenues, Expenditures, and Changes
in Fund Balance – Governmental Fund
For the Fiscal Year Ended June 30, 2017
Exhibit 4

	<u>Major Funds</u>	
	General Fund	Total Governmental Funds
REVENUES		
Ad Valorem taxes	\$ 602,065	\$ 602,065
Other taxes and licenses	8,100	8,100
Unrestricted intergovernmental	745,657	745,657
Restricted intergovernmental	151,488	151,488
Sales and services	287,734	287,734
Investment earnings	739	739
Miscellaneous	22,100	22,100
Total revenues	1,817,883	1,817,883
EXPENDITURES		
Current:		
General government	268,141	268,141
Public safety	1,012,249	1,012,249
Transportation	367,381	367,381
Economic and physical development	18,904	18,904
Environmental protection	137,364	137,364
Debt Service:		
Principal	48,570	48,570
Interest	16,502	16,502
Total expenditures	1,869,111	1,869,111
Excess (deficiency) of revenues over expenditures	(51,228)	(51,228)
OTHER FINANCING SOURCES (USES)		
Transfers to (from) other funds	84,000	84,000
Total other financing sources (uses)	84,000	84,000
Net change in fund balance	32,772	32,772
Fund balances, beginning	1,920,628	1,920,628
Fund balances, ending	\$ 1,953,400	\$ 1,953,400

The accompanying footnotes 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 Fund
For the Fiscal Year Ended June 30, 2017
Exhibit 5**

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

Net changes in fund balances - total governmental funds \$ 32,772

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 capital outlay exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	718,444
Depreciation expense for governmental assets	(215,202)
Total	503,242

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. 48,840

Benefit payments paid and administrative expenses for the LEOSSA are not included on the Statement of Activities. (15,960)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues (845)

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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt	48,991
New long-term debt issued	(461,401)

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.

Compensated absences	(2,191)
Pension expense	(49,695)
Total	(51,886)

Total changes in net position of governmental activities \$ 103,753

The accompanying footnotes 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, 2017
Exhibit 6**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Ad Valorem taxes	\$ 555,110	\$ 555,110	\$ 602,065	\$ 46,955
Other taxes and licenses	9,000	9,000	8,100	(900)
Unrestricted intergovernmental	570,537	570,537	745,657	175,120
Restricted intergovernmental	143,500	143,500	151,488	7,988
Sales and services	186,020	261,560	287,734	26,174
Investment earnings	800	800	739	(61)
Miscellaneous	7,500	11,969	22,100	10,131
Total revenues	1,472,467	1,552,476	1,817,883	265,407
EXPENDITURES				
Current:				
General government	274,466	284,028	268,141	15,887
Public safety	847,754	1,003,154	1,012,249	(9,095)
Transportation	329,215	376,624	367,381	9,243
Economic and physical development	18,815	19,022	18,904	118
Environmental protection	141,115	141,115	137,364	3,751
Debt Service:				
Principal	26,409	10,631	48,570	(37,939)
Interest	18,693	54,677	16,502	38,175
Total expenditures	1,656,467	1,889,251	1,869,111	20,140
Revenue over (under) expenditures	(184,000)	(336,775)	(51,228)	285,547
OTHER FINANCING SOURCES (USES)				
Transfers to (from) other funds	84,000	84,000	84,000	-
Total other financing sources (uses)	84,000	84,000	84,000	-
Fund balance appropriated	100,000	252,775	-	(252,775)
Net change in fund balance	\$ -	\$ -	32,772	\$ 32,772
Fund balances, beginning			1,920,628	
Fund balances, ending			\$ 1,953,400	

The accompanying footnotes are an integral part of these financial statements.

Town of Hertford
Statement of Fund Net Position – Proprietary Fund
June 30, 2017
Exhibit 7

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 556,632	\$ 389,471	\$ 946,103
Accounts receivables (net)	327,873	187,967	515,840
Due to (from) other funds	47,550	(45,686)	1,864
Restricted cash and cash equivalents	129,802	-	129,802
Total current assets	1,061,857	531,752	1,593,609
Noncurrent assets:			
Note receivable - Winfall settlement	-	270,000	270,000
Capital assets:			
Land and other non-depreciable assets	-	379,893	379,893
Other capital assets (net)	609,923	13,367,355	13,977,278
Capital assets (net)	609,923	13,747,248	14,357,171
Total noncurrent assets	609,923	14,017,248	14,627,171
Total assets	\$ 1,671,780	\$ 14,549,000	\$ 16,220,780
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	54,782	42,599	97,381
Total deferred outflows of resources	54,782	42,599	97,381
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 182,808	\$ 1,191	\$ 183,999
Customer deposits	129,802	-	129,802
Compensated absences - current	3,080	2,298	5,378
Installment loan - current	8,903	8,903	17,806
Bonds payable - current	-	73,000	73,000
Liabilities payable from restricted assets:			
Revolving Loans	-	297,279	297,279
Total current liabilities	324,593	382,671	707,264
Noncurrent liabilities:			
Other noncurrent liabilities:			
Compensated absences - noncurrent	9,239	6,893	16,133
Net pension liability	60,455	47,010	107,465
Bonds payable, net of current	-	4,289,000	4,289,000
Note payable, net of current	216,388	216,388	432,776
Revolving Loans, net of current	-	3,267,331	3,267,331
Total noncurrent liabilities	286,082	7,826,622	8,112,705
Total liabilities	610,675	8,209,293	8,819,968
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	5,440	4,230	9,670
Total deferred inflows of resources	5,440	4,230	9,670
Net Position			
Net investment in capital assets	384,632	5,595,347	5,979,979
Unrestricted	725,815	782,729	1,508,544
Total net position	\$ 1,110,447	\$ 6,378,076	\$ 7,488,523

The accompanying footnotes are an integral part of these financial statements.

Town of Hertford
Statement of Revenues, Expenses, and Changes in Fund Net Position –
Proprietary Fund
For the Fiscal Year Ended June 30, 2017
Exhibit 8

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 2,984,479	\$ 1,204,011	\$ 4,188,490
Winfall charges	-	74,601	74,601
Water and sewer taps	-	27,000	27,000
Other operating revenues	14,762	-	14,762
Total operating revenues	2,999,241	1,305,612	4,304,853
Operating expenses:			
Salaries and employee benefits	274,844	232,225	507,069
Utilities	2,254,916	152,785	2,407,701
Supplies and other expenses	180,106	237,358	417,464
Depreciation	68,275	734,750	803,025
Total operating expenses	2,778,141	1,357,118	4,135,259
Operating income (loss)	221,100	(51,506)	169,594
Nonoperating revenues (expenses):			
FEMA Reimbursement	14,161	13,649	27,810
Interest on investments	1	303	304
Interest and fees	(9,765)	(238,881)	(248,646)
Total nonoperating revenues (expenses)	4,397	(224,929)	(248,342)
Income (loss) before transfers	225,497	(276,435)	(50,938)
Transfers to other funds	(84,000)	-	(84,000)
	(84,000)	-	(84,000)
Change in net position	141,497	(276,435)	(134,938)
Total net position, beginning	908,416	6,654,511	7,562,927
Prior period adjustment	60,534	-	60,534
Total net position, restated	968,950	6,654,511	7,623,461
Total net position, ending	\$ 1,110,447	\$ 6,378,076	\$ 7,488,523

The accompanying footnotes are an integral part of these financial statements.

Town of Hertford
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2017
Exhibit 9

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 2,978,898	\$ 1,327,053	\$ 4,305,951
Cash paid for goods and services	(2,423,825)	(403,115)	(2,826,940)
Cash paid to employees for services	(276,514)	(230,360)	(506,874)
Customer deposits received (net)	(1,291)	-	(1,291)
Other operating revenues	14,762	-	14,762
Net cash provided (used) by operating activities	292,030	693,578	985,608
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Increase (decrease) in due to other funds	-	(106,509)	(106,509)
Transfers to other funds	(84,000)	-	(84,000)
Net cash provided (used) by noncapital financing activities	(84,000)	(106,509)	(190,509)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term borrowings	(8,927)	(375,205)	(384,132)
Interest paid on long-term borrowings	(9,766)	(238,881)	(248,647)
Acquisition and construction of capital assets	(35,000)	-	(35,000)
Capital contributions	14,161	-	14,161
Net cash provided (used) by capital and related financing activities	(39,532)	(614,086)	(653,618)
CASH FLOWS FROM INVESTING ACTIVITIES			
Principal received on note receivable	-	28,649	28,649
Interest on investments	1	303	304
Net cash provided (used) by investing activities	1	28,952	28,953
Net increase (decrease) in cash and cash equivalents	168,499	1,935	170,434
Balances, beginning	517,935	387,536	905,471
Balances, ending	\$ 686,434	\$ 389,471	\$ 1,075,905

The accompanying footnotes are an integral part of these financial statements.

Town of Hertford
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2017
Exhibit 9

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 221,100	\$ (51,506)	\$ 169,594
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	68,275	734,750	803,025
Change in assets, liabilities and deferred outflows of resources			
(Increase) decrease in accounts receivable	(5,581)	21,441	15,860
(Increase) decrease in net pension asset	-	-	-
(Increase) decrease in deferred outflows of resources - pensions	(40,333)	(31,588)	(71,921)
Increase (decrease) in net pension liability	43,602	34,167	77,769
Increase (decrease) in deferred inflows of resources - pensions	(3,425)	(2,525)	(5,950)
Increase (decrease) in accounts payable and accrued liabilities	11,197	(12,972)	(1,775)
Increase (decrease) in customer deposits	(1,291)	-	(1,291)
Increase (decrease) in compensated absences	(1,514)	1,811	297
Total adjustments	70,930	745,084	816,014
Net cash provided (used) by operating activities	\$ 292,030	\$ 693,578	\$ 985,608

The accompanying footnotes 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.

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.

Town of Hertford Notes to Financial Statements

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.

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.

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 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

Town of Hertford Notes to Financial Statements

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 utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Hertford because the tax is levied by Perquiman's 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. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Community Development Block Grant, and the

Enterprise Funds. All annual appropriations lapse at the fiscal-year end. 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 value as determined by quoted market prices. The securities of the NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered 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

Governmental Activities. 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, 2017, the Town has accumulated \$70,297 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

**Town of Hertford
Notes to Financial Statements**

can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

Town of Hertford Restricted Cash

Governmental Activities:

General Fund	
USDA Reserve	\$ 73,908
Streets - Powell Bill	227,467
Total governmental activities	301,375

Business-type Activities:

Electric Fund	
Customer Deposits	129,802
Total business-type activities	129,802
Total restricted cash	\$ 431,177

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, 2014. 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

Town of Hertford
Notes to Financial Statements

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
Computer	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
Computer	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, contributions made to the pension plan in the 2017 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This is 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 deferrals of pension expense.

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, 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 represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of three 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:

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 – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].



Town of Hertford Notes to Financial Statements

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.

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. Subsequent Events – Date of Management Evaluation

Management has evaluated subsequent events through January 17, 2018, the date on which the financial statements were available to be issued.

13. Deferred Benefit Cost-Sharing Plan

For purposes of measuring the net pension 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.

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2017, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for public safety activities by \$9,095. This over-expenditure occurred because of unplanned payroll expenditures for public safety. Management and the Board will more closely review the budget reports to ensure compliance in future years.

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

At June 30, 2017, the Town's deposits had a carrying amount of \$2,701,034, and a bank balance of \$2,709,4177. 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 \$105,472 and the bank balance was \$104,569. All of the bank balance was covered by federal depository insurance. At June 30, 2017, the Town's petty cash fund totaled \$550.

**Town of Hertford
Notes to Financial Statements**

2. Receivables – Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 are net of the following allowances for doubtful accounts:

Fund	June 30, 2017
General Fund:	
Taxes receivable	\$ 33,741
Accounts receivable	1,506
Total	35,247
Enterprise Funds	
Total	\$ 60,234

3. Capital Assets

Primary Government. Capital asset activity for the Primary Government for the year ended June 30, 2017 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 407,205	\$ -	\$ -	\$ 407,205
Total capital assets not being depreciated	407,205	-	-	407,205
Capital assets being depreciated:				
Buildings	1,154,487	-	143,200	1,011,287
Equipment	402,677	-	26,000	376,677
Other Improvements	1,164,406	-	-	1,164,406
Vehicles and motorized equipment	1,031,143	718,844	220,098	1,529,889
Total capital assets being depreciated	3,752,713	718,844	389,298	4,082,259
Less accumulated depreciation for:				
Buildings	892,522	13,425	143,200	762,747
Equipment	357,673	9,871	26,000	341,544
Other Improvements	473,639	47,275	-	520,914
Vehicles and motorized equipment	1,006,319	144,631	220,098	930,852
Total accumulated depreciation	2,730,153	215,202	389,298	2,556,057
Total capital assets being depreciated, net	1,022,560			1,526,202
Governmental activity capital assets, net	<u>\$ 1,429,765</u>			<u>\$ 1,933,407</u>

**Town of Hertford
Notes to Financial Statements**

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

General government	\$ 6,918
Public safety	157,757
Transportation	41,564
Cultural and recreational	8,963
Total depreciation expense	\$ 215,202

	Beginning Balances	Increases	Decreases	Ending balances
Business-type activities				
Electric fund				
Capital assets being depreciated:				
Substation, lines, and other equipment	\$ 2,406,470	\$ -	\$ -	\$ 2,406,470
Equipment	251,052	35,000	-	286,052
Vehicles	210,348	-	17,420	192,928
Total capital assets being depreciated	2,867,870	35,000	17,420	2,885,450
Less accumulated depreciation for:				
Substation, lines, and other equipment	1,687,824	57,091	-	1,744,915
Equipment	326,500	11,184	-	337,684
Vehicles	210,348	-	17,420	192,928
Total accumulated depreciation	2,224,672	68,275	17,420	2,275,527
Total capital assets being depreciated, net	643,198			609,923
Electric fund capital assets, net	643,198			609,923
 Water and Sewer Fund				
Capital assets not being depreciated:				
Land	379,893	-	-	379,893
Total capital assets not being depreciated	379,893	-	-	379,893
Capital assets being depreciated				
Building	1,700	-	-	1,700
Plant, distribution system, and other equipment	22,451,868	-	-	22,451,868
Equipment	476,927	-	-	476,927
Vehicles	88,486	-	11,225	77,261
Total capital assets being depreciated	23,018,981	-	11,225	23,007,756
Less accumulated depreciation for:				
Building	1,700	-	-	1,700
Plant, distribution system, and other equipment	8,400,300	722,843	-	9,123,143
Equipment	426,390	11,907	-	438,297
Vehicles	88,486	-	11,225	77,261
Total accumulated depreciation	8,916,876	734,750	11,225	9,640,401
Total capital assets being depreciated, net	14,102,105			13,367,355
Water and sewer fund capital assets, net	14,481,998			13,747,248
Business-type activities capital assets, net	\$ 15,125,196			\$ 14,357,171

Town of Hertford
Notes to Financial Statements

Discretely presented component units. Activity for the ABC Board for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 5,472	\$ -	\$ -	\$ 5,472
Total capital assets not being depreciated	5,472	-	-	5,472
Capital assets being depreciated:				
Buildings	36,310	-	-	36,310
Furniture and equipment	81,293	-	-	81,293
Leasehold improvements	11,871	-	-	11,871
Total capital assets being depreciated	129,474	-	-	129,474
Less accumulated depreciation for:				
Buildings	36,310	-	-	36,310
Furniture and equipment	53,055	5,479	-	58,534
Leasehold improvements	11,871	-	-	11,871
Total accumulated depreciation	101,236	5,479	-	106,715
ABC capital assets, net	<u>\$ 33,710</u>			<u>\$ 28,231</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.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to

Town of Hertford Notes to Financial Statements

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, 2017, was 8.00% of compensation for law enforcement officers and 7.35% 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 \$76,146 for the year ended June 30, 2017.

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, 2017, the Town reported a liability of \$299,674 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town's

**Town of Hertford
Notes to Financial Statements**

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, 2017, the Town's proportion was .01412%, which was a decrease of .00357% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Town recognized pension expense of \$77,323. At June 30, 2017, 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	\$ 5,630	\$ 10,501
Changes of assumptions	20,525	-
Net difference between projected and actual earnings on pension plan investments	165,682	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	3,573	16,466
Town contributions subsequent to the measurement date	76,146	-
Total	\$ 271,556	\$ 26,967

\$76,146 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 24,450
2019	24,475
2020	75,513
2021	44,005
2022	-
Thereafter	-
Total	\$ 168,443

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Town of Hertford Notes to Financial Statements

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, 2016 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, 2017 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%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 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 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan

**Town of Hertford
Notes to Financial Statements**

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 asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 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 (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 711,265	\$ 299,674	\$ (44,118)

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

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	10
Total	10

**Town of Hertford
Notes to Financial Statements**

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 actuarial cost method was used in the December 31, 2016 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the yield of the Bond Buyer General Obligation 20-year Municipal Bond Index as of December 31, 2017.

Mortality rates are based on the RP-2014 Mortality tables with adjustments for mortality improvements based on Scale AA.

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 County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation 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, 2017, the Town reported a total pension liability of \$139,181. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was rolled forward to December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the County recognized pension expense of \$15,960.

**Town of Hertford
Notes to Financial Statements**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	3,461
County benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ -	\$ 3,461

\$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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2018	\$	632
2019		632
2020		632
2021		632
2022		632
Thereafter		301
Total	\$	3,461

\$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 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total Pension Liability	\$ 153,846	\$ 139,181	\$ 125,998

**Town of Hertford
Notes to Financial Statements**

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

Beginning balance	\$ 131,324
Service cost	11,478
Interest on the total pension liability	4,614
Changes of assumptions or other inputs	(4,093)
Benefit payments	(4,142)
Ending balance of the total pension liability	\$ 139,181

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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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 make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 were \$27,466, which consisted of \$17,162 from the Town and \$10,304 from the law enforcement officers.

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.

Town of Hertford
Notes to Financial Statements

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town 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, 2017 were \$32,716, which consisted of \$24,841 from the Town and \$7,875 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 County, the County 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.

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	\$ 5,630
Changes of assumptions	20,525
Contributions to pension plan in current fiscal year	76,146
Changes in proportion and differences between Town contributions and proportionate share of contributions	3,573
Net difference between projected and actual earnings on pension plan investments	165,682
Total	\$ 271,556

**Town of Hertford
Notes to Financial Statements**

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

	Statement of Net Position
Prepaid taxes (General Fund)	\$ 290
Taxes receivables, less penalties (General Fund)	69,737
Differences between expected and actual experience	10,501
Changes of assumptions	3,461
Changes in proportion and differences between Town contributions and proportionate share of contributions	16,466
Total	\$ 100,455

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 has one potential contingent liability. On August 19, 2016, the North Carolina Supreme Court invalidated impact fees previously imposed by North Carolina municipalities. It has not yet been determined the amount of sewer impact fees charged by the Town, if any, for which claims may be made and will fall under this ruling.

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%.

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.

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, including interest, beginning March 2009. The interest rate is 4.125%.

In February 2012, the Town entered into a \$67,116 installment purchase contract to finance the purchase of several police vehicles and the related equipment. The finance contract requires 7 annual payments of \$10,631, including interest, beginning February 2013. The interest rate is 2.650%.

In September 2016, the Town entered into a \$73,401 installment purchase contract to finance the purchase of three police vehicles. The finance contract requires four annual payments of \$19,970, including interest, beginning September 2017. The interest rate is 5.95%.

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 future minimum payments of the installment purchases as of June 30, 2017, including \$261,775 of interest, are as follows:

**Town of Hertford
Notes to Financial Statements**

Year Ending June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 61,309	\$ 29,436	\$ 17,805	\$ 19,958	\$ 79,114	\$ 49,394
2019	65,097	25,646	21,103	16,661	86,200	42,307
2020	55,444	24,671	18,579	19,185	74,023	43,856
2021	37,909	22,234	19,385	18,379	57,294	40,613
2022	39,303	20,841	20,177	17,586	59,480	38,427
2023-2027	199,801	80,302	120,033	68,783	319,834	149,085
2028-2032	187,052	45,395	148,464	40,353	335,516	85,748
2033-2034	160,066	13,250	85,035	6,728	245,101	19,978
Total	\$ 805,981	\$ 261,775	\$ 450,581	\$ 207,633	\$ 1,256,562	\$ 469,408

Compensated absences typically have been liquidated in the General Fund.

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.

Bonds payable at June 30, 2017 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.	\$ 2,703,000
\$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.	966,000
\$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.	693,000
	\$ 4,362,000

The future minimum payments of the general obligation indebtedness as of June 30, 2017, including \$3,544,386 of interest, are as follows:

**Town of Hertford
Notes to Financial Statements**

Year Ending	General Obligation	
	Indebtedness	
June 30	Principal	Interest
2018	\$ 73,000	\$ 187,811
2019	76,000	184,680
2020	79,000	181,417
2021	82,000	178,026
2022	86,000	174,504
2023-2027	487,000	813,973
2028-2032	600,000	700,028
2033-2037	740,000	559,297
2038-2042	916,000	385,324
2043-2047	1,069,000	172,674
2048	154,000	6,652
Total	\$ 4,362,000	\$ 3,544,386

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.

Revolving loans payable at June 30, 2017 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.	\$ 1,650,000
\$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.	244,340
\$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.	1,586,757
\$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.	83,513
	<u>\$ 3,564,610</u>

The future minimum payments of the revolving loans as of June 30, 2017, including \$245,530 of interest, are as follows:

**Town of Hertford
Notes to Financial Statements**

Year Ending	Revolving Loans	
	June 30	Interest
2018	\$ 297,278	\$ 35,076
2019	297,278	32,377
2020	297,278	29,680
2021	297,278	26,981
2022	297,278	24,283
2023-2027	1,486,391	80,944
2028-2030	591,829	16,189
Total	\$ 3,564,610	\$ 245,530

At June 30, 2017, Town of Hertford, North Carolina had a legal debt margin of \$9,144,021.

D. Changes in Long-Term Liabilities

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Current Portion of Balance
Governmental activities:					
Installment purchase	\$ 393,571	\$ 461,401	\$ 48,991	\$ 805,981	\$ 61,309
Compensated absences	37,477	2,191	-	39,668	9,917
Net pension liability (LGERS)	49,694	142,515	-	192,209	48,052
Net pension liability (LEO)	126,682	12,499	-	139,181	34,795
Governmental activity long-term liabilities	\$ 607,424	\$ 618,606	\$ 48,991	\$ 1,177,039	\$ 154,074
Business-type activities:					
<u>Water and Sewer Fund:</u>					
Installment purchase	\$ 234,218	\$ -	\$ 8,927	\$ 225,291	\$ 8,903
General obligation bonds	4,431,000	-	69,000	4,362,000	73,000
Revolving loans	3,861,888	-	297,278	3,564,610	297,278
Compensated absences	7,380	1,811	-	9,191	2,298
Net pension liability (LGERS)	12,843	34,167	-	47,010	11,753
Water and Sewer long-term liabilities	8,547,329	35,978	375,205	8,208,102	393,231
<u>Electric Fund</u>					
Installment purchase	234,218	-	8,927	225,291	8,903
Compensated absences	13,833	-	1,514	12,319	3,080
Net pension liability (LGERS)	16,854	43,601	-	60,455	15,114
Electric long-term liabilities	264,905	43,601	10,441	298,065	27,097
Business activity long-term liabilities	\$ 8,812,234	\$ 79,579	\$ 385,646	\$ 8,506,167	\$ 420,328

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, 2017, the Town has accumulated \$73,908 in this account and it is shown as restricted assets for "USDA Reserve."

**Town of Hertford
Notes to Financial Statements**

F. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2017, consist of the following:

Due to the Electric Fund from the General Fund for electric operations	\$ 7,553
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 electric operations	39,997
<u>Total</u>	<u>\$ 53,239</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, 2017, consist of the following:

<u>From the Electric Fund to the General Fund</u>	<u>\$ 84,000</u>
<u>Total</u>	<u>\$ 84,000</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.

During the 2017 fiscal year, the Town made a transfer from the Electric Fund of \$84,044 to the General Fund for operating expenses.

G. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 1,933,407	\$ 14,357,171
less: long-term debt	805,981	8,377,192
<u>Net Investment in capital assets</u>	<u>\$ 1,127,426</u>	<u>\$ 5,979,979</u>

H. Fund Balance

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

Town of Hertford
Notes to Financial Statements

Total fund balance - General	\$ 1,953,400
Less:	
Stabilization by State Statute	342,877
Streets - Powell Bill	227,467
Working Capital / Fund Balance Policy	373,822
<u>Remaining fund balance</u>	<u>\$ 1,009,234</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 Eastern Municipal Power (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 Agency's governing board. The twenty-one members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the 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, 2017, were \$2,254,916.

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 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 – PRIOR PERIOD ADJUSTMENT – ACCOUNTS PAYABLE

During the fiscal year 2017, the Town determined that the accounts payable in the Electric Fund was not recorded correctly. This, in effect, overstated expenditures and payables in the Electric



Town of Hertford
Notes to Financial Statements

Fund by \$60,534. A prior period adjustment was made to increase fund balance in the Electric Fund by \$60,534.

NOTE VIII – 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 waste water treatment plant and the provision of waste water 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 IX – SALE OF ASSET TO PERQUIMANS COUNTY SCHOOLS

During the current fiscal year, the Town sold a fire truck to Perquimans County Schools for \$45,000. The Town received cash of \$3,000 in the current year and will receive \$7,000 each July 30th for six years.

NOTE X – CHANGE IN ACCOUNTING PRINCIPLES / RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased by \$126,682.

Town of Hertford
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years
Schedule 1

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Hertford's proportion of the net pension liability (asset) (%)	0.01412%	0.01769%	0.01635%	0.01630%
Hertford's proportion of the net pension liability (asset) (\$)	\$ 299,674	\$ 79,391	\$ (96,423)	\$ 196,478
Hertford's covered-employee payroll	\$ 1,005,643	\$ 927,393	\$ 883,934	\$ 958,183
Hertford's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	29.80%	8.65%	(1.04%)	2.23%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

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

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

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

	2017	2016	2015	2014
Contractually required contribution	\$ 76,146	\$ 63,220	\$ 66,561	\$ 63,115
Contributions in relation to the contractually required contribution	76,146	63,220	66,561	63,115
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Hertford's covered-employee payroll	\$ 1,005,643	\$ 918,096	\$ 927,393	\$ 883,934
Contributions as a percentage of covered-employee payroll	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

	2017
Beginning balance	\$ 131,324
Service cost	11,478
Interest on the total pension liability	4,614
Changes of assumptions or other inputs	(4,093)
Benefit payments	(4,142)
<u>Ending balance of the total pension liability</u>	<u>\$ 139,181</u>

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

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

Total pension liability	\$ 139,181
Covered payroll	363,794
Total pension liability as a percentage of covered payroll	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 Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2017
Schedule 5

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes:			
Taxes		\$ 596,726	
Interest		5,339	
Total	\$ 555,110	602,065	\$ 46,955
Other taxes and licenses:			
Privilege licenses		1,370	
Vehicle tags		6,730	
Total	9,000	8,100	(900)
Unrestricted intergovernmental			
Local option sales taxes		516,598	
Payment in lieu of taxes		9,037	
Telecommunications sales tax		24,691	
Utility sales tax		85,234	
Piped natural gas sales tax		3,030	
Video franchise fee		15,118	
Beer and wine tax		9,700	
ABC Profit Distribution		78,297	
Housing authority reimbursement		3,952	
Total	570,537	745,657	175,120
Restricted intergovernmental:			
Powell Bill allocation		58,841	
Perquimans County Fire Department Contribution		67,500	
FEMA Reimbursement		25,147	
Total	143,500	151,488	7,988
Sales and services:			
DMV commissions		54,423	
Cemetery services		19,525	
Refuse services		108,754	
Miscellaneous fees and services		105,032	
Total	261,560	287,734	26,174
Investment earnings	800	739	(61)
Miscellaneous:			
Arrest fees		22,100	
Total	11,969	22,100	10,131
Total revenues	1,552,476	1,817,883	265,407

Town of Hertford
General Fund Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2017
Schedule 5

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
General government:			
Administration:			
Salaries and employee benefits		114,559	
Operating expenditures		128,913	
Capital outlay		449	
Total	258,638	243,921	14,717
DMV Operations:			
Salaries and employee benefits		46,746	
Operating expenditures		1,827	
Total	49,743	48,573	1,170
Reimbursement from other funds		(24,353)	-
Total	(24,353)	(24,353)	-
Total general government	284,028	268,141	15,887
Public safety:			
Police:			
Salaries and employee benefits		517,747	
Operating expenditures		186,875	
Total	678,593	704,622	(26,029)
Fire:			
Salaries and employee benefits		1,908	
Operating expenditures		105,719	
Capital outlay		200,000	
Total	324,561	307,627	16,934
Total public safety	1,003,154	1,012,249	(9,095)
Transportation:			
Street and highways:			
Salaries and employee benefits		216,847	
Operating expenditures		136,763	
Capital outlay		13,771	
Total	376,624	367,381	9,243
Total transportation	376,624	367,381	9,243
Economic and physical development:			
Main Street program			
Salaries and employee benefits		18,100	
Operating expenditures		804	
Total	19,022	18,904	118
Total economic and physical development	19,022	18,904	118

Town of Hertford
General Fund Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2017
Schedule 5

	Budget	Actual	Variance Positive (Negative)
Environmental protection:			
Cemetery:			
Operating expenditures		24,000	
Total	25,500	24,000	1,500
Sanitation:			
Operating expenditures		113,364	
Total	115,615	113,364	2,251
Total environmental protection	141,115	137,364	3,751
Debt Service:			
Principal		48,570	
Interest		16,502	
Total debt service	65,308	65,072	236
Total expenditures	1,889,251	1,869,111	20,140
Revenue over (under) expenditures	(336,775)	(51,228)	285,547
OTHER FINANCING SOURCES (USES)			
Transfer from other funds:			
Electric Fund		84,000	
Total other financing sources (uses)	84,000	84,000	-
Fund balance appropriated	252,775	-	(252,775)
Net change in fund balance	\$ -	32,772	\$ 32,772
Fund balances, beginning		1,920,628	
Fund balances, ending		\$ 1,953,400	

Town of Hertford
Electric Fund Schedule of Revenues and
Expenditures – Budget and Actual(Non-GAAP)
For the Fiscal Year Ended June 30, 2017
Schedule 6

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues:			
Charges for services		\$ 2,984,479	
Other operating revenues		14,762	
Total operating revenues	\$ 3,186,731	2,999,241	\$ (187,490)
Nonoperating revenues:			
FEMA Reimbursement		14,161	
Interest on investments		1	
Total nonoperating revenues	1	14,162	-
Total revenues	3,186,732	3,013,403	(187,490)
Expenditures			
Electric Operations			
Salaries and employee benefits		276,514	
Maintenance and supplies		81,619	
Administrative service		11,353	
Electric power purchases		2,254,916	
Administrative cost from other funds for services		24,353	
Other expenses		41,234	
Insurance		21,547	
Total	3,087,545	2,711,536	376,009
Debt Service			
Principal		8,927	
Interest		9,765	
Total Debt Service	19,501	18,692	809
Total Expenditures	3,107,046	2,730,228	376,818
Revenues over (under) expenditures	79,686	283,175	189,328
Other financing sources (uses):			
Transfer to General Fund	(84,000)	(84,000)	-
Revenues over (under) expenditures and other financing uses	(4,314)	199,175	203,489
Fund balance appropriated	4,314	-	(4,314)
Revenues, other financing sources, and fund balance appropriated over expenditures	\$ -	\$ 199,175	\$ 199,175
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
(Increase) decrease in accrued vacation		1,514	
Increase (decrease) in deferred outflows of resources - pensions		40,333	
(Increase) decrease in net pension liability		(43,602)	
(Increase) decrease in deferred inflows of resources - pensions		3,425	
Bond principal and other debt payments		8,927	
Depreciation expense		(68,275)	
Total reconciling items		(57,678)	
Change in net position		\$ 141,497	

Town of Hertford
Water and Sewer Fund Schedule of Revenues
and Expenditures – Budget and Actual(Non-GAAP)
For the Fiscal Year Ended June 30, 2017
Schedule 7

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues:			
Charges for services		\$ 1,204,011	
Water taps		27,000	
Winfall charges		74,601	
Total operating revenues	\$ 1,335,600	1,305,612	\$ (29,988)
Nonoperating revenues:			
FEMA Reimbursement		13,649	
Interest on investments		303	
Total nonoperating revenues	14,702	13,952	(750)
Total revenues	1,350,302	1,319,564	(30,738)
Expenditures			
Water and Sewer Operations:			
Salaries and benefits		230,360	
Administrative service		14,953	
Vehicle expense		14,024	
Material and supplies		51,043	
Maintenance and repairs		35,335	
Other operating expenses		106,943	
Insurance		15,060	
Utility fees		152,785	
	720,811	620,503	100,308
Debt Service			
Principal		375,205	
Interest		238,881	
Total Debt Service	634,155	614,086	20,069
Total Expenditures	1,354,966	1,234,589	120,377
Revenues over (under) expenditures	(4,664)	84,975	89,639
Fund balance appropriated	4,664	-	(4,664)
Revenues and fund balance appropriated over expenditures	\$ -	\$ 84,975	\$ 84,975

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

Reconciling items:		
(Increase) decrease in accrued vacation		(1,811)
Increase (decrease) in deferred outflows of resources - pensions		31,588
(Increase) decrease in net pension liability		(34,167)
(Increase) decrease in deferred inflows of resources - pensions		2,525
Principal retirement		375,205
Depreciation expense		(734,750)
Total reconciling items		(361,410)
Change in net position		\$ (276,435)

Town of Hertford
Schedule of Ad Valorem Taxes Receivable
June 30, 2017
Schedule 8

Fiscal Year	Uncollected Balance June 30, 2016	Additions	Credits and Collections	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 595,241	\$ 573,820	\$ 21,421
2015-2016	23,915	9,230	18,129	15,016
2014-2015	14,933	-	3,378	11,555
2013-2014	11,511	-	2	11,509
2012-2013	11,280	-	1,120	10,160
2011-2012	9,230	-	933	8,297
2010-2011	7,621	-	260	7,361
2009-2010	6,030	-	212	5,818
2008-2009	6,420	-	107	6,313
2007-2008	6,405	-	377	6,028
2006-2007	7,337	-	7,337	-
	\$ 104,682	\$ 604,471	\$ 605,675	103,478

Less: allowance for uncollectible accounts:

General Fund	33,741
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Ad Valorem taxes receivable - net:

General Fund	\$ 69,737
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Reconciliation with revenues

Ad valorem taxes - General Fund	602,065
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Reconciling items:

Interest collected	(5,339)
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Taxes written off	8,949
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Subtotal	3,610
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Total collections and credits	\$ 605,675
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Town of Hertford
Analysis of Current Tax Levy – Town-Wide Levy
June 30, 2017
Schedule 9

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current rate	\$ 122,171,489	0.47	\$ 574,206	\$ 515,532	\$ 58,674
Discoveries					
Public Utilities	4,904,814	0.47	23,053	23,053	-
Other	524,255	0.47	2,464	2,464	-
Abatements	(953,617)	0.47	(4,482)	(4,482)	-
Total property valuation	\$ 126,646,941				
Net levy			595,241	536,567	58,674
Uncollected taxes at June 30, 2017			21,421	21,421	-
Current year's taxes collected			\$ 573,820	\$ 515,146	\$ 58,674
Current levy collection percentage			96.40%	96.01%	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
Members of the Town Council
Town of Hertford, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the [accompanying] financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Town of Hertford, North Carolina, as of and for the year ended June 30, 2017, 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 January 17, 2018.

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.

Our consideration of internal control was for limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies described as items 17-1 and 17-2 in the accompanying schedule of findings and responses to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. No significant deficiencies were noted.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hertford's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 17-3.

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 responses. 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
January 17, 2018

Material Weaknesses

17-1 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, revenues, and receivables functions.

Effect: Transactions could be mishandled.

Cause: There are a 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 actions: The Town agrees with this finding. The Town will work to develop procedures to segregate duties as much as possible.

17-2 Prior Period Adjustment – Accounts Payable

Criteria: Accounts payables should be properly recorded at the end of the fiscal year.

Condition: The electric bill for the Town was recorded incorrectly in the prior year.

Effect: The Town's expenditures and payables were overstated in the Electric Fund.

Cause: The payable balance was not reviewed appropriately.

Recommendation: We recommend that the Town review all payables to ensure they are properly recorded.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. The Town will put procedures in place to ensure that payable balances are reviewed at the end of the year.

Significant Noncompliance

17-3 Budget – Based upon review of financial statements.

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

Condition: The Town expended \$9,095 more for public safety costs in General Fund than approved in the budget.

Effect: Monies were spent that had not been approved.

Cause: Budget amendments were not made to account for the over-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 account for all expenditures.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. The Town will put procedures in place to ensure that budget amendments are made as necessary.



January 17, 2018

To the Board and Management of
Town of Hertford, North Carolina

Dear Board and Management:

We are pleased to present the results of our audit of the 2017 financial statements of the Town of Hertford.

This report to the Board and Management summarizes our audit, the report issued and various analyses and observations related to the Board's accounting and reporting. The document also contains the communications required by our professional standards.

Our audit was designed to express an opinion on the Town's 2017 financial statements. We considered the Town's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the Board and Management, expect. We received the full support and assistance of Town's personnel.

At Jeff Best, CPA, PLLC, we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This report is intended solely for the information and use of the Board, Management and others within the Town and should not be used by anyone other than these specified parties.

We appreciate this opportunity to work with you. If you have any questions or comments, please contact me at 252-943-2723 or jbest@jeffbestcpa.com.

Very truly yours,

Jeff Best, CPA

As discussed with the Board and Management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Town. Specifically, we planned and performed our audit to:

- Perform an annual audit, as required by North Carolina General Statutes, in accordance with auditing standards generally accepted in the United States of America, in order to express an opinion on the Town's financial statements for the year ended June 30, 2017.
- Communicate directly with the Board and Management regarding the results of our procedures;
- Address with the Board and Management any accounting and financial reporting issues;
- Anticipate and respond to concerns of the Board and Management; and
- Other audit-related projects as they arise and upon request.

Required Communications

We have audited the financial statements of the Town of Hertford, North Carolina (the “Town”) for the year ended June 30, 2017 and have issued our report thereon dated January 17, 2018. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITOR’S RESPONSE
<p>Auditor’s responsibility under Generally Accepted Auditing Standards</p>	<p>As stated in our engagement letter dated July 13, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements, of the governmental activities, the business-type activities, and each major fund, prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the Town. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
<p>Client’s responsibility</p>	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
<p>Planned scope and timing of the audit</p>	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
<p>Management judgments and accounting estimates <i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditor’s conclusion regarding the reasonableness of those estimates.</i></p>	<p>Please see the following section titled “Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality.”</p>
<p>Potential effect on the financial statements of any significant risks and exposures <i>Major risks and exposures facing the Town and how they are disclosed.</i></p>	<p>No such risks or exposures were noted.</p>

Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditor's judgment about the quality of accounting principles</p> <ul style="list-style-type: none"> • <i>The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</i> • <i>The auditor should also discuss the auditor's judgment about the quality, not just the acceptability, of the Town's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures. Critical accounting policies and practices applied by the Board in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations;</i> • <i>Alternative treatments within GAAP for accounting policies and practices related to material items, including recognition, measurement, presentation and disclosure alternatives, that have been discussed with client management during the current audit period, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor; Furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.</i> 	<p>Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. During the fiscal year, the Town implemented Statement 73 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.</p>
<p>Significant difficulties encountered in the audit <i>Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.</i></p>	<p>None.</p>

Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p>Disagreements with management <i>Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditor's report. This does not include those that came about based on incomplete facts or preliminary information.</i></p>	None.
<p>Other findings or issues <i>Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.</i></p>	None.
<p>Matters arising from the audit that were discussed with, or the subject of correspondence with, management <i>Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.</i></p>	None.
<p>Corrected and uncorrected misstatements <i>All significant audit adjustments arising from the audit, whether or not recorded by the Town, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Town about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.</i></p>	Please see the following section titled "Summary of Audit Adjustments".
<p>Major issues discussed with management prior to retention <i>Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.</i></p>	None.
<p>Consultations with other accountants <i>When management has consulted with other accountants about significant accounting or auditing matters.</i></p>	None of which we are aware.

Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p>Written representations <i>A description of the written representations the auditor requested (or a copy of the representation letter).</i></p>	See "Management Representation Letter" section.
<p>Internal control deficiencies <i>Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditor's attention during the audit.</i></p>	See the "Internal Control Findings" Section.
<p>Fraud and illegal acts <i>Fraud involving management, or the Town, those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditor's attention involving senior management and any other illegal acts, unless clearly inconsequential.</i></p>	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
<p>Parties in interest and prohibited transactions <i>Any parties in interest in the Town, prohibited transactions as defined by GAS, and other reportable transactions.</i></p>	No prohibited transactions were noted. Transactions with parties in interest and other reportable transactions were properly disclosed in the notes to the financial statements, in accordance with GAAP.
<p>Other information in documents containing audited financial statements <i>The external auditor's responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.</i></p>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> • Such information is materially inconsistent with the financial statements; and • We believe such information represents a material misstatement of fact. <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>

Accounting Policies, Judgments and Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the Town's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Board may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Capital Assets	<p>Based upon our audit procedures, with respect to the Town's capital assets, we noted that it estimates the annual provision for depreciation expense on estimated useful life of the capital asset in accordance with all applicable standards and guidelines.</p> <p>The Town calculates depreciation expense using the straight-line method.</p>	X	<p>The Town's estimate of the useful life of its capital assets.</p> <p>The estimated useful lives of Town's capital assets are based on a detailed management review.</p>	The Town's policy is in accordance with all applicable accounting guidelines.
Compensated Absences	<p>The Town estimates the accrued liability at year-end for amounts owed to its employees for compensated absences ("Vacation Policy") in accordance with all applicable standards and guidelines.</p> <p>The Town calculates the annual liability at the prevailing rates of compensation.</p>	X	The Town's estimate of its accrued liability for compensated absences is based upon the established compensation levels at year-end which may differ from the actual amounts.	The Town's policy is in accordance with all applicable accounting guidelines.

Accounting Policies, Judgments and Sensitive Estimates & CRI Comments on Quality

<p>Allowance for Doubtful Accounts</p>	<p>The Town estimates the allowance for doubtful accounts for the water / sewer fund in accordance with all applicable standards and guidelines.</p> <p>The Town calculates the allowance for doubtful accounts in each fund based on an analysis of the collectability of individual accounts.</p>	<p>X</p>	<p>The Town's estimate of its allowance for doubtful accounts is based on historical water and sewer revenues and an analysis of the collectability of individual accounts.</p>	<p>The Town's policy is in accordance with all applicable accounting guidelines.</p>
<p>Local Governmental Employees' Retirement</p>	<p>The Town estimates retirement benefits in accordance with all applicable standards and guidelines. The Town discloses retirement benefits based on actuarial assumptions. These assumptions may change in the future depending on future operating conditions.</p>	<p>X</p>	<p>The Town's estimates of its retirement benefits are based on an actuary performed periodically.</p>	<p>The Town's policy is in accordance with all applicable accounting guidelines.</p>
<p>Law Enforcement Officers' Special Separation Allowance</p>	<p>The Town estimates retirement benefits in accordance with all applicable standards and guidelines. The Town discloses retirement benefits based on actuarial assumptions. These assumptions may change in the future depending on future operating conditions.</p>	<p>X</p>	<p>The Town's estimates of its retirement benefits are based on an actuary performed periodically.</p>	<p>The Town's policy is in accordance with all applicable accounting guidelines.</p>

During the course of our audit, we accumulate differences between amounts recorded by the Town and amounts that we believe are required to be recorded under GAAP. Those adjustments are recorded (corrected).

See attached schedule.

QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the Town's operating environment that has been identified as playing a significant role in the Town's operations or viability.
- Whether the difference affects compliance with regulatory requirements.
- Whether the difference has the effect of increasing management's compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.
- Whether the difference involves concealment of an unlawful transaction.
- Whether the difference involves concealment of a prohibited transaction, or transaction with a party in interest, as defined by GAAP or any applicable federal, state, or local laws.

Summary of Audit Adjustments - Corrected

Adjusting Journal Entries JE # 28

PPAdj - Prior year payable for electric purchases was not recorded correctly.

312000.1000	Accounts Payable - Electric	60,534.00	
312990.0000	Fund Balance		<u>60,534.00</u>
Total		<u>60,534.00</u>	<u>60,534.00</u>

HORACE C. REID, JR.
MAYOR

BRANDON S. SHOAF
TOWN MANAGER

CINDY E. SHARBER
TOWN CLERK

BENJAMIN M. GALLOP
TOWN ATTORNEY



COMMISSIONERS:

ARCHIE L. APLES, III
MAYOR PRO TEM

J. SIDNEY ELEY

QUENTIN S. JACKSON

FRANK E. NORMAN, III

January 17, 2018

Jeff Best, CPA, PLLC
P.O. Box 399
Belhaven, NC 27810

This representation letter is provided in connection with your audit of the financial statements of the Town of Hertford, which comprise the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of January 17, 2018, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 13, 2017, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or

payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Guarantees, whether written or oral, under which the Town is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 10) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the Town from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the Town of Hertford or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the Town and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the Town's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19) We have a process to track the status of audit findings and recommendations.
- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 22) The Town has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

- 23) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
- 24) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 25) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 26) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 27) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance, except as disclosed.
- 28) As part of your audit, you assisted with preparation of the financial statements and related notes and the Annual Financial Information Report, maintained the depreciation schedule, and facilitated our adoption of GASB 68. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and the Annual Financial Information Report.
- 29) The Town has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements
- 30) The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 31) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 32) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
- 33) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 34) Components of net position (net investment in capital assets; restricted; and unrestricted) , and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 35) Provisions for uncollectible receivables have been properly identified and recorded.
- 36) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 37) Revenues are appropriately classified in the statement of activities within program revenues, general revenues.
- 38) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 39) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 40) Capital assets are properly capitalized, reported, and, if applicable, depreciated.

Management Representation Letter

- 41) We have appropriately disclosed the Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 42) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 43) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 44) With respect to the individual fund statements, budgetary schedules, and other schedules
- a) We acknowledge our responsibility for presenting the individual fund statements, budgetary schedules, and other schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the individual fund statements, budgetary schedules, and other schedules, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the individual fund statements, budgetary schedules, and other schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the individual fund statements, budgetary schedules, and other schedules are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

Signature: 

Title: Town Manager

Signature: 

Title: Finance Officer

Internal Control Findings

The following legend should be used in conjunction with reviewing the “Rating” of each of the identified internal control items:

IP = Improvement Point	D = Control Deficiency	SD = Significant Deficiency	MW = Material Weakness
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CONTROL NUMBER	RATING	AREA	ITEM NOTED	SUGGESTION	MANAGEMENT ACTION
17-1	MW	Segregation of Duties	The small size of the Town's office staff limits the extent of segregation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.	The Board of Commissioners could become more involved to segregate the duties as much as possible.	The Town agrees with this finding. The Town will make an effort to implement the recommendations provided as best it can taking into consideration the small size of the Town's office.
17-2	MW	Prior Period Adjustment – Accounts Payable	The Town recorded the final electric bill incorrectly for the prior year.	The Town should thoroughly review all accounting records at year end for all funds to determine if they are accurate.	The Town agrees with this finding and will put procedures in place to ensure that accounting records are thoroughly reviewed at year end.
17-3	SD	Budget	The Town expended \$9,095 more for public safety costs in General Fund than approved in the budget.	Budget amendments should be made periodically to ensure that all expenditures are properly appropriated. Disbursements should be periodically reviewed and budget amendments adopted to account for all expenditures.	The Town agrees with this finding. The Town is will put procedures in place to ensure that budget amendments are made as required.

Internal Control Findings

17-4	IP	Census Data	We pulled a sample of employees to test census data (date of birth, date of hire, and gender) to ensure that the information reported to Orbit was accurate. We noted instances where incorrect information was submitted.	We recommend that the Town put review procedures in place to ensure that correct information is imputed into the Town's software and thus correct information submitted to Orbit.	The Town agrees with this finding. The Town will put procedures in place to ensure that census data is appropriately reviewed and submitted.
17-5	IP	IT – Access Controls	During our audit, we noted that the Town does not perform a regular review of access rights be completed by the entity.	We recommend that the Town perform a regular review of access rights be completed by the entity to ensure proper segregation of duties between all personnel with access to the systems and financial data.	The Town agrees with this finding. The Town is willing to accept this deficiency based on their cost/benefit analysis of eliminating this deficiency.
17-6	IP	IT – Security	During our audit, we noted that the Town does not have an acceptable use policy for employees to sign before being granted access to the network.	We recommend that the Town adopt such a policy and ensure that all employees sign before being granted access to the network.	The Town agrees with this finding. The Town will adopt such a policy.