




Town of Hertford
Financial Statements
June 30, 2018



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June 30, 2018**

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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, 2018, 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, 2018, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 11 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 50 and 51, 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 52 and 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming 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 _____ 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.

Jeff Best, CPA, PLLC
Belhaven, North Carolina

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, 2018. 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

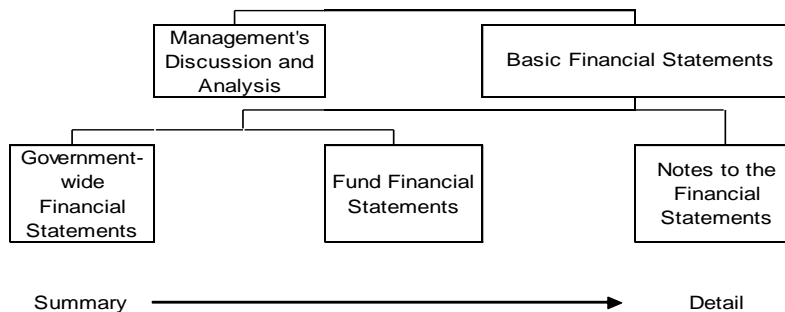
- The assets and deferred outflows of resources of the Town of Hertford exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,396,571 (*net position*).
- The government's total net position decreased by \$25,720, due to a large decrease in governmental activities and a modest increase in business-type activities.
- As of the close of the current fiscal year, the Town of Hertford's governmental funds reported combined ending fund balances of \$1,988,697, with a net change of \$35,297 in fund balance. Approximately 25.79 percent of this total amount, or \$512,947, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,475,750 or 80.96% of total general fund expenditures for the fiscal year.
- The Town of Hertford's total debt decreased by \$437,194 (4.73%) during the current fiscal year. The key factor in this decrease was due to principal payments on long-term debt.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 9) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the 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 23-50 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.

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

Town of Hertford Management's Discussion and Analysis

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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 2,083,127	\$ 2,038,583	\$ 2,367,401	\$ 1,863,609	\$ 4,450,528	\$ 3,902,192
Capital assets	1,820,756	1,933,407	13,592,576	14,357,171	15,413,332	16,290,578
Deferred outflows of assets	141,854	174,175	74,990	97,381	216,844	271,556
Total assets and deferred outflows of resources	4,045,737	4,146,165	16,034,967	16,318,161	20,080,704	20,464,326
Other liabilities	424,973	417,772	885,023	814,729	1,309,996	1,232,501
Long-term liabilities	741,215	774,422	7,610,772	8,005,240	8,351,987	8,779,662
Deferred inflows of resources	15,130	20,203	7,020	9,670	22,150	29,873
Total liabilities and deferred inflows of resources	1,181,318	1,212,397	8,502,815	8,829,639	9,684,133	10,042,036
Net position:						
Net investment in capital assets	1,039,289	1,127,426	5,604,275	5,979,979	6,643,564	7,107,405
Restricted	512,947	570,344	-	-	512,947	570,344
Unrestricted	1,312,183	1,235,998	1,927,877	1,508,544	3,240,060	2,744,542
Total net position	\$ 2,864,419	\$ 2,933,768	\$ 7,532,152	\$ 7,488,523	\$ 10,396,571	\$ 10,422,291

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 \$10,396,571 as of June 30, 2018. The Town net position decreased by \$25,720 for the fiscal year ended June 30, 2018. However, the largest portion, 63.90%, 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, \$512,947 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,240,060 is unrestricted.

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 95.79% has decreased over last year's collection rate of 96.40%. 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	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 310,084	\$ 366,031	\$ 4,439,124	\$ 4,304,853	\$ 4,749,208	\$ 4,670,884
Operating grants and contributions	143,808	151,488	-	-	143,808	151,488
Capital grants and contributions	107,200	-	-	-	107,200	-
General revenues:						
Property taxes	596,422	601,220	-	-	596,422	601,220
Other taxes	608,772	671,508	-	-	608,772	671,508
Unrestricted investment earnings	-	739	11	304	11	1,043
Miscellaneous	11,178	26,052	5,128	27,810	16,306	53,862
Total revenues	1,777,464	1,817,038	4,444,263	4,332,967	6,221,727	6,150,005
Expenses:						
General government	347,235	277,684	-	-	347,235	277,684
Public safety	848,196	928,923	-	-	848,196	928,923
Transportation	538,290	408,945	-	-	538,290	408,945
Economic and physical development	29,386	27,867	-	-	29,386	27,867
Environmental protection	138,759	137,364	-	-	138,759	137,364
Interest on long-term debt	28,947	16,502	-	-	28,947	16,502
Electric	-	-	2,885,146	2,787,906	2,885,146	2,787,906
Water and Sewer	-	-	1,463,948	1,595,999	1,463,948	1,595,999
Total expenses	1,930,813	1,797,285	4,349,094	4,383,905	6,279,907	6,181,190
Increase (decrease) in net position before transfers	(153,349)	19,753	95,169	(50,938)	(58,180)	(31,185)
Transfers	84,000	84,000	(84,000)	(84,000)	-	-
Increase (decrease) in net position	(69,349)	103,753	11,169	(134,938)	(58,180)	(31,185)
Net position, July 1	2,933,768	2,956,697	7,488,523	7,562,927	10,422,291	10,519,624
Net position, June 30	\$ 2,864,419	\$ 3,060,450	\$ 7,499,692	\$ 7,427,989	\$ 10,364,111	\$ 10,488,439

Governmental activities: Governmental activities decreased the Town net position by \$69,349, after transfers. Key elements of this decrease are as follows:

- Capital grants and revenues increased significantly from the prior year due to a grant and loan from the USDA to purchase public works vehicles.
- 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 increased the Town of Hertford's net assets by \$43,629, after transfers. The key elements of this decrease are as follows:

- The Town of Winfall, as a major customer, has taken strides to try to curb inflow and infiltration issues within their collections system. The significant portion of the Water and Sewer Fund Budget regarding Winfall is extremely hard to predict.
- Charges for electrical services were significantly higher than in the prior year due to weather-related changes.

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 \$1,475,750, while total fund balance reached \$1,988,697. 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 80.96% of general fund expenditures, while total fund balance represents 109.10% of the same amount.

At June 30, 2018, the governmental funds of Town of Hertford reported a combined fund balance of \$1,988,697, a 1.81% 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 due to the USDA grant and loan received in the current year.

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 \$955,417, and those for the Water and Sewer Fund amounted to \$972,460. The total change in net position for each fund was \$170,329 and \$(126,700)

Town of Hertford Management's Discussion and Analysis

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

Capital Asset and Debt Administration

Capital assets. The Town of Hertford's investment in capital assets for its governmental and business-type activities as of June 30, 2018 totals \$15,383,332 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 407,205	\$ 407,205	\$ 379,893	\$ 379,893	\$ 787,098	\$ 787,098
Buildings and systems	235,115	248,540	13,182,683	13,977,278	13,417,798	14,225,818
Machinery and equipment	32,256	35,133	-	-	32,256	35,133
Improvements	596,219	643,492	-	-	596,219	643,492
Vehicles	549,961	599,034	-	-	549,961	599,034
Total	\$ 1,820,756	\$ 1,933,404	\$ 13,562,576	\$ 14,357,171	\$ 15,383,332	\$ 16,290,575

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, 2018, the Town of Hertford had total debt outstanding of \$9,246,010.

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Installment purchases	\$ 781,466	\$ 805,981	\$ 431,967	\$ 450,580	\$ 1,213,433	\$ 1,256,561
Compensated absences	39,553	39,668	22,467	21,510	62,020	61,178
Net pension liability (LGRS)	154,075	192,209	90,055	107,465	244,130	299,674
Net pension liability (LEO)	170,095	139,181	-	-	170,095	139,181
Revolving Loans	-	-	3,267,332	3,564,610	3,267,332	3,564,610
General obligation bonds	-	-	4,289,000	4,362,000	4,289,000	4,362,000
Total	\$ 1,145,189	\$ 1,177,039	\$ 8,100,821	\$ 8,506,165	\$ 9,246,010	\$ 9,683,204

The Town of Hertford's total debt decreased by \$437,194 (0.47%) during the past fiscal year, primarily due to principal payments on prior debt.

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 \$9,187,929.

Town of Hertford Management's Discussion and Analysis

Additional information regarding the Town of Hertford's long-term debt can be found in Note II.B.6., beginning on page 43 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, 2019

Governmental Activities: This year's budget was projected to be very similar to last year's. 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.

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, 2018
Exhibit 1**

	Primary Government			Town of Hertford ABC Board
	Governmental Activities	Business- type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,414,239	\$ 1,285,436	\$ 2,699,675	\$ 131,648
Taxes receivables (net)	73,141	-	73,141	-
Receivables (net)	12,014	619,867	631,881	-
Internal balances	(69,950)	69,950	-	-
Due from other governments	213,852	-	213,852	-
Due from component unit	129,854	-	129,854	-
Inventories	-	-	-	130,462
Prepaid items	-	-	-	3,914
Restricted cash and cash equivalents	309,977	137,148	447,125	-
Total current assets	2,083,127	2,112,401	4,195,528	266,024
Noncurrent assets:				
Note receivable - Winfall settlement	-	255,000	255,000	-
Capital assets (Note 3):				
Land and construction in progress	407,205	409,893	817,098	5,472
Other capital assets, net of depreciation	1,413,551	13,182,683	14,596,234	17,280
Total capital assets	1,820,756	13,592,576	15,413,332	22,752
Total noncurrent assets	1,820,756	13,847,576	15,668,332	22,752
Total assets	3,903,883	15,959,977	19,863,860	288,776
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	141,854	74,990	216,844	17,961
Total deferred outflows of resources	141,854	74,990	216,844	17,961
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	20,999	257,824	278,823	92,688
Customer deposits	-	137,148	137,148	-
Due to primary government	-	-	-	129,854
Long-term liabilities:				
Net pension liability	154,075	90,055	244,130	7,028
Total pension liability	170,095	-	170,095	-
Due within one year	79,804	399,996	479,800	-
Due in more than one year	741,215	7,610,772	8,351,987	-
Total liabilities	1,166,188	8,495,795	9,661,983	229,570
DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	290	-	290	-
Pension deferrals	14,840	7,020	21,860	199
Total deferred inflows of resources	15,130	7,020	22,150	199
NET POSITION				
Net investment in capital assets	1,039,289	5,604,275	6,643,564	22,752
Restricted for:				
Stabilization by State Statute	281,093	-	281,093	-
Streets - Powell Bill	231,854	-	231,854	-
Other functions	-	-	-	39,568
Unrestricted	1,312,183	1,927,877	3,240,060	14,648
Total net position	\$ 2,864,419	\$ 7,532,152	\$ 10,396,571	\$ 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, 2018
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	\$ 347,235	\$ 310,084	\$ -	\$ -	\$ (37,151)	\$ -	\$ (37,151)	\$ -
Public safety	848,196	-	85,189	-	(763,007)	-	(763,007)	-
Transportation	538,290	-	58,619	-	(479,671)	-	(479,671)	-
Economic and physical development	29,386	-	-	107,200	77,814	-	77,814	-
Environmental protection	138,759	-	-	-	(138,759)	-	(138,759)	-
Interest on long-term debt	28,947	-	-	-	(28,947)	-	(28,947)	-
Total governmental activities (See Note 1)	1,930,813	310,084	143,808	107,200	(1,369,721)	-	(1,369,721)	-
Business-type activities:								
Electric	2,885,146	3,123,614	-	15,861	-	254,329	254,329	-
Water and sewer	1,591,367	1,315,510	-	149,157	-	(126,700)	(126,700)	-
Total business-type activities	4,476,513	4,439,124	-	165,018	-	127,629	127,629	-
Total primary government	\$ 6,407,326	\$ 4,749,208	\$ 143,808	\$ 272,218	(1,369,721)	127,629	(1,242,092)	-
Component Unit:								
ABC Board	\$ 770,184	\$ 858,366	\$ -	\$ -	-	-	-	88,182
Total component unit	\$ 770,184	\$ 858,366	\$ -	\$ -	\$ -	\$ -	\$ -	88,182

General revenues:

Taxes:								
Property taxes, levied for general purpose					596,422	-	596,422	-
Other taxes					608,772	-	608,772	-
Miscellaneous					11,178	-	11,178	572
Profit distributions					-	-	-	(88,754)
Total general revenues not including transfers					1,216,372	-	1,216,372	(88,182)
Transfers					84,000	(84,000)	-	-
Total general revenues and transfers					1,300,372	(84,000)	1,216,372	(88,182)
Change in net position					(69,349)	43,629	(25,720)	-
Net position, beginning					2,933,768	7,488,523	10,422,291	76,968
Net position, ending					\$ 2,864,419	\$ 7,532,152	\$ 10,396,571	\$ 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, 2018
Exhibit 3

	Major Funds	Total Governmental Funds												
	General	Funds												
ASSETS														
Cash and cash equivalents	\$ 1,414,239	\$ 1,414,239												
Receivables (net):														
Taxes	73,141	73,141												
Accounts	12,014	12,014												
Due from other governments	213,852	213,852												
Due from other funds	(69,950)	(69,950)												
Due from component unit	129,854	129,854												
Restricted cash and cash equivalents	309,977	309,977												
Total assets	2,083,127	2,083,127												
LIABILITIES														
Accounts payable and accrued liabilities	20,999	20,999												
Total liabilities	20,999	20,999												
DEFERRED INFLOWS OF RESOURCES														
Prepaid taxes	290	290												
Property tax receivable	73,141	73,141												
Total deferred inflows of resources	73,431	73,431												
FUND BALANCES														
Restricted														
Stabilization by State Statute	281,093	281,093												
Streets - Powell Bill	231,854	231,854												
Unassigned	1,475,750	1,475,750												
Total fund balances	1,988,697	1,988,697												
Total liabilities, deferred inflow of resources, and fund balances	\$ 2,083,127													
<p>Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p> <table> <tr> <td>Capital assets</td> <td style="text-align: right;">4,596,989</td> <td></td> </tr> <tr> <td>Accumulated depreciation</td> <td style="text-align: right;">(2,776,233)</td> <td></td> </tr> <tr> <td>Capital assets (net)</td> <td></td> <td style="text-align: right;">1,820,756</td> </tr> </table> <p>Net pension liability - LGERS (154,075)</p> <p>Net pension liability - LEOSA (170,095)</p> <p>Deferred outflows of resources related to pensions are not reported in the funds 141,854</p> <p>Liabilities for earned revenues considered deferred inflows in fund statement 73,141</p> <p>Deferred inflows of resources related to pension are not reported in the funds (14,840)</p> <p>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. (821,019)</p> <table> <tr> <td>Net position of governmental activities</td> <td></td> <td style="text-align: right;">\$ 2,864,419</td> </tr> </table>			Capital assets	4,596,989		Accumulated depreciation	(2,776,233)		Capital assets (net)		1,820,756	Net position of governmental activities		\$ 2,864,419
Capital assets	4,596,989													
Accumulated depreciation	(2,776,233)													
Capital assets (net)		1,820,756												
Net position of governmental activities		\$ 2,864,419												

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, 2018
Exhibit 4

	<u>Major Funds</u>	Total
	General Fund	Governmental Funds
REVENUES		
Ad Valorem taxes	\$ 593,018	\$ 593,018
Other taxes and licenses	29,134	29,134
Unrestricted intergovernmental	668,827	668,827
Restricted intergovernmental	251,008	251,008
Sales and services	225,830	225,830
Miscellaneous	6,243	6,243
Total revenues	1,774,060	1,774,060
EXPENDITURES		
Current:		
General government	320,922	320,922
Public safety	768,301	768,301
Transportation	484,103	484,103
Economic and physical development	20,422	20,422
Environmental protection	138,759	138,759
Debt Service:		
Principal	61,309	61,309
Interest	28,947	28,947
Total expenditures	1,822,763	1,822,763
Excess (deficiency) of revenues over expenditures	(48,703)	(48,703)
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	35,297	35,297
Fund balances, beginning	1,953,400	1,953,400
Fund balances, ending	\$ 1,988,697	\$ 1,988,697

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, 2018
Exhibit 5**

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

Net changes in fund balances - total governmental funds	\$	35,297
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized		114,200
Depreciation expense for governmental assets		(226,851)
Total		(112,651)
<p>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.</p>		
		49,907
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		3,404
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. 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.</p>		
Principal payments on long-term debt		61,714
New long-term debt issued		(37,200)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		115
Pension expense		(69,935)
Total		(69,820)
Total changes in net position of governmental activities	\$	(69,349)

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, 2018
Exhibit 6**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Ad Valorem taxes	\$ 580,113	\$ 580,113	\$ 593,018	\$ 12,905
Other taxes and licenses	26,000	26,000	29,134	3,134
Unrestricted intergovernmental	594,037	594,037	668,827	74,790
Restricted intergovernmental	138,850	143,850	251,008	107,158
Sales and services	198,906	214,756	225,830	11,074
Investment earnings	800	800	-	(800)
Miscellaneous	8,000	8,000	6,243	(1,757)
Total revenues	1,546,706	1,567,556	1,774,060	206,504
EXPENDITURES				
Current:				
General government	284,892	311,166	320,922	(9,756)
Public safety	769,220	807,005	768,301	38,704
Transportation	335,756	351,590	484,103	(132,513)
Economic and physical development	18,978	19,205	20,422	(1,217)
Environmental protection	144,172	144,172	138,759	5,413
Debt Service:				
Principal	72,099	30,837	61,309	(30,472)
Interest	18,393	59,655	28,947	30,708
Total expenditures	1,643,510	1,723,630	1,822,763	(99,133)
Revenue over (under) expenditures	(96,804)	(156,074)	(48,703)	107,371
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	12,804	72,074	-	(72,074)
Net change in fund balance	\$ -	\$ -	35,297	\$ 35,297
Fund balances, beginning			1,953,400	
Fund balances, ending			\$ 1,988,697	

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

Town of Hertford
Statement of Fund Net Position – Proprietary Fund
June 30, 2018
Exhibit 7

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 704,787	\$ 580,649	\$ 1,285,436
Accounts receivables (net)	402,904	216,963	619,867
Due to (from) other funds	115,636	(45,686)	69,950
Restricted cash and cash equivalents	137,148	-	137,148
Total current assets	1,360,475	751,926	2,112,401
Noncurrent assets:			
Note receivable - Winfall settlement	-	255,000	255,000
Capital assets:			
Land and other non-depreciable assets	-	409,893	409,893
Other capital assets (net)	541,343	12,641,340	13,182,683
Capital assets (net)	541,343	13,051,233	13,592,576
Total noncurrent assets	541,343	13,306,233	13,847,576
Total assets	\$ 1,901,818	\$ 14,058,159	\$ 15,959,977
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	43,869	31,121	74,990
Total deferred outflows of resources	43,869	31,121	74,990
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 240,080	\$ 17,744	\$ 257,824
Customer deposits	137,148	-	137,148
Compensated absences - current	3,728	1,889	5,617
Installment loan - current	10,551	10,551	21,102
Bonds payable - current	-	76,000	76,000
Revolving Loans	-	297,277	297,277
Total current liabilities	391,507	403,461	794,968
Noncurrent liabilities:			
Other noncurrent liabilities:			
Compensated absences - noncurrent	11,183	5,668	16,850
Net pension liability	52,682	37,373	90,055
Bonds payable, net of current	-	4,213,000	4,213,000
Note payable, net of current	205,433	205,433	410,866
Revolving Loans, net of current	-	2,970,056	2,970,056
Total noncurrent liabilities	269,298	7,431,530	7,700,827
Total liabilities	660,804	7,834,991	8,495,795
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	4,107	2,913	7,020
Total deferred inflows of resources	4,107	2,913	7,020
Net Position			
Net investment in capital assets	325,359	5,278,916	5,604,275
Unrestricted	955,417	972,460	1,927,877
Total net position	\$ 1,280,776	\$ 6,251,376	\$ 7,532,152

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, 2018
Exhibit 8

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 3,112,746	\$ 1,233,164	\$ 4,345,910
Winfall charges	-	77,228	77,228
Water and sewer taps	-	5,118	5,118
Other operating revenues	10,868	-	10,868
Total operating revenues	3,123,614	1,315,510	4,439,124
Operating expenses:			
Salaries and employee benefits	306,948	230,810	537,758
Utilities	2,237,633	137,055	2,374,688
Supplies and other expenses	261,892	258,523	520,415
Depreciation	68,580	732,547	801,127
Total operating expenses	2,875,053	1,358,935	4,233,988
Operating income (loss)	248,561	(43,425)	205,136
Nonoperating revenues (expenses):			
NCDOT reimbursement	15,850	16,610	32,460
Miscellaneous revenues	-	5,128	5,128
Interest on investments	11	-	11
Interest and fees	(10,093)	(232,432)	(242,525)
Total nonoperating revenues (expenses)	5,768	(210,694)	(204,926)
Income (loss) before transfers	254,329	(254,119)	210
Capital contributions	-	127,419	127,419
Transfers to other funds	(84,000)	-	(84,000)
	(84,000)	127,419	43,419
Change in net position	170,329	(126,700)	43,629
Total net position, beginning	1,110,447	6,378,076	7,488,523
Total net position, ending	\$ 1,280,776	\$ 6,251,376	\$ 7,532,152

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, 2018
Exhibit 9

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 3,037,715	\$ 1,286,514	\$ 4,324,229
Cash paid for goods and services	(2,442,252)	(379,024)	(2,821,276)
Cash paid to employees for services	(302,550)	(231,920)	(534,470)
Customer deposits received (net)	7,346	-	7,346
Other operating revenues	10,868	-	10,868
Net cash provided (used) by operating activities	311,127	675,570	986,697
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Increase (decrease) in due to other funds	(68,086)	-	(68,086)
Transfers to other funds	(84,000)	-	(84,000)
Net cash provided (used) by noncapital financing activities	(152,086)	-	(152,086)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term borrowings	(9,307)	(379,585)	(388,892)
Interest paid on long-term borrowings	(10,094)	(232,432)	(242,526)
Acquisition and construction of capital assets	-	(36,532)	(36,532)
Capital contributions	15,850	149,157	165,007
Net cash provided (used) by capital and related financing activities	(3,551)	(499,392)	(502,943)
CASH FLOWS FROM INVESTING ACTIVITIES			
Principal received on note receivable	-	15,000	15,000
Interest on investments	11	-	11
Net cash provided (used) by investing activities	11	15,000	15,011
Net increase (decrease) in cash and cash equivalents	155,501	191,178	346,679
Balances, beginning	686,434	389,471	1,075,905
Balances, ending	\$ 841,935	\$ 580,649	\$ 1,422,584

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, 2018
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)	\$ 248,561	\$ (43,425)	\$ 205,136
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	68,580	732,547	801,127
Change in assets, liabilities and deferred outflows of resources			
(Increase) decrease in accounts receivable	(75,031)	(28,996)	(104,027)
(Increase) decrease in deferred outflows of resources - pensions	10,913	11,478	22,391
Increase (decrease) in net pension liability	(7,773)	(9,637)	(17,410)
Increase (decrease) in deferred inflows of resources - pensions	(1,333)	(1,317)	(2,650)
Increase (decrease) in accounts payable and accrued			
Increase (decrease) in customer deposits	7,346	-	7,346
Increase (decrease) in compensated absences	2,591	(1,634)	957
Total adjustments	62,566	718,995	781,561
Net cash provided (used) by operating activities	\$ 311,127	\$ 675,570	\$ 986,697

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.

Golden Lead Foundation Grant Fund. This fund is used to account for grant funds that are restricted for a particular purpose. This fund is combined with the sewer fund for reporting purposes.

C. Measurement Focus and Basis of Accounting

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

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

Town of Hertford Notes to Financial Statements

contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

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

Sales taxes and certain intergovernmental revenues, such as the 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, 2018, the Town has

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accumulated \$78,123 in this account and it is shown as restricted assets for 'USDA Reserve'. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes 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	\$ 78,123
Streets - Powell Bill	231,854
Total governmental activities	309,977

Business-type Activities:

Electric Fund	
Customer Deposits	137,148
Total business-type activities	137,148
Total restricted cash	\$ 447,125

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 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 2018 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.

Town of Hertford
Notes to Financial Statements

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)].

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 _____, 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, 2018, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government activities by \$36,030, transportation activities by \$148,347, and economic and physical development activities by \$1,444. 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, 2018, the Town's deposits had a carrying amount of \$3,146,250, and a bank balance of \$3,158,519. 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 \$131,198 and the bank balance was \$117,756. All of the bank balance was covered by federal depository insurance. At June 30, 2018, 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, 2018 are net of the following allowances for doubtful accounts:

Fund	June 30, 2018
General Fund:	
Taxes receivable	\$ 34,176
Accounts receivable	1,033
Total	35,209
Enterprise Funds	22,113
Total	\$ 57,322

3. Capital Assets

Primary Government. Capital asset activity for the Primary Government for the year ended June 30, 2018 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	1,011,287	-	-	1,011,287
Equipment	376,677	7,000	6,675	377,002
Other Improvements	1,164,406	-	-	1,164,406
Vehicles and motorized equipment	1,529,889	107,200	-	1,637,089
Total capital assets being depreciated	4,082,259	114,200	6,675	4,189,784
Less accumulated depreciation for:				
Buildings	762,747	13,425	-	776,172
Equipment	341,544	9,877	6,675	344,746
Other Improvements	520,914	47,273	-	568,187
Vehicles and motorized equipment	930,852	156,276	-	1,087,128
Total accumulated depreciation	2,556,057	226,851	6,675	2,776,233
Total capital assets being depreciated, net	1,526,202			1,413,551
Governmental activity capital assets, net	\$ 1,933,407			\$ 1,820,756

**Town of Hertford
Notes to Financial Statements**

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

General government	\$ 6,805
Public safety	156,895
Transportation	54,187
Cultural and recreational	8,964
Total depreciation expense	\$ 226,851

	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	286,052	-	-	286,052
Vehicles	192,928	-	-	192,928
Total capital assets being depreciated	2,885,450	-	-	2,885,450
Less accumulated depreciation for:				
Substation, lines, and other equipment	1,744,915	57,093	-	1,802,008
Equipment	337,684	11,487	-	349,171
Vehicles	192,928	-	-	192,928
Total accumulated depreciation	2,275,527	68,580	-	2,344,107
Total capital assets being depreciated, net	609,923			541,343
Electric fund capital assets, net	609,923			541,343
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	379,893	-	-	379,893
Construction in progress	-	30,000	-	30,000
Total capital assets not being depreciated	379,893	30,000	-	409,893
Capital assets being depreciated				
Building	1,700	-	-	1,700
Plant, distribution system, and other equipment	22,451,868	-	-	22,451,868
Equipment	476,927	6,532	-	483,459
Vehicles	77,261	-	24,155	53,106
Total capital assets being depreciated	23,007,756	6,532	24,155	22,990,133
Less accumulated depreciation for:				
Building	1,700	-	-	1,700
Plant, distribution system, and other equipment	9,123,143	721,406	-	9,844,549
Equipment	438,297	11,141	-	449,438
Vehicles	77,261	-	24,155	53,106
Total accumulated depreciation	9,640,401	732,547	24,155	10,348,793
Total capital assets being depreciated, net	13,367,355			12,641,340
Water and sewer fund capital assets, net	13,747,248			13,051,233
Business-type activities capital assets, net	\$ 14,357,171			\$ 13,592,576

Town of Hertford
Notes to Financial Statements

Discretely presented component units. Activity for the ABC Board for the year ended June 30, 2018, 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	58,534	5,479	-	64,013
Leasehold improvements	11,871	-	-	11,871
Total accumulated depreciation	106,715	5,479	-	112,194
ABC capital assets, net	<u>\$ 28,231</u>			<u>\$ 22,752</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, 2018, was 8.25% of compensation for law enforcement officers and 7.60% 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 \$79,077 for the year ended June 30, 2018.

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, 2018, the Town reported a liability of \$244,130 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 .01598%, which was an increase of .00186% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$83,863. At June 30, 2018, 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	\$ 14,064	\$ 6,911
Changes of assumptions	34,865	-
Net difference between projected and actual earnings on pension plan investments	59,275	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	16,009	12,120
Town contributions subsequent to the measurement date	79,077	-
Total	\$ 203,290	\$ 19,031

\$79,077 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	\$ 13,336
2019	71,105
2020	35,509
2021	(14,768)
2022	-
Thereafter	-
Total	\$ 105,182

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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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 2016 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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Town's proportionate share of the net pension liability (asset)	\$ 732,884	\$ 244,130	\$ (163,825)

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, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	9
<u>Total</u>	<u>9</u>

**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	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

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

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

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The 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, 2018, the Town reported a total pension liability of \$170,095. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the County recognized pension expense of \$16,728.

**Town of Hertford
Notes to Financial Statements**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,208	\$ -
Changes of assumptions	8,346	2,829
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ 13,554	\$ 2,829

\$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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2018	\$	2,073
2019		2,073
2020		2,073
2021		2,073
2022		2,404
Thereafter		29
Total	\$	10,725

\$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 3.16 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 (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Discount Rate (3.16%)	1% Increase (4.16%)
Total Pension Liability	\$ 184,796	\$ 170,095	\$ 156,692

**Town of Hertford
Notes to Financial Statements**

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

	2017
Beginning balance	\$ 139,181
Service cost	9,283
Interest on the total pension liability	5,372
Changes of assumptions or other inputs	10,012
Differences between expected and actual experience in the measurement of the total pension liability	6,247
Ending balance of the total pension liability	\$ 170,095

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.

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

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

	LGERS	LEOSSA	Total
Pension expense	\$ 83,863	\$ 16,728	\$ 100,591
Pension liability	244,130	170,095	414,225
Proportionate share of the net pension liability	0.01598%	N/A	
Deferred Outflows of Resources			
Differences between expected and actual experience	14,064	5,208	19,272
Changes of assumptions	34,865	8,346	43,211
Net difference between projected and actual earnings on plan investments	59,275	-	59,275
Changes in proportion and differences between contributions and proportionate share of contributions	16,009	-	16,009
Benefit payments and administrative costs paid subsequent to the measurement date	79,077	-	79,077
Deferred Inflows of Resources			
Differences between expected and actual experience	6,911	-	6,911
Changes of assumptions	-	2,829	2,829
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,120	-	12,120

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, 2018 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.

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, 2018 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

**Town of Hertford
Notes to Financial Statements**

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	\$ 19,272
Changes of assumptions	43,211
Contributions to pension plan in current fiscal year	79,077
Changes in proportion and differences between Town contributions and proportionate share of contributions	16,009
Net difference between projected and actual earnings on pension plan investments	59,275
Total	\$ 216,844

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

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes (General Fund)	\$ 290	\$ 290
Taxes receivables, less penalties (General Fund)	-	73,141
Differences between expected and actual experience	6,911	-
Changes of assumptions	2,829	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,120	-
Total	\$ 22,150	\$ 73,431

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

Town of Hertford Notes to Financial Statements

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

**Town of Hertford
Notes to Financial Statements**

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%.

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

The future minimum payments of the installment purchases as of June 30, 2018, including \$425,007 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 69,916	\$ 26,855	\$ 21,103	\$ 16,661	\$ 91,019	\$ 43,516
2020	60,419	25,723	18,579	19,185	78,998	44,908
2021	43,044	23,127	19,385	18,379	62,429	41,506
2022	44,607	21,565	20,177	17,586	64,784	39,151
2023	46,678	19,462	22,019	15,745	68,697	35,207
2024-2028	213,330	73,698	125,244	63,572	338,574	137,270
2029-2033	182,885	38,943	154,898	33,919	337,783	72,862
2034-2038	120,587	7,959	50,563	2,628	171,150	10,587
Total	\$ 781,466	\$ 237,332	\$ 431,968	\$ 187,675	\$ 1,213,434	\$ 425,007

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

**Town of Hertford
Notes to Financial Statements**

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, 2018 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.	\$ 2,659,000
\$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.	950,000
\$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.	680,000
	\$ 4,289,000

The future minimum payments of the general obligation indebtedness as of June 30, 2018, including \$3,356,575 of interest, are as follows:

Year Ending	General Obligation Indebtedness	
	Principal	Interest
2019	\$ 76,000	\$ 184,680
2020	79,000	181,417
2021	82,000	178,026
2022	86,000	174,504
2023	89,000	170,812
2024-2028	508,000	793,045
2029-2033	626,000	674,207
2034-2038	772,000	527,420
2039-2043	955,000	345,831
2044-2048	1,016,000	126,633
Total	\$ 4,289,000	\$ 3,356,575

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.

**Town of Hertford
Notes to Financial Statements**

Revolving loans payable at June 30, 2018 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.	\$ 1,500,000
\$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.	225,544
\$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.	1,464,699
\$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.	77,089
	\$ 3,267,332

The future minimum payments of the revolving loans as of June 30, 2018, including \$210,454 of interest, are as follows:

Year Ending	Revolving Loans	
June 30	Principal	Interest
2019	\$ 297,278	\$ 32,377
2020	297,278	29,680
2021	297,278	26,981
2022	297,278	24,283
2023	297,278	21,585
2024-2028	1,486,393	67,454
2028-2032	294,549	8,094
Total	\$ 3,267,332	\$ 210,454

At June 30, 2018, Town of Hertford, North Carolina had a legal debt margin of \$9,187,929.

**Town of Hertford
Notes to Financial Statements**

D. Changes in Long-Term Liabilities

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Current Portion of Balance
Governmental activities:					
Installment purchase	\$ 805,981	\$ 37,200	\$ 61,714	\$ 781,467	\$ 69,916
Compensated absences	39,668	-	115	39,553	9,888
Net pension liability (LGERS)	192,209	-	38,134	154,075	38,519
Net pension liability (LEO)	139,181	30,914	-	170,095	42,524
Governmental activity long-term liabilities	\$ 1,177,039	\$ 68,114	\$ 99,963	\$ 1,145,190	\$ 160,847
Business-type activities:					
<u>Water and Sewer Fund:</u>					
Installment purchase	\$ 225,291	\$ -	\$ 9,307	\$ 215,984	\$ 10,551
General obligation bonds	4,362,000	-	73,000	4,289,000	76,000
Revolving loans	3,564,610	-	297,278	3,267,332	297,278
Compensated absences	9,191	-	1,634	7,557	1,889
Net pension liability (LGERS)	47,010	-	9,637	37,373	9,343
Water and Sewer long-term liabilities	8,208,102	-	390,856	7,817,246	395,062
<u>Electric Fund</u>					
Installment purchase	225,291	-	9,307	215,984	10,551
Compensated absences	12,319	2,591	-	14,910	3,728
Net pension liability (LGERS)	60,455	-	7,773	52,682	13,171
Electric long-term liabilities	298,065	2,591	17,080	283,576	27,449
Business activity long-term liabilities	\$ 8,506,167	\$ 2,591	\$ 407,936	\$ 8,100,822	\$ 422,511

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, 2018, the Town has accumulated \$78,123 in this account and it is shown as restricted assets for "USDA Reserve."

F. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2018, consist of the following:

Due from the General Fund to the Electric Fund for electric operations	\$ 75,639
Due to the General Fund from the Water and Sewer Fund for water and sewer operations	5,689
Due to the Electric Fund from the Water and Sewer Fund for electric operations	39,997
Total	\$ 121,325

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.

Town of Hertford
Notes to Financial Statements

Transfers to / from other funds at June 30, 2018, consist of the following:

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

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 2018 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	\$ 1,820,756	\$ 13,592,576
less: long-term debt	781,467	7,988,301
Net Investment in capital assets	\$ 1,039,289	\$ 5,604,275

H. Fund Balance

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

Total fund balance - General	\$	1,988,697
Less:		
Stabilization by State Statute		281,093
Streets - Powell Bill		231,854
Working Capital / Fund Balance Policy		364,553
Remaining fund balance	\$	1,111,197

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



Town of Hertford
Notes to Financial Statements

obligation, entitlement, or residual interest. The Town's purchases of power for the fiscal year ended June 30, 2018, were \$2,237,633.

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 – 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.

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

	2018	2017	2016	2015	2014
Hertford's proportion of the net pension liability (asset) (%)	0.01598%	0.01412%	0.01769%	0.01635%	0.01630%
Hertford's proportion of the net pension liability (asset) (\$)	\$ 244,130	\$ 299,674	\$ 79,391	\$ (96,423)	\$ 196,478
Hertford's covered-employee payroll	\$ 1,012,509	\$ 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	24.11%	29.80%	8.65%	(1.04%)	2.23%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	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 Five Fiscal Years
Schedule 2

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 79,077	\$ 76,146	\$ 63,220	\$ 66,561	\$ 63,115
Contributions in relation to the contractually required contribution	79,077	76,146	63,220	66,561	63,115
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Hertford's covered-employee payroll	\$ 1,012,509	\$ 1,005,643	\$ 918,096	\$ 927,393	\$ 883,934
Contributions as a percentage of covered-employee payroll	7.81%	7.57%	6.89%	7.18%	7.14%

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

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 139,181	\$ 131,324
Service cost	9,283	11,478
Interest on the total pension liability	5,372	4,614
Changes of assumptions or other inputs	10,012	(4,093)
Differences between expected and actual experience in the measurement of the total pension liability	6,247	-
Benefit payments		(4,142)
<u>Ending balance of the total pension liability</u>	<u>\$ 170,095</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

	2018	2017
Total pension liability	\$ 170,095	\$ 139,181
Covered payroll	378,459	363,794
Total pension liability as a percentage of covered payroll	44.94%	38.26%

Notes to the schedules:

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

Town of Hertford
General Fund Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2018
Schedule 5

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes:			
Taxes		\$ 587,798	
Interest		5,220	
Total	\$ 580,113	593,018	\$ 12,905
Other taxes and licenses:			
Privilege licenses		1,325	
Vehicle tags		27,809	
Total	26,000	29,134	3,134
Unrestricted intergovernmental			
Local option sales taxes		520,340	
Payment in lieu of taxes		9,037	
Telecommunications sales tax		22,681	
Piped natural gas sales tax		4,142	
Video franchise fee		14,256	
Beer and wine tax		9,182	
ABC Profit Distribution		84,254	
Housing authority reimbursement		4,935	
Total	594,037	668,827	74,790
Restricted intergovernmental:			
Powell Bill allocation		58,619	
Perquimans County Fire Department Contribution		70,000	
Volunteer Fire Department Grant		15,189	
USDA Grant		70,000	
Loan Proceeds		37,200	
Total	143,850	251,008	107,158
Sales and services:			
DMV commissions		61,961	
Cemetery services		10,530	
Refuse services		111,986	
Miscellaneous fees and services		41,353	
Total	214,756	225,830	11,074
Investment earnings	800	-	(800)
Miscellaneous:			
Arrest fees		6,243	
Total	8,000	6,243	(1,757)
Total revenues	1,567,556	1,774,060	206,504

Town of Hertford
General Fund Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2018
Schedule 5

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
General government:			
Administration:			
Salaries and employee benefits		121,893	
Operating expenditures		160,240	
Capital outlay		11,502	
Total	285,603	293,635	(8,032)
DMV Operations:			
Salaries and employee benefits		49,508	
Operating expenditures		2,132	
Total	49,916	51,640	(1,724)
Reimbursement from other funds		(24,353)	-
Total	(24,353)	(24,353)	-
Total general government	311,166	320,922	(9,756)
Public safety:			
Police:			
Salaries and employee benefits		501,289	
Operating expenditures		176,874	
Total	701,035	678,163	22,872
Fire:			
Salaries and employee benefits		6,560	
Operating expenditures		83,578	
Total	105,970	90,138	15,832
Total public safety	807,005	768,301	38,704
Transportation:			
Street and highways:			
Salaries and employee benefits		228,288	
Operating expenditures		135,806	
Capital outlay		120,009	
Total	351,590	484,103	(132,513)
Total transportation	351,590	484,103	(132,513)
Economic and physical development:			
Main Street program			
Salaries and employee benefits		19,522	
Operating expenditures		900	
Total	19,205	20,422	(1,217)
Total economic and physical development	19,205	20,422	(1,217)

Town of Hertford
General Fund Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2018
Schedule 5

	Budget	Actual	Variance Positive (Negative)
Environmental protection:			
Cemetery:			
Operating expenditures		24,000	
Total	25,500	24,000	1,500
Sanitation:			
Operating expenditures		114,759	
Total	118,672	114,759	3,913
Total environmental protection	144,172	138,759	5,413
Debt Service:			
Principal		61,309	
Interest		28,947	
Total debt service	90,492	90,256	236
Total expenditures	1,723,630	1,822,763	(99,133)
Revenue over (under) expenditures	(156,074)	(48,703)	107,371
OTHER FINANCING SOURCES (USES)			
Transfer from other funds:			
Electric Fund		84,000	
Total other financing sources (uses)	84,000	84,000	-
Fund balance appropriated	72,074	-	(72,074)
Net change in fund balance	\$ -	35,297	\$ 35,297
Fund balances, beginning		1,953,400	
Fund balances, ending		<u>\$ 1,988,697</u>	

Town of Hertford
Electric Fund Schedule of Revenues and
Expenditures – Budget and Actual(Non-GAAP)
For the Fiscal Year Ended June 30, 2018
Schedule 6

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues:			
Charges for services		\$ 3,112,746	
Other operating revenues		10,868	
Total operating revenues	\$ 3,034,517	3,123,614	\$ 89,097
Nonoperating revenues:			
NCDOT Reimbursement		15,850	
Interest on investments		11	
Total nonoperating revenues	-	15,861	-
Total revenues	3,034,517	3,139,475	89,097
Expenditures			
Electric Operations			
Salaries and employee benefits		302,550	
Maintenance and supplies		136,312	
Administrative service		18,251	
Electric power purchases		2,237,633	
Administrative cost from other funds for services		24,353	
Other expenses		57,069	
Insurance		25,907	
Total	2,936,643	2,802,075	134,568
Debt Service			
Principal		9,307	
Interest		10,093	
Total Debt Service	19,400	19,400	-
Total Expenditures	2,956,043	2,821,475	134,568
Revenues over (under) expenditures	78,474	318,000	223,665
Other financing sources (uses):			
Transfer to General Fund	(84,000)	(84,000)	-
Revenues over (under) expenditures and other financing uses	(5,526)	234,000	239,526
Revenues, other financing sources, and fund balance appropriated over expenditures	\$ -	\$ 234,000	\$ 234,000
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
(Increase) decrease in accrued vacation		(2,591)	
Increase (decrease) in deferred outflows of resources - pensions		(10,913)	
(Increase) decrease in net pension liability		7,773	
(Increase) decrease in deferred inflows of resources - pensions		1,333	
Bond principal and other debt payments		9,307	
Depreciation expense		(68,580)	
Total reconciling items		(63,671)	
Change in net position		\$ 170,329	

Town of Hertford
Water and Sewer Fund Schedule of Revenues
and Expenditures – Budget and Actual(Non-GAAP)
For the Fiscal Year Ended June 30, 2018
Schedule 7

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues:			
Charges for services		\$ 1,233,164	
Water taps		5,118	
Winfall charges		77,228	
Total operating revenues	\$ 1,349,000	1,315,510	\$ (33,490)
Nonoperating revenues:			
NCDOT reimbursement		16,610	
Miscellaneous revenues		5,128	
Total nonoperating revenues	1,500	21,738	20,238
Total revenues	1,350,500	1,337,248	(13,252)
Expenditures			
Water and Sewer Operations:			
Salaries and benefits		231,920	
Administrative service		12,630	
Administrative other expenses		16,610	
Vehicle expense		12,609	
Material and supplies		66,097	
Maintenance and repairs		43,160	
Other operating expenses		90,940	
Insurance		16,477	
Utility fees		137,055	
	728,801	627,498	101,303
Debt Service			
Principal		379,585	
Interest		232,432	
Total Debt Service	627,530	612,017	15,513
Total Expenditures	1,356,331	1,239,515	116,816
Revenues over (under) expenditures	(5,831)	97,733	103,564
Revenues and fund balance appropriated over expenditures	\$ -	\$ 97,733	\$ 97,733

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

Reconciling items:			
(Increase) decrease in accrued vacation		1,634	
Increase (decrease) in deferred outflows of resources - pensions		(11,478)	
(Increase) decrease in net pension liability		9,637	
(Increase) decrease in deferred inflows of resources - pensions		1,317	
Principal retirement		379,585	
Depreciation expense		(732,547)	
Capital contributions		127,419	
Total reconciling items		(224,433)	
Change in net position		\$ (126,700)	

Town of Hertford

**Golden Leaf Foundation Grant FY2018-117 Fund Schedule of
Revenues and Expenditures – Budget and Actual(Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2018
Schedule 8**

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Restricted intergovernmental:					
Golden Leaf Foundation FY2018-117	\$ 637,094	\$ -	\$ 127,419	\$ 127,419	\$ (509,675)
Total revenues	637,094	-	127,419	127,419	(509,675)
Expenditures					
Sanitary sewer construction	\$ 390,600	\$ -	\$ -	\$ -	\$ 390,600
Asphalt replacement	113,994	-	-	-	113,994
Design, permitting, and bid services	50,000	-	-	-	50,000
Construction observation	65,000	-	-	-	65,000
Construction administration	17,500	-	-	-	17,500
Construction contingency	50,459	-	30,000	30,000	20,459
Total expenditures	687,553	-	30,000	30,000	657,553
Revenues over (under) expenditures	(50,459)	-	97,419	97,419	147,878

Town of Hertford
Schedule of Ad Valorem Taxes Receivable
June 30, 2018
Schedule 9

Fiscal Year	Uncollected Balance June 30, 2017	Additions	Credits and Collections	Uncollected Balance June 30, 2018
2017-2018	\$ -	\$ 585,702	\$ 561,042	\$ 24,660
2016-2017	21,421	13,871	19,522	15,770
2015-2016	15,016	-	2,889	12,127
2014-2015	11,555	-	1,538	10,017
2013-2014	11,509	-	2,135	9,374
2012-2013	10,160	-	868	9,292
2011-2012	8,297	-	349	7,948
2010-2011	7,361	-	318	7,043
2009-2010	5,818	-	383	5,435
2008-2009	6,313	-	662	5,651
2007-2008	6,028	-	6,028	-
	\$ 103,478	\$ 599,573	\$ 595,734	107,317

Less: allowance for uncollectible accounts:

General Fund	34,176
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Ad Valorem taxes receivable - net:

General Fund	\$ 73,141
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Reconcilement with revenues

Ad valorem taxes - General Fund	593,018
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Reconciling items:

Interest collected	(5,220)
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Taxes written off	7,936
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Subtotal	2,716
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Total collections and credits	\$ 595,734
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Town of Hertford
Analysis of Current Tax Levy – Town-Wide Levy
June 30, 2018
Schedule 10

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current rate	\$ 121,192,128	0.47	\$ 569,603	\$ 511,439	\$ 58,164
Discoveries					
Public Utilities	4,663,404	0.47	21,918	21,918	-
Other	325,106	0.47	1,528	1,528	-
Abatements	(1,563,191)	0.47	(7,347)	(7,347)	-
Total property valuation	\$ 124,617,447				
Net levy			585,702	527,538	58,164
Uncollected taxes at June 30, 2018			24,660	24,660	-
Current year's taxes collected			\$ 561,042	\$ 502,878	\$ 58,164
Current levy collection percentage			95.79%	95.33%	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, 2018, 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 [REDACTED].

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 18-1 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hertford's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express

such an opinion. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 18-2 that we consider to be a material noncompliance.

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

Material Weaknesses

18-1 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.

Significant Noncompliance

18-2 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 \$9,756 more for general government costs, \$132,513 more for transportation costs, and \$1,217 more for economic and physical development 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.

