

**TOWN OF HERTFORD
NORTH CAROLINA**

ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2021

TOWN OF HERTFORD, NORTH CAROLINA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

TOWN COUNCIL MEMBERS

Ashley Hodges, Mayor Pro-Tem

Connie Brothers

Sandra Anderson

Jerry Mimlitsch

Earnell Brown, Mayor

Janice Cole, Interim Town Manager

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FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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MARTIN STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
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, each major fund, and the aggregate remaining fund information of the Town of Hertford, NC for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statement of the Town of Hertford ABC Board. Those statement were audited by other auditors whose report thereon 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 the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Town of Hertford 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 financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Hertford, North Carolina, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hertford's basic financial statements. The combining and individual fund financial statements, 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 statements, 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. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2022 on our consideration of the Town of Hertford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Hertford's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Hertford's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
June 10, 2022

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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, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

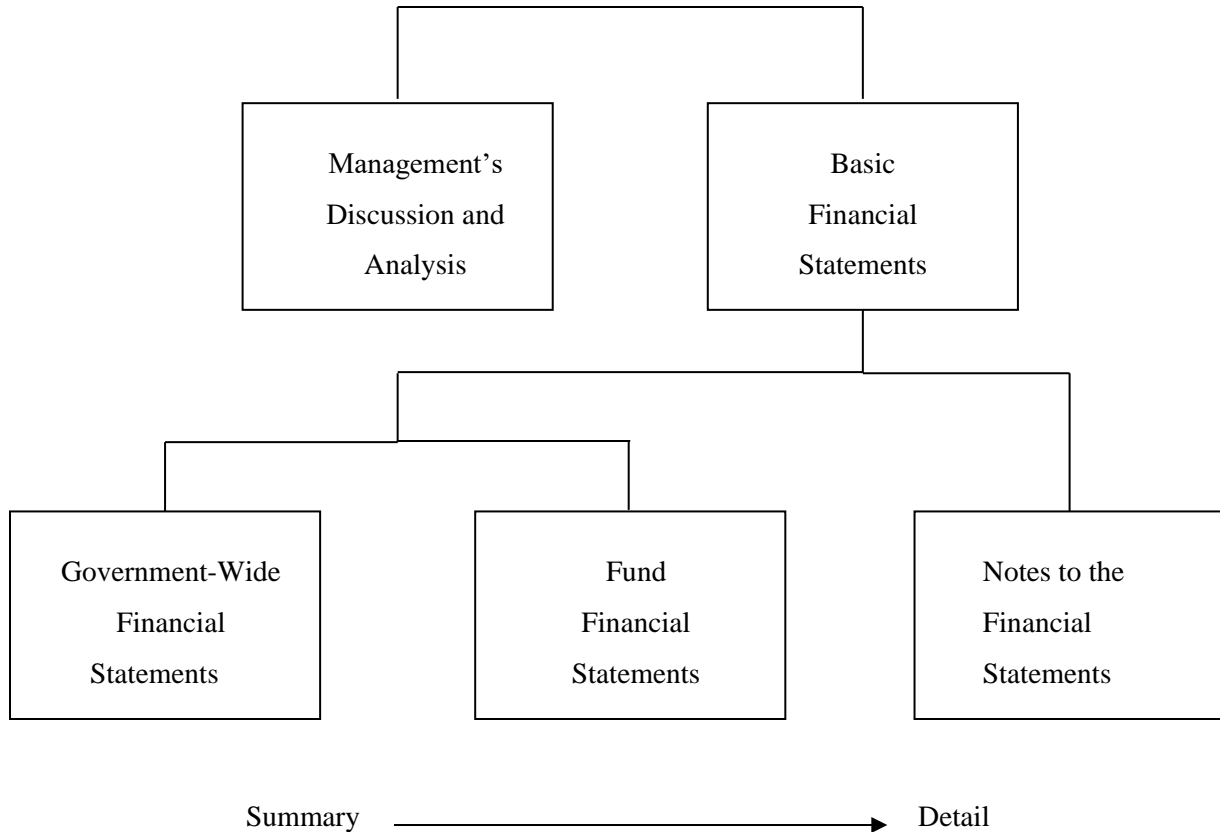
- The assets and deferred outflows of resources of the Town of Hertford exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,462,627 (*net position*).
- The government's total net position increased by \$144,549, due to an increase in governmental activities.
- As of the close of the current fiscal year, the Town of Hertford's governmental funds reported combined ending fund balances of \$1,307,453, with a net change of \$238,322 in fund balance. Approximately 43.9 percent of this total amount, or \$574,171, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$776,673, or 41.1%, of total General Fund expenditures for the fiscal year.
- The Town of Hertford's total debt decreased by \$321,930 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 8) 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 the proprietary fund statements.

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

Government-Wide Financial Analysis

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, transportation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer and electric services offered by the Town of Hertford. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Hertford, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Hertford can be divided into two categories: governmental funds and proprietary funds.

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

The Town of Hertford adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

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 23-58 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Hertford's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 59 of this report.

Interdependence with Other Entities: The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. 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.

Town of Hertford's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 1,657,824	\$ 1,505,048	\$ 2,546,305	\$ 2,021,478	\$ 4,204,129	\$ 3,526,526
Noncurrent assets	-	-	210,000	225,000	210,000	225,000
Capital assets	1,667,345	1,717,931	12,130,668	12,739,901	13,798,013	14,457,832
Deferred outflows of assets	247,850	118,641	145,676	84,106	393,526	202,747
Total assets and deferred outflows of resources	3,573,019	3,341,620	15,032,649	15,070,485	18,605,668	18,412,105
Other liabilities	349,356	354,802	1,043,221	824,333	1,392,577	1,179,135
Long-term liabilities	916,766	805,897	6,708,660	6,914,585	7,625,426	7,720,482
Deferred inflows of resources	114,620	119,458	10,418	17,396	125,038	136,854
Total liabilities and deferred inflows of resources	1,380,742	1,280,157	7,762,299	7,756,314	9,143,041	9,036,471
Net position:						
Net investment in capital assets	1,059,472	1,066,776	5,210,204	5,540,789	6,269,676	6,607,565
Restricted	574,171	435,704	-	-	574,171	435,704
Unrestricted	558,634	558,983	2,060,146	1,773,382	2,618,780	2,332,365
Total net position	\$ 2,192,277	\$ 2,061,463	\$ 7,270,350	\$ 7,314,171	\$ 9,462,627	\$ 9,375,634

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Hertford exceeded liabilities and deferred inflows by \$9,462,627 as of June 30, 2021. The Town's net position increased by \$144,549 for the fiscal year ended June 30, 2021. However, the largest portion, 66%, reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Hertford uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Hertford's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Hertford's net position, \$574,171 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,618,780 is unrestricted.

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

- The tax collection percentage of 95.94% has increased over last year's collection rate of 95.46%.

Town of Hertford's Changes in Net Position

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 218,545	\$ 334,292	\$ 5,078,373	\$ 4,276,416	\$ 5,296,915	\$ 4,610,708
Operating grants and contributions	314,732	163,273	-	-	314,732	163,273
Capital grants and contributions	75,198	-	-	509,675	75,198	509,675
General revenues:						
Property taxes	719,894	604,558	-	-	719,894	604,558
Other taxes, contributions not restricted	986,517	669,405	-	-	986,517	669,405
Unrestricted investment earnings	1,261	940	62	225	1,323	1,165
Miscellaneous	4,551	6,094	-	-	4,551	6,094
Total revenues	2,320,698	1,778,562	5,078,435	4,786,316	7,399,133	6,564,878
Expenses:						
General government	430,160	558,894	-	-	430,160	558,894
Public safety	1,271,307	1,149,175	-	-	1,271,307	1,149,175
Transportation	339,529	639,771	-	-	339,529	639,771
Economic and physical development	20,219	34,149	-	-	20,219	34,149
Environmental protection	38,325	145,206	-	-	38,325	145,206
Interest on long-term debt	37,735	24,028	-	-	37,735	24,028
Loss on disposal of assets	79,053	-	-	-	79,053	-
Electric	-	-	3,161,862	2,886,300	3,161,862	2,886,300
Water and Sewer	-	-	1,876,394	1,792,115	1,876,394	1,792,115
Total expenses	2,216,328	2,551,223	5,038,256	4,678,415	7,254,584	7,229,638
Increase (decrease) in net position						
before transfers	104,370	(772,661)	40,179	107,901	144,549	(664,760)
Transfers	84,000	90,028	(84,000)	(90,028)	-	-
Increase (decrease) in net position	188,370	(682,633)	(43,821)	17,873	144,549	(664,760)
Net position, beginning, as previously reported	2,061,463	2,912,220	7,314,171	7,296,298	9,375,634	10,208,518
Prior period adjustment	(57,556)	(168,124)	-	-	(57,556)	(168,124)
Net position, beginning as restated	2,003,907	2,744,096	7,314,171	7,296,298	9,318,078	10,040,394
Net position, June 30	\$ 2,192,277	\$ 2,061,463	\$ 7,270,350	\$ 7,314,171	\$ 9,462,627	\$ 9,375,634

Governmental activities: Governmental activities increased the Town's net position by \$188,370, after transfers. Key elements of this increase are as follows:

- Operating grants and revenues increased significantly from the prior year primarily due to a grant for a Waterfront Project and Coronavirus Relief funds.
- Town staff continues to be proactive and conservative in spending due to the slow economic turn-around in the region and the effects of Covid-19.

Business-type activities. Business-type activities decreased the Town of Hertford's net assets by \$43,821, after transfers. The key element of this decrease is as follows:

- Expenditures increased as a result of normal operations.

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 \$776,673, while total fund balance reached \$1,307,253. 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 41.1% of General Fund expenditures, while total fund balance represents 69.2% of the same amount.

At June 30, 2021, the governmental funds of Town of Hertford reported a combined fund balance of \$1,307,453, a 22.2% 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 unrestricted intergovernmental revenues.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Electric Fund at the end of the fiscal year amounted to \$1,219,483, and those for the Water and Sewer Fund amounted to \$840,663. The total change in net position for each fund was \$113,437 and (\$157,258) 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, 2021 totals \$13,798,013 (net of accumulated depreciation). These assets include land, buildings and systems, machinery and equipment, park facilities, vehicles, and construction in progress.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 407,205	\$ 407,205	\$ 379,893	\$ 379,893	\$ 787,098	\$ 787,098
Buildings and systems	194,839	208,264	-	12,360,008	194,839	12,568,272
Machinery and equipment	176,373	112,989	90,565	-	266,938	112,989
Improvements	522,244	522,639	11,376,533	-	11,898,777	522,639
Vehicles	184,729	420,474	173,174	-	357,903	420,474
Construction in progress	181,955	46,360	110,503	-	292,458	46,360
Total	\$ 1,667,345	\$ 1,717,931	\$ 12,130,668	\$ 12,739,901	\$ 13,798,013	\$ 14,457,832

Additional information on the Town capital assets can be found in the notes to the basic financial statements.

Long-term Debt. As of June 30, 2021, the Town of Hertford had total debt outstanding of \$8,110,458.

Town of Hertford's Outstanding Debt

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Installment purchases	\$ 607,873	\$ 651,155	\$ 371,266	\$ 392,334	\$ 979,139	\$ 1,043,489
General obligation bonds	-	-	4,052,000	4,134,000	4,052,000	4,134,000
Revolving Loans	-	-	2,375,500	2,672,778	2,375,500	2,672,778
Capital lease	-	-	121,698	-	121,698	-
Net pension liability (LGERS)	308,545	125,909	192,807	96,388	501,352	222,297
Net pension liability (LEO)	32,873	46,902	-	-	32,873	46,902
Compensated absences	16,700	33,829	31,196	24,722	47,896	58,551
Total	\$ 965,991	\$ 857,795	\$ 7,144,467	\$ 7,320,222	\$ 8,110,458	\$ 8,178,017

The Town of Hertford's total debt decreased by \$67,559 (.8%) 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 \$9,841,979.

Additional information regarding the Town of Hertford's long-term debt can be found in Note 3.B. beginning on page 49 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:

- New businesses have opened in the downtown area with investment being made in the rehabilitation of commercial property. The projected trend looks favorable with the addition of an assisted living facility, dialysis medical facility and additional retail stores opening.
- The population has been stable and will trend stable for the next year, with very small increases to the Census Certified population.
- The Marine Commerce Center, which is located within the Town limits, has recently been funded to complete the boat basin, which is an important draw for commercial businesses.
- Next year's budget is strategically aiming to rebuild the fund balance.
- Water and sewer rates are reviewed each budget processing period to be aligned with the 5-year rate study.

Budget Highlights for the Fiscal Year Ending June 30, 2022

Governmental Activities: This year's budget was projected to be very similar to last year. The Town management and staff have made a concentrated effort to reduce expenditures by dissolving the police department and contracting with the County Sheriff's office to provide for additional coverage within Town limits at half the cost.

Business-type Activities: The water and sewer rates are set on a 5-year plan created by NC Rural Water with an annual increase. The increase to the fees is aligned with the 5-year study.

Requests for Information

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

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TOWN OF HERTFORD, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2021

	Primary Government			Town of Hertford ABC Board
	Governmental Activities	Business-type Activities	Total	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 1,094,536	\$ 1,303,146	\$ 2,397,682	\$ 174,193
Taxes receivable, net	65,094	-	65,094	-
Accounts receivable, net	38,799	993,680	1,032,479	-
Due from component unit	177,517	-	177,517	-
Due from other governments	201,979	44,046	246,025	680
Internal balances	(75,977)	75,977	-	-
Prepaid items	-	-	-	2,554
Inventories	-	-	-	161,227
Restricted cash and cash equivalents	155,876	129,456	285,332	-
Total current assets	1,657,824	2,546,305	4,204,129	338,654
Non-current assets:				
Note Receivable - Winfall settlement	-	210,000	210,000	-
Capital assets:				
Land, non-depreciable improvements, and construction in progress	589,160	490,396	1,079,556	5,472
Other capital assets, net of depreciation	1,078,185	11,640,272	12,718,457	137,669
Total non-current assets	1,667,345	12,340,668	14,008,013	143,141
Total assets	3,325,169	14,886,973	18,212,142	481,795
Deferred Outflows of Resources:				
Pension deferrals	247,850	145,676	393,526	21,489
Total deferred outflows of resources	247,850	145,676	393,526	21,489
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	300,131	477,958	778,089	129,986
Due to primary government	-	-	-	177,517
Current portion of long-term liabilities	49,225	435,807	485,032	15,009
Payable from restricted assets:				
Customer deposits	-	129,456	129,456	-
Total current liabilities	349,356	1,043,221	1,392,577	322,512
Long-term liabilities:				
Net pension liability	308,545	192,807	501,352	18,939
Total pension liability	32,873	-	32,873	-
Due in more than one year	575,348	6,515,853	7,091,201	84,865
Total liabilities	1,266,122	7,751,881	9,018,003	426,316
Deferred Inflows of Resources:				
Pension deferrals	114,330	10,418	124,748	-
Prepaid taxes	290	-	290	-
Total deferred inflows of resources	114,620	10,418	125,038	-
Net Position:				
Net investment in capital assets	1,059,472	5,210,204	6,269,676	43,267
Restricted for:				
Stabilization by state statute	418,295	-	418,295	680
Public safety	68,300	-	68,300	-
USDA Reserve	87,576	-	87,576	-
Other functions	-	-	-	40,074
Unrestricted	558,634	2,060,146	2,618,780	(7,053)
Total net position	\$ 2,192,277	\$ 7,270,350	\$ 9,462,627	\$ 76,968

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

TOWN OF HERTFORD, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 430,160	\$ 218,545	\$ -	\$ -
Public safety	1,271,307	-	247,574	-
Transportation	339,529	-	67,158	-
Economic and physical development	20,219	-	-	75,198
Environmental protection	38,325	-	-	-
Loss on disposal of assets	79,053	-	-	-
Interest on long-term debt	37,735	-	-	-
Total governmental activities	<u>2,216,328</u>	<u>218,545</u>	<u>314,732</u>	<u>75,198</u>
Business-Type Activities:				
Electric	3,161,862	3,359,299	-	-
Water and sewer	1,876,394	1,719,074	-	-
Total business-type activities	<u>5,038,256</u>	<u>5,078,373</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 7,254,584</u>	<u>\$ 5,296,918</u>	<u>\$ 314,732</u>	<u>\$ 75,198</u>
Component Unit:				
ABC Board	<u>\$ 1,657,926</u>	<u>\$ 1,657,771</u>	<u>\$ -</u>	<u>\$ -</u>

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

TOWN OF HERTFORD, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Functions/Programs:	Net (Expense) Revenue and Changes in Net Position			Town of Hertford ABC Board
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
Primary Government:				
Governmental Activities:				
General government	\$ (211,615)	\$ -	\$ (173,345)	
Public safety	(1,023,733)	-	(853,515)	
Transportation	(272,371)	-	(199,213)	
Economic and physical development	54,979	-	54,979	
Environmental protection	(38,325)	-	(38,325)	
Loss on disposal of assets	(79,053)	-	(79,053)	
Interest on long-term debt	(37,735)	-	(37,735)	
Total governmental activities	<u>(1,607,853)</u>	<u>-</u>	<u>(1,326,207)</u>	
Business-Type Activities:				
Electric	-	197,437	177,352	
Water and sewer	-	(157,320)	(233,561)	
Total business-type activities	<u>-</u>	<u>40,117</u>	<u>(56,209)</u>	
Total primary government	<u>(1,607,853)</u>	<u>40,117</u>	<u>(1,382,416)</u>	
Component Unit:				
ABC Board				\$ (155)
General Revenues:				
Taxes:				
Property taxes, levied for general purpose	719,894	-	716,004	-
Other taxes	31,185	-	31,185	-
Grants and contributions not restricted for specific programs	955,332	-	877,315	-
Unrestricted investment earnings	1,261	62	1,323	-
Miscellaneous revenues	4,551	-	4,551	155
Transfers	84,000	(84,000)	-	-
Total general revenues and transfers	<u>1,796,223</u>	<u>(83,938)</u>	<u>1,630,378</u>	<u>155</u>
Change in net position	<u>188,370</u>	<u>(43,821)</u>	<u>144,549</u>	<u>-</u>
Net position, beginning as previously reported	2,061,463	7,314,171	9,375,634	76,968
Prior period adjustment	(57,556)	-	(57,556)	-
Net position, beginning as restated	<u>2,003,907</u>	<u>7,314,171</u>	<u>9,318,078</u>	<u>76,968</u>
Net position, ending	<u>\$ 2,192,277</u>	<u>\$ 7,270,350</u>	<u>\$ 9,462,627</u>	<u>\$ 76,968</u>

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

TOWN OF HERTFORD, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021

	Major Funds			Total Governmental Funds
	General	King Street Resurface	Waterfront Project	
Assets:				
Cash and cash equivalents	\$ 1,094,536	\$ -	\$ -	\$ 1,094,536
Receivables, net:				
Taxes	65,094	-	-	65,094
Accounts	38,799	-	-	38,799
Due from component unit	177,517	-	-	177,517
Due from other governments	158,388	568	43,023	201,979
Restricted cash and cash equivalents	155,876	-	-	155,876
Total assets	<u>\$ 1,690,210</u>	<u>\$ 568</u>	<u>\$ 43,023</u>	<u>\$ 1,733,801</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 241,596	\$ 368	\$ 43,023	\$ 284,987
Due to other funds	75,977	-	-	75,977
Total liabilities	<u>317,573</u>	<u>368</u>	<u>43,023</u>	<u>360,964</u>
Deferred Inflows of Resources:				
Prepaid tax	290	-	-	290
Property taxes receivable	65,094	-	-	65,094
Total deferred inflows of resources	<u>65,384</u>	<u>-</u>	<u>-</u>	<u>65,384</u>
Fund Balances:				
Restricted				
Stabilization by state statute	374,704	568	43,023	418,295
Streets - Powell Bill	68,300	-	-	68,300
USDA Reserve	87,576	-	-	87,576
Unassigned	776,673	(368)	(43,023)	733,282
Total fund balances	<u>1,307,253</u>	<u>200</u>	<u>-</u>	<u>1,307,453</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,690,210</u>	<u>\$ 568</u>	<u>\$ 43,023</u>	<u>\$ 1,733,801</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:				
Total Fund Balance, Governmental Funds				\$ 1,307,453
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Gross capital assets at historical cost			\$ 4,940,310	
Accumulated depreciation			<u>(3,272,965)</u>	1,667,345
Deferred outflows of resources related to pensions are not reported in the funds.				247,850
Earned revenues considered deferred inflows of resources in fund statements.				65,094
Accrued interest				(15,144)
Net pension liability				(308,545)
Total pension liability				(32,873)
Gross long-term debt				(624,573)
Deferred inflows of resources related to pensions are not reported in the funds.				<u>(114,330)</u>
Net position of governmental activities				<u>\$ 2,192,277</u>

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

TOWN OF HERTFORD, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Major Funds				Total Governmental Funds
	General Fund	King Street Resurface	Waterfront Project	Non-Major Fund	
Revenues:					
Ad valorem taxes	\$ 729,963	\$ -	\$ -	\$ -	\$ 729,963
Other taxes and licenses	31,185	-	-	-	31,185
Unrestricted intergovernmental	955,332	-	-	-	955,332
Restricted intergovernmental	157,640	13,800	75,198	143,292	389,930
Sales and services	218,545	-	-	-	218,545
Investment earnings	1,261	-	-	-	1,261
Miscellaneous	4,554	-	-	-	4,554
Total revenues	<u>2,098,480</u>	<u>13,800</u>	<u>75,198</u>	<u>143,292</u>	<u>2,330,770</u>
Expenditures:					
Current:					
General government	433,905	-	-	-	433,905
Public safety	853,403	-	-	143,292	996,695
Transportation	344,546	18,600	-	-	363,146
Economic and physical development	21,994	-	126,198	-	148,192
Environmental protection	38,325	-	-	-	38,325
Sanitation	130,312	-	-	-	130,312
Debt service:					
Principal	43,282	-	-	-	43,282
Interest and other charges	22,591	-	-	-	22,591
Total expenditures	<u>1,888,358</u>	<u>18,600</u>	<u>126,198</u>	<u>143,292</u>	<u>2,176,448</u>
Excess (deficiency) of revenues over expenditures	<u>210,122</u>	<u>(4,800)</u>	<u>(51,000)</u>	<u>-</u>	<u>154,322</u>
Other Financial Sources (Uses):					
Transfers from other funds	84,000	-	51,000	-	135,000
Transfers to other funds	(51,000)	-	-	-	(51,000)
Total other financing sources (uses)	<u>33,000</u>	<u>-</u>	<u>51,000</u>	<u>-</u>	<u>84,000</u>
Net change in fund balance	<u>243,122</u>	<u>(4,800)</u>	<u>-</u>	<u>-</u>	<u>238,322</u>
Fund balances, beginning, as previously reported					
	1,121,687	5,000	-	-	1,126,687
Prior period adjustment	(57,556)	-	-	-	(57,556)
Fund balances, beginning as restated	<u>1,064,131</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>1,069,131</u>
Fund balances, ending	<u>\$ 1,307,253</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,307,453</u>

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

TOWN OF HERTFORD, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

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

Net changes in fund balances - total governmental funds	\$	238,322
<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 outlays exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized	\$	292,224
Disposal of assets		(79,054)
Depreciation expense for governmental assets		<u>(263,756)</u>
		(50,586)
Contributions to the pension plan in the current fiscal year not included in the Statement of Activities		73,642
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenues		(10,072)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on long-term debt		<u>43,282</u>
		43,282
<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>		
Accrued interest		(15,144)
Compensated absences		17,129
Pension expense - LEOSSA		18,767
Pension expense - LGERS		<u>(126,970)</u>
		(106,218)
Total changes in net position of governmental activities	\$	<u><u>188,370</u></u>

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

TOWN OF HERTFORD, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund			Variance with Final Budget - Positive (Negative)
	Budget - Original	Budget - Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 634,542	\$ 634,542	\$ 729,963	\$ 95,421
Other taxes and licenses	24,500	24,500	31,185	6,685
Unrestricted intergovernmental	895,790	895,790	955,332	59,542
Restricted intergovernmental	159,500	177,858	157,640	(20,218)
Sales and services	161,853	188,550	218,545	29,995
Investment earnings	700	700	1,261	561
Miscellaneous	2,000	10,110	4,554	(5,556)
Total revenues	<u>1,878,885</u>	<u>1,932,050</u>	<u>2,098,480</u>	<u>166,430</u>
Expenditures:				
Current:				
General government	442,356	601,464	433,905	167,559
Public safety	874,779	924,380	853,403	70,977
Transportation	415,158	461,665	344,546	117,119
Economic and physical development	22,569	23,010	21,994	1,016
Environmental protection	35,000	35,000	38,325	(3,325)
Sanitation	125,733	140,733	130,312	10,421
Debt service:				
Principal	33,354	33,354	43,282	(9,928)
Interest	13,936	13,936	22,591	(8,655)
Total expenditures	<u>1,962,885</u>	<u>2,233,542</u>	<u>1,888,358</u>	<u>345,184</u>
Revenues over (under) expenditures	<u>(84,000)</u>	<u>(301,492)</u>	<u>210,122</u>	<u>511,614</u>
Other Financing Sources (Uses):				
Transfer from electric fund	84,000	84,000	84,000	-
Transfer to Waterfront project fund	-	-	(51,000)	(51,000)
Total other financing sources (uses)	<u>84,000</u>	<u>84,000</u>	<u>33,000</u>	<u>(51,000)</u>
Fund balance appropriated	-	217,492	-	217,492
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>243,122</u>	<u>\$ 243,122</u>
Fund balance, beginning, as previously reported			1,121,687	
Prior period adjustment			(57,556)	
Fund balance,, beginning as restated			<u>1,064,131</u>	
Fund balance, ending			<u>\$ 1,307,253</u>	

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

TOWN OF HERTFORD, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

	Water and Sewer Fund	Electric Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 392,325	\$ 910,821	\$ 1,303,146
Accounts receivable, net	371,421	622,259	993,680
Due from other governments	8,414	35,632	44,046
Due from other funds	339	115,636	115,975
Restricted cash and cash equivalents	-	129,456	129,456
Total current assets	<u>772,499</u>	<u>1,813,804</u>	<u>2,586,303</u>
Noncurrent assets:			
Note Receivable - Winfall settlement	210,000	-	210,000
Capital assets:			
Land and construction in progress	379,893	110,503	490,396
Other capital assets, net of depreciation	11,236,326	403,946	11,640,272
Capital assets	<u>11,616,219</u>	<u>514,449</u>	<u>12,130,668</u>
Total noncurrent assets	<u>11,826,219</u>	<u>514,449</u>	<u>12,340,668</u>
Total assets	<u>12,598,718</u>	<u>2,328,253</u>	<u>14,926,971</u>
Deferred Outflows of Resources:			
Pension deferrals	62,486	83,190	145,676
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	67,047	410,911	477,958
Current portion of long-term debt	417,740	10,538	428,278
Compensated absences, current	2,256	5,273	7,529
Due to other funds	39,998	-	39,998
Liabilities payable from restricted assets:			
Customer deposits	-	129,456	129,456
Total current liabilities	<u>527,041</u>	<u>556,178</u>	<u>1,083,219</u>
Noncurrent liabilities:			
Compensated absences	7,849	15,818	23,667
Revolving loans	2,078,222	-	2,078,222
Capital lease	97,774	-	97,774
Installment loan payable	175,095	175,095	350,190
Bonds payable	3,966,000	-	3,966,000
Net pension liability	82,703	110,104	192,807
Total noncurrent liabilities	<u>6,407,643</u>	<u>301,017</u>	<u>6,708,660</u>
Total liabilities	<u>6,934,684</u>	<u>857,195</u>	<u>7,791,879</u>
Deferred Inflows of Resources:			
Pension deferrals	4,469	5,949	10,418
Net Position:			
Net investment in capital assets	4,881,388	328,816	5,210,204
Unrestricted	840,663	1,219,483	2,060,146
Total net position	<u>\$ 5,722,051</u>	<u>\$ 1,548,299</u>	<u>\$ 7,270,350</u>

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

TOWN OF HERTFORD, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Water and Sewer Fund	Electric Fund	Total
Operating Revenues:			
Charges for services	\$ 1,631,637	\$ 3,356,133	\$ 4,987,770
Winfall charges	83,349	-	83,349
Water and sewer taps	1,000	-	1,000
Miscellaneous revenue	3,088	3,166	6,254
Total operating revenues	<u>1,719,074</u>	<u>3,359,299</u>	<u>5,078,373</u>
Operating Expenses:			
Water and sewer operations	857,322	-	857,322
Electric operations	-	3,059,862	3,059,862
Depreciation	773,322	87,219	860,541
Total operating expenses	<u>1,630,644</u>	<u>3,147,081</u>	<u>4,777,725</u>
Operating income (loss)	<u>88,430</u>	<u>212,218</u>	<u>300,648</u>
Nonoperating Revenues (Expenses):			
Investment earnings	62	-	62
Interest and other charges	(245,750)	(14,781)	(260,531)
Total nonoperating revenue (expenses)	<u>(245,688)</u>	<u>(14,781)</u>	<u>(260,469)</u>
Income (loss) before transfers	(157,258)	197,437	40,179
Transfers to other funds	<u>-</u>	<u>(84,000)</u>	<u>(84,000)</u>
Change in net position	(157,258)	113,437	(43,821)
Total net position, beginning	<u>5,879,309</u>	<u>1,434,862</u>	<u>7,314,171</u>
Total net position, ending	<u>\$ 5,722,051</u>	<u>\$ 1,548,299</u>	<u>\$ 7,270,350</u>

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

TOWN OF HERTFORD, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Water and Sewer Fund	Electric Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 1,589,828	\$ 3,100,941	\$ 4,690,769
Cash paid for goods and services	(540,863)	(2,443,684)	(2,984,547)
Cash paid to employees	(355,407)	(384,487)	(739,894)
Cash received from Winfall settlement	15,000	-	15,000
Customer deposits received (returned)	-	(98)	(98)
Net cash provided (used) by operating activities	<u>708,558</u>	<u>272,672</u>	<u>981,230</u>
Cash Flows from Non-Capital Financial Activities:			
Operating grants	509,675	-	509,675
Increase (decrease) in due to/from other funds	(498,612)	492,584	(6,028)
Transfers to other funds	-	(84,000)	(84,000)
Net cash provided (used) by noncapital financing activities	<u>11,063</u>	<u>408,584</u>	<u>419,647</u>
Cash Flows from Capital and Related Financing Activities:			
Principal paid on long-term debt	(396,114)	(10,534)	(406,648)
Proceeds from long-term debt	128,000	-	128,000
Acquisition of capital assets	(140,805)	(110,503)	(251,308)
Interest and other charges	(221,246)	(8,866)	(230,112)
Net cash provided (used) by capital and related financing activities	<u>(630,165)</u>	<u>(129,903)</u>	<u>(760,068)</u>
Cash Flows from Investing Activities:			
Interest and dividends	62	-	62
Net cash provided (used) by investing activities	<u>62</u>	<u>-</u>	<u>62</u>
Net increase (decrease) in cash and cash equivalents	89,518	551,353	640,871
Cash and cash equivalents, July 1	302,807	488,924	791,731
Cash and cash equivalents, June 30	<u>\$ 392,325</u>	<u>\$ 1,040,277</u>	<u>\$ 1,432,602</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income	\$ 88,430	\$ 212,218	\$ 300,648
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	773,322	87,219	860,541
Changes in assets, deferred outflows of resources, and liabilities:			
(Increase) decrease in accounts receivable, net	(129,246)	(258,358)	(387,604)
(Increase) decrease in note receivable - Winfall settlement	15,000	-	15,000
Increase in net pension liability	32,729	63,690	96,419
Increase (decrease) in accounts payable and accrued liabilities	(44,905)	203,303	158,398
Increase (decrease) in customer deposits	-	(98)	(98)
Increase (decrease) in compensated absences	(3,342)	9,816	6,474
Increase (decrease) in deferred inflows of resources for pensions	(4,550)	(2,428)	(6,978)
(Increase) decrease in deferred outflows of resources for pensions	(18,880)	(42,690)	(61,570)
Total adjustments	<u>620,128</u>	<u>60,454</u>	<u>680,582</u>
Net cash provided by operating activities	<u>\$ 708,558</u>	<u>\$ 272,672</u>	<u>\$ 981,230</u>

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Hertford ABC Board

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

B. Basis of Presentation

Government-Wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The Town has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

The Town reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

King Street Resurface Project Fund

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

Waterfront Project Fund

This fund accounts for a study to generate visitation and jobs to improve the economy for the Community.

The Town maintains the following nonmajor governmental fund:

Coronavirus Relief Fund

This fund accounts for funds used to account for coronavirus expenditures.

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.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods 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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, coronavirus relief fund and the enterprise funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the King Street Resurface Program Fund and the Waterfront project. 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

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Trust (NCCMT). The Town's and the ABC Board's investments are carried at fair value as determined by quoted prices. The NCCMT Government Portfolio, a SEC-registered (2a-7) government money market fund is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

Cash and Cash Equivalents

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

Restricted Assets

The Town is required by the USDA to set aside ten percent (10%) of the current year's note payment as restricted cash in a separate account for ten years or until one payment has accrued or the note is paid out. For the fiscal year ended June 30, 2021, the Town has accumulated \$87,576 in this account and it is shown as restricted assets for 'USDA Reserve.' Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Governmental Activities:

General Fund		
USDA Reserve	\$	87,576
Streets - Powell Bill		68,300
<u>Total governmental activities</u>		<u>155,876</u>

Business-type Activities:

Electric Fund		
Customer Deposits		129,456
<u>Total business-type activities</u>		<u>129,456</u>
<u>Total restricted cash</u>		<u>\$285,332</u>

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 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2020. As allowed by state law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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.

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.

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, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals for the 2021 fiscal year. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category- prepaid taxes, property taxes receivable, and pension deferrals.

Long-Term Obligations

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

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

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.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balance as follows:

Nonspendable Fund Balance

This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Town does not have any nonspendable fund balances for the governmental fund types.

Restricted Fund Balance

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

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

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

Committed Fund Balance

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

Assigned Fund Balance

Portion of fund balance that Town of Hertford intends to use for specific purposes.

Unassigned Fund Balance

The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The General Fund is the only fund that reports a positive unassigned fund balance.

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, and Town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, 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.

F. Defined Benefit Cost-Sharing Plan

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

2. Stewardship, Compliance, and Accountability

Noncompliance with North Carolina General Statutes

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2021, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for transfers to other funds by \$51,000, expenditures for environmental protection by \$3,325 and expenditures for debt service by \$18,583. This over-expenditure for the transfer to other funds occurred because while the Town properly budgeted for the expenditures in the General Fund, they failed to amend the budget for transfers when it was determined a new fund was needed to account for those expenditures. The over-expenditure for debt service and environmental protection occurred due to the Board not budgeting funds to cover the total expenses. The Town's Water and Sewer Fund had expenditures exceeding authorized appropriations by \$38,949. The Board failed to amend the budget for the purchase of a vacuum truck. The Town's Electric Fund had expenditures exceeding authorized appropriations by \$255,013. The Town incurred more usage than anticipated with resulted in higher collections and higher expenditures. The Board failed to amend the budget to account for the higher usage.

Escheating Checks

For the fiscal year ended June 30, 2021, the Town did not escheat checks that were older than a year that had not cleared the bank.

Finance Officer Bonding

For the fiscal year ended June 30, 2021, the Board-appointed Finance Officer was not individually bonded under a surety bond.

Late Audit

For the fiscal year ended June 30, 2021, the audit was significantly delayed due to turnover in financial personnel.

3. Detail Notes on All Activities and Funds

A. Assets

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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, 2021, the Town's deposits had a carrying amount of \$2,680,168, and a bank balance of \$2,000,426. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$173,793 and the bank balance was \$171,940. All of the bank balance was covered by federal depository insurance. At June 30, 2021, the Town's petty cash fund totaled \$550 and the ABC Board's petty cash fund totaled \$400.

Investments

At June 30, 2021, the Town of Hertford had \$2,296 invested with the North Carolina Capital Management Trust's Government Portfolio. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's and AAAM-mf by Moody's Investors Service as of June 30, 2021. The Town has no formal policy regarding credit risk of its investments.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Receivables – Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2021 are net of the following allowances for doubtful accounts:

	Taxes	Accounts Receivable	Due From Other Governments	Total
Governmental Activities:				
General Fund:				
Property taxes	\$ 111,285	\$ -	\$ -	\$ 111,285
Local options sales/franchise tax	-	-	128,640	128,640
Accounts Receivable	-	38,799	-	38,799
Housing authority	-	-	3,264	3,264
DMV fees	-	-	6,928	6,928
Due from component unit	-	-	177,517	177,517
Sales tax refunds due	-	-	15,586	15,586
Motor vehicle tax	-	-	3,970	3,970
Allowance for doubtful accounts	(46,191)	-	-	(46,191)
Total General Fund	65,094	38,799	335,905	439,798
King Street Resurface:				
Sales tax refunds due	-	-	568	568
Total King Street Resurface	-	-	568	568
Waterfront Project:				
Grant Receivable	-	-	43,023	43,023
Total Waterfront Project	-	-	43,023	43,023
Total governmental activities	\$ 65,094	\$ 38,799	\$ 379,496	\$ 483,389
Business-Type Activities:				
Sales tax refunds due	\$ -	\$ 1,125,493	\$ 44,046	\$ 1,169,539
Allowance for doubtful accounts	-	(131,813)	-	(131,813)
Total Enterprise Activities	\$ -	\$ 993,680	\$ 44,046	\$ 1,037,726

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Capital Assets

Primary Government. Capital asset activity for the Primary Government for the year ended June 30, 2021 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 407,205	\$ -	\$ -	\$ 407,205
Construction in progress	46,360	135,595	-	181,955
Total capital assets not being depreciated	453,565	135,595	-	589,160
Capital assets being depreciated:				
Buildings	1,011,287	-	-	1,011,287
Equipment and furniture	470,561	81,156	-	551,717
Other improvements	1,164,406	68,990	-	1,233,396
Vehicles and motorized equipment	1,877,115	6,483	328,848	1,554,750
Total capital assets being depreciated	4,523,369	156,629	328,848	4,351,150
Less accumulated depreciation for:				
Buildings	803,023	13,425	-	816,448
Equipment and furniture	357,572	17,758	-	375,246
Other improvements	662,733	48,516	-	711,249
Vehicles and motorized equipment	1,435,675	184,057	249,794	1,370,022
Total accumulated depreciation	3,259,003	263,756	249,794	3,272,965
Total capital assets being depreciated, net	1,264,366			1,078,185
Governmental activity capital assets, net	\$1,717,931			\$1,667,345

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

General government	\$ 20,380
Public safety	170,218
Transportation	73,158
Total depreciation expense	\$ 263,756

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 379,893	\$ -	\$ -	\$ 379,893
Construction in progress	-	-	-	-
Total capital assets not being depreciated	379,893	-	-	379,893
Capital assets being depreciated:				
Buildings	1,700	-	-	1,700
Equipment	463,422	12,805	-	476,227
Vehicles	53,106	128,000	-	181,106
Improvements	23,139,476	-	-	23,139,476
Total capital assets being depreciated	23,657,704	140,805	-	23,798,509
Less accumulated depreciation for:				
Buildings	1,700	-	-	1,700
Equipment	446,976	3,301	-	450,277
Vehicles	53,106	21,252	-	74,358
Improvements	11,287,079	748,769	-	12,035,848
Total accumulated depreciation	11,788,861	773,322	-	12,562,183
Total capital assets being depreciated, net	11,868,843			11,236,326
Water and Sewer fund capital assets, net	\$ 12,248,736			\$ 11,616,219
Business-type activities:				
Electric Fund				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 110,503	\$ -	\$ 110,503
Total capital assets not being depreciated	-	110,503	-	110,503
Capital assets being depreciated:				
Equipment	286,052	-	-	286,052
Vehicles	265,904	-	-	265,904
Improvements	2,406,470	-	-	2,406,470
Total capital assets being depreciated	2,958,426	-	-	2,958,426
Less accumulated depreciation for:				
Equipment	210,587	10,850	-	221,437
Vehicles	180,200	19,278	-	199,478
Improvements	2,076,474	57,091	-	2,133,565
Total accumulated depreciation	2,467,261	87,219	-	2,554,480
Total capital assets being depreciated, net	491,165			403,946
Electric fund capital assets, net	491,165			514,449
Business-type activities capital assets, net	\$ 12,739,901			\$ 12,130,668

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Discretely presented component units. Activity for the ABC Board for the year ended June 30, 2021, 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	245,566	15,615	-	261,181
Improvements	11,871	-	-	11,871
Total capital assets being depreciated	293,747	15,615	-	309,362
Less accumulated depreciation for:				
Buildings	36,310	-	-	36,310
Furniture and equipment	101,355	22,157	-	123,512
Improvements	11,871	-	-	11,871
Total accumulated depreciation	149,536	22,157	-	171,693
Total capital assets being depreciated, net	144,211			137,669
ABC Board capital assets, net	\$ 149,683			\$ 143,141

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2021, were as follows:

	Vendors	Other	Total
Governmental Activities:			
General	\$ 51,602	\$ 205,138	\$ 256,740
Other Governmental	43,391	-	43,391
Total-governmental activities	\$ 94,993	\$ 205,138	\$ 300,131
Business-type Activities			
Water and Sewer	\$ 23,518	\$ 43,529	\$ 67,047
Electric	198,380	212,531	410,911
Total-business-type activities	\$ 221,898	\$ 256,060	\$ 477,958

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Pension Plan Obligations

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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report 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 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.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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, 2021, was 10.90% of compensation for law enforcement officers and 10.15% 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 \$119,660 for the year ended June 30, 2021.

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

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

At June 30, 2021, the Town reported a liability of \$501,352 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020 (measurement date), the Town’s proportion was 0.01403%, which was an increase of 0.00589% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$200,857. At June 30, 2021, 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	\$ 63,312	\$ -
Changes of assumptions	37,310	-
Net difference between projected and actual earnings on pension plan investments	70,551	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	87,966	27,090
Town contributions subsequent to the measurement date	119,660	-
Total	\$ 378,799	\$ 27,090

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

\$119,660 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 ending June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Total
2022	\$ 70,463
2023	83,014
2024	57,694
2025	20,878
Total	<u>\$ 232,049</u>

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

Inflation	3.0 percent
Salary Increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2019 valuation with the exception of the discount rate 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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 2020 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3%. All rates of return and inflation are annualized.

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

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

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Town’s proportionate share of the net pension liability (asset)	\$ 1,017,188	\$ 501,352	\$ 72,655

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report for the State of North Carolina.

Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Hertford administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances 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. A separate report was not issued for this plan.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2019, the Separation Allowance's membership consisted of:

Inactive members currently receiving benefits	-
Active plan members	6
<u>Total</u>	<u>6</u>

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.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Actuarial Assumptions. The entry age normal actuarial cost method was used in the December 31, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Discount rate	1.93 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Investment rate of return	3.26 percent

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

Mortality Assumption: All mortality rates use Pub-2010 amount-weighted tables.

Mortality Projection: All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

Deaths After Retirement (Healthy): Mortality rates are based on the Safety Mortality Table for Retirees. Rates for all members are multiplied by 97% and Set Forward by 1 year.

Deaths After Retirement (Disabled Members at Retirement): Mortality rates are based on the Non-Safety Mortality Table for Disabled Retirees. Rates are Set Back 3 years for all ages.

Deaths After Retirement (Survivors of Deceased Members): Mortality rates are based on the Below-median Teachers Mortality Table for Contingent Survivors. Rates for male members are Set Forward 3 years. Rates for female members are Set Forward 1 year. Because the contingent survivor tables have no rates prior to age 45, the Below-median Teachers Mortality Table for Employees is used for ages less than 45.

Deaths Prior to Retirement: Mortality rates are based on the Safety Mortality Table for Employees.

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

At June 30, 2021, the Town reported a total pension liability of \$32,873. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the Town recognized pension expense of (\$18,442).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,091	\$ 95,257
Changes of assumptions	12,636	2,401
Total	\$ 14,727	\$ 97,658

\$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 ending June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:

2022	\$ (25,718)
2023	(25,387)
2024	(25,127)
2025	(4,090)
2026	(2,609)
Total	\$ (82,931)

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents the Town's total pension liability calculated using the discount rate of 1.93% percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.93 percent) or 1-percentage-point higher (2.93 percent) than the current rate:

	1% Decrease (.93%)	Discount Rate (1.93%)	1% Increase (2.93%)
Total Pension Liability	\$ 35,635	\$ 32,873	\$ 29,727

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the 5-year period ending December 31, 2019.

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

	<u>2021</u>
Beginning balance	\$ 46,902
Service cost	5,421
Interest on the total pension liability	1,529
Differences between expected and actual experience in the measurement of the total pension liability	(31,711)
Changes of assumptions or other inputs	<u>10,732</u>
Ending balance of the total pension liability	<u>\$ 32,873</u>

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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	\$ 200,857	(\$ 18,442)	\$ 182,415
Pension Liability	501,352	32,873	534,225
Proportionate share of the net pension liability	0.01403%	N/A	

Deferred Outflows of Resources

Differences between expected and actual experience	63,312	2,091	65,403
Changes of assumptions	37,310	12,636	49,946
Net difference between projected and actual earnings on plan investments	70,551	-	70,551
Changes in proportion and differences between contributions and proportionate share of contributions	87,966	-	87,966
Benefit payments and administrative costs paid subsequent to the measurement date	119,660	-	119,660
Total Deferred Outflows of Resources	378,799	14,727	\$ 393,526

Deferred Inflows of Resources

Differences between expected and actual experience	-	95,257	95,257
Change of assumptions	-	2,401	2,401
Net difference between projected and actual earnings and plan on investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	27,090	-	27,090
Total Deferred Inflow of Resources	\$ 27,090	\$ 97,658	\$ 124,748

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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes the pension trust

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981- 5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may also make voluntary contributions to the plan. Contributions for the year ended June 30, 2021 were \$29,433 which consisted of \$18,718 from the Town and \$10,715 from the law enforcement officers. No amounts were forfeited.

Supplemental Retirement Income Plan for General Employees

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

Funding Policy. The Town has elected to contribute each month an amount equal to 3.75% of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2021 were \$40,155, which consisted of \$28,440 from the Town and \$11,715 from the employees.

Other Employment Benefit

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Deferred Inflows and Outflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources are comprised of the following:

Source:	Amount
Differences between expected and actual experience	\$ 65,403
Net difference between projected and actual earnings on pension plan investments	70,551
Changes in assumptions	49,946
Changes in proportion and differences between contributions and proportionate share of contributions	87,966
Contributions to pension plan in current fiscal year	119,660
	\$ 393,526

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)	-	65,094
Differences between expected and actual experience	95,257	-
Changes of assumptions	2,401	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	27,090	-
Total	\$ 125,038	65,384

Risk Management

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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.

Claims, Judgments and Contingent Liabilities

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

Long-Term Obligations

A. Capital Leases

The Town has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following schedule provides information regarding the capital lease entered into by the Town:

<u>Description</u>	<u>Date Executed</u>	<u>Number of Payments</u>	<u>Frequency of Payments</u>	<u>Amount of Payments</u>
Water and sewer equipment	August 25, 2020	10	Semi-annual	\$ 14,413

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

The following is an analysis of the assets recorded under capital leases at June 30, 2021:

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vac-Con Model 11	\$ 128,000	\$ 21,252	\$ 106,748

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2022	\$ 28,826
2023	28,826
2024	28,826
2025	28,826
2026	14,413
Less amount representing interest	(8,019)
Present value of the minimum lease payments	\$ <u>121,698</u>

B. Installment Purchases

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

In July 2002, the Town entered into a direct borrowing installment note for \$65,500 to finance the purchase of a fire truck. The finance contract requires twenty annual payments of \$5,146, plus 4.75% interest rate and matures in 2022. The Town's outstanding note from direct placement for the fire truck related to governmental activities, contain a provision that in an event of default, outstanding amounts become immediately due if the Town is unable to make payment. The note is secured by the fire truck. The balance at June 30, 2021 is \$9,575.

In October 2003, the Town entered into a direct borrowing installment note for \$950,000 to finance the renovations of an ice plant. The finance contract requires annual payments of \$56,645, plus 4.25% interest rate and matures in 2033. The Town's outstanding note from direct placement for the renovations related to governmental and enterprise activities, contain a provision that in an event of default, outstanding amounts become immediately due if the Town is unable to make payment. The note is secured by the ice plant. The debt will be repaid equally from the General Fund, the Electric Fund, and the Water and Sewer Fund. The balance at June 30, 2021 is \$556,899 (\$185,633 each fund).

In March 2008, the Town entered into a direct borrowing installment note for \$142,900 to finance the purchase of a 2008 Freightliner Fire Truck. The finance contract requires 20 annual payments of \$10,632, plus 4.125% interest and matures in 2028. The Town's outstanding note from direct placement for the fire truck related to governmental activities, contain a provision that in an event of default, outstanding amounts become immediately due if the Town is unable to make payment. The note is secured by the fire truck. The balance at June 30, 2021 is \$64,115.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

In September 2016, the Town entered into a \$388,000 direct borrowing installment note for \$388,000 to finance the purchase of an E-One Typhoon fire truck. The finance contract requires 20 annual payments of \$25,484, plus 2.75% interest and matures in 2036. The Town's outstanding note from direct placement for the fire truck related to governmental activities, contain a provision that in an event of default, outstanding amounts become immediately due if the Town is unable to make payment. The note is secured by the fire truck. The balance at June 30, 2021 is \$326,281.

In December 2017, the Town entered into a \$37,200 direct borrowing installment note for \$37,200 to finance the purchase of three Public Works vehicles. The finance contract requires 7 annual payments of \$6,028, plus 3.25 interest and matures 2024. The Town's outstanding note from direct placement for the public works vehicles related to governmental activities, contain a provision that in an event of default, outstanding amounts become immediately due if the Town is unable to make payment. The note is secured by the public works vehicles. The balance at June 30, 2021 is \$22,269.

The future minimum payments of the installment purchases as of June 30, 2021, including \$274,189 of interest, are as follows:

Year Ending	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principa	Interest
June 30						
2022	\$ 45,050	\$ 20,659	\$ 21,076	\$ 15,773	\$ 66,126	\$ 36,432
2023	47,119	19,012	22,906	14,839	70,025	33,851
2024	43,708	17,304	23,880	13,866	67,588	31,170
2025	45,796	15,775	24,895	12,851	70,691	28,626
2026	40,794	14,191	25,953	11,793	66,747	25,984
2027-2031	193,568	49,499	147,276	41,452	340,844	90,951
2032-2036	167,027	17,509	105,280	8,984	272,309	26,493
2037	24,811	682	-	-	24,811	682
Total	\$ 607,873	\$ 154,632	\$ 371,266	\$ 119,559	\$ 979,139	\$ 274,189

C. General Obligation Indebtedness

The Town's general obligation bonds issued to finance the construction of facilities utilized in the operations of the Water and Sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due. In the event of a default, the Town agrees to pay to the Purchaser, on demand, interest on any and all amounts due and owing by the Town under this Agreement.

TOWN OF HERTFORD, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Bonds payable at June 30, 2021 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.	\$ 2,515,000
\$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.	898,000
\$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.	639,000
Total	\$ 4,052,000

The future minimum payments of the general obligation indebtedness as of June 30, 2021, including \$2,812,452 of interest, are as follows:

General Obligation			
<u>Year Ending</u>	<u>Indebtedness</u>		
June 30	Principal	Interest	
2022	\$ 86,000	\$	174,504
2023	89,000		170,812
2024	94,000		166,989
2025	97,000		162,951
2026	101,000		158,781
2027-2031	575,000		724,766
2032-2036	710,000		589,874
2037-2041	878,000		423,173
2042-2046	1,048,000		217,844
2047-2049	374,000		22,758
Total	\$ 4,052,000	\$	2,812,452

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, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Revolving loans payable at June 30, 2021 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.	\$ 1,050,000
\$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.	169,159
\$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.	1,098,524
\$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.	57,817
<u>Total</u>	<u>\$ 2,375,500</u>

The future minimum payments of the revolving loans as of June 30, 2021, including \$121,416 of interest, are as follows:

<u>Year Ending</u>	<u>Revolving Loans</u>	
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 297,278	\$ 24,283
2023	297,278	21,585
2024	297,278	18,887
2025	297,278	16,188
2026	297,278	13,491
2027-2030	889,110	26,981
<u>Total</u>	<u>\$ 2,375,500</u>	<u>\$ 121,416</u>

At June 30, 2021, Town of Hertford, North Carolina had a legal debt margin of \$9,841,979.

TOWN OF HERTFORD, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

D. Changes in Long-Term Liabilities

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion of Balance
Governmental activities:					
Installment purchases – direct borrowings	\$ 651,155	\$ -	\$ 43,282	\$ 607,873	\$ 45,050
Compensated absences	33,829	-	17,129	16,700	4,175
Net pension liability (LGERS)	125,909	182,636	-	308,545	-
Total pension liability	46,902	-	14,029	32,873	-
Governmental activity long-term liabilities	857,795	182,636	74,440	965,991	49,225
Business-type activities:					
Water and Sewer Fund:					
Installment purchases – direct borrowings	196,167	-	10,534	185,633	10,538
General obligation bonds	4,134,000	-	82,000	4,052,000	86,000
Revolving loans	2,672,778	-	297,278	2,375,500	297,278
Capital lease	-	128,000	6,302	121,698	23,924
Net pension liability (LGERS)	49,974	32,729	-	82,703	-
Compensated absences	13,447	-	3,342	10,105	2,256
Water and Sewer long-term liabilities	7,066,366	160,729	399,456	6,827,639	419,996
Electric Fund					
Installment purchases – direct borrowings	196,167	-	10,534	185,633	10,538
Compensated absences	11,275	9,816	-	21,091	5,273
Net pension liability (LGERS)	46,414	63,690	-	110,104	-
Electric long-term	253,856	73,506	10,534	316,828	15,811
Business activity long-term liabilities	\$ 7,320,222	\$ 234,235	\$ 409,990	\$ 7,144,467	\$ 435,807

Compensated absences typically have been liquidated in the General Fund.

E. Restrictive Covenants

The Town is required by the USDA to set aside ten percent (10%) of the current year’s note payment as restricted cash in a separate account for ten years or until one payment has accrued or the note is paid out. For the fiscal year ended June 30, 2021, the Town has accumulated \$87,576 in this account and it is shown as restricted assets for “USDA Reserve.”

TOWN OF HERTFORD, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

F. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2021, consist of the following:

Due from the General Fund to the Electric Fund for annual dividend from the Electric Fund and the Electric Fund's share of administrative expenses	\$ 75,638
Due from the General Fund to the Water and Sewer Fund for operations	<u>339</u>
Total due from General Fund	<u><u>\$ 75,977</u></u>

Due to the Electric Fund from the Water and Sewer Fund for operations	\$ 39,998
Due to the Electric Fund from the General Fund for annual dividend from the Electric Fund and the Electric Fund's share of administrative expenses	<u>75,638</u>
Total due to the Electric Fund	<u><u>\$ 115,636</u></u>

Due from the Water and Sewer Fund to the Electric Fund for operations	\$ 39,998
Due from the General Fund to the Water and Sewer Fund for operations	<u>(339)</u>
Total due from the Water and Sewer Fund	<u><u>\$ 39,659</u></u>

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

Transfers to / from other funds for the year ended June 30, 2021, consist of the following:

From the Electric Fund to the General Fund for annual dividend from the Electric Fund and the Electric Fund's share of administrative expenses	\$ 84,000
From the General Fund to the Waterfront Project Fund to generate visitation and jobs to improve the economy for the Community.	<u>51,000</u>
Total	<u><u>\$ 135,000</u></u>

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

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

G. Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2021 is composed of the following:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 1,667,345	\$ 12,130,668
Long-term debt	(607,873)	(6,920,464)
Net investment in capital assets	\$ 1,059,472	\$ 5,210,204

H. Fund Balance

Total fund balance – General Fund	\$1,307,253
Less:	
Stabilization by State Statute	374,704
Streets – Powell Bill	68,300
USDA	87,576
Remaining fund balance	\$ 776,673

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.

4. Jointly Governed Organization

The Town, in conjunction with twenty other local governments, is a member of the North Carolina Town Electric Agency (Electric Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency’s governing board. The twenty-one members, who receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town’s purchases of power for the fiscal year ended June 30, 2021, were \$2,282,228.

5. 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. Complete financial statements for the Town of Hertford Housing Authority can be obtained from the Authority’s offices at 104 White Street, Hertford, North Carolina 27944.

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

6. 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.

7. Winfall Settlement

On July 20, 2015, the Town of Winfall began making payments to the Town of Hertford as a result of a legal settlement. This settlement was in response to disputes arising from a Wastewater Treatment Contract, dated March 1, 2001, which involved the construction of a wastewater treatment plant and the provision of wastewater treatment services by the Town of Hertford. According to the settlement, the Town of Winfall shall pay to the Town of Hertford the sum of \$300,000 to be paid in equal monthly installments of \$1,250 over twenty years. The regular monthly payments shall be submitted along with the regular monthly sewer treatment payments made monthly by the Town of Winfall to the Town of Hertford. The balance as of June 30, 2021 is \$210,000.

8. Summary Disclosure of Significant Commitments and Contingencies

During the fiscal year 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had significant effects on global markets, supply chains, businesses, and communities. Specific to the Town, COVID-19 is expected to impact various parts of its fiscal year 2021-22 operations and financial results. Management believes the Town is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the pandemic continue to develop.

9. Subsequent Event

The Town of Hertford was awarded \$673,408 from the Federal American Rescue Plan (ARP). Subsequent to year end, the Town of Hertford received \$336,704. The remaining amount of \$336,704 is expected to be received within the next twelve months.

10. Related Party Transactions

Transactions with the ABC Board:	
Payment to the Town for profit distributions	\$ 97,952
Payment to the Town for law enforcement	6,342
Payment to the Town for alcohol education	<u>3,171</u>
Total	<u>\$ 107,465</u>

TOWN OF HERTFORD, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

11. Restatement

Prior Period Adjustment

During the fiscal year ended June 30, 2021, the Town determined that local option sales tax was overstated for the year ended June 30, 2020 in the General Fund. Therefore, an adjustment to beginning fund balance has been recorded to account for the overstatement, the net effect of which decreased beginning fund balance and net position by \$57,556.

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TOWN OF HERTFORD, NORTH CAROLINA

**TOWN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT FISCAL YEARS***

	Local Government Employees' Retirement System			
	2021	2020	2019	2018
Hertford's proportion of the net pension liability (asset) (%)	0.01403%	0.00814%	0.01457%	0.01598%
Hertford's proportion of the net pension liability (asset) (\$)	\$ 501,352	\$ 222,297	\$ 345,650	\$ 244,130
Hertford's covered payroll	\$ 1,162,522	\$ 890,142	\$ 1,012,509	\$ 1,005,643
Hertford's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	43.13%	24.97%	34.14%	24.28%
Plan fiduciary net position as a percentage of the total pension liability **	88.61%	90.86%	91.63%	94.18%

This schedule will build to become a ten year schedule as information becomes available. Information was not available prior to the implementation of GASB Statement No. 68 in 2014.

* 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 employees in the LGERS plan.

TOWN OF HERTFORD, NORTH CAROLINA

**TOWN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT FISCAL YEARS***

	Local Government Employees' Retirement System			
	2017	2016	2015	2014
Hertford's proportion of the net pension liability (asset) (%)	0.01412%	0.00177%	0.01637%	0.01630%
Hertford's proportion of the net pension liability (asset) (\$)	299,674	\$ 79,391	(96,423)	\$ 196,478
Hertford's covered payroll	918,096	\$ 927,393	883,934	\$ 958,183
Hertford's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	32.64%	8.56%	(10.91%)	20.51%
Plan fiduciary net position as a percentage of the total pension liability **	91.47%	98.09%	102.64%	94.35%

TOWN OF HERTFORD, NORTH CAROLINA**TOWN OF HERTFORD'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT FISCAL YEARS**

Local Government Employees' Retirement System				
	2021	2020	2019	2018
Contractually required contribution	\$ 119,660	\$ 107,406	\$ 71,303	\$ 79,077
Contributions in relation to the contractually required contribution	<u>119,660</u>	<u>107,406</u>	<u>71,303</u>	<u>79,077</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Hertford's covered payroll	\$ 1,144,356	\$ 1,162,522	\$ 890,142	\$ 1,012,509
Contributions as a percentage of covered payroll	10.46%	9.24%	8.01%	7.81%

This schedule will build to become a ten year schedule as information becomes available.
Information was not available prior to the implementation of GASB Statement No. 68 in 2014.

TOWN OF HERTFORD, NORTH CAROLINA

**TOWN OF HERTFORD'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT FISCAL YEARS**

Local Government Employees' Retirement System				
	2017	2016	2015	2014
Contractually required contribution	\$ 76,416	\$ 63,220	\$ 66,561	\$ 63,115
Contributions in relation to the contractually required contribution	76,416	63,220	66,561	63,115
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Town of Hertford's covered payroll	\$ 1,005,643	\$ 918,096	\$ 927,393	\$ 883,934
Contributions as a percentage of covered payroll	7.60%	6.89%	7.18%	7.14%

TOWN OF HERTFORD, NORTH CAROLINA

**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS**

	Law Enforcement Officers' Special Separation Allowance				
	2021	2020	2019	2018	2017
Beginning balance	\$ 46,902	\$ 58,218	\$ 170,095	\$ 139,181	\$ 131,324
ServiceCost	5,421	1,270	7,058	9,283	11,478
Interest on the total pension liability	1,529	2,119	5,375	5,372	4,614
Differences between expected and actual experience in the measurement of the total pension liability	(31,711)	(15,531)	(121,384)	6,247	-
Changes of assumptions or other inputs	10,732	826	(2,926)	10,012	(4,093)
Benefit payments	-	-	-	-	(4,142)
Ending balance of the total pension liability	<u>\$ 32,873</u>	<u>\$ 46,902</u>	<u>\$ 58,218</u>	<u>\$ 170,095</u>	<u>\$ 139,181</u>

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

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

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

TOWN OF HERTFORD, NORTH CAROLINA

**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AS
A PERCENTAGE OF COVERED EMPLOYEE PAYROLL
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS**

	Law Enforcement Officers' Special Separation Allowance				
	2021	2020	2019	2018	2017
Total pension liability	\$ 32,873	\$ 46,902	\$ 58,218	\$ 170,095	\$ 139,181
Covered employee payroll	282,613	130,733	303,942	378,459	363,794
Total pension liability as a percentage of covered employee payroll	11.63%	35.88%	19.15%	44.94%	38.26%

Notes to the Schedules:

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

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF HERTFORD, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes		\$ 720,065	
Interest		9,898	
Total	\$ 634,542	729,963	\$ 95,421
Other taxes and licenses:			
Privilege licenses		2,225	
Vehicle tags		28,960	
Total	24,500	31,185	6,685
Unrestricted intergovernmental:			
Local option sales taxes		669,927	
Utility franchise tax		33,316	
Solid waste disposal tax		145,345	
Beer and wine tax		8,792	
ABC profit distribution		97,952	
Total	895,790	955,332	59,542
Restricted intergovernmental:			
Powell Bill allocation		53,358	
County fire department contribution		75,000	
Other local grants and matching contributions		29,282	
Total	177,858	157,640	(20,218)
Sales and services			
DMV commissions		79,970	
Cemetery services		13,780	
Refuse services		107,278	
Miscellaneous fees and services		17,517	
Total	188,550	218,545	29,995
Investment earnings	700	1,261	561
Miscellaneous	10,110	4,554	(5,556)
Total revenues	1,932,050	2,098,480	166,430
Expenditures:			
Governing body:			
Salaries and employee benefits		83,684	
Operating expenditures		62,591	
Capital outlay		12,230	
Total		158,505	
Administration:			
Salaries and employee benefits		140,804	
Operating expenditures		78,519	
Capital outlay		31,302	
Total		250,625	

TOWN OF HERTFORD, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
DMV:			
Salaries and employee benefits		\$ 23,053	
Operating expenditures		1,722	
Total		<u>24,775</u>	
Total general government	<u>\$ 601,464</u>	<u>433,905</u>	<u>\$ 167,559</u>
Public safety:			
Police:			
Salaries and employee benefits		545,371	
Operating expenditures		163,085	
Total		<u>708,456</u>	
Fire:			
Operating expenditures		119,913	
Capital outlay		25,034	
Total		<u>144,947</u>	
Total public safety	<u>924,380</u>	<u>853,403</u>	<u>70,977</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits		135,453	
Operating expenditures		111,633	
Capital outlay		97,460	
Total transportation	<u>461,665</u>	<u>344,546</u>	<u>117,119</u>
Economic and physical development:			
Salaries and employee benefits		19,861	
Other operating expenditures		2,133	
Total economic and physical development	<u>23,010</u>	<u>21,994</u>	<u>1,016</u>
Sanitation:			
Other operating expenditures		130,312	
Total economic and physical development	<u>140,733</u>	<u>130,312</u>	<u>10,421</u>
Environmental protection:			
Cemetery:			
Other operating expenditures		38,325	
Total environmental protection	<u>35,000</u>	<u>38,325</u>	<u>(3,325)</u>
Debt service:			
Principal		43,282	
Interest		22,591	
Total debt service	<u>47,290</u>	<u>65,873</u>	<u>(18,583)</u>
Total expenditures	<u>2,233,542</u>	<u>1,888,358</u>	<u>345,184</u>

TOWN OF HERTFORD, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues over (under) expenditures	(301,492)	210,122	511,614
Other Financing Sources (Uses):			
Transfer to Waterfront project fund	-	(51,000)	-
Transfer from electric fund	84,000	84,000	-
Total	<u>84,000</u>	<u>33,000</u>	<u>(51,000)</u>
Fund balance appropriated	217,492	-	(217,492)
Net change in fund balance	<u>\$ -</u>	<u>243,122</u>	<u>\$ 243,122</u>
Fund balance, beginning as previously reported		1,121,687	
Prior period adjustment		<u>(57,556)</u>	
Fund balance, beginning as restated		<u>1,064,131</u>	
Fund balance, ending		<u>\$ 1,307,253</u>	

TOWN OF HERTFORD, NORTH CAROLINA

**KING STREET RESURFACE PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted intergovernmental:					
National League of Cities grant	\$ 5,000	\$ 5,000	\$ 13,800	\$ 18,800	\$ (13,800)
Total revenues	<u>5,000</u>	<u>5,000</u>	<u>13,800</u>	<u>18,800</u>	<u>(13,800)</u>
Expenditures:					
Advertising	-	-	17,100	17,100	(17,100)
Materials and supplies	-	-	1,500	1,500	(1,500)
Census grant expenditures	5,000	-	-	-	5,000
Resurfacing	207,467	201,962	-	201,962	5,505
Design services	4,800	4,800	-	4,800	-
Bid services	1,850	2,067	-	2,067	(217)
Construction services	27,423	1,206	-	1,206	26,217
Construction contingency	12,322	-	-	-	12,322
Total expenditures	<u>258,862</u>	<u>210,035</u>	<u>18,600</u>	<u>228,635</u>	<u>30,227</u>
Revenues under expenditures	<u>(253,862)</u>	<u>(205,035)</u>	<u>(4,800)</u>	<u>(209,835)</u>	<u>(44,027)</u>
Other Financing Sources (Uses):					
Transfer in - General Fund Powell Bill	253,862	210,035	-	210,035	(43,827)
Total other financing sources (uses)	<u>253,862</u>	<u>210,035</u>	<u>-</u>	<u>210,035</u>	<u>(43,827)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 5,000</u>	<u>(4,800)</u>	<u>\$ 200</u>	<u>\$ 200</u>
Fund balance, beginning			<u>5,000</u>		
Fund balance, ending			<u>\$ 200</u>		

TOWN OF HERTFORD, NORTH CAROLINA

**WATERFRONT PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted intergovernmental:					
Rural Development Water Front					
Grant Income	\$ 145,200	\$ -	\$ 75,198	\$ 75,198	\$ 70,002
Total revenues	<u>145,200</u>	<u>-</u>	<u>75,198</u>	<u>75,198</u>	<u>70,002</u>
Expenditures:					
Waterfront project	196,200		126,198	126,198	70,002
Total expenditures	<u>196,200</u>	<u>-</u>	<u>126,198</u>	<u>126,198</u>	<u>70,002</u>
Revenues under expenditures	<u>(51,000)</u>	<u>-</u>	<u>(51,000)</u>	<u>(51,000)</u>	<u>-</u>
Other Financing Sources (Uses):					
Transfer in - General Fund	51,000	-	51,000	51,000	-
Total other financing sources (uses)	<u>51,000</u>	<u>-</u>	<u>51,000</u>	<u>51,000</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

TOWN OF HERTFORD, NORTH CAROLINA

CORONAVIRUS RELIEF FUNDS - NONMAJOR GOVERNMENTAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Restricted intergovernmental			
Coronavirus relief funds grant	\$ 143,292	\$ 143,292	\$ -
Total revenues	<u>143,292</u>	<u>143,292</u>	<u>-</u>
Expenditures:			
COVID Cares Special Funds	143,292	143,292	-
Total expenditures	<u>143,292</u>	<u>143,292</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ -</u>	

TOWN OF HERTFORD, NORTH CAROLINA
**WATER AND SEWER FUND
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP)
 FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Charges for services		\$ 1,631,637	
Winfall charges		83,349	
] Water and sewer taps		1,000	
Miscellaneous revenue		3,088	
Total operating revenues	<u>\$ 1,753,438</u>	<u>1,719,074</u>	<u>\$ (34,364)</u>
Nonoperating revenues:			
Interest earnings		62	62
Total nonoperating revenues	<u>-</u>	<u>62</u>	<u>62</u>
Total revenues	<u>1,753,438</u>	<u>1,719,136</u>	<u>(34,302)</u>
Expenditures:			
Water and sewer operations:			
Salaries and employee benefits		356,249	
Vehicle		16,234	
Material and supplies		6,722	
Maintenance and repairs		57,168	
Other operating expenses		172,152	
Utility fees		154,098	
Insurance		19,987	
Total water and sewer operations	<u>921,926</u>	<u>782,610</u>	<u>139,316</u>
Capital outlay:			
Water capital outlay		17,403	
Wastewater collection capital outlay		6,780	
Water vehicle and equipment		140,805	
Wastewater treatment capital outlay		44,572	
Total capital outlay	<u>170,611</u>	<u>209,560</u>	<u>(38,949)</u>
Debt service:			
Interest and other charges		245,750	
Principal retirement		396,114	
Total debt service	<u>665,231</u>	<u>641,864</u>	<u>23,367</u>
Total expenditures	<u>1,757,768</u>	<u>1,634,034</u>	<u>123,734</u>

TOWN OF HERTFORD, NORTH CAROLINA

**WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues over(under) expenditures	(4,330)	85,102	(89,432)
Other Financing Sources (Uses):			
Proceeds from long-term debt	-	128,000	(128,000)
Total other financing sources and (uses)	-	128,000	(128,000)
Revenues and other sources over expenditures and other uses	(4,330)	213,102	217,432
Fund balance appropriated	4,330	-	(4,330)
Revenues, other financing sources, and fund balance appropriated over expenditures	<u>\$ -</u>	<u>213,102</u>	<u>\$ 213,102</u>
Reconciling items:			
Principal retirement		396,114	
Change in compensated absences		3,342	
Change in deferred outflows of resources - pensions		18,880	
Change in net pension liability		(32,729)	
Change in deferred inflows of resources - pensions		4,550	
Proceeds from long-term debt		(128,000)	
Capital outlay		140,805	
Depreciation		(773,322)	
Total reconciling items		<u>(370,360)</u>	
Change in net position		<u>\$ (157,258)</u>	

TOWN OF HERTFORD, NORTH CAROLINA

ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Charges for services		\$ 3,356,133	
Miscellaneous revenue		3,166	
Total operating revenues	<u>\$ 2,992,818</u>	<u>3,359,299</u>	<u>\$ 366,481</u>
 Total revenues	<u>2,992,818</u>	<u>3,359,299</u>	<u>366,481</u>
Expenditures:			
Water and sewer operations:			
Salaries and employee benefits		385,537	
Vehicle		14,000	
Material and supplies		14,301	
Professional services		20,946	
Maintenance and repairs		20,657	
Other operating expenses		254,403	
Electric power purchases		2,282,228	
Insurance		39,402	
Total water and sewer operations	<u>2,762,533</u>	<u>3,031,474</u>	<u>(268,941)</u>
Capital outlay:			
Electric capital outlay		110,503	
Total capital outlay	<u>130,346</u>	<u>110,503</u>	<u>19,843</u>
Debt service:			
Interest and other charges		14,781	
Principal retirement		10,534	
Total debt service	<u>19,400</u>	<u>25,315</u>	<u>(5,915)</u>
Total expenditures	<u>2,912,279</u>	<u>3,167,292</u>	<u>(255,013)</u>
Revenues over(under) expenditures	<u>80,539</u>	<u>192,007</u>	<u>(111,468)</u>
Other Financing Sources (Uses):			
Transfer to the General Fund	<u>(84,000)</u>	<u>(84,000)</u>	<u>-</u>
Total other financing sources and (uses)	<u>(84,000)</u>	<u>(84,000)</u>	<u>-</u>
Fund balance appropriated	<u>3,461</u>	<u>-</u>	<u>(3,461)</u>

TOWN OF HERTFORD, NORTH CAROLINA

**ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues, other financing sources, and fund balance appropriated over expenditures	<u>\$ -</u>	<u>108,007</u>	<u>\$ 108,007</u>
Reconciling items:			
Principal retirement		10,534	
Change in compensated absences		(9,816)	
Change in deferred outflows of resources - pensions		42,690	
Change in net pension liability		(63,690)	
Change in deferred inflows of resources - pensions		2,428	
Capital outlay		110,503	
Depreciation		<u>(87,219)</u>	
Total reconciling items		<u>5,430</u>	
Change in net position		<u>\$ 113,437</u>	

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULES OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2021

Fiscal Year	Uncollected Balance June 30, 2020	Additions	Collections And Credits	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 725,243	\$ 695,818	\$ 29,425
2019-2020	26,713	-	9,634	17,079
2018-2019	15,265	-	3,113	12,152
2017-2018	13,983	-	4,629	9,354
2016-2017	8,939	-	1,260	7,679
2015-2016	8,536	-	610	7,926
2014-2015	7,725	-	812	6,913
2013-2014	8,362	-	1,040	7,322
2012-2013	8,756	-	1,308	7,448
2011-2012	7,828	-	1,841	5,987
2010-2011	6,359	-	6,359	-
Total	\$ 112,466	\$ 725,243	\$ 726,424	111,285
Less: allowance for uncollectible accounts:				
General Fund				46,191
Ad valorem taxes receivable - net				\$ 65,094
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 729,963
Reconciling items:				
Prior year releases				
Taxes written off				6,359
Penalties and interest				(9,898)
Subtotal				(3,539)
Total collections and credits				\$ 726,424

TOWN OF HERTFORD, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2021

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 108,937,117	\$ 0.555	\$ 604,601	\$ 604,601	\$ -
Registered motor vehicles taxed	12,788,108	0.555	70,974	-	70,974
Penalties	-		240	240	-
Total	<u>121,725,225</u>		<u>675,815</u>	<u>604,841</u>	<u>70,974</u>
Discoveries:					
Current year taxes	<u>8,897,930</u>	0.555	<u>49,428</u>	<u>49,428</u>	<u>-</u>
Total property valuation	<u>\$ 130,623,155</u>				
Net levy			725,243	654,269	70,974
Uncollected taxes at June 30, 2021			<u>(29,425)</u>	<u>(29,425)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 695,818</u>	<u>\$ 624,844</u>	<u>\$ 70,974</u>
Current levy collection percentage			<u>95.94%</u>	<u>95.50%</u>	<u>100.00%</u>

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MARTIN STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Hertford, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated June 10, 2022. Our report includes a reference to other auditors who audited the financial statements of the Town of Hertford ABC Board, as described in our report on the Town of Hertford's financial statements. The financial statements of the Town of Hertford ABC Board were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Town of Hertford ABC Board.

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) as a basis for designing 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 of Hertford's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2021-001, 2021-002, 2021-003, 2021-004, 2021-005, and 2021-006 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hertford's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2021-002, 2021-003, 2021-004 and 2021-006.

Town of Hertford's Responses to Findings

The Town of Hertford's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P. A.
Hickory, North Carolina
June 10, 2022

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(s) identified? None reported

Non-compliance material to financial statements noted? Yes

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statements Findings

Material Weakness

Finding 2021-001

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

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

Effect: Transactions could be mishandled.

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

Identification of Repeat Finding: This is a repeat finding from the immediate previous audit, 2020-01.

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

Name of Contact Person: Janice Cole, Interim Town Manager

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statements Findings (continued):

Material Weakness

Non-Compliance

Finding 2021-002

Criteria: The Town should prepare account reconciliations monthly and maintain accurate financial records in order to reduce the likelihood of errors in financial reporting. N.C. General Statute 116B-53(c) subpart 12 requires the Town to escheat checks that are older than a year that have not cleared the bank.

Condition: The Town did not prepare timely or accurate reconciliations for cash, and incorrect entries were made across funds that caused cash to be materially misstated. In addition, the accounts receivable and accounts payable subsidiary ledgers were not reconciled accurately or timely and the Town did not escheat checks older than a year. A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgement, may not have been detected except through our auditing procedures. The existence of such material adjustments indicate that the Town's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Effect: Errors in completing reconciliations greatly increases the risk of errors in financial reporting. Journal entries were necessary to correct cash balances at year end.

Cause: The Town is not preparing account reconciliations timely or properly reviewing their financial records. Additional client provided entries had to be booked to correct cash balances at year end.

Identification of Repeat Finding: This is a modified and repeated finding from the immediate previous audit, 2020-02.

Recommendation: Management should ensure that reconciliations are completed accurately and balanced to the general ledger and subsidiary ledgers on a monthly basis. Management should review outstanding items for completeness and accuracy. Management should escheat checks older than a year on an annual basis. Adjusting entries should be posted as needed to prevent material audit adjustments in the future.

Name of Contact Person: Janie Cole, Interim Town Manager

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statements Findings (continued):

Material Weakness Non-Compliance

Finding 2021-003

Criteria: N.C. General Statute 159-34 requires the Town to have an audit as soon as possible after the close of each fiscal year.

Condition: The annual audit was delayed due to turnover in financial personnel.

Effect: Delays of timely reporting and errors in financial reporting could occur.

Cause: The Town's Finance Director position was turned over several times.

Identification of Repeat Finding: This is a repeat finding from the immediate previous audit, 2020-03.

Recommendation: The Town should evaluate the allocation of internal resources dedicated to financial reporting to ensure adequate resources are available for year-end close and annual financial reporting purposes. Management should engage with consultants if necessary in order to prepare for the annual audit, determine appropriate accounting for complex transactions, or prepare the financial statements.

Name of Contact Person: Janie Cole, Interim Town Manager

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statements Findings (continued):

Material Weakness

Non-Compliance

Finding 2021-004

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

Condition: The Town expended \$51,000 more in transfers to other funds in the General Fund and expenditures for environmental protection of \$3,325 and expenditures for debt service of \$18,583 in General Fund expenses than appropriated in the annual budget ordinance. The Town expended \$38,949 more in expenditures in the Water and Sewer Fund than appropriated in the annual budget ordinance. The Town expended \$255,013 more in expenditures in the Electric Fund than appropriated in the annual budget ordinance. The Board failed to amend the budget to account for the increase in expenses.

Effect: Monies that had not been appropriated were spent.

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

Identification of Repeat Finding: This is a repeat finding from the immediate previous audit, 2020-06.

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

Name of Contact Person: Janie Cole, Interim Town Manager

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statements Findings (continued):

Material Weakness

Finding 2021-005

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting. This includes identifying all necessary adjustments to the Town's general ledger to conform to accounting principles generally accepted in the United States of America.

Condition: Revenues related to sales tax were improperly included in the prior year's financial statements. A prior period adjustment was required to correct material errors. A significant audit adjustment is a proposed correction of the basic financial statements. The existence of such material adjustments indicates that the Town's system of controls did not detect and prevent such errors timely. We have provided management with a report of these adjustments.

Effect: Errors in financial reporting occurred in governmental activities.

Cause: The Town improperly included revenues related to sales tax in the prior year's financial statements.

Identification of Repeat Finding: This is a modified and repeated finding from the immediate previous audit, 2020-04.

Recommendation: Care should be taken to ensure that revenue records are reconciled to the financial statements in a timely manner. Management should reconcile Town records and record necessary adjustments prior to the audit.

Name of Contact Person: Janie Cole, Interim Town Manager

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

2. Financial Statements Findings (continued):

Material Weakness

Non-Compliance

Finding 2021-006

Criteria: N.C. General Statute 159-29 requires that the person designated by the Board as the Finance Officer to be individually bonded under a surety bond for no less than \$50,000.

Condition: The Board-appointed Finance Officer is not individually bonded.

Effect: The Town should have a system in place to ensure compliance with state statutes.

Cause: The Town's Finance Officer position was turned over several times.

Recommendation: Management should ensure the Finance Officer is covered sufficiently in an amount not less than \$50,000. The premium on the bond should be paid by the local government.

Name of Contact Person: Janie Cole, Interim Town Manager

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

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EARNELL BROWN
MAYOR
JANICE MCKENZIE COLE
INTERIM TOWN MANAGER
GINA M. DURANTE
TOWN CLERK
BENJAMIN M. GALLOP
TOWN ATTORNEY



COMMISSIONERS:

ASHLEY HODGES
MAYOR PRO TEM
JERRY MIMLITSCH
CONNIE BROTHERS
SANDRA ANDERSON

**Town of Hertford
Corrective Action Plan
Fiscal Year Ended June 30, 2021**

Financial Statement Findings

Finding 2021-001

Name of Contact Person: Janice Cole, Interim Town Manager

Corrective Action: We continue to work on duties being separated as much as possible. We are introducing more cross training of staff to give us more flexibility in assignments and alternate controls can be used to compensate for lack of separation. Use of contracted personnel will also help to segregate duties.

Proposed Completion Date: October 15, 2022.

Finding 2021-002

Name of Contact Person: Janice Cole, Interim Town Manager

Corrective Action: The Town contracted with a CPA firm knowledgeable with the local government accounting in North Carolina that utilizes several contract CPAs to assist with the Town's finances. The reconciliation of our bank statements has been caught up through June 30, 2021 and is almost current. Henceforth reconciliations will be done monthly. A contract CPA works on site approximately two days a week handling journal entries and assuring accuracy in our financial records. The Town now has a qualified accounting specialist who the CPAs are training to assume some of these duties and the Town intends to continue contracting with the CPA firm for oversight of the Town's finances until such time as we can hire a financial director.

Proposed Completion Date: October 15, 2022.

EARNELL BROWN
MAYOR
JANICE MCKENZIE COLE
INTERIM TOWN MANAGER
GINA M. DURANTE
TOWN CLERK
BENJAMIN M. GALLOP
TOWN ATTORNEY



COMMISSIONERS:

ASHLEY HODGES
MAYOR PRO TEM
JERRY MIMLITSCH
CONNIE BROTHERS
SANDRA ANDERSON

**Town of Hertford
Corrective Action Plan
Fiscal Year Ended June 30, 2021**

Finding 2021-003

Name of Contact Person: Janice Cole, Interim Town Manager

Corrective Action: The Town has contracted with a CPA firm that utilizes several contract CPAs who are assisting the Town with year-end close and annual financial reporting purposes. They will assist the Town with preparing for the year-end audit in a timely manner.

Proposed Completion Date: August 15, 2022.

Finding 2021-004

Name of Contact Person: Janice Cole, Interim Town Manager

Corrective Action: The Town contracted with a CPA firm knowledgeable with the local government accounting in North Carolina that utilizes several contract CPAs to assist with the Town's finances. A contract CPA works on site approximately two days a week handling journal entries and assuring accuracy in our financial records. The Town now has a qualified accounting specialist who the CPAs are training to assume some of these duties, including timely budget amendments for all revenue received by the Town. Department heads will receive on a monthly basis a budget to actual printout to assist them in controlling the expenditures for their department.

Proposed Completion Date: July 1, 2022.

EARNELL BROWN
MAYOR

JANICE MCKENZIE COLE
INTERIM TOWN MANAGER

GINA M. DURANTE
TOWN CLERK

BENJAMIN M. GALLOP
TOWN ATTORNEY



COMMISSIONERS:

ASHLEY HODGES
MAYOR PRO TEM

JERRY MIMLITSCH

CONNIE BROTHERS

SANDRA ANDERSON

Finding 2021-005

Name of Contact Person: Janice Cole, Interim Town Manager

Corrective Action: The Town contracted with a CPA firm knowledgeable with the local government accounting in North Carolina that utilizes several contract CPAs to assist with the Town's finances. A contract CPA works on site approximately two days a week handling journal entries and assuring accuracy in our financial records. The Town now has a qualified accounting specialist who the CPAs are training to assume some of these duties, including accurate recognition of revenue received by the Town.

Proposed Completion Date: July 1, 2022.

Finding 2021-006

Name of Contact Person: Janice Cole, Interim Town Manager

Corrective Action: The Town will complete the application for the Finance Officer to be individually bonded for not less than \$50,000.

Proposed Completion Date: July 1, 2022.

TOWN OF HERTFORD, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2021

- Finding:** 2020-01
Status: Repeated as 2021-001.
- Finding:** 2020-02
Status: Modified and repeated as 2021-002.
- Finding:** 2020-03
Status: Repeated as 2021-003.
- Finding:** 2020-04
Status: Modified and repeated as 2021-005.
- Finding:** 2020-05
Status: Corrected.
- Finding:** 2020-06
Status: Modified and repeated as 2021-004.